山東墨龍石油機械股份有限公司

Shandong Molong Petroleum Machinery Company Limited*

(a Sino-foreign joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 568)





2021 Annual Report

* For identification purpose only

Section I. Important, Contents and Definitions

The board of directors, the supervisory board and the directors, supervisors and senior management of the Company hereby warrant that there are no false representations, misleading statements or material omissions contained in the Annual Report, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents.

Yang Yun Long, the legal representative of the Company, Hao Yun Feng, the person in charge of accounting department and Zhu Lin, the head of the accounting department, declare that they guarantee the truthfulness, accuracy and completeness of the financial statements in the Annual Report.

All Directors attended the Board meeting for considering this report.

This report involves forward-looking statements about future plans, which do not constitute actual commitments to investors by the Company. Investors and the parties concerned should maintain sufficient knowledge of the underlying risks and understand the differences among plans, projections and commitments. Investors are advised to make themselves aware of the risks associated with investment.

The Company has described in detail the potential risks in the section headed "XI. Prospects for future development of the Company" under "Management Discussion and Analysis" in Section III of this report. Investors are advised to read carefully the contents thereof.

The Company does not propose any payment of cash dividends or any issue of bonus shares or any transfer of reserve to capital.

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Section I. Important, Contents and Definitions

Definitions

Term	Definition
"Company", "parent company" and "Shandong Molong"	山東墨龍石油機械股份有限公司(Shandong Molong Petroleum Machinery Company Limited)
"Group"	collectively, the Company and its subsidiaries
"SZSE"	The Shenzhen Stock Exchange
"SEHK"	The Stock Exchange of Hong Kong Limited
"CSRC"	China Securities Regulatory Commission
"Shouguang Maolong"	壽光懋隆新材料技術開發有限公司 (Shouguang Maolong New Materials Technology Development Co., Ltd.)
"Shouguang Baolong"	壽光寶隆石油器材有限公司 (Shouguang Baolong Petroleum Equipment Co., Ltd.)
"Weihai Baolong"	威海市寶隆石油專材有限公司 (Weihai Baolong Special Petroleum Materials Co., Ltd.)
"Molong Energy"	山東墨龍能源科技有限公司 (Shandong Molong Energy Technology Co., Ltd.)
"Molong I&E"	山東墨龍進出口有限公司 (Shandong Molong Import & Export Co., Ltd.)
"MPM"	MPM International Limited
"Molong Logistic"	壽光墨龍物流有限公司 (Shouguang Molong Logistic Co., Ltd.)
"Molong Electro-mechanical"	壽光墨龍機電設備有限公司 (Shouguang Molong Electro-mechanical Equipment Company Limited)
"Baolong Consultancy"	壽光市寶隆管理諮詢有限公司 (Shouguang Baolong Management and Consultancy Co., Ltd.)
"Shouguang Jinxin"	山東壽光金鑫投資發展控股集團有限公司 (Shandong Shouguang Jinxin Investment Development Holdings Group Limited)
"Shouguang SAB"	壽光市國有資產監督管理局 (State-owned Assets Supervision and Administration Bureau of Shouguang City)
"Molong Holdings"	壽光墨龍控股有限公司 (Shouguang Molong Holdings Co., Ltd.)
"reporting period"	1 January 2021 to 31 December 2021
"RMB", "RMB thousand", "RMB ten thousand"	Renminbi, thousand Renminbi, ten thousand Renminbi

Section II. Company Profile and Key Financial Indicators

I. Company Profile

Stock Name Abbreviation	Shandong Molong	Stock Code	002490, 00568

Stock exchanges of listed shares	SZSE, SEHK
Chinese name of the Company	山東墨龍石油機械股份有限公司
Abbreviation of the Chinese Name	山東墨龍
English Name of the Company (if any)	Shandong Molong Petroleum Machinery Company Limited
Abbreviation of the English Name (if any)	Shandong Molong
Legal Representative of the Company	Yang Yun Long
Registered Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province
Postal Code of Registered Address	262700
Historical Changes in the Company's Registered Address	Not applicable
Office Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province
Postal Code of Office Address	262700
Company Website	https://www.molonggroup.com
Email Address	dsh@molonggroup.com

II. Contact Persons and Contact Information

	Secretary to the Board
Name	Zhao Xiao Tong
Contact Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province
Telephone	0536-5100890
Facsimile	0536-5100888
Email Address	dsh@molonggroup.com

III. Information Disclosure and Places for Inspection

Websites of stock exchanges on which the annual report of the Company is disclosed	SZSE (http://www.szse.cn); SEHK (http://www.hkex.com.hk)
Names and websites of media on which the annual report of the Company is disclosed	China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times, and cninfo (http://www.cninfo.com.cn)
Places for inspection of the Company's annual report	Board of Directors Office of the Company

IV. Registry Changes

Organisation No.	91370000734705456P
Changes in principal operations since the Company's listing (if any)	At the first extraordinary general meeting of 2021 of the Company held on 3 March 2021, the Resolution on the Change in Business Scope of the Company and Amendments to the Articles of Association was considered and approved. On 4 March 2021, the Company completed the procedures for changes of industry and commerce registration. The Company's business scope has been changed as: pump, sucker rod, oil pumping machine, oil machinery, textile machinery, steel rolling and processing, special equipment, gear and gearbox, oil drilling special equipment, valve and cock, metallurgy special equipment, mechanical parts processing manufacturing, sales; petroleum machinery and relevant product development; commodity information services (excluding intermediary); technology promotion services; energy-saving technology promotion services; technology imports and exports; goods imports and exports; inspection services; measurement services. (Project approved by law can only be carried out with the approval of the relevant department, and the validity period shall be subject to the license).
Previous changes of controlling shareholders (if any)	On 23 February 2021, Mr. Zhang En Rong, the original controlling shareholder and actual controller of the Company, entered into the Share Transfer Agreement with Molong Holdings. Mr. Zhang En Rong transferred 235,617,000 A shares of the Company (representing 29.53% of the total share capital of the Company) held by him to Molong Holdings by way of transfer agreement. On 23 March 2021, the registration of transfer of A shares by Zhang En Rong to Molong Holdings by agreement was completed with China Securities Depository and Clearing Co., Ltd. Shenzhen Branch. After the completion of the equity transfer, Molong Holdings directly holds 235,617,000 A shares of the Company, representing 29.53% of the total share capital of the Company, and has become the controlling shareholder of the Company. Shouguang SAB remains the actual controller of the Company.

V. Other Relevant Information

Accounting firm engaged by the Company

Name of the accounting firm	ShineWing Certified Public Accountants LLP
Office address of the accounting firm	9th Floor, Fuhua building A, No. 8 Chaoyangmen North Street, Dongcheng District, Beijing
Name of the signing certified public accountants	Kan Jing Ping, Zhang Chao

Sponsor institution which executes continuous supervision duties during the reporting period engaged by the Company

☐ Applicable Not applicable

Financial consultant which executes continuous supervision duties during the reporting period engaged by the Company

☐ Applicable Not applicable

VI. Key Accounting Data and Financial Indicators

Whether the Company made retroactive adjustment or restated accounting data in previous years

☐ Yes No

	2021	2020	Year-on-year increase/decrease	2019
Operating revenue (RMB)	**3,734,462,841.12**	3,009,719,029.66	24.08%	4,388,904,215.91
Net profit attributable to shareholders of listed company (RMB)	**(368,017,768.12)**	32,178,630.99	–1,243.67%	(196,309,267.90)
Net profit after extraordinary gains or losses attributable to shareholders of listed company (RMB)	**(369,613,746.87)**	(266,995,839.08)	–38.43%	(195,511,134.59)
Net cash flows generated from operating activities (RMB)	**35,792,357.33**	206,901,178.06	–82.70%	688,353,418.08
Basic earnings per Share (RMB/share)	**(0.46)**	0.04	–1,250.00%	(0.25)
Diluted earnings per Share (RMB/share)	**(0.46)**	0.04	–1,250.00%	(0.25)
Weighted average rate of return on net assets	**(23.05%)**	1.82%	–24.87%	(10.63%)

	As at the end of 2021	As at the end of 2020	Year-on-year increase/decrease	As at the end of 2019
Total assets (RMB)	**4,457,611,299.31**	5,175,635,815.38	–13.87%	5,735,752,344.59
Net assets attributable to shareholders of listed company (RMB)	**1,413,238,861.87**	1,780,737,084.59	–20.64%	1,747,518,970.85

The lower of the Company's net profit before and after deduction of extraordinary gains or losses in the latest three fiscal years is negative, and the audit report of the latest year shows that the Company's ability to continue operations is uncertain

☐ Yes No

The lower of the net profit before and after deduction of extraordinary gains or losses is negative

Yes ☐ No

Item	**2021**	2020	Remark
Operating revenue (RMB)	**3,734,462,841.12**	3,009,719,029.66	Mainly comprised of revenue from sales of products and scraps.
Deduction amount from operating revenue (RMB)	**105,726,328.01**	63,827,875.19	Mainly comprised of revenue from sales of scraps.
Operating revenue after deduction amount (RMB)	**3,628,736,513.11**	2,945,891,154.47	Mainly comprised of revenue from sales of products.

VII. Differences in accounting data under domestic and overseas accounting standards

1. Differences in net profits and net assets in the financial statements as disclosed under the International Accounting Standards ("IASs") and PRC Generally Accepted Accounting Principles ("PRC GAAP")

☐ Applicable Not applicable

During the reporting period, there were no differences in net profit and net assets in the financial statements as disclosed under the IASs and PRC GAAP.

2. Differences in net profit and net assets in the financial statements as disclosed under the overseas accounting standards and PRC GAAP

☐ Applicable Not applicable

During the reporting period, there were no differences in net profit and net assets in the financial statements as disclosed under the overseas accounting standards and PRC GAAP.

3. Explanation of reasons for differences in accounting data under domestic and overseas accounting standards

☐ Applicable Not applicable

VIII. Key financial indicators by quarter

Unit: RMB

	First quarter	Second quarter	Third quarter	Fourth quarter
Operating revenue	544,093,801.68	1,354,033,775.40	1,047,172,476.68	789,162,787.36
Net profit attributable to shareholders of listed company	(109,329,169.93)	41,078,374.51	(37,338,874.65)	(262,428,098.05)
Net profit after extraordinary gains or losses attributable to shareholders of listed company	(110,052,476.77)	42,525,518.56	(39,235,636.46)	(262,851,152.20)
Net cash flows from operating activities	(198,994,506.89)	179,522,875.60	(344,690,508.13)	399,954,496.75

Whether the above financial indicators or aggregate is material different from the relevant financial indicators disclosed in quarter reports or semi-annual reports of the Company

☐ Yes No

IX. Extraordinary gain or loss items and amounts

Applicable ☐ Not applicable

Unit: RMB

Item	2021 Amount	2020 Amount	2019 Amount	Explanation
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	**(3,178,219.53)**	350,931,281.92	5,216,498.87	Mainly comprised of the losses on disposal and retirement of certain assets of the Company.
Government grant recognised in current profit and loss (excluding those grants that are closely related to the Company's normal business operation, that met the requirements of national policy, and that were continuously granted in accordance with the certain standard amount or volume prescribed by the State)	**2,335,726.68**	17,770,915.00	14,032,294.31	Mainly comprised of the amortisation of deferred revenue associated with assets and the receipts of stability subsidies, social security allowances and other grants during the current period.
Profit or loss arising from contingencies unrelated to the normal operation of the Company	**(979,747.94)**	(25,358,236.00)	(29,170,030.14)	Mainly comprised of the provision for compensations for claims related to investors' litigation in the current period.
Gain or loss arising from changes in fair value of financial assets held for trading and financial liabilities held for trading, and disposal of financial assets held for trading, financial liabilities held for trading and gain on investment in available-for-sale financial assets, other than the effective hedging business related to the normal operation of the Company	—	202,596.63	3,490,824.04	—
Write-back of provision for receivables subject to individual impairment test	—	520,000.00	5,993,355.82	—
Non-operating income and expenses other than the above items	**3,615,735.91**	7,138,842.29	4,927,933.70	Mainly comprised of the break fee income received during the current period.
Less: Effect on income tax	**63,812.14**	51,780,307.55	2,965,641.14	—
Effect on minority interests (after tax)	**133,704.23**	250,622.22	2,323,368.77	—
Total	**1,595,978.75**	299,174,470.07	(798,133.31)	—

Details of other profit or loss items that fall within the definition of extraordinary gain or loss:

☐ Applicable Not applicable

The Company did not have any extraordinary profit and loss items that fall within the definition of extraordinary gain or loss.

Explanation for defining the non-extraordinary gain or loss items listed in the Interpretation No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — Extraordinary Profit and Loss) as extraordinary gain and loss items

☐ Applicable Not applicable

The Company did not define any non-extraordinary profit or loss items listed in the Interpretation No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — Extraordinary Profit and Loss) as extraordinary gain and loss items.

I. Overview of the Company's industry during the reporting period

The Company operates in the energy equipment industry covering energy sources such as petroleum, natural gas, shale gas, coal and coalbed methane, which is apparently vulnerable to changes in economic development cycle, market consumption and demand, cycle of crude oil prices and cycle of raw material prices. Since 2021, in line with the gradual improvement in global economic development, demand for oil and gas has become increasingly stronger with international oil prices fluctuated upward, which helped further boost active investment in capital expenditure by oil and gas companies and in turn drive the sentiment in the oilfield services industry to rebound. However, the downstream equipment manufacturers for oilfield services continued to face a fierce industry competition as international oil and gas

The Company's main products are pipe products and high-end castings and forgings. The Company has adopted a "sales-based production" business model for production under which the Company manufactures, inspects and delivers products under its production system and according to the plan specified in the customer orders secured by the sales department through market sales initiatives. The Company has adopted a centralised procurement model under which the procurement department is responsible for the purchase of all raw materials, moulds and equipment, including the signing of procurement contracts, procurement status tracking, facilitating quality improvement of raw materials, etc. The procurement department strictly controls the selection of suppliers based on a comprehensive overall evaluation index system. It fosters quality partners and develops long-term and stable strategic partnership. The Company has a relatively mature sales network and has established a professional team dedicated to sales and import and export operations with members responsible for domestic and international market research and study, development, product sales and after-sales services, respectively.

As at the end of the reporting period, the Company had total assets of RMB4.458 billion, representing a decrease of 13.87% year-on-year. Net assets attributable to shareholders of the listed company were RMB1.413 billion, representing a decrease of 20.64% year-on-year. During the reporting period, the Company realised an operating revenue of RMB3.734 billion, representing a year-on-year growth of 24.08%. Net profit attributable to shareholders of the listed company was –RMB368 million. During the reporting period, due to the significant increase in the purchase prices of coal and mineral powder, the major raw materials of the Company, the suspension of production for overhaul of Shouguang Maolong and Shouguang Baolong, the Company's principal subsidiaries, and the shortage in supply of raw materials, there was an increase in the production costs and procurement costs. Meanwhile, the suspension of production also led to the increase in costs and expenses. During the reporting period, the Company carried out a thorough review on assets at the end of the year and provided for an impairment loss of RMB98,254.5 thousand in respect of those assets with an indication of impairment according to the relevant requirements.

III. Analysis of core competitiveness

1. Strength in technological research and development and innovation

The Company has strong R&D capabilities in the field of special equipment for energy equipment, and has undertaken more than 70 national and provincial-level related scientific research projects. We are a new high-technology enterprise and a leading enterprises in China's energy equipment base with Shandong Provincial Enterprise Technology Center, Shandong Petroleum Special Pipe Engineering Technology Research Center, and National Accreditation Laboratory and Weifang Petroleum Machinery Engineering Technology Research Center and other innovation platforms in place. The Company has built a professional and stable scientific research team through independent training, introduction of talents, and cooperation with universities and research institutes, which is creating the enterprises-based and market-oriented technology innovation system with in-depth integration of production, education and research.

2. Strength in product quality

The Company attaches importance to management of product quality. The Company is well-equipped with inspection and monitoring equipment. The Company has long been accredited ISO9001 international quality system certification, ISO14001 environmental management system certification and OHSAS18001 occupational health and safety management system certification and passed the QES management system follow-up recertification. With the main products being approved to use the industry logo of American Petroleum Institute (abbreviated as "API"), the Company successfully gained access to the domestic and global oil field markets. The main products, namely casings, valves, mud pump liners, precision stainless steel forgings, three kinds of oil pumping units and accessories, are highly marketable globally in major oil-producing regions such as Europe, the Americas and the Middle East, and are well-received by local and overseas customers.

3. Strength in marketing

The Company sets foothold in China and goes global. Over the years of development, the Company has built a network providing long-term, stable, fast and effective sales services and established a loyal, long-lasting and win-win partnership with mass customers. In the domestic market, the Company has a relatively stable customer base which includes, without limitation to, oil and gas companies such as PetroChina, Sinopec, CNOOC and Yanchang Petroleum. The major overseas markets are countries and regions in the Middle East, the Americas, Europe and North Africa. The Company's marketing team consists of talents who are professionals in international trade and marketing and have relatively extensive experience and strong business competence, which allows the Company to enjoy, to a certain extent, competitive edge in marketing of energy equipment products.

4. Strength in furnace rehabilitation technology

HIsmelt furnace rehabilitation technology is a furnace rehabilitation metallurgical technology of Shandong Molong which actively follows the national manufacturing transformation and upgrade, continues to develop the recycling economy and builds a green metallurgical enterprise. The Company has obtained HIsmelt furnace rehabilitation technology series patents and authorizations. After the identification of scientific and technological achievements organised by the Chinese Society for Metals, Shandong Molong HIsmelt furnace rehabilitation technology has reached the international leading level. Riding on the continuous expansion of the sales market of high-end castings and forgings developed with the current furnace rehabilitation technology of the Company, it can be broadly applied to the manufacturing of equipment for wind turbine castings and high-end machine tools. The application and promotion of HIsmelt furnace rehabilitation technology is expected to become a new profit growth point for the Company's future development.

5. Strength in new products

During the reporting period, in order to meet market demand, the Company developed a series of new products and improved its technical know-how by further pushing forward its product R&D activities. Full set installation and factory inspection and testing were completed for the Company's self-developed heater blower gun equipment which has met the criteria for use. The Group developed and commenced small-batch trial production of EH sucker rods, which have been up to standard in terms of all performance indicators and covers the preparatory works for preliminary development of smart logistic oil pumps. The Group designed and manufactured high tensile strength and high-resistance deformation anti-galling tubes, which have commenced mass production for use. The Group also developed a manufacturing process of boronised pump barrels for oil pumps and commenced small-batch production for Xinjiang market. The specialised double-channel oil pump product was completed with its design and manufacturing and has been put into mass production for the oilfields in Xinjiang market. As to the newly developed hydraulic and cold-drawn cylinder tube products, the Group worked on the design and improvement of cold drawing machine, cold drawing dies, special thread casings and other equipment. The efforts in research and development of new products and improvement of technical know-how will help the Group further increase its overall competitiveness in the industry.

6. Strength in brand name

The Company is a listed company that specialises in the design, research and development, process manufacturing, sales and exports of energy equipment. The Company is also a qualified supplier of the largest four oil conglomerates in China. The Company has always adhered to its principle of "encouraging all people, absorbing all thinks, collecting all contributions and creating all achievements". Through expansion of scale and extension of production chains, the Company has gained good reputation and solid position in the energy equipment market sector. The "Molong" trademark of the Company is named as a famous trademark of Shandong Province, and the products of the Company have become a key export brand for nurturing and development in Shandong Province.

IV. Analysis of principal businesses

1. Overview

See "II. Principal businesses of the Company during the reporting period" for details.

2. Revenue and cost

(1) Composition of operating revenue

Unit: RMB

	2021		2020		
	Amount	**Percentage of operating revenue**	Amount	Percentage of operating revenue	Year-on-year increase/ decrease
Total operating revenue	**3,734,462,841.12**	**100%**	3,009,719,029.66	100%	24.08%
By industry					
Special equipment manufacturing	**3,734,462,841.12**	**100.00%**	3,009,719,029.66	100.00%	24.08%
By product					
Pipe products	**2,047,507,945.84**	**54.83%**	2,458,265,692.32	81.68%	–16.71%
Three kinds of pumping units	**25,281,830.99**	**0.68%**	40,046,101.68	1.33%	–36.87%
Petroleum machinery parts	**8,885,631.54**	**0.24%**	8,346,558.77	0.28%	6.46%
Tube blanks	**815,847,918.60**	**21.84%**	178,497,433.73	5.93%	357.06%
High-end castings and forgings	**710,405,198.10**	**19.02%**	241,350,397.49	8.02%	194.35%
Others	**126,534,316.05**	**3.39%**	83,212,845.67	2.76%	52.06%
By region					
Within China	**3,536,780,288.98**	**94.71%**	2,717,360,137.40	90.29%	30.16%
Outside China	**197,682,552.14**	**5.29%**	292,358,892.26	9.71%	–32.38%
By sales model					
Self-marketing	**3,734,462,841.12**	**100.00%**	3,009,719,029.66	100.00%	24.08%

(2) Industries, products, regions or sales models that accounted for over 10% of the Company's operating revenue or operating profits

Applicable ☐ Not applicable

Unit: RMB

	Operating revenue	Operating cost	Gross profit margin	Year-on-year increase/ decrease in operating revenue	Year-on-year increase/ decrease in operating cost	Year-on-year increase/ decrease in gross profit margin
By industry						
Special equipment manufacturing	3,734,462,841.12	3,514,477,916.63	5.89%	24.08%	21.09%	2.33%
By product						
Pipe products	2,047,507,945.84	1,853,833,877.47	9.46%	–16.71%	–21.59%	5.63%
Tube blanks	815,847,918.60	755,620,029.56	7.38%	357.06%	302.49%	12.55%
High-end castings and forgings	710,405,198.10	750,153,992.36	–5.60%	194.35%	225.65%	–10.16%
By region						
Within China	3,536,780,288.98	3,329,682,584.60	5.86%	30.16%	25.30%	3.65%
By sales model						
Self-marketing	3,734,462,841.12	3,514,477,916.63	5.89%	24.08%	21.09%	2.33%

After adjustments were made to the data statistical caliber of the Company's principal businesses in the reporting period, the data of the Company's principal businesses for the most recent 1 year as adjusted based on the caliber at the end of the reporting period

☐ Applicable Not applicable

(3) Whether the Company's revenue from sales of physical goods is more than income from the provision of labour services

Yes ☐ No

Industry type	Item	Unit	2021	2020	Year-on-year increase/ decrease
Special equipment manufacturing	Sales volume	Ten thousand tonnes	72.09	62.7	14.98%
	Production volume	Ten thousand tonnes	72.78	58.16	25.14%
	Stock volume	Ten thousand tonnes	6.85	6.16	11.20%

Reason(s) for year-on-year changes of over 30% in the underlying data

☐ Applicable Not applicable

(4) Performance of the material sales contracts and material purchase contracts entered by the Company as at the end of the reporting period

☐ Applicable Not applicable

(5) Composition of operating cost

By product

Unit: RMB

Product type	Item	2021		2020		
		Amount	Percentage of operating cost	Amount	Percentage of operating cost	Year-on-year increase/ decrease
Pipe products	Materials	**1,438,018,938.75**	**77.57%**	1,679,292,641.83	71.03%	–14.37%
Pipe products	Depreciation	**86,017,891.91**	**4.64%**	165,966,976.57	7.02%	–48.17%
Pipe products	Labour cost	**96,955,511.79**	**5.23%**	176,133,044.93	7.45%	–44.95%
Pipe products	Expenses	**232,841,535.01**	**12.56%**	342,809,282.09	14.50%	–32.08%
Three kinds of pumping units Materials	Materials	**19,383,975.12**	**71.98%**	24,813,408.06	66.94%	–21.88%
Three kinds of pumping units Materials	Depreciation	**1,605,008.22**	**5.96%**	2,846,832.60	7.68%	–43.62%
Three kinds of pumping units Materials	Labour cost	**4,481,096.78**	**16.64%**	6,983,636.21	18.84%	–35.83%
Three kinds of pumping units Materials	Expenses	**1,459,588.01**	**5.42%**	2,424,255.88	6.54%	–39.79%
Petroleum machinery parts Materials	Materials	**8,135,850.30**	**70.99%**	5,342,853.06	71.30%	52.28%
Petroleum machinery parts Materials	Depreciation	**1,053,225.30**	**9.19%**	687,901.70	9.18%	53.11%
Petroleum machinery parts Materials	Labour cost	**1,290,458.86**	**11.26%**	1,040,844.73	13.89%	23.98%
Petroleum machinery parts Materials	Expenses	**981,023.79**	**8.56%**	421,883.07	5.63%	132.53%
Tube blanks	Materials	**669,706,032.20**	**88.63%**	165,074,534.75	87.93%	305.70%
Tube blanks	Depreciation	**14,130,094.55**	**1.87%**	4,580,710.39	2.44%	208.47%
Tube blanks	Labour cost	**16,774,764.66**	**2.22%**	5,050,045.47	2.69%	232.17%
Tube blanks	Expenses	**55,009,138.15**	**7.28%**	13,028,741.85	6.94%	322.21%
High-end castings and forgings	Materials	**663,886,283.24**	**88.50%**	197,942,580.71	85.93%	235.39%
High-end castings and forgings	Depreciation	**31,131,390.68**	**4.15%**	10,826,604.55	4.70%	187.55%
High-end castings and forgings	Labour cost	**9,977,048.10**	**1.33%**	3,708,687.95	1.61%	169.02%
High-end castings and forgings	Expenses	**45,159,270.34**	**6.02%**	17,875,415.18	7.76%	152.63%
Others	Materials	**77,505,652.84**	**66.54%**	49,501,171.87	65.49%	56.57%
Others	Depreciation	**13,884,391.07**	**11.92%**	9,077,860.35	12.01%	52.95%
Others	Labour cost	**18,927,966.02**	**16.25%**	13,794,417.26	18.25%	37.21%
Others	Expenses	**6,161,780.94**	**5.29%**	3,212,398.55	4.25%	91.81%

Note

Raw materials accounted for the most significant part of the Company's cost of products, and the major raw material of the Company are mineral fines, coal, tube blanks and scrap steel.

(6) Whether consolidation scope changed during the reporting period

Yes ☐ No

The Company convened the sixth meeting of the sixth session of the board of directors and the sixth meeting of the sixth session of supervisory board respectively on 27 March 2020, at which the "Proposal for the Deregistration of a Controlled Subsidiary" (《關於註銷控股子公司的議案》) was considered and passed to approve the disposal of Baolong Consultancy (a controlled subsidiary) by way of liquidation and deregistration (Announcement number：2020-017). On 28 December 2021, the Company received a Notice on Approval of Deregistration from the Administrative Examination and Approval Service Bureau of Shouguang City confirming that the deregistration procedures regarding Baolong Consultancy have been completed (Announcement number 2021-077). Upon completion of the deregistration, Baolong Consultancy is longer to be consolidated into the consolidated financial statements of the Company.

(7) Information related to significant change or adjustment of the Company's business, product or service during the reporting period

☐ Applicable Not applicable

(8) Information on major customers and major suppliers

Information on the major customers of the Company

Total sales of the top 5 customers (RMB)	1,111,506,039.91
Proportion of total sales of the top 5 customers over total sales for the year	29.77%
Proportion of sales of connected parties in the top 5 customers over total sales for the year	0.00%

Information on the Company's top 5 customers

No.	Name of customer	Sales amount (RMB)	Percentage of the annual total sales amount
1	PetroChina Company Limited (中國石油天然氣股份有限公司)	312,448,049.65	8.37%
2	Ningbo Rixing Casting Co., Ltd. (寧波日星鑄業有限公司)	226,163,301.26	6.06%
3	Shaanxi Yanchang Petroleum (Group) Co., Ltd. (陝西延長石油（集團）有限責任公司)	215,537,636.92	5.77%
4	Zhongji Jinhe Trading Co., Ltd. (中機金和貿易有限公司)	199,270,481.99	5.34%
5	Shandong Guochuang Precision Machinery Co., Ltd. (山東國創精密機械有限公司)	158,086,570.08	4.23%
Total	—	1,111,506,039.91	29.77%

Other particulars of the major customers

Applicable ☐ Not applicable

The Company did not have any related relationship with the top 5 customers and the directors, supervisors, senior management, key technicians, shareholders who had more than 5% of the shares, actual controller and other related parties of the Company did not have any interest in the major customers.

Information on the major suppliers of the Company

Total purchases attributable to the top 5 suppliers (RMB)	1,081,552,845.46
Proportion of total purchases attributable to the top 5 suppliers over total purchases for the year	34.12%
Proportion of purchases of connected parties in the top 5 suppliers over total purchases for the year	0.00%

Information on the Company's top 5 suppliers

No.	Name of the supplier	Purchases amount (RMB)	Percentage of the annual total purchases amount
1	Shandong Xijiaxin Mining Co., Ltd. (山東璽佳信礦業有限公司)	437,480,007.44	13.80%
2	Jiangxi Jingpeng Juhui Environmental Technology Co., Ltd. (江西京朋聚輝環保科技有限公司)	176,424,001.70	5.57%
3	Tianjin Tianwu Xuyang Environmental Technology Co., Ltd. (天津市天物旭陽環保科技有限公司)	167,162,412.30	5.27%
4	Shandong Shouguang Juneng Thermoelectric Development Co., Ltd. (山東壽光巨能熱電發展有限公司)	163,697,713.19	5.16%
5	Shoutou Renewable Energy CO., Ltd. (首投再生資源有限公司)	136,788,710.83	4.32%
Total	—	1,081,552,845.46	34.12%

Other particulars of the major suppliers

Applicable ☐ Not applicable

The Company did not have any related relationship with the top 5 suppliers and the directors, supervisors, senior management, key technicians, shareholders who had more than 5% of the shares, actual controller and other related parties of the Company did not have any interest in the major suppliers.

3、 Expenses

Unit: RMB

	2021	2020	Year-on-year increase/ decrease	Description of significant change
Selling expenses	**13,402,249.30**	14,948,332.92	–10.34%	—
Administrative expenses	**278,990,958.47**	194,470,836.86	43.46%	Primarily attributable to the suspension of production of Shouguang Maolong and Shouguang Baolong for inspection and maintenance during which the expenses increased.
Finance expenses	**115,447,705.15**	159,212,583.52	–27.49%	Primarily attributable to the decrease in the financing amount for the current period.
Research and development expenditures	**57,076,465.12**	52,542,810.96	8.63%	—

4. Investments in research and development

Applicable ☐ Not Applicable

Name of key R&D project	Purpose of the project	Progress of the project	Intended target	Expected impact on the future development of the Company
110V high-strength and high-toughness casing	To develop high-strength and high-toughness casing products based on the optimised material ingredients, heat treatment process and hot rolling process.	Completed	To develop high-strength and high-toughness casing products designed for petroleum use with yield strength of at least 110KSI.	To enhance the Company's product competitiveness, to meet the demand for high-strength casings for petroleum use of the petroleum exploration and development sector, and to expand the market share of the products.
High-toughness CO_2 corrosion resistant casing	To develop high-strength and high corrosion resistant casing products based on the optimised material ingredients, heat treatment process and hot rolling process.	Completed	To develop high-strength casing products designed for petroleum use that can be used under the environment with high content of CO_2 corrosive media.	To enhance the Company's product competitiveness, to meet the demand for casings for petroleum use of the petroleum exploration and development sector under high corrosion environment.

Name of key R&D project	Purpose of the project	Progress of the project	Intended target	Expected impact on the future development of the Company
Thickened tubing (Anti-torsion)	To develop specially-structured tubing with good connectivity when the large torque is tightened.	Completed	To increase the torque resistant capacity of tubing threads to ensure intact connection of tubing threads when the large torque is tightened.	To enhance the Company's product competitiveness, and to expand the market share of the products.
Thermal well casing	To develop high-strength and thermal resistant casing products based on the optimised material ingredients, heat treatment process and hot rolling process.	Completed	To develop high-strength casing products designed for petroleum use that can be used under high-temperature and high-pressure geological environment filled with steam.	To enhance the Company's product competitiveness, to meet the demand for casings for petroleum use of the petroleum exploration and development sector in heavy oil thermal recovery process.
Cold-drawn cylinder tubing	To offer a low-cost, high-precision, processing-free sophisticated steel tubing products for cylinder manufacturing use.	Completed	To develop high-precision, bore processing-free and low-total cost sophisticated steel tubing products.	To enhance the Company's product competitiveness, and to expand the market share of the products.
Corrosion resistant tubing	To develop high corrosion resistant tubing products based on the combined structure of ordinary tubing materials and corrosion resistant materials.	Completed	To reduce the total costs of corrosion resistant tubing and to meet the demand for low-cost extraction in oilfields.	To enhance the Company's product competitiveness, and to expand the market share of the products.
Ultra high strength large wall thickness pier vertical connecting smart gas-sealed buckle pipes	To develop large wall thickness and large outer diameter processed vertical connecting gas-sealed buckle pipes based on the technology for thickening large deformative pier at pipe ends to meet the demand for pipes of deep well/ inclined shaft fracturing/ extraction technology, and develop smart pipe products for automated information management by adopting high-performance reader chips and supporting management systems.	Small-batch production completed	To complete the design of pipe-end vertical connecting gas-sealed buckle of large deformative thickened pipes under the 60.3、73.02、88.9、114.3 series to meet the requirements of oilfield technical standards, and to complete the design, manufacturing and thickness testing of supporting thickening moulds.	To enhance the Company's product competitiveness, and to expand the market share of the products.

Pro le of research and development personnel of the Company

	2021	2020	Percentage change
Number of individuals of research and development personnel	**285**	327	–12.84%

5. Cash flows

Unit: RMB

Item	2021	2020	Year-on-year increase/ decrease
Subtotal of cash inflows from operating activities	**3,586,628,661.60**	3,404,156,862.00	5.36%
Subtotal of cash outflows from operating activities	**3,550,836,304.27**	3,197,255,683.94	11.06%
Net cash flows generated from operating activities	**35,792,357.33**	206,901,178.06	–82.70%
Subtotal of cash inflows from investing activities	**141,494,574.19**	359,686,419.62	–60.66%
Subtotal of cash outflows from investing activities	**51,969,039.99**	45,411,071.25	14.44%
Net cash flows generated from investing activities	**89,525,534.20**	314,275,348.37	–71.51%
Subtotal of cash inflows from financing activities	**2,287,714,757.03**	2,852,941,196.24	–19.81%
Subtotal of cash outflows from financing activities	**2,697,208,663.65**	3,159,078,404.30	–14.62%
Net cash flow generated from financing activities	**(409,493,906.62)**	(306,137,208.06)	–33.76%
Net increase in cash and cash equivalents	**(285,779,998.82)**	203,732,360.30	–240.27%

Explanations on main effects of significant changes in related data over the same period of last year

Applicable ☐ Not Applicable

(1) Net cash flows generated from operating activities decreased by 82.70% compared with the same period of last year, mainly attributable to the increase in payments for materials during the current period.

(2) Net cash flows generated from investing activities decreased by 71.51% compared with the same period of last year, mainly attributable to the decrease in proceeds received from the disposal of assets during the current period.

(3) Net cash flows generated from financing activities decreased by 33.76% compared with the same period of last year, mainly attributable to the deregistration of subsidiaries and the increase in financing deposits from bills discounting during the current period.

(4) Net increase in cash and cash equivalents decreased by 240.27% compared with the same period of last year, mainly attributable to the combined effects of net cash flows from financing activities, investing activities and financing activities.

Explanation on main reasons for the material difference between net cash flows from operating activities during the reporting period and net profit for the year

Applicable ☐ Not Applicable

During the reporting period, the Company's net cash flows generated from operating activities was materially different from its net profit, the reasons of which were mainly due to the provision for impairment of assets of the Company for the reporting period, and the combined effects of the increased amounts of depreciation of fixed assets, amortisation of intangible assets and finance expenses for the reporting period.

V. Analysis of non-principal businesses

Applicable ☐ Not Applicable

Unit: RMB

	Amount	Percentage of total profit	Reason(s) for the incurrence	Is it recurring
Investment income	(169,863.60)	0.05%	Mainly comprised of loss of associates.	No
Impairment of assets	(112,901,651.42)	31.18%	Mainly comprised of provisions for impairment of fixed assets and inventories according to the ASBE.	No
Non-operating income	5,272,356.06	–1.46%	Mainly comprised of break fee income.	No
Non-operating expenses	6,213,826.89	–1.72%	Mainly comprised of loss on retirement of non-current assets and provision for compensations for claims related to investors' litigation in the current period.	No
Credit loss impairment	14,647,126.44	–4.05%	Mainly comprised of recovery of accounts receivable from certain customers during the current period for which impairment provisions have been made.	No
Other gains	2,335,726.68	–0.65%	Mainly comprised of the amorisation of deferred revenue related to assets and receipts of stability subsidies and social insurance subsidies during the current period.	No
Gain on disposal of assets	399,239.27	–0.11%	Mainly comprised of the gains on disposal of certain fixed assets during the current period.	No

VI. Analysis of assets and liabilities

1. Significant changes in the composition of assets

Unit: RMB

	At the end of 2021		At the beginning of 2020			
	Amount	**Percentage of total assets**	Amount	Percentage of total assets	Increase/ decrease in proportion	Reason(s) for significant change
Monetary funds	**475,191,176.69**	**10.66%**	759,979,803.03	14.68%	–4.02%	Mainly attributable to the payments for materials and repayments of certain financings during the current period.
Accounts receivables	**299,530,976.41**	**6.72%**	287,920,595.28	5.56%	1.16%	—
Inventories	**715,282,787.11**	**16.05%**	787,377,614.78	15.21%	0.84%	—
Investment properties	**9,929,101.58**	**0.22%**	0.00	0.00%	0.22%	Mainly attributable to the leasing of certain fixed assets under operating lease during the current period.
Long-term equity investments	**2,144,833.69**	**0.05%**	2,314,697.29	0.04%	0.01%	—
Fixed assets						

2. Assets and liabilities measured at fair value

Applicable ☐ Not Applicable

Unit: RMB

Item	Amount at the beginning of the period	Gain or loss on fair value changes in the current period	Cumulative fair value changes included in equity	Provision for impairment for the current period	Purchases during the current period	Disposals during the current period	Other changes	Amount at the end of the period
Financial assets								
Financing receivables	33,575,777.00	—	—	—	—	—	(5,036,752.08)	28,539,024.92
Total of the above	33,575,777.00	—	—	—	—	—	(5,036,752.08)	28,539,024.92
Financial liabilities	0.00	—	—	—	—	—	0.00	0.00

Other changes

Other changes in the financing receivables are the net amount of new and matured or endorsed bank acceptance bills during the current period.

Whether there were any significant changes in the measurement attributes of the Company's major assets during the reporting period

☐ Yes No

3. Restrictions on asset rights as at the end of the reporting period

Unit: RMB

Item	Book value at the end of the period	Reason(s) for the restriction
Monetary funds	**243,211,865.16**	Security deposits
Monetary funds	**1,222,104.03**	Frozen for litigation
Bills receivable	**57,940,860.42**	Pledge of bills
Fixed assets	**455,850,196.68**	Charge for borrowings
Investment properties	**4,439,391.74**	Charge for borrowings
Intangible assets	**154,256,277.50**	Charge for borrowings
Total	**916,920,695.53**	—

VII. Analysis of investments

1. General

□

Major subsidiaries and invested companies affecting over 10% of net profit of the Company

Unit: RMB

Name of company	Type of company	Principal businesses	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net Profit
Shouguang Baolong	Subsidiary	Production and sale of petroleum equipment and castings and forgings	15,000 ten thousand	471,553,886.19	(157,621,955.27)	2,255,270,055.61	23,622,900.83	23,548,867.48
Shouguang Maolong	Subsidiary	Research of new materials for energy equipment; production and sale of metal castings and forgings; sea water desalination; waste heat and gas power generation	71,238 ten thousand	1,488,613,041.97	186,758,013.78	1,356,875,840.86	(165,447,860.27)	(161,600,950.54)

Acquisitions and disposals of subsidiaries during the reporting period

☐ Applicable Not applicable

Information on major controlled and invested companies

(1) Shouguang Baolong realised an operating revenue of RMB2.255 billion for the current period, representing an increase of 33.73% as compared with the same period of last year. Net profit amounted to RMB2,354.89 ten thousand, as compared to the loss of RMB6,655.68 ten thousand in the same period of last year, which was primarily attributable to the company's increased efforts in production and sales in view of the stronger profitability of its products due to the increase in market prices of the products during the current reporting period.

(2) Shouguang Maolong realised an operating revenue of RMB1.357 billion for the current period, representing a decrease of 4.39% as compared with the same period of last year. Net profit for the current period amounted to RMB16,160.10 ten thousand, as compared to the loss of RMB6,729.68 ten thousand in the same period of last year, which was primarily attributable to the significant increase in purchase prices of raw material during the current period which led to an increase in production cost, and the increase in costs and expenses in relation to the suspension of production for inspection and maintenance.

X. Structured entities controlled by the Company

☐ Applicable Not applicable

XI. Prospects for future development of the Company

(I) Future development trend of the Company's industry:

Under the background of continued global efforts in fighting against COVID-19 pandemic and weak economic recovery, the internal and external environment remains complex and difficult which exposes China to risks and challenges. The sentiment in the energy equipment manufacturing industry is highly sensitive to factors such as demand for energy consumption, economic changes in economic cycles and movements of raw material prices. Currently, due to the combined impacts of the sporadic COVID-19 cases in China, price movements of commodities at high levels, volatility in international oil and gas industry, accelerated transformation of the energy sector and other factors, international oil and gas companies remain conservative in the investment in oil and gas exploration and development. Competition in the energy equipment manufacturing industry remains fierce.

In 2021, China made an auspicious start of the 14th Five-Year Plan by implementing a set of regular prevention and control measures and coordinating pandemic prevention and control with economic and social development. China is creating a new development paradigm with domestic circulation as the mainstay and domestic and international circulations reinforcing each other. Driven by the national strategy for energy security, China is on the trajectory of economic improvement, which, together with the rising international crude oil prices, boosts increasing demand for oil and gas exploration and development. This helps the sentiment in the industry rebound.

In the long run, the demand for oil and gas will continue to grow. Under the 14th Five-Year Plan, it is proposed that the oil and gas exploration and development industry shall promote the increase of oil and gas reserves and production and shall maintain a high and steady yield of crude oil and national gas. The National Energy Administration stated in the Guiding Opinions on Energy-Related Work in 2021 that it is important to vigorously strengthen the foundation for safeguarding energy supply and promote the increase of oil and gas reserves and production, and ensure that the investment in exploration and development is maintained. The white paper titled Energy in China's New Era indicated that, China has intensified efforts for the exploration and exploitation of oil and gas resources, to increase their reserve and production volumes, and has been enhancing its supply capacity for safer and higher-quality energy. The national strategy for energy security has provided a strong support to the development of the energy equipment manufacturing industry. Against the backdrop of China's continued high external dependence on crude oil and natural gas, the goal of "stabilising oil market and increasing demand for natural gas" will remain unchanged. The national strategy for energy security has driven increased upstream capital expenditure, as evidenced by the proposals of CNPC and CNOOC on their "Seven-Year Action Plan" to vigorously develop the business of domestic energy exploration and development.

In addition, the PRC has comprehensively liberalised the oil and gas exploration and development market. Private and foreign-invested enterprises and other social capitals are expected to enter the domestic oil and gas exploration and development market to inject new blood into the domestic oil and gas exploration and development, driving new demands for the energy equipment industry. With the acceleration of oil and gas production and the continuous growth of oil and gas capital expenditures, the overall demand for the energy equipment manufacturing industry will continue to expand, and the industry's prosperity is expected to further improve.

(II) Business plans of the Company for 2022:

In 2022, centering around the strategic goal of "becoming an internationally renowned energy equipment manufacturer and service provider, Shandong Molong will adhere to the general tone of making progress while remaining stable, with the main focus on the promotion of high-quality corporate development. The Company will persist on a customer-centered and market-oriented approach, with a key focus on developing and selling high-end, precise and advanced new products. The Company will capitalise on its industry strengths to strengthen the research and development of technology and service capability, forming an economical, efficient, advanced and eco-friendly industry chain of energy equipment manufacturing, striving to achieve steady corporate development.

1. Adhere to market-oriented approach and proactively expand the market

The Company will set its sight on market segments according to the trends of industry development with its marketing activities centering around key markets and focusing on major customer. The Company will work hard on tender and bidding in the oilfield market (such as CNPC, Sinopec and CNOOC) and client acquisition in the tube market; take full advantages of the industry, actively explore marketing channels, vigorously push forward to management of key projects, further capitalise on its advantages to explore new applications markets, increase order volume and capacity of high value-added products to promote the formulation of diversified product structures that effectively increase market share and help achieve improved business results.

2. Strengthen the basic management to promote the quality and efficiency improvement

The Company will strictly pay attention to safety, environmental protection and production management, continue to implement safety education and training for all employees, practically raise their safety awareness and pre-control safety risks in advance. The Company will also strengthen equipment operation management, strictly implement hidden danger identification and rectification and ensure stable production operations. The Company will further consolidate basic management, pay attention to product quality, and establish a good reputation for the Company. Production process management will also be practically implemented and the Company will raise the awareness of cost control, reduce costs in various aspects. The Company will also further enhance its standard of quality management and capability in production and manufacturing, explore internal potential, exercise measures to reduce costs and increase efficiency, with an aim to improve its profitability.

3. Attach importance to technology innovation and research and development and strengthen the construction of an echelon of talents

The Company will continue to strengthen the collaboration with scientific research institutes and tertiary schools. Leveraging on the technological advantages of tertiary schools and scientific research institutes and the advanced equipment of the Company, the Company will promptly implement process testing, development and design, so as to enhance its capability in technological innovation and lay a solid foundation for the application of new products and new technology in the future. The Company will also accelerate the development, introduction and application of new products and techniques. Intensified efforts will be made in the construction and upgrade of supporting infrastructure and production lines as a driving force and hardware protection for efficient achievement of development goals and rapid growth in business results.

The Company will strengthen the construction of the team of professional and technical personnel, the Company forms a professional and stable scientific research team through independent cultivation and introduction of talents, gradually establishing a technological innovation system that integrates production, education and research. The Company will also further perfect the management mechanisms on cadre appointment and talents management and gradually enhance and improve the remuneration and labour security systems, as well as further improve the overall quality of employees through business training, management training, etc.

4. Reinforce the internal control management and reduce operation risks

The Company will further perfect and complete the internal control management system, intensify internal audit, establish efficient monitoring and inspection mechanisms, regulate the specific business process and strengthen risk-resistance ability; continue to reinforce risk control and monitoring mechanisms at all levels, so as to lower the risks of corporate operation.

5. Optimise the corporate governance and facilitate the standardised operation

The Company will further complete the relevant rules and regulations according to actual needs and ensure their effective implementation; continue to optimise the corporate governance structure and improve the standardised operation level, thereby providing fundamental guarantee for the Company's high-quality development and setting up a more regulated and transparent operating system as a listed company; optimise the internal control process and constantly perfect the risk prevention mechanisms, so as to guarantee healthy, stable and sustainable development of the Company.

(III) Major risk factors for future development strategy and business goals of the Company:

(1) Market risk

The Company operates in the energy equipment manufacturing industry which is directly relevant to the development and prosperity of the energy industry. The fluctuations of crude oil price are affected by global economic growth rate, regional, political, financial, supply and demand and many other factors, and have strong cyclicality and volatility. At the time when oil prices are low, oil and gas companies will reduce capital expenditures accordingly, make less investment in to exploration and development and have lower demand for equipment and services in the oil and gas industry. The Company will adjust product structure and market setting in a timely manner according to market changes.

(2) Raw material price fluctuation risk

Any fluctuations in raw material prices will directly affect the manufacturing costs of products and will, in turn, have direct impact on product prices. The Company will closely monitor if there is any fluctuation in raw material prices and will control the manufacturing costs of products such as by way of fixing raw material prices, adjusting the product prices and product mix in a timely manner as and when necessary.

(3) Policy risk

In recent years, the Chinese government has been stepping up the requirements on safety and environmental protection by more frequently issuing stricter safety and environmental protection policies and carrying out regular safety and environmental protection supervision. The higher emission standards is bound to increase the Company's environmental protection related costs. The Company is dedicated to creating a safe, economical, efficient, advanced and environment-friendly industry chain of energy equipment manufacturing. It puts great efforts in safety and environmental education, strengthens the investigation and management of hidden safety hazards, adheres to a green, innovative and sustainable concept, vigorously pursues circular economy, maximises resource utilisation, and increases environmental protection investment to ensure the waste discharges of the Company is up to standards.

(4) Exchange rate risk

Changes in the RMB exchange rate have impact on the Company's operating results. The Company will closely monitor the changes in exchange rates and will take timely measures to avoid any risks caused by changes in the RMB exchange rate.

(5) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the changes in market interest rate. Financial instruments bearing fixed interest rates expose the Company to fair value interest rate risk and financial instruments bearing floating interest rates expose the Company to cash flow interest rate risk. The Company determines the relative proportions of financial instruments between fixed and floating interest rates depending on the market conditions, maintains an appropriate portfolio of financial instruments through regular review and monitoring.

XII. Researcher reception, communication, interview and other events during the reporting period

Applicable ☐ Not Applicable

Date of reception	Venue of reception	Form of reception	Type of reception target	Reception target	Main topics of discussion and information provided	Reference for general information about the research
8 April 2021	Panorama · Global Roadshow (http://rs.p5w.net)	Others	Others	Investors	Business performance of the Company for 2020	Details can be found in the Log Sheet of Shandong Molong Petroleum Machinery Company Limited regarding Investors' Relation Events published on the website of cninfo (No.: 2021–001)
16 November 2021	Panorama · Global Roadshow (http://rs.p5w.net)	Others	Others	Investors	Business performance, development strategy, investor protections and the third quarterly report of the Company, etc.	Details can be found in the Announcement on the Participation in Investors' Online Group Reception Day Event for Listed Companies in administrative districts of Shandong 2021 published on the website of cninfo (No.: 2021–070)

I. General condition of corporate governance

In strict compliance with the Company Law (《公司法》), the Securities Law (《證券法》), the Code of Corporate Governance for Listed Companies (《上市公司治理準則》), the Rules Governing the Listing of Shares on Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》), the Guidance No.1 of Shenzhen Stock Exchange for Self-regulation of Listed Companies — Standardized Operation of Listed Companies on Main Board (《深圳證券交易所上市公司自律監管指引第1號—主板上市公司規範運作》), the Rules Governing the Listing of Securities on the Stock Exchanges of Hong Kong Limited (《香港聯合交易所上市規則》) and the requirements of relevant laws, rules and regulatory documents, and based on its actual situation, the Company strives to improve its governance structure, establish a sound internal management and control systems and further enhance its governance standards. The actual condition of the Company's governance meets the requirements of the laws, rules and regulatory documents issued by the China Securities Regulatory Commission, Shenzhen Stock Exchange, among others.

1. Shareholders and general meetings

In strict compliance with the Company Law, Rules for General Meetings of Listed Companies (《上市公司股東大會規則》) and the Articles of Association, the Rules of Procedures for General Meetings and the relevant rules and requirements of Shenzhen Stock Exchange, the Company has provisions for the convening, holding and voting procedures for general meetings. The Company adopts a combination of onsite voting and online voting for the convenience of shareholders in exercising their rights and to ensure all minority shareholders can exercise their shareholders' rights adequately.

During the reporting period, the Company held 1 annual general meeting and 3 extraordinary general meetings which were all convened by the board of directors. At the meetings, the Company has engaged professional lawyers to attend as witnesses and issue legal opinions, and issue legal opinions on matters such as the convening of the meetings, eligibility of attendees, qualification of conveners, voting procedures and poll results, to ensure the regulated operation of the general meetings.

2. The Company and the controlling shareholder

The controlling shareholder of the Company is Shouguang Molong Holdings Co., Ltd. and the actual controller is the State-owned Assets Supervision and Administration Commission of Shouguang City (壽光市國有資產監督管理局). During the reporting period, the controlling shareholder of the Company strictly complied with the Code of Corporate Governance for Listed Companies, the Rules Governing the Listing of Shares on Shenzhen Stock Exchange, the Guidance No.1 of Shenzhen Stock Exchange for Self-regulation of Listed Companies — Standardized Operation of Listed Companies on Main Board, the Articles of Association and other rules and requirements in regulating its own conduct, and there was no direct or indirect interference with the Company's decision-making and operating activities overriding the general meeting of the Company, nor was there any behaviour jeopardising the interests of the Company and other shareholders of the Company by taking advantage of its controlling capacity, or any occupation of the Company's funds by the controlling shareholder, or any provision of guarantee by the Company in favour of the controlling shareholder.

The Company has independent and complete business operations and the ability to operate independently. The Company independent from the controlling shareholder in terms of business, assets, work forces, organisation and finance. The board of directors, supervisory board and internal organisations of the Company operate independently.

3. Directors and board of directors

The board of directors of the Company consists of 9 directors, 3 of them are independent directors. The number of members, composition and qualification of the board of directors meet the requirements of relevant laws, regulations and the rules of the Company. All directors of the Company have the ability to perform duties, attend board meetings and general meetings in accordance with the Guidance No.1 of Shenzhen Stock Exchange for Self-regulation of Listed Companies — Standardized Operation of Listed Companies on Main Board, the Rules of Procedures for Board Meetings and Work System for Independent Directors and other rules. They take active part in training programmes. They are familiar with relevant laws and regulations and discharge directors' duties with diligence and accountability in order to safeguard the interests of the Company and shareholders.

The board of directors of the Company has four special committees, namely the strategy committee, the nomination committee, the remuneration and evaluation Committee, and the audit committee, which are all comprised of directors and independent directors of the Company. Other than the strategy committee which is chaired by the chairman of the board of directors, other special committees are chaired by independent directors, and the number of independent directors accounts for two-thirds of the total number of members of the committees, which provides scientific and professional opinions and references for the decision-making of the board of directors. All special board committees operate in strict accordance with the Articles of Association and the Rules of Procedures for Board Meetings and their respective terms of reference, and carry out studies, give advice and recommendations in respect of professional matters.

4. Supervisors and supervisory board

The supervisory board of the Company consists of 3 supervisors, 1 of them is employee representative supervisor. The number of members, composition and appointment of the supervisory board meet the requirements of relevant laws and regulations. All supervisors of the Company have the ability to seriously perform their own duties with the intention of protection the interest of shareholders, carry out effective supervision on significant events and financial position of the Company and the performance of duties by directors and senior management and practically safeguard the legitimate interests of all shareholders in accordance with the Articles of Association and the Rules of Procedures for Board Meetings.

5. Information disclosure and transparency

The Company attaches great importance to information disclosure and make true, accurate, complete, timely and fair information disclosures in strict compliance with the requirements of relevant laws and regulations and the System for Management of Information Disclosures, the Guidance No.5 of Shenzhen Stock Exchange for Self-regulation of Listed Companies — Management of Information Disclosures. The Company has designated the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo as the Company's media for information disclosure to ensure all shareholders of the Company have equal opportunity to access to information.

6. Performance evaluation and incentive mechanism

The Company has established and improves its fair, transparent and effective performance evaluation standards and incentive mechanism for directors, supervisors and senior management. The Company appoints its senior management in an open and transparent manner and in strict accordance with relevant laws and regulations.

7. Management of investors' relations

Pursuant to relevant laws and regulations, the Company has designated the secretary to the board of directors as the investors' relations manager, who is responsible to coordinate investors' relations, receive shareholder visitors, answer questions and queries of investors, provide investors with information the needs to be disclosed, and other tasks. The Company replies investors' questions and queries by telephone, email, on interactive platforms for investors' relations and at investor reception day to strengthen information communication, promote positive interaction with investors and enhance and transparency of the Company.

8. Stakeholders

The Company highly respects and protects the legitimate interests of stakeholders and is conscious of its social responsibility. Therefore, the Company actively communicates, exchanges ideas and cooperates with stakeholder in order to strike a harmonious balance among the interests of shareholders, employees and the society, and jointly promote healthy and sustainable development of the Company.

Any significant differences between the actual condition of corporate governance of the Company and the requirements of laws, administrative regulations and CSRC in relation to the governance of listed companies

☐ Yes No

There were no significant differences between the actual condition of corporate governance of the Company and the requirements of laws, administrative regulations and CSRC in relation to the governance of listed companies.

II. Assurance by the Company of independence from the controlling shareholder and actual controller in terms of assets, employees, finance, organisation and business of the Company

During the reporting period, the Company operated in strict compliance with the Company Law, the Securities Law and other laws and regulations and the Articles of Association. It was independent from the controlling shareholder and the actual controller in terms of assets, employees, finance, organisation and business. It had a well-developed business system which allowed it to operate independently and directly to the market.

1. Independence of assets

The Company had independent and complete procurement, production and sales systems and supporting production facilities, and has fixed assets such as properties for business and production operations and facilities for production and operation, and intangible assets such as land use rights, trademarks, patents and proprietary technology, the titles of which were all vested in the Company. The assets of the Company were complete with ownership clearly defined and were independent from the controlling shareholder, the actual controller and other entities controlled by them.

2. Independence of employees

The employees, labour forces, human resources and payroll relationship were completely independent. The appointment of directors, supervisors and senior management of the Company was conducted in accordance with the Company Law and other laws, rules, regulatory documents and the Articles of Association. The senior management of the Company did not hold any concurrent posts which were prohibited by relevant laws and regulations, did not hold any position with the controlling shareholder, the actual controller and other entities controlled by them, did not receive any remuneration from the controlling shareholder, the actual controller and other entities controlled by them, or the finance personnel of the Company did not any concurrent posts with the controlling shareholder, the actual controller and other entities controlled by them.

3. Independence of finance

Pursuant to the Accounting Law of the People's Republic of China and the Accounting Standards for Business Enterprises, the Company has established a set of independent, complete and standardised financial and accounting treatment system and financial management system, and has improved the respective internal control system for independent financial decision making. The Company has established an independent finance department, recruited independent finance staff according to the business requirements and developed an independent accounting treatment system. The Company has opened independent back accounts and has its own bank account number. Being an independent taxpayer, the Company is subject to tax payments independently according to the laws.

4. Independence of organisation

The Company has established a well-developed organisational system under which the general meeting, the board, the supervisory board and all other functional departments exercise their respective authorities independently. The Company possesses independent production operation and office organisations which are completely independent from the controlling shareholder, the actual controller and other entities controlled by them. There was no joint operation or joint office with the controlling shareholder, the actual controller and other entities controlled by them, and there was no interference by the controlling shareholder, the actual controller and any other entities or individuals.

5. Independence of business

The Company has independent and complete business systems for research and development, procurement, production and sales, which are capable to operate independently and directly to the market and is not in reliance to shareholders or any other related parties. There was no peer competition between the business of the Company and that of the controlling shareholder, the actual controller and other entities controlled by them and there was no direct or indirect interference to the Company's operation by the controlling shareholder or the actual controller.

III. Peer competition

☐ Applicable Not applicable

IV. Annual general meeting and extraordinary general meeting held during the reporting period

1. General meetings during the current reporting period

Session of meeting	Type of meeting	Attendance of investors	Date of meeting	Date of Disclosure	Meeting resolutions
2021 First extraordinary general meeting	Extraordinary general meeting	30.08%	3 March 2021	4 March 2021	Announcement on the resolutions passed at the first extraordinary general meeting 2021 (2021–010); Legal opinions on the first extraordinary general meeting 2021. Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn).
2020 Annual general meeting	Annual general meeting	57.12%	21 May 2021	22 May 2021	Announcement on the resolutions passed at the annual general meeting 2020 (2021–039); Legal opinions on the annual general meeting 2020. Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn).
2021 Second extraordinary general meeting	Extraordinary general meeting	51.40%	12 October 2021	13 October 2021	Announcement on the resolutions passed at the second extraordinary general meeting 2021 (2021–059); Legal opinions on the second extraordinary general meeting 2021. Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn).
2021 Third extraordinary general meeting	Extraordinary general meeting	51.60%	26 November 2021	27 November 2021	Announcement on the resolutions passed at the third extraordinary general meeting 2021 (2021–071); Legal opinions on the third extraordinary general meeting 2021. Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn).

2. Preferred shareholders who are recovered by voting power request convening extraordinary general meeting

☐ Applicable Not applicable

V. Directors, supervisors and senior management

1. General information

Name	Position	Office status	Gender	Age	Term start date	Term end date	Shares held at the beginning of the period (Shares)	Share options	Number of non-voting shares (Shares)	Shares increased during the period (Shares)	Shares decreased during the period (Shares)	Other increases or decreases (Shares)	Shares held at the end of the period (Shares)	Reason for the share increase or decrease
Yang Yun Long	Chairman	Incumbent	Male	45	25 December 2020	25 November 2024	0	0	0	0	0	0	0	N/A
Yuan Rui	Vice chairman	Incumbent	Male	34	25 December 2020	25 November 2024	0	0	0	0	0	0	0	N/A
Li Zhi Xin	Executive director	Incumbent	Male	44	21 December 2018	25 November 2024	0	0	0	0	0	0	0	N/A
Li Zhi Xin	General manager	Incumbent	Male	44	26 November 2021	25 November 2024	0	0	0	0	0	0	0	N/A
Li Zhi Xin	Deputy general manager	Departed	Male	44	21 December 2018	26 November 2021	0	0	0	0	0	0	0	N/A
Yao You Ling	Executive director, deputy general manager	Incumbent	Male	58	26 November 2021	25 November 2024	0	0	0	0	0	0	0	N/A
Yao You Ling	Non-executive director	Departed	Male	58	21 December 2018	26 November 2021	0	0	0	0	0	0	0	N/A
Wang Quan Hong	Non-executive director	Incumbent	Male	53	21 December 2018	25 November 2024	139,500	0	0	0	0	0	139,500	N/A
Liu Ji Lu	Non-executive director	Incumbent	Male	54	26 November 2021	25 November 2024	0	0	0	0	0	0	0	N/A
Tang Qing Bin	Independent director	Incumbent	Male	58	21 December 2018	25 November 2024	0	0	0	0	0	0	0	N/A
Song Zhi Wang	Independent director	Incumbent	Male	58	21 December 2018	25 November 2024	0	0	0	0	0	0	0	N/A
Cai Zhong Jie	Independent director	Incumbent	Male	59	21 December 2018	25 November 2024	0	0	0	0	0	0	0	N/A
Liu Shu Bao	Chairman of the supervisory board	Incumbent	Male	51	12 October 2021	11 October 2024	0	0	0	0	0	0	0	N/A
Lin Jun	Supervisor	Incumbent	Male	42	12 October 2021	11 October 2024	0	0	0	0	0	0	0	N/A
Liu Cheng An	Supervisor	Incumbent	Male	48	12 October 2021	11 October 2024	0	0	0	0	0	0	0	N/A
Hao Yun Feng	Deputy general manager	Incumbent	Male	48	26 November 2021	25 November 2024	0	0	0	0	0	0	0	N/A
Hao Yun Feng	Financial controller	Incumbent	Male	48	13 August 2021	25 November 2024	0	0	0	0	0	0	0	N/A
Zhang Quan Jun	Deputy general manager	Incumbent	Male	51	26 November 2021	25 November 2024	0	0	0	0	0	0	0	N/A
Zhao Xiao Tong	Deputy general manager	Incumbent	Male	30	26 November 2021	25 November 2024	0	0	0	0	0	0	0	N/A
Zhao Xiao Tong	Secretary to the board	Incumbent	Male	30	15 May 2020	25 November 2024	0	0	0	0	0	0	0	N/A
Liu Yun Long	General manager	Departed	Male	52	21 December 2018	26 November 2021	2,500	0	0	0	0	0	2,500	N/A

Name	Position	Office status	Gender	Age	Term start date	Term end date	Shares held at the beginning of the period (Shares)	Share options	Number of non-voting shares (Shares)	Shares increased during the period (Shares)	Shares decreased during the period (Shares)	Other increases or decreases (Shares)	Shares held at the end of the period (Shares)	Reason for the share increase or decrease
Liu Min	Executive director, deputy general manager, financial controller	Departed	Male	46	21 December 2018	13 August 2021	0	0	0	0	0	0	0	N/A
Wei Zhao Qiang	Chairman of the supervisory board	Departed	Male	50	21 December 2018	12 October 2021	0	0	0	0	0	0	0	N/A
Wang Ming Hua	Supervisor	Departed	Male	47	21 December 2018	12 October 2021	0	0	0	0	0	0	0	N/A
Liu Bo	Supervisor	Departed	Male	45	21 December 2018	12 October 2021	0	0	0	0	0	0	0	N/A
Total	—	—	—	—	—	—	142,000	0	0	0	0	0	142,000	—

Any department of directors or supervisors within their terms of office, or any dismissal of senior management during the reporting period

Yes ☐ No

During the reporting period, Mr. Liu Min, a former director, deputy general manager and financial controller of the Company resigned from his positions as a director of the sixth session of the board of directors, deputy general manager and financial controller due to change of work commitment. The original term of office of Mr. Liu Min for the above positions should expire on 20 December 2021.

Change of Directors, Supervisors and Senior Management

Applicable ☐ Not Applicable

Name	Position held	Type	Date	Reason
Liu Min	Executive director	Departure	13 August 2021	Resigned from his position as a director due to due to change of work commitment.
Liu Min	Deputy general manager, financial controller	Dismissal	13 August 2021	Resigned from his positions as a deputy general manager and financial controller due to change of work commitment.
Hao Yun Feng	Financial controller	Appointment	13 August 2021	Appointed as a financial controller at the ninth special meeting of the sixth session of the board of directors.
Wei Zhao Qiang	Chairman of the supervisory board	Retirement	12 October 2021	Retired from office for the sixth session of the supervisory board.
Wang Ming Hua	Supervisor	Retirement	12 October 2021	Retired from office for the sixth session of the supervisory board.
Liu Bo	Supervisor	Retirement	12 October 2021	Retired from office for the sixth session of the supervisory board.

Name	Position held	Type	Date	Reason
Liu Shu Bao	Chairman of the supervisory board	Election	12 October 2021	Elected at the general election by the general meeting and the supervisory board.
Lin Jun	Supervisor	Election	12 October 2021	Elected at the general election by the general meeting and the supervisory board.
Liu Cheng An	Supervisor	Election	12 October 2021	Elected at the general election by the general meeting and the supervisory board.
Yao You Ling	Executive director, deputy general manager	Removal	26 November 2021	Elected as an executive director at the general election by the general meeting and the board of directors; appointed as a deputy general manager at the first special meeting of the seventh session of the board of directors.
Liu Ji Lu	Non-executive director	Election	26 November 2021	Elected at the general election by the general meeting and the board of directors.
Liu Yun Long	General manager	Retirement	26 November 2021	Retired from office.
Li Zhi Xin	General manager	Removal	26 November 2021	Appointed as the general manager at the first special meeting of the seventh session of the board of directors.
Hao Yun Feng	Deputy general manager	Appointment	26 November 2021	Appointed as a deputy general manager at the first special meeting of the seventh session of the board of directors.
Zhang Quan Jun	Deputy general manager	Appointment	26 November 2021	Appointed as a deputy general manager at the first special meeting of the seventh session of the board of directors.
Zhao Xiao Tong	Deputy general manager	Appointment	26 November 2021	Appointed as a deputy general manager at the first special meeting of the seventh session of the board of directors.

2. Details of employment

Professional backgrounds, major work experience and duties within the Company of the current Directors, Supervisors and Senior Managers of the Company

Updated information of the directors as required by the SEHK are described below. Having made specific enquiry of all directors by the Company, all of them confirmed that save as disclosed in this report, there is no other change in the information of the directors that is required to be disclosed pursuant to Rule 13.51B of the Listing Rules. There is no financial, business, family or other material/relevant relationship between the directors.

(1) Members of the Board

Executive director

Mr. Yang Yun Long, male, Chinese, born in June 1976, is a holder of a bachelor's degree and a CPC Party member. He was a party branch secretary at the Management Office of State-owned Assets Supervision and Administration Bureau of Shouguang City and the chief officer at the Management Office of Hou Town Marine Chemical Industrial Park of Shouguang Binhai (Yangkou) Economic Development Zone. He is currently the chairman and party branch secretary of Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司) ("Shouguang Financial Investment"), executive director and general manager of Shouguang Jintou Asset Management Co., Ltd. (壽光市金投資產管理有限公司), executive director and general manager of Shouguang Jintou Culture Industry Development Co., Ltd. (壽光市金投文化產業發展有限公司), executive director and general manager of Shouguang Jintou Non-Financing Guarantee Co., Ltd. (壽光市金投非融資性擔保有限公司); the chairman and general manager of Shandong Shouguang Jinxin Investment Development Holdings Group Limited ("Shouguang Jinxin"); the chairman and general manager of Weifang Jinxuan Equity Investment Fund Management Co., Ltd. (濰坊金萱股權投資基金管理有限公司); the executive director of Kunpeng Qinghai Asset Management Co., Ltd. (昆朋青海資產管理股份有限公司); a director of Shouguang ZRCB Country Bank Co., Ltd. (壽光張農商村鎮銀行股份有限公司); a supervisor of Shandong Freda Biotechnology Co., Ltd. (山東福瑞達醫藥集團有限公司); a director of Shouguang Jintou Agricultural Technology Development Group Co., Ltd. (壽光金投農業科技發展集團有限公司); and the chairman and general manager of Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司). He has served as an executive director and the chairman of the board of directors of the Company since November 2020.

Mr. Yuan Rui, male, Chinese, born in February 1987, is a holder of a bachelor's degree and a CCP party member. He worked as the deputy section head and section head of Shouguang People's Government Office. He is currently an executive director of Shouguang Financial Investment, and has successively served as the chief supervisor of Shandong Longxing Plastic Film Technology Co., Ltd.(山東龍興塑膜科技股份有限公司). He is also an executive director of Shouguang Jinxin, a supervisor of Shandong Boyuan Pharmaceutical & Chemical Co., Ltd. (山東博苑醫藥化學股份有限公司), a supervisor of Kunpeng Qinghai Asset Management Co., Ltd. (昆朋青海資產管理股份有限公司); a supervisor of Shandong Shouguang Rural Commercial Bank Co., Ltd. (山東壽光農村商業銀行股份有限公司); and a director of Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司). He has served as an executive director and deputy chairman of the board of directors of the Company since November 2020.

Mr. Li Zhi Xin, Chinese, Han ethnicity, born in June 1977, is a CCP party member. Joining the Company in 1994, he successively served as the director at the tubing processing plant, the director of the casing plant, assistant to general manager, the general manager at steel pipe company, a deputy general manager of the Company. He is currently He is currently an executive director and the general manager of the Company.

Mr. Yao You Ling, male, Han ethnicity, born in July 1963, is a CCP party member, a holder of doctoral degree in engineering, and a researcher of engineering technology application. He was a deputy factory manager of Laigang Steel Rolling Plant (萊鋼軋鋼廠), a deputy chief of the command department for the technical transformation project of Laigang Steel and later the chief of the same department; an executive deputy general manager of Rigang Holding Group Co., Limited (日鋼控股集團有限公司),a member of the Party Committee, director and deputy general manager of Luyin Investment Group Co., Ltd. (魯銀投資集團股份有限公司). He is currently an executive director and deputy general manager of the Company.

Non-executive Directors

Mr. Wang Quan Hong, male, Han ethnicity, born in December 1968, is an economist with a junior college degree. He was an officer of the planning office at Agricultural Bank of China Shandong Branch, a senior staff member and a principal staff member of the capital and finance department of China Great Wall Asset Management Jinan Office, and the project manager, business director and deputy senior manager of China Great Wall Asset Management Jinan Office (presiding over work); he has also been the deputy senior manager of the second asset management department of China Great Wall Asset Management Co., Ltd. Shandong Branch (presiding over work). He is currently the senior manager of the second asset management department of China Great Wall Asset Management Co., Ltd. Shandong Branch. He is currently a non-executive Director of the Company. As of the date of this report, Mr. Wang Quan Hong held 139,500 A shares of the Company.

Mr. Liu Ji Lu, male, Han ethnicity, born in May 1967, is a CCP party member and holds a master's degree in economics. He currently serves as an associate professor of the accounting specialty of Weifang Vocational College, and is a registered accountant, a registered asset appraiser, an expert in the Shandong Province Innovation and Entrepreneurship Education Tutor Database, one of the first batch of experts in accounting experts in Weifang City, an expert in the Database of Experts for the Assessment of Major Issues of State-owned Enterprises in Binhai District, and a financial expert advisor of the Weifang Institute of Finance. He has been awarded the titles of "Excellent Worker in Weifang City" and "Excellent Teacher in Weifang City". He is currently a non-executive Director of the Company.

Independent directors

Mr. Tang Qing Bin, male, Han ethnicity, born in October 1963, is a CCP party member and a certified public accountant with a college degree. He has extensive practical experience in corporate restructuring, risk management and control, and corporate auditing. He was a teacher of Shandong University of Finance and Economics, the chief accountant of Qilu Futures Brokerage Co., Ltd. (齊魯期貨經紀公司), and the director of Dongfang Junhe Certified Public Accountants Co., Ltd. He is currently a senior partner of Beijing Zhongzheng Tiantong Certified Public Accountants Co., Ltd, an independent director of Luxin Venture Capital Group Co., Ltd. and an independent director of Energy International Investments Holdings Limited. He has served as an independent director of the Company since December 2018.

Mr. Song Zhi Wang, male, Han ethnicity, born in September 1963, is a senior economist with a master's degree in business administration. He was a teacher at the School of Finance of Qilu University of Technology, a financial supervisor at the financial management office of the People's Bank of China (Shandong Branch), and the deputy general manager of Ping An Property & Casualty Insurance Company of China, Ltd. (Shandong Branch) and a supervisor of Shandong Insurance Intermediary Association. He is currently the chairman and general manager of Shandong Jiuan Insurance Broker Co., Ltd. (山東九安保險經紀股份有限公司). He is a deputy-director member of Shandong Insurance Industry Reform and Development Expert Advisory Committee (山東保險業改革發展專家諮詢委員會), a part-time professor of Shandong University and Shandong University of Finance and Economics, an arbitrator of Jinan Arbitration Commission, a vice president of Shandong Insurance Society (山東省保險學會), a president of Shandong Insurance Intermediary Association, a vice president of Shandong Rural Vitalization Research Association (山東省鄉村振興研究會) and a vice president of Jinan Logistics and Supply Chain Society (濟南物流與供應鏈學會). He has served as an independent director of the Company since December 2018.

Mr. Cai Zhong Jie, male, Han ethnicity, born in November 1962, is a CCP party member and holds a master's degree in law, is a senior counsel, was served as a lawyer in Shandong Law Firm, a founding partner and a director of Shandong Kang Qiao Law Firm, the chairman of the partners' meeting of Shandong Zhongcheng Renhe Law Firm, and an independent director of Jinneng Science and Technology Company Limited. He has been recognised as an Outstanding Provincial Lawyer and an Outstanding National Lawyer, and has been selected as a member of the Legal Expert Database of Shandong Provincial People's Government, the Legal Expert Database of CCP Shandong Provincial Committee, and the Legal Advisory Committee of Shandong SASAC. He is currently a senior partner of Jincheng Tongda & Neal (Jinan) Law Firm (金誠同達濟南律師事務所) in Beijing. He has served as an independent director of the Company since December 2018.

(2) Members of the supervisory board

Mr. Liu Shubao, male, Chinese, Han ethnicity, born in April 1970, received education up to a higher

(3) Senior Management

Mr. Hao Yun Feng, male, Han ethnicity, born in 1973 and a bachelor's degree holder. He has obtained the qualification of intermediate accounting and the certificate of Chinese certified tax planner. He was a deputy head at the finance department of Shandong Chenming Paper Holdings Limited (山東晨鳴紙業集團股份有限公司) and a finance director and a financial controller of its subsidiaries, a financial controller of Shandong Yingli Industrial Co., Ltd. (山東英利實業有限公司

Name of employee	Name of other entity	Positions held at other entity	Term start date	Term end date	Entitlement to compensation and allowances from other entity
Yang Yun Long	Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司)	Chairman of the board of director	1 July 2017	—	Yes
	Shouguang Jintou Asset Management Co., Ltd. (壽光市金投資產管理有限公司)	Executive director and general manager	1 July 2017	—	No
	Shouguang Jintou Culture Industry Development Co., Ltd. (壽光市金投文化產業發展有限公司)	Executive director and general manager	1 July 2017	—	No
	Shouguang Jintou Non Financing Guarantee Co., Ltd. (壽光市金投非融資性擔保有限公司)	Executive director and general manager	1 July 2017	—	No
	Weifang Jinxuan Equity Investment Fund Management Co., Ltd. (濰坊金萱股權投資基金管理有限公司)	Chairman of the board of director and general manager	1 April 2019	—	No
	Shandong Shouguang Jinxin Investment Development Holdings Group Limited (山東壽光金鑫投資發展控股集團有限公司)	Chairman of the board of director and manager	15 February 2019	—	No
	Kunpeng Qinghai Asset Management Co., Ltd. (昆朋青海資產管理股份有限公司)	Executive director	1 June 2020	—	No
	Shouguang ZRCB Country Bank Co., Ltd. (壽光張農商村鎮銀行股份有限公司)	Director	4 December 2020	—	No
	Shandong Freda Biotechnology Co., Ltd. (山東福瑞達醫藥集團有限公司)	Supervisor	9 June 2021	—	No
	Shouguang Jintou Agricultural Technology Development Group Co., Ltd. (壽光市金投農業科技發展集團有限公司	Director	16 December 2021	—	No
Yuan Rui	Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司)	Executive director	1 September 2017	—	Yes
	Shandong Longxing Plastic Film Technology Co., Ltd. (山東龍興塑膜科技股份有限公司)	Chairman of the supervisory board	1 September 2018	—	No

Name of employee	Name of other entity	Positions held at other entity	Term start date	Term end date	Entitlement to compensation and allowances from other entity
	Shandong Shouguang Jinxin Investment Development Holdings Group Limited (山東壽光金鑫投資發展控股集團有限公司)	Director	15 February 2019	—	No
	Shandong Boyuan Pharmaceutical & Chemical Co., Ltd. (山東博苑醫藥化學股份有限公司)	Supervisor	1 March 2020	—	No
	Kunpeng Qinghai Asset Management Co., Ltd. (昆朋青海資產管理股份有限公司)	Supervisor	1 June 2020	—	No
	Shandong Shouguang Rural Commercial Bank Co., Ltd. (山東壽光農村商業銀行股份有限公司)	Supervisor	24 September 2021	—	No
Wang Quan Hong	Great Wall Asset Management Co., Ltd., Shandong Province Branch (長城資產管理股份有限公司山東省分公司)	Senior manager	1 February 2000	—	Yes
Liu Ji Lu	Weifang Vocational College (濰坊職業學院)	Associate professor	1 November 2010	—	Yes
Tang Qing Bin	Beijing Zhongzheng Tiantong Certified Public Accountants (北京中證天通會計師事務所)	Senior partner	8 November 2002	—	Yes
	Lucion Venture Capital Group Co., Ltd.	Independent director	1 January 2019	—	Yes
	Energy International Investments Holdings Ltd. (能源國際投資控股有限公司)	Independent director	1 January 2019	—	Yes
Song Zhi Wang	Shandong Jiuan Insurance Broker Co., Ltd. (山東九安保險經紀股份有限公司)	Chairman of the board of directors and general manager	1 March 2003	—	Yes
Cai Zhong Jie					

Name of employee	Name of other entity	Positions held at other entity	Term start date	Term end date	Entitlement to compensation and allowances from other entity
Lin Jun	Shanghai Baiyulan Law Firm (上海市白玉蘭律師事務所)	Partner	1 June 2004	—	Yes
	Shangying Global Co., Ltd. (商贏環球股份有限公司)	Supervisor	27 March 2014	—	Yes
	TATA Health International Holdings Limited (TATA健康國際控股有限公司)	Director	1 June 2017	—	Yes
Liu Cheng An	Shandong Jianzhu University (山東建築大學)	Teacher	1 July 2020	—	Yes
Explanation of details of employment with other entities		No			

Any securities regulatory institution punishment to the Company's Director, Supervisor and senior management who are incumbent and outgoing during the reporting period at last 3 years

Applicable ☐ Not applicable

On 1 June 2021, the Company received an Investigation Notice (《調查通知書》) from China Securities Regulatory Commission for a suspected incompliance of information disclosure requirements against Mr. Liu Yun Long, the former general manager, and Mr. Liu Min, a former director, deputy general manager and financial controller of the Company. According to the Securities Law of the People's Republic of China, China Securities Regulatory Commission has decided to initiate investigation proceedings against the above parties. On 18 October 2021, the Company received a Decision of Administrative Penalty (《行政處罰決定書》) from China Securities Regulatory Commission (Shandong Supervising Commission), deciding to issue a warning and impose a fine of RMB650,000 on Liu Yun Long; and to issue a warning and impose a fine of RMB530,000 on Liu Min.

3. Remunerations of Directors, Supervisors and Senior Management

Decision process, basis of determination and actual payment of the remuneration of Directors, Supervisors and Senior Management

1. Decision process

A remuneration and evaluation committee has been established under the board of directors to formulate the remuneration policy. The remuneration and evaluation committee proposes to remuneration policies for directors, supervisors and senior management which, if consented by the board of directors, will be implemented after approval at the general meeting.

2. Basis of determination

The annual remunerations for directors, supervisors and senior management are determined with reference to the main scope, responsibilities and significance of the positions of directors, supervisors and senior management.

3. Actual payment

During the reporting period, the amount of remunerations actually paid to 20 directors, supervisors and senior management was RMB287.28 ten thousand.

Compensations of Directors, Supervisors and Senior Management during the reporting period

Unit: RMB'0,000

Name	Position	Gender	Age	Duty Status	Total pre-tax compensations received from the Company	Entitlement to compensation from related parties of the Company
Yang Yun Long	Chairman of the board of directors	Male	45	Incumbent	0.00	Yes
Yuan Rui	Vice chairman of the board of directors	Male	34	Incumbent	0.00	Yes
Li Zhi Xin	Executive director, general manager	Male	44	Incumbent	59.40	No
Yao You Ling	Executive director, deputy general manager	Male	58	Incumbent	10.08	No
Wang Quan Hong	Non-executive director	Male	53	Incumbent	0.00	No
Liu Ji Lu	Non-executive director	Male	54	Incumbent	0.60	No
Tang Qing Bin	Independent director	Male	58	Incumbent	12.21	No
Song Zhi Wang	Independent director	Male	58	Incumbent	12.21	No
Cai Zhong Jie	Independent director	Male	59	Incumbent	12.21	No
Liu Shu Bao	Chairman of the supervisory board	Male	51	Incumbent	4.17	No
Lin Jun	Supervisor	Male	42	Incumbent	0.79	No
Liu Cheng An	Supervisor	Male	48	Incumbent	0.79	No
Hao Yun Feng	Deputy general manager, financial controller	Male	48	Incumbent	13.07	No
Zhang Quan Jun	Deputy general manager	Male	51	Incumbent	4.72	No
Zhao Xiao Tong	Deputy general manager, secretary to the board	Male	30	Incumbent	35.30	No
Wei Zhao Qiang	Chairman of the supervisory board	Male	50	Departed	16.20	No
Liu Bo	Supervisor	Male	45	Departed	2.70	No
Wang Ming Hua	Supervisor	Male	47	Departed	2.70	No
Liu Yun Long	General manager	Male	52	Departed	69.97	No
Liu Min	Executive director, deputy general manager, financial controller	Male	46	Departed	30.16	No
Total	—	—	—	—	287.28	—

VI. Discharge of duties by directors during the reporting period

1. Board meetings in the current reporting period

Session of meeting	Date of meeting	Date of Disclosure	Meeting resolutions
Eighth special meeting of the sixth session of the board of directors	8 February 2021	9 February 2021	Announcement on the resolutions passed at the eighth special meeting of the sixth session of the board of directors (Announcement No.: 2021–003). Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn).
Tenth meeting of the sixth session of the board of directors	26 March 2021	27 March 2021	Announcement on the resolutions passed at the tenth meeting of the sixth session of the board of directors (Announcement No.: 2021–016). Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn).
Eleventh meeting of the sixth session of the board of directors	28 April 2021	29 April 2021	Announcement on the resolutions passed at the eleventh meeting of the sixth session of the board of directors (Announcement No.: 2021–029). Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn).
Ninth special meeting of the sixth session of the board of directors	13 August 2021	14 August 2021	Announcement on the resolutions passed at the ninth special meeting of the sixth session of the board of directors (Announcement No.: 2021–047). Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn).
Twelfth meeting of the sixth session of the board of directors	26 August 2021	27 August 2021	Announcement on the resolutions passed at the twelfth meeting of the sixth session of the board of directors (Announcement No.: 2021–049). Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn).
Tenth special meeting of the sixth session of the board of directors	9 September 2021	10 September 2021	Announcement on the resolutions passed at the tenth special meeting of the sixth session of the board of directors (Announcement No.: 2021–053). Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn).
Thirteenth meeting of the sixth session of the board of directors	28 October 2021	N/A	N/A
Eleventh special meeting of the sixth session of the board of directors	8 November 2021	9 November 2021	Announcement on the resolutions passed at the eleventh special meeting of the sixth session of the board of directors (Announcement No.: 2021–065). Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn).
First special meeting of the seventh session of the board of directors	26 November 2021	27 November 2021	Announcement on the resolutions passed at the first special meeting of the seventh session of the board of directors (Announcement No.: 2021–072). Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn).

2. Attendance of directors at board meetings and general meetings

Attendance of directors at board meetings and general meetings

Name of director	Number of board meetings shall be attended during the current reporting period	Number of board meetings attended in person	Number of board meetings attended via telecommunications	Number of board meetings attended by representatives	Number of board meetings absent	Failure to attend two consecutive board meetings in person	Number of general meetings attended
Yang Yun Long	9	9	0	0	0	No	2
Yuan Rui	9	9	0	0	0	No	4
Li Zhi Xin	9	9	0	0	0	No	4
Yao You Ling	9	7	2	0	0	No	4
Wang Quan Hong	9	2	7	0	0	No	3
Liu Ji Lu	1	1	0	0	0	No	0
Tang Qing Bin	9	1	8	0	0	No	2
Song Zhi Wang	9	2	7	0	0	No	3
Cai Zhong Jie	9	1	8	0	0	No	2
Liu Min	3	3	0	0	0	No	2

Information about failure to attend two consecutive board meetings in person

N/A

3. Directors' disagreement on matters raised to the Company

Whether the directors raised any disagreement on matters to the Company

☐ Yes No

During the reporting period, the directors did not raise any disagreement on matters to the Company.

4. Other descriptions of duty performance by directors

Whether director's suggestions for the Company were accepted

Yes ☐ No

Information about directors' suggestions to the Company accepted or not accepted

During the reporting period, all directors of the Company diligently performed their duties by carrying out their works in strict compliance with the requirements of the CSRC and SZSE and under the systems of the Articles of Association and Rules of Procedures for Board Meetings, closely monitoring the regulated business operation and trading of the Company, giving advice on the Company's significant matters about governance and business decision-making according to the actual situation of the Company, arriving at a consensus after adequate communication and discussion, and resolutely supervising and promoting the implementation of board resolutions, to ensure that the decision-making is scientific, timely, efficient and the legitimate interests of the Company and all shareholders are protected.

VII. Information of the special board committees during the reporting period

Name of committee	Members	Number of meetings held	Date of meeting	Agenda	Important advice and recommendations given	Performance of other duties	Particulars of matters opposed (if any)
Audit committee	Tang Qing Bin, Song Zhi Wang, Cai Zhong Jie	7	4 January 2021	To communicate with the auditor in respect of the year-end audit plan for 2020.	Agreed with the accountants on the year-end audit plan.	—	—
			12 March 2021	To listen the report of audit work by the auditor.	Listened the report of audit work by the accountants.	—	—
			26 March 2021	To consider the Full Texts and Summary of the Annual Report 2020, the Self-assessment Report on Internal Control 2020, the Annual Profit Distribution Proposal 2020, and the Proposal for the Re-appointment of Audit Firm for 2021.	Agreed to submit the relevant proposal to the board of directors for consideration.	—	—
			28 April 2021	To consider the Full Texts and Main Body of the First Quarterly Report 2021.	Agreed to submit the relevant proposal to the board of directors for consideration.	—	—
			26 August 2021	To consider the Full Texts and Summary of the Interim Report 2021.	Agreed to submit the relevant proposal to the board of directors for consideration.	—	—
			28 October 2021	To consider the Third Quarterly Report 2021.	Agreed to submit the relevant proposal to the board of directors for consideration.	—	—
			4 December 2021	To communicate with the auditor in respect of the year-end audit plan for 2021.	Agreed with the accountants on the year-end audit plan.	—	—

Name of committee	Members	Number of meetings held	Date of meeting	Agenda	Important advice and recommendations given	Performance of other duties	Particulars of matters opposed (if any)
			13 August 2021	To consider the Proposal for the Appointment of Financial Controller.	Agreed to submit the relevant proposal to the board of directors for consideration.	—	—
			8 November 2021	To consider the Proposal for Early General Election for the Appointment of Candidates for the Seventh Session of the Board of Directors.	Agreed to submit the relevant proposal to the board of directors for consideration.	—	—
Nomination committee	Yang Yun Long, Tang Qing Bin, Song Zhi Wang, Cai Zhong Jie	3	26 November 2021	To consider the Proposal for the Election of Chairman and Vice Chairman of the Seventh Session of the Board of Directors and the Proposal for the Election of Members of Special Committees of the Seventh Session of the Board of Directors.	Agreed to submit the relevant proposals to the board of directors for consideration.	—	—
Strategy committee	Yang Yun Long, Tang Qing Bin, Song Zhi Wang, Cai Zhong Jie	1	26 March 2021	To consider the Plan on Long-Term Development Strategy of Shandong Molong.	Agreed to submit the relevant proposal to the board of directors for consideration.	—	—
Remuneration and evaluation committee	Yang Yun Long, Tang Qing Bin, Song Zhi Wang, Cai Zhong Jie	1	26 March 2021	To consider the Remuneration Policy for Directors, Supervisors and Senior Management 2021.	Agreed to submit the relevant proposal to the board of directors for consideration.	—	—

VIII. Works of the Supervisory board

Did the supervisory board find any risk exposure of the Company in the course of supervision during the reporting period

☐ Yes No

The supervisory board had no disagreement to the supervisory matters in the reporting period.

IX. Employees of the Company

1. Number of employees, professional structure and education level

Number of employees serving the parent company as at the end of the reporting period (persons)	1,642
Number of employees serving the major subsidiaries as at the end of the reporting period (persons)	907
Total number of serving employees as at the end of the reporting period (persons)	2,549
Total number of paid employees in the current period (persons)	2,549
Number of retired employees whose expenses are borne by the parent company and major subsidiaries (persons)	0

Professional structure

Type of professional structure	Number of individuals
Production personnel	2,291
Sales personnel	55
Technicians	37
Financial staff	32
Administrative staff	134
Total	2,549

Education level

Type of education level	Number of individuals
Master and above	38
Bachelor	166
Junior college	503
Technical secondary school (high school) qualifications and below	1,842
Total	2,549

2. Remuneration policy

(1) In order to govern the remuneration management of the Company, give full play of the incentive effect of remuneration, define responsibilities of all departments, depending on the current actual circumstances, the Company gradually established and improved a relatively reasonable remuneration structure and formulated a corresponding remuneration system and work process;

(2) On the premises of providing stable income and performance-based incentives to staff members on a fair and reasonable basis, the Company remunerates staff depending on their performance that motivates their enthusiasm and sense of responsibility. By referring to the local market rate of remuneration and benefit packages and after the discussion of the management, the Group determines the remuneration base based on the requirements of different positions and make adjustment as appropriate to ensure that staff remuneration is in line with the market rate for the same industry and job type in the society, and also enhance the external attractiveness and internal incentivisation;

(3) To encourage new employee to stay in the job for a longer term and also encourage older employees to continue to shine and make greater contributions to the Company, the Company implements a non-descending calculation method for length of employment, which is more humanised, rationalised and attractive than surrounding companies. It also guarantees employees of the Company to have a long-term job; and fully mobilises staffs' positive initiative and creativity and constantly improves staff's satisfaction and loyalty;

(4) Combining with domestic and foreign market demand, the Company vigorously promotes the development of new products and formulated incentive measures for new products and new markets to further enhance the enthusiasm of employees for greater performance and higher profitability, so that the employees can share interests with the Company.

3. Training programmes

(1) The Company has always taken talent nurturing and development as one of the measures supporting the Company's development strategy. Therefore, the Company links employee training with its strategic planning and operating indicators by coordinating internal and external resources. Based on the concept of "going out and recruiting in" and taken into account the requirements of the Company and various departments for quality and competence of employees, the Company has formulated an annual training implementation plan;

(2) To facilitate new employees to quickly adapt to the Company's culture and management principles and meet the job requirements, in addition to focusing on the training in corporate culture, corporate mechanism as

X. Profit distribution and conversion of capital reserve into share of the Company

Profit distribution policy during the reporting period, especially the formulation, implementation or adjustment of cash

The internal audit organisation (audit department) of the Company is responsible for the supervision of internal audit of the Company, which includes to supervise and check the implementation of the Company's internal control, assess the scientificity and effectiveness of the internal control and give suggestions for improving the internal control; to carry out audit and routine examination on finance, internal control, major projects and other businesses on a regular or irregular basis to control and prevent risks. The audit department has the right to directly report to the board of directors, audit committee and supervisory board in case any material deficiencies in the internal control are identified in the course of supervision and checking.

Based on the identification of material deficiencies in the internal control of financial reporting of the Company, as at the benchmark date of the assessment report on internal control, there was no material deficiency in the internal control of financial reporting, and the Company maintained effective internal control of financial reporting in all material respects according to the requirements of the Standardised Internal Control System for Companies and other rules.

Based on the identification of material deficiencies in the internal control of non-financial reporting of the Company, as at the benchmark date of the assessment report on internal control, no material deficiencies in the internal control of non-financial reporting of the Company were noted.

2. Any material deficiency was detected during the reporting period

☐ Yes No

XIII. Management and control over subsidiaries by the Company during the reporting period

Name of company	Consolidation plan	Progress of the consolidation	Issues experienced in the course of consolidation	Solution taken	Progress of the solution	Follow-up solution plan
N/A	N/A	N/A	N/A	N/A	N/A	N/A

XIV. Self-assessment report on internal control or audit report on internal control

1. Self-assessment report on internal control

Date of disclosure on the full texts of the assessment report on internal control	31 March 2022
Reference of disclosure on the full texts of the assessment report on internal control	Website of cninfo (www.cninfo.com.cn)
Proportion of total assets of entities included in the assessment to the total assets per consolidated financial statements of the Company	98.69%
Proportion of operating revenue of entities included in the assessment to the operating revenue per consolidated financial statements of the Company	99.99%

	Standards for deficiency identification	
Type	**Financial reporting**	**Non-financial reporting**
Qualitative standard	Signs of financial reporting great defect include: fraud of the company directors, supervisors and senior management personnel, the correction of the published financial report, current report material misstatement is found by intra-company control, the invalid audit committee and audit function to the Company's external financial reports and financial reporting internal control supervision. Financial reporting important defect signs include: not in accordance with generally accepted accounting principles to select and apply appropriate accounting policies, procedures and control measures of antifraud has not been established, the accounting treatment of unusual or special transaction do not set up corresponding control mechanism or no implementation, and no corresponding compensatory control, for the control of the final financial reporting process have one or more of the defects and cannot guarantee reasonable preparation of financial statements to realise the fair reflection. Common Defects is other control defect in addition to the above major flaws and important defects control.	Non-financial reporting signs of major defects including: violate national laws and regulations

Standards for deficiency identification

Type	Financial reporting	Non-financial reporting
Quantitative standard	Significant deficiency refers to consider compensating control measures and major defects after actual deviation rate, overall impact levels above the level of the importance of the defects (0.5% of the operating revenue or total profits of RMB10 million). Material deficiency refers to consider important defects after compensating the control measures and actual deviation rate, the flaw overall impact level below the importance level (0.5% of the operating revenue or total profits of RMB10 million), but higher than the general level (0.1% of the operating revenue or total profits of RMB5 million). General deficiency refers to consider compensating control measures and actual deviation rate, defect the overall level is lower than the general level (0.2% of the operating revenue or the total profits of RMB5 million).	Non-financial reporting major defects refer to the direct property losses in RMB5 million (inclusive) above, signs include: has been publicly disclosed and to the company regularly report produce negative impact; Enterprise key positions and personnel erosion is serious; Negative news frequently exposed by the media. Important defects refer to the direct property losses (inclusive) in RMB0.5 million — RMB5 million, signs include: fined by the national government, but have not produced a negative impact on the regular report of the Company; The media exposure and have a negative impact. General deficiency refers to the direct property losses under RMB0.5 million, signs include: punished (provincial) the following government departments at the provincial level but have not produced a negative impact on the regular report of the Company.
Number of significant deficiencies in financial reporting		0
Number of significant deficiencies in non-financial reporting		0

2. Audit report on internal control

Applicable ☐ Not applicable

Extract of auditors' opinion in the audit report on internal control

In our opinion, Shandong Molong maintained effective internal control system for financial reporting in all material respects as at 31 December 2021 in accordance with the Basic Norms for Enterprises Internal Control and the requirements of other relevant laws and regulations.

Disclosure of audit report on internal control	Disclosed
Date of disclosure of the full texts of the audit report on internal control	31 March 2022
Reference of disclosure of the full texts of the audit report on internal control	Website of cninfo (www.cninfo.com.cn)
Type of opinion on the audit report on internal control	Standard unqualified opinion
Any significant deficiencies in non-financial reporting	No

Whether accounting firm issued non-standard auditors' report on internal control

☐ Yes No

Whether the opinion of auditor on internal controls from the accounting firm is in line with the Board's self-assessment report

Yes ☐ No

XV. Internal investigation and rectification in relation to the special action for the

XVI. Disclosures in accordance with the Listing Rules of the SEHK

1. Results

The Group's revenue and the financial positions of the Group and of the Company for 2021 are set out in the financial statement contained in the "Financial Report" section of this report.

2. Financial Highlights

A summary of the results and of the assets and liabilities of the Group for the past five financial years is as follows:

Results

	For the year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total operating revenue	**3,734,463**	3,009,719	4,388,904	4,452,015	2,965,217
Operating (loss)/profit	**(361,115)**	38,175	(189,049)	69,123	45,588
Total (loss)/profit	**(362,057)**	17,529	(215,227)	61,163	34,488
Net profit/(loss)	**(368,420)**	11,455	(224,908)	102,406	35,081
Minority interests	**(403)**	(20,723)	(28,599)	9,930	(2,957)
Net (loss)/profit attributable to shareholders of the parent company	**(368,018)**	32,179	(196,309)	92,476	38,038
Basic (loss)/earnings per share (RMB)	**(0.46)**	0.04	(0.25)	0.12	0.05

Assets and liabilities

	For the year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**4,457,611**	5,175,636	5,735,752	6,607,537	6,222,803
Total liabilities	**3,097,863**	3,374,066	3,946,792	4,593,377	4,291,470
Net assets	**1,359,748**	1,801,570	1,788,960	2,014,160	1,931,333

3. Changes in share capital

For details of changes in the share capital of the Company for 2021, please refer to the section headed "Changes in shares and shareholders".

4. Reserves and Distributable Reserves

Details of changes in the reserves and distributable reserves of the Group for 2021 are set out in sub-section headed "Undistributed profit" under the "Explanatory Notes to the Financial Statements Line Items" in the financial report.

5. Property, plant and equipment

Details of changes in the property, plant and equipment of the Group for 2021 are set out in the section of financial report.

6. Capitalised Interests

During 2021, the Group capitalised interests of RMB nil.

7. Service contracts or letters of appointment of directors and supervisors

Each of the Directors and Supervisors (including the independent non-executive Directors and the Supervisors) has entered into a service contract or letter of appointment with the Company. None of the Directors or Supervisors has entered into any service contracts with the Company which is not determinable by the Company within one year without payment compensation (other than statutory compensation).

8. Special committees

Details of the Strategy Committee, the Nomination Committee, the Audit Committee and the Remuneration Committee established under the Board are set out in the "Corporate Governance" section of this report.

9. Continuing connected transactions

1. On 13 November 2020, after the consideration and approval at the fifth special meeting of the sixth session of the board of directors and the 2020 first extraordinary general meeting of the Company held on 25 November 2020, Shouguang Jinxin, the original controlling shareholder of the Company, provided a financial assistance of up to RMB350 million to the Company for a term of less than one year, bearing interest at market rate.

2. On 26 November 2021, after the consideration and approval at the first special meeting of the seventh session of the board of directors of the Company, Shouguang Jinxin, the original controlling shareholder of the Company, provided non-interest bearing borrowings of up to RMB500 million to the Company for a term of less than one year.

Save as disclosed above, the Company had no other connected transaction and none of the related party transactions disclosed in the "Financial Report" section in this report constituted discloseable connected transactions under the Listing Rules. The Company confirms that the disclosure requirements under Chapter 14A of the Listing Rules were met.

10. Directors', supervisors' and chief executive's interests in securities under the securities and futures ordinance of Hong Kong

As at 31 December 2021, interests of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Company and to the Stock Exchange, were as follows:

Long positions in the Shares of the Company

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of the total registered share capital
Wang Quan Hong	Beneficial interest	139,500	0.03%	0.02%

Save as disclosed above, to the best knowledge of the Directors, Supervisors and chief executive, none of the Directors, the Supervisors or chief executive had any interests or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Group and to the Stock Exchange.

11. Annual compensations of directors, supervisors and senior management

For details of compensations of the current directors, supervisors and senior management paid by the Company in 2021, please refer to the section headed "Directors, supervisors and senior management" in this report.

12. Directors' and supervisors' rights to acquire shares or debentures

None of the Directors or Supervisors of the Company or any of their respective associates (as defined under the Rule 1.01 of the Listing Rules) was granted by the Company or its subsidiaries any right to acquire benefits by means of the acquisition of shares in or debentures of the Company or had exercised any such right in 2021.

13. Share Option Scheme

The Company does not operate any share option scheme.

14. Substantial shareholders

Details are set out in the sub-section headed "Profiles of shareholders and the actual controller" under the section headed "Changes in shares and shareholders" in this annual report.

15. Directors' and supervisors' interests in transactions, arrangements and contracts

No directors or supervisors or any entity related to any of the directors of the Company has directly or indirectly interested in any transaction, arrangement or contract to which the Company or any of its subsidiaries is a party that has not been or has been in force in 2021 or at the end of 2021, and has a material relationship with the business of the Group.

16. Material contracts

No contract of significance has been entered into between the Company (or any of its subsidiaries) and the controlling shareholders of the Company (or any of their subsidiaries), and no contract of significance for the provision of services to the Company (or any of its subsidiaries) by any of the controlling shareholders of the Company (or any of their subsidiaries) has been entered.

17. Purchase, sale or redemption of securities

None of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during 2021.

18. Pre-emptive rights

There is no provision for pre-emptive rights under the articles of association of the Company or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

19. Corporate governance

The principal Codes on Corporate Governance adopted by the Company are set out in the section headed "Corporate Governance" in this report.

20. Sufficiency of Public Float

According to information publicly available to the Company and to the best knowledge of the Directors, the Directors confirmed that the Company has maintained a sufficient public float throughout the current year and up to the date of this report.

21. Gearing ratio

The Group's gearing ratio was approximately 69.50% (2020: approximately 65.19%) which is calculated based on the Group's total liabilities of approximately RMB3,097,863 thousand (2020: approximately RMB3,374,066 thousand) and total assets of approximately RMB4,457,611 thousand (2020: approximately RMB5,175,636 thousand).

22. Contingent liabilities

As at 31 December 2021, the Group did not have any contingent liabilities except those disclosed in the "Commitments and Contingencies" in this report.

23. Material investments, acquisitions and disposals

For the year ended 31 December 2021, save as disclosed in this report, the Group did not carry out any major acquisitions or disposal of subsidiaries and associates or major investments, nor did it plan to make major investments or purchase capital assets in the future.

24. Tax concessions and exemptions

The Company is not aware of any tax concessions provided to shareholders due to their holding of the Company's listed securities.

25. Equity-linked agreements

The Company has not entered into any equity-linked agreements at the end of the year ended 31 December 2021 or at any time during the year.

26. Business review

Key financial and business performance indicators

Key financial and business performance indicators comprise profitability growth, return on equity and gearing ratio. Details of the analysis are set out in the section headed "Management Discussion and Analysis" in this annual report.

Risk Management

It is a development strategy of the Group to establish a risk management system covering all the business segments that monitors, assesses and manages various risks in the Group's activities. The management has identified the major risks of the Group and regularly reviews its exposure to industry, policy, operational and currency risks.

Sustainability initiatives

The Group has been committed to contributing to the sustainability of the environment and maintaining a high standard of corporate social governance essential for creating a framework for motivating staff and promoting sustainable relationships with customers, suppliers, service vendors, regulators and shareholders, and contributes to the community in which we conduct our businesses for creating a sustainable return to the Group. The Group has implemented energy saving practices in offices and branch premises where applicable.

We have compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing responsibility to monitor adherence and compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. As far as the Company is aware, it has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries.

XVII. Corporate governance report

1. Compliance with the Code on Corporate Governance Practices

The Company puts strong emphasis on the superiority, steadiness and rationality of corporate governance. In order to enhance the management standard, the Company has set up a committee to review its internal Governance structure.

This corporate governance report (the "CG Report") is to outline the major principles of the Company's corporate governance. Shareholders of the Company are encouraged to make their views known to the Group if they have issues with the Company's corporate governance and to directly raise any matters of concern to the chairman of the Board (the "Chairman" or the "Chairman of the Board").

The Company has adopted the principles and complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which shall also be revised from time to time in accordance with the Listing Rules. During the reporting period, the Board considers the Company has complied with the code provisions as set out in the CG Code.

2. Securities transactions by directors

In accordance with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules, the Company has adopted codes of conduct relating to securities transactions by the Directors on terms no less exacting than the required standard

Should a significant potential conflict of interest involving a substantial shareholder of the Company or a Director arise, the matter will be discussed at a duly convened Board meeting, as opposed to being dealt with by a written

Note 1:

a. attending seminar or training session
b. self-development and updates relating to general economy, business development, director's duties and responsibilities, etc.

Note 2:

i. corporate governance
ii. regulatory compliance
iii. finance
iv. management and operation

The Company also organised the Directors to take part in training activities which organized by SZSE, Shandong Securities Regulatory Bureau and China Association for Public Companies, which including rules amendments, system updates, and the latest market trend, in order to let the Directors have the updated knowledge to the latest regulatory system and rules.

6. Directors' and officers' liability insurance and indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and executives in respect of legal actions against them. Throughout 2021, no claim had been made against the Directors and the officers of the Company. Save as disclosed in this report, there are no permitted indemnity provisions for the year ended 31 December 2021.

7. Chairman and General Manager

The Chairman provides leadership for the Board. He is responsible for approving and monitoring the overall strategies and policies of the Group, approving annual budget and business plan, assessing the performance of the Company and overseeing the duties of management. The General Manager is responsible for the daily operations of the Group. Pursuant to Code Provision A.2.1, the roles of Chairman and General Manager are separate and are not performed by the same individual.

The chairman of the board of directors of the Company is Mr. Yang Yun Long and the general manager is Mr. Li Zhi Xin, their brief biographies are described in the section headed "Directors, Supervisors and Senior Management" in this report.

8. Term of appointment of directors

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service contract or appointment letter with the Company. In respect of the term of appointment, please refer to the section headed "Directors, Supervisors and Senior Management" of this annual report. The Directors have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. The term of the seventh session of the Board of the Company ends in November 2024.

9. The Directors confirmed their responsibilities in preparing the Group's financial statements

The Directors acknowledged the responsibility for preparing the accounts and have confirmed that the preparation of the Group's financial statement is in compliance with the relevant regulations and applicable accounting standards.

In preparing the financial statements for the Year, the Directors adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations.

The financial statements for the current year have been prepared by the Directors on a going concern basis. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. A statement by the external auditors of the Company regarding their reporting responsibilities on the accounts of the Group is set out in the section headed "Financial Report" in this annual report.

10. Board Committees of the Company

(A) Report on the Performance of the Strategic Committee

The Strategic Committee was established on 26 December 2012 and is currently comprised of 1 executive director, namely Mr. Yang Yun Long, and 3 non-executive directors, namely Mr. Tang Qing Bin, Mr. Song Zhi Wang and Mr. Cai Zhong Jie, and is chaired by Mr. Yang Yun Long. The Strategic Committee of the Board discharged of its duties with diligence in accordance with the related requirements of the China Securities Regulatory Commission, SZSE and SEHK and the implementation rules of the Strategic Committee of the Board of the Company.

The following major tasks were performed during 2021:

The committee reviewed and approved the Plan on Mid-to-Long Term Development Strategy (2021-2023), and submitted it to the board of directors for consideration and approval.

In 2021, the strategy committee held 1 meeting. The attendance of each member of the strategy committee is as follows:

Member of the strategy committee	Position	Number of meetings attended/Total number of meetings
Yang Yun Long	Chairman of the committee, chairman of the board of directors and executive director	1/1
Tang Qing Bin	Independent non-executive director	1/1
Song Zhi Wang	Independent non-executive director	1/1
Cai Zhong Jie	Independent non-executive director	1/1

(B) Audit Committee

The Audit Committee was established on 20 March 2004 and is currently comprised of 3 independent non-executive directors, namely Mr. Tang Qing Bin, Mr. Song Zhi Wang and Mr. Cai Zhong Jie, and is chaired by Mr. Tang Qing Bin. The audit committee of the Board discharged of its duties with diligence in accordance with the related requirements of the China Securities Regulatory Commission, SZSE, SEHK and the work instructions of the Audit Committee of the Board.

(1) The following major tasks were performed during 2021:

① It communicated with the audit firm engaged by the Company in respect of the audit work for 2020 financial report before and during the auditing, and reviewed the audit report and financial report, proposal for annual profit distribution allocation for 2020 and matters such as the proposal for the re-appointment of external auditor of the Company, and submitted them to the board of directors for consideration and approval;

② It reviewed the 2021 first quarterly financial report of the Company for the period ended 31 March 2021, and submitted it to the Board for consideration and approval;

③ It reviewed the 2021 interim financial report of the Company for the period ended 30 June 2021, and submitted it to the Board for consideration and approval;

④ It reviewed the 2021 third quarterly financial report of the Company for the period ended 30 September 2021, and submitted it to the Board for consideration and approval;

⑤ It communicated with the audit firm engaged by the Company in respect of the audit work for 2021 financial report before the auditing.

(2) The Audit work performed on the 2021 financial report of the Company was as follows:

① It reviewed the 2021 auditing plan and the related information of the Company on the meeting held by the annual auditing certified public accountants and the finance department of the Company prior to the onsite audit and negotiated and determined the schedule of an audit of the 2021 financial statements of the Company with ShineWing Certified Public Accountants; seriously reviewed the draft of financial statements of the Company and issued an opinion on the agreement of the audit;

② It kept in close contact with the auditors upon the annual onsite audit and issued a letter to the auditors to urge the submission of the auditors' report on schedule;

③ The Audit Committee reviewed the financial statements of the Company again upon the issue of draft opinion by the annual auditing certified public accountants, and considered the financial statements of the Company true, accurate and complete to reflect the overall position of the Company;

④ The Audit Committee held the meeting and reviewed the auditing summary report in the current year issued by the annual auditing certified public accountants and then submitted the report to the Board;

⑤ It reviewed the report on internal audit and internal control of the Company for the year ended 31 December 2021.

The Audit Committee is provided with sufficient resources to perform its duties. Latest terms of reference of the Audit Committee can be viewed on the website of the Company and the website of the Stock Exchange. The major roles of the Audit Committee include the following:

(a) to act as the key representative body for overseeing the relationship with the external auditors;

(b) to review the Company's annual and interim financial statements; and

(c) to evaluate the effectiveness of the Group's internal control and risk management systems.

During the reporting period, the audit committee held 7 meetings. The attendance of each member of the audit committee is as follows:

Member of the audit committee	Position	Number of meetings attended/Total number of meetings
Tang Qing Bin	Chairman of the committee and independent non-executive director	7/7
Song Zhi Wang	Independent non-executive director	7/7
Cai Zhong Jie	Independent non-executive director	7/7

(C) Nomination Committee

The Nomination Committee was established on 18 January 2005 and is current comprised of 1 executive director, namely Mr. Yang Yun Long, and 3 independent non-executive directors, namely Mr. Song Zhi Wang, Mr. Tang Qing Bin and Mr. Cai Zhong Jie, and is chaired by Mr. Song Zhi Wang. According to the written terms of reference of the Nomination Committee, the major responsibilities of the Nomination Committee include:

(a) to review the structure, size, diversity policy and composition (including the skills, knowledge and experience, sex, age, cultural and education background) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of the independent non-executive Directors; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.

Details of the terms of reference of the Nomination Committee can be viewed on the website of the Company and the website of the Stock Exchange.

(1) On 21 August 2013, the Company formulated policies to diversify Board members and amended the implementing rules of the nomination committee. Pursuant to the new policies, the nomination committee shall regularly review the Board diversity policy to improve efficiency and ensure interest thereof. Such policies are summarised as follows:

The Company recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the talents, skills, regional and industry experience, backgrounds, genders and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All appointments of the members of the Board are made on merit, and in the context of the talents, skills and experience of the Board as a whole.

The Nomination Committee of the Company reviews and assesses the composition of the Board and makes recommendations to the Board on appointment of new directors of the Company. The Nomination Committee also oversees the conduct of the annual review of the effectiveness of the Board. In reviewing and assessing the composition of the Board, the Nomination Committee will consider the benefits of all aspects of diversity, including without limitation those described above, in order to maintain an appropriate range and balance of talents, skills, experience and backgrounds on the Board. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board.

(2) The following major tasks were performed during 2021:

① It nominated Mr. Hao Yun Feng as a candidate for the financial controller of the Company, and submitted it to the board of directors for consideration and approval.

② It nominated Yang Yun Long, Yuan Rui, Li Zhi Xin and Yao You Ling as candidates for executive directors of the seventh session of the board of the directors of the Company; nominated Wang Quan Hong and Liu Ji Lu as candidates for non-executive directors of the seventh session of the board of the directors of the Company; nominated Tang Qing Bin, Song Zhi Wang and Cai Zhong Jie as candidates for independent non-executive directors of the seventh session of the board of the directors of the Company, and submitted them to the board of directors and the general meeting for consideration and approval.

③ It nominated Yang Yun Long and Yuan Rui as candidates for the chairman and vice chairman of the seventh session of the board of the directors of the Company, elected the members of the special committees of the seventh session of the board of the directors and appointed senior management, and submitted them to the board of directors for consideration and approval.

(3) Nomination procedures and process:

During the reporting period, the Nomination Committee, after studying the needs of the Company for new Directors and managerial personnel and taking into consideration the Board diversity policy, identified suitable candidates for Director and managerial positions through various channels (including from the Group internally and from the human resources market). Upon acceptance of nomination by the nominated person, the Nomination Committee performed qualification review on preliminary candidates by holding meetings, review criteria include the academic qualifications, relevant experience and specialised skills of the preliminary candidates. Prior to election of new Directors, the Nomination Committee submitted recommendations and relevant materials of the directorial candidates to the Board; prior to engaging new Senior Management, the Nomination Committee submitted recommendations and relevant materials of the new Senior Management personnel to the Board.

During the reporting period, the nomination committee held 3 meetings. The attendance of each member of the nomination committee is as follows:

Member of the nomination committee	Position	Number of meetings attended/Total number of meetings
Song Zhi Wang	Chairman of the committee and independent non-executive director	3/3
Yang Yun Long		

11. Internal Control

The Board places great importance on internal control and risk management and is responsible for establishing and maintaining adequate internal control over financial reporting for the Company and assessing the overall effectiveness of those internal controls. The Board has reviewed the internal control system of the Group and is of the view that the system is effective.

The Company has an Internal Audit Department which plays a major role in monitoring the internal governance of the Company. The major tasks of the Internal Audit Department are reviewing the financial condition and management of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis. The Company has taken many steps to enhance the internal control of the Company in 2021, such as having all departments internal control inspection and appraisal, strengthening the checks and supervision of implementation of the internal control systems by the Audit Department and according to some weakness found during examination of the internal control, further improving the internal control system and strengthening the implementation of all the internal control systems.

During the review period, the Internal Audit Department issued reports to the senior management covering various operational and financial units of the Company and also conducted reviews of areas of concern identified by the Company's management. Management accounts are provided to the board of Directors quarterly and the Company performs internal review and audit annually.

The Board is also responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(1) To develop and review the Group's policies and practices on corporate governance and make recommendations;

(2) To review and monitor the training and continuous professional development of Directors and senior management;

(3) To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements;

(4) To develop, review and monitor the code of conduct and compliance manual to the employees and directors of the Group; and

(5) To review the Group's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

12. Ability of Going Concern

As at 31 December 2021, there were no uncertainties or conditions of a material nature that would affect the Company's ability to continue as a going concern.

13. Company Secretary

Mr. Chan Wing Nang, Billy (陳永能先生), male, born in 1961, Hong Kong resident, graduated from the University of Newcastle upon Tyne, United Kingdom with a bachelor degree in Civil Engineering. He also received a master degree in business administration from the University of Warwick, United Kingdom. He is a member of the Hong Kong Institute of Certified Public Accountants and has over 20 years of experience in the accounting and consulting field. He is currently the company secretary of the Company.

For the year ended 31 December 2021, Mr. Chan Wing Nang, Billy has confirmed that he has received no less than 15 hours of relevant professional training.

14. Investor Relations

In 2021, through investor visit, phone call and mails, the Company had effective communication with investors and maintained good communication with shareholders, so that the Company was able to meet investors' need for information to the greatest extent, and kept investor informed of the business development of the Company on a timely and accurate manner. On 8 April 2021, the Company held an annual performance briefing meeting on quanjing.com to interact and communicate with investors online. On 16 November 2021, the Company participated in the event of online group reception day for investors of listed companies in Shandong, and actively communicated with the investors online and responded to investors' questions in a timely manner to help them address their doubts.

During the reporting period, the Articles of Association of the Company was amended once. For details, please refer to the announcement and the notice of extraordinary general meeting of the Company dated 8 February 2021. The special resolution approving the proposed amendments to the Articles of Association of the Company was formally approved at the extraordinary general meeting held on 3 March 2021. A copy of the Articles of Association of the Company is available for investors' viewing on the website of the Company and the website of the Stock Exchange.

15. Others

There is no incompliance of Company Law and relevant requirements of CSRC in respect of corporate governance.

Progress of the corporate governance works and the formulation and implementation of the management policy on personnel with insider information:

During the reporting period, the Company strictly complied with the regulations and requirements of the "Management Policy on Information Disclosure", "Internal Reporting System of Material Information" and "Registration and Filing System of Personnel with Material Insider Information". We have also seriously performed our information disclosure duties, diligently carried out the confidential and management works with respect to insider information and strictly controlled and prevented the leak of insider information in order to eliminate insider trading of the securities of the Company. After performing self-inspection, during the reporting period, the relevant departments of the Company were capable of carrying out registration for the personnel with insider information and management of external parties with access to sensitive information. There was no incidence of illegal trading of the securities of the Company and illegal trading of the securities of the Company by the Directors, Supervisors and Senior Management of the Company. The listed company and the relevant personnel did not face regulatory measures and administrative penalties arising from the implementation of the Registration and Filing System of Personnel with Insider Information and suspected insider trading.

16. Communication with shareholders

The Group endeavors to disclose relevant information on its activities to its shareholders in an open and timely manner, subject to applicable legal requirements. Communication between the Company and its shareholders is achieved through:

(a) The Company's annual and interim reports which have been enhanced to present a balanced, clear and comprehensive assessment of the Group's position and prospects;

(b) Forum and notices of AGMs and other general meetings and accompanying explanatory materials;

(c) Press releases on major development of the Group;

(d) Disclosures to the Stock Exchange and relevant regulatory bodies;

(e) Response to inquiries from shareholders or media by the Company Secretary or Board Secretary; and

(f) The website of the Company through which the public can access, among other things, corporate announcements, press releases, annual reports, and general corporate information of the Group.

The communication channels between the Company and its shareholders above will be reviewed by the Board on a regular basis to ensure their effectiveness in maintaining an on-going dialogue with shareholders.

Purposes of general meetings

The Board values the general meetings as the principal opportunities for the Directors to meet shareholders of the Company and to develop a balanced understanding of the views of the shareholders. In 2021, the Company held four general meetings (being the annual general meeting held on 21 May 2021, and the extraordinary general meetings held on 3 March 2021, 12 October 2021 and 26 November 2021). The attendance of each of the directors at these general meetings is set out below:

Attendance record of the Directors

Name	Attended in person
Mr. Yang Yun Long	2/4
Mr. Yuan Rui	4/4
Mr. Li Zhi Xin	4/4
Mr. Yao You Ling	4/4
Mr. Wang Quan Hong	3/4
Mr. Liu Ji Lu	0/0
Mr. Tang Qing Bin	2/4
Mr. Song Zhi Wang	3/4
Mr. Cai Zhong Jie	2/4
Mr. Liu Min	2/2

Notice of annual general meeting, annual report, financial statements and related papers were posted to shareholders of the Company for their consideration at least 20 clear business days prior to the general meetings.

17. Objection to related matters of the Company raised by independent directors

During the reporting period, independent directors did not raise any objection to related matters of the Company.

18. Other description of discharge of duties by independent directors

The independent directors of the Company focused on the Company Operation, discharged their duties independently, and issued independent opinions on related matters incurred during the reporting period such as engagement of accounting institution, to perfect the corporate governance structure, safeguard the rights and interests of company and all shareholders has played a positive role.

In 2021, the Company's auditor received a remuneration of RMB1.05 million for the provision of audit services and a remuneration of RMB400,000 for the provision of non-audit services. The non-audit services refer to the audit work in relation to the internal control system for financial reporting established by the Company in accordance with the Basic Norms for Enterprises Internal Control and relevant requirements as at 31 December 2021 and the issue of audit opinion on its effectiveness.

The changes of auditors in last three years: the Company has appointed ShineWing Certified Public Accountants as its auditor in the past three years.

19. Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of the Company as required to be disclosed pursuant to the mandatory disclosure requirements under the Revised CG Code which is effective from 1 April 2012.

(a) Convening of extraordinary general meeting on requisition by shareholders

Shareholders who request to convene an extraordinary general meeting or a class shareholders' meeting shall follow the procedures set out below:

(1) Two or more shareholders who in aggregate hold 10% or more of the voting rights of all the shares having the right to vote in such a meeting may sign one or several written requisitions in the same form requesting the Board to convene an extraordinary general meeting or a class shareholders' meeting, and the subject matter of the meeting shall be specified.

(2) The Board should according to the laws, administrative rules and regulations and the articles of association express their acceptance or refusal of the request within 10 days in writing form with reasons on the convention of the general meeting.

(3) If the Board agrees to convene an extraordinary general meeting, a notice of general meeting will be made within 5 days after the decision of the Board. If there is any change to the original proposed resolutions, consent from the original proposers should be obtained.

If the Board does not agree to convene an extraordinary general meeting or does not reply within 10 days upon receiving the request, amount of shares held by shareholders convening for the meeting cannot be less than 10% have the right to convene and preside the meeting on their own with similar procedures as a general meeting convening by Board. And shareholders have the right to request the Supervisory Committee to convene an extraordinary general meeting in writing form.

(4) If the Board agrees to convene an extraordinary general meeting, a notice of general meeting will be made within 5 days after the decision of the Board. If there is any change to the original proposed resolutions, consent from the original proposers should be obtained.

If the board of supervisors does not give notice of the general meeting within the schedule time, it will be deemed as the board of supervisors not convening and presiding over the general meeting. If it continuous for more than ninety days, one or more shareholders (including shareholders agent) individually or collectively owning 10% above (inclusive of 10%) shares may make the call and preside over the meeting.

(5) The Company shall be liable to pay all reasonable compensation for the expenses incurred in convening and holding a meeting by the shareholders as a result of the failure of the Board to convene such meeting upon the aforesaid requisitions and such compensation shall be deducted from any payment payable to the directors who are in default of their duties.

(b) Procedures for putting forward proposals at a general meeting

The shareholders that individually or collectively hold more than 3% shares in the Company, they can put forward proposals and submit to convener by written 10 days before the general meeting. Regarding the proposal that according with the provisions of Article 81, the Company should notice other shareholders after two working days receiving the temporary proposal, and they should issue a form letter and publish announcement 14 days before the shareholders' meeting scheduled date, and submit the temporary proposal to the general meeting to review.

Detailed procedures for shareholders to propose a person for election as a Director have been mentioned in the Articles of Association of the Company and are available on the Company's website.

(c) Enquiries to the Board

Should shareholders have any enquiries to the Board of the Company, they may contact the Company by the following means:

	For Holder of H Shares	For Holder of Domestic Shares
Contact Information	Principal place of business in Hong Kong 5/F., Kam Sang Building, 257 Des Voeux Road Hong Kong	Registered Address in the PRC No. 999 Wensheng Street, Shouguang City, Shandong Province PRC

Section V. Directors' Report

The board of the Directors (the "Board") hereby presents their report and the audited financial statements of the Group for the Year.

Principal Activities

The Company is mainly engaged in design, research and development, processing and manufacturing, sales service and export trade of products for the energy equipment industry. The main products included petroleum-drilling machinery equipment, petroleum and natural gas transportation equipment, petroleum and natural gas exploitation equipment and major critical components and castings and forgings products. Details of the principal activities of the Company during the reporting period are set out in the sections headed "Management Discussion and Analysis" in this report. During the reporting period, there were no significant changes in the composition of the Company's principal businesses.

Results Analysis and Dividends

Analysis of the Group's principal activities for the year ended 31 December 2021 is set out in the sections headed "Management Discussion and Analysis" and "Financial Report" in this annual report.

The Board of the Company did not recommend any payment of dividends for the Year. In 2021, the board of directors is not aware of any arrangement under which any shareholder of the Company waived or agreed to waive any dividend.

Key financial and business performance indicators

The key financial and business performance indicators together with details of relevant analyses on gearing ratio are shown in the sections headed "Management Discussion and Analysis" and "Financial Report" in this annual report.

Risk Management

The Group's development strategy is to establish a risk management system covering all the business segments to monitor, assess and manage various risks in the Group's activities. The management has identified the major risks of the Group and conduct regular review of industry, policy, operational and currency risks.

Sustainability Initiatives

The Group has been committed to contributing to the sustainability of the environment and maintaining a high standard of corporate governance essential for creating a framework for motivating staff and promoting sustainable relationships with customers, suppliers, service vendors, regulators and shareholders, and contributes to the community in which we conduct our businesses for creating a sustainable return to the Group. The Group has implemented energy saving practices in offices and branch premises where applicable.

The Group has compliance and risk management policies and procedures in place, and members of the senior management are delegated with the continuing responsibility to monitor adherence and compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. As far as the Company is aware, it has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries.

Financial Review

During the reporting period, the Company realised an operating revenue of approximately RMB3.734 billion, representing an increase of 24.08% year-on-year. Net profit attributable to shareholders of the listed company amounted to approximately -RMB368 million. Basic earnings per share was -RMB0.46 per share. The Group's financial review for the year ended 31 December 2021 is set out in the section headed "Financial Report" in this annual report.

Property, Plant and Equipment

Details of changes in the property, plant and equipment of the Group for 2021 are set out in the section headed "Financial Report" in this report.

Long-term Equity Investments and Fixed Assets

Details of long-term equity investments and fixed assets of the Company are set out in the section headed "Financial Report" in this report.

Share Capital and Share Options

The movements in the Company's authorised and issued shares during the Year are set out in the sections headed "Changes in Shares and Shareholders" and "Financial Report" in this report.

During the Year, the Company did not operate any share option scheme.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

Repurchase, Sale or Redemption of Securities

Neither of the Company or any of its subsidiaries has repurchased, sold or redeemed any listed securities of the Group as of 2021.

Reserves and Distributable Reserves

Details of changes in the reserves and distributable reserves of the Group in 2021 are set out in the sub-section headed "Undistributed Profits" under "Explanatory Notes to the Financial Statements Line Items" in the financial report.

Major Customers and Suppliers

During the year under review, sales to the Group's five largest customers accounted for approximately 29.77% of the Group's total sales for the Year. Of which, sales to the largest customer accounted for approximately 8.37% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 34.12% of the Group's total purchases for the Year. Of which, purchases from the largest supplier accounted for approximately 13.80%of the Group's total purchases.

To the best knowledge of the Directors, none of the Directors nor any of their close associates, or any existing shareholders (who own more than 5% of the Company's issued share capital), had any interest in the Group's five largest customers or suppliers.

Environmental, Social and Governance Report and Social responsibility

The environmental protection policies adopted by the Group and the fulfillment of social responsibilities are set out in the section headed "Environmental and Social Responsibility" in this annual report. The environmental, social and governance report required by the Hong Kong listing rules will be published separately by the Company on or before 31 May 2022.

Employees

Details of employees and remuneration policy of the Group are set out in the section head "Employees of the Company" in this annual report.

Donations

The Company pays great attention to the creation of social value and places its focus on fulfilling social responsibility by actively participating in social services. We have spared no effort to join social services and charity activities with a view to rewarding the society within our capacity. The Company has founded a relief fund to give care and financial support to employees in need and create harmonious working environment. In 2021, the Group released approximately RMB64 thousand from the relief fund towards helping the families of staff in financial difficulties.

Directors

The existing Directors during the Year and up to the date of this annual report were:

Executive Directors:

Mr. Yang Yun Long
Mr. Yuan Rui
Mr. Li Zhi Xin
Mr. Yao You Ling (Redesignated as an executive director on 26 November 2021)
Mr. Liu Min (resigned on 13 August 2021)

Non-executive Directors:

Mr. Wang Quan Hong
Mr. Liu Ji Lu (appointed on 26 November 2021)

Independent non-executive Directors:

Mr. Tang Qing Bin
Mr. Song Zhi Wang
Mr. Cai Zhong Jie

Supervisors:

Mr. Liu Shu Bao
Mr. Lin Jun
Mr. Liu Cheng An

The biographical details of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report.

Directors' and Supervisors' Service Contracts or Letters of Appointment

Each of the Directors and Supervisors (including the independent non-executive Directors and the Supervisors) has entered into a service contract or letter of appointment with the Company, respectively. None of the Directors or Supervisors has entered into any service contracts with the Company which is not determinable by the Company within one year without payment compensation, other than statutory compensation.

Remuneration of the Directors and Supervisors and Five Highest Paid Individuals

For the information on the remuneration of the Directors, Supervisors and five highest paid individuals of the Company in 2021, please refer to sub-section headed "Compensation of Key Management Personnel" under the section headed "Financial Report" in this report.

Directors' and Supervisors' Interests in Contracts

There are no contracts which are significant to the Group's business and in which any of the Directors or Supervisors have or had material interest, whether directly or indirectly, subsisted during 2021 or at the end of 2021.

Directors' and Executive's Liability Insurance and Indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and executives in respect of legal actions against them. Throughout 2021, no claim had been made against the Directors and the officers of the Company. Save as disclosed in this report, there are no permitted indemnity provisions for the year ended 31 December 2021.

Management Contracts

No contract was entered into or existed for the management and administration of all or any substantial part of the Company's business during the year ended 31 December 2021.

Directors', Supervisors' and Chief Executive's Interests in Securities under the Securities and Futures Ordinance ("SFO") of Hong Kong

As at 31 December 2021, interests of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Company and to the Stock Exchange, were as follows:

Long positions in the shares of the Company

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total registered capital
Wang Quan Hong	Beneficial interest	139,500	0.03%	0.02%

Save as disclosed above, to the best knowledge of the Directors, Supervisors and chief executive, none of the Directors, the Supervisors or chief executive had any interests or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Company and to the Stock Exchange.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

None of the Directors or Supervisors or their respective associates (as defined under the Rule 1.01 of the Listing Rules) was granted by the Company or its subsidiaries any rights to acquire any shares in or debentures of the Company or had exercised any such rights in 2021.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2021, to the best knowledge of the Directors, Supervisors and chief executive of the Company, as indicated in the register of interests and/or short positions required to be maintained pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or the register required to be kept under Section 336 of SFO, the substantial shareholders and other persons had the following interests and/or short positions in the Shares or underlying Shares of the Company as follows:

Long positions in the shares of the Company

Substantial shareholder	Nature of interest	Number of shares	Percentage of issued A shares/ H shares	Percentage of total issued shares
Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司)	Beneficial interest	235,617,000 A shares	43.49% (A shares)	29.53%
Shandong Shouguang Jinxin Investment Development Holdings Group Limited (山東壽光金鑫投資發展控股集團有限公司)	Interest in controlled corporation [2]	235,617,000 A shares	43.49% (A shares)	29.53%
Shandong Zhimeng Holdings Co., Ltd. (山東智夢控股有限公司)	Beneficial interest	64,740,000 H shares	25.28% (H shares)	8.11%
	Beneficial interest	8,654,911 A shares	1.60% (A shares)	1.08%
	Interest under Section 317 of the SFO [1]	200,000 A shares	0.03% (A shares)	0.03%
	Interest under Section 317 of the SFO [1]	85,974,800 H shares	33.57% (H shares)	10.78%
Shouguang Panjin Property Co., Ltd. (壽光市磐金置業有限公司)	Beneficial interest	30,800,000 H shares	12.03% (H shares)	3.86%
	Beneficial interest	200,000 A shares	0.037% (A shares)	0.03%
	Interest under Section 317 of the SFO [1]	8,654,911 A shares	1.60% (A shares)	1.08%
	Interest under Section 317 of the SFO [1]	119,914,800 H shares	46.82% (H shares)	15.03%
Shouguang Hongsen Logistics Co., Ltd. (壽光市鴻森物流有限公司)	Beneficial interest	31,800,000 H shares	12.42% (H shares)	3.99%
	Interest under Section 317 of the SFO [1]	8,854,911 A shares	1.63% (A shares)	1.11%
	Interest under Section 317 of the SFO [1]	118,914,800 H shares	46.43% (H shares)	14.90%
Shouguang Ruisen New Building Materials Co., Ltd. (壽光市瑞森新型建材有限公司)	Beneficial interest	23,374,800 H shares	9.13% (H shares)	2.93%
	Interest under Section 317 of the SFO [1]	8,854,911 A shares	1.63% (A shares)	1.11%
	Interest under Section 317 of the SFO [1]	127,340,000 H shares	48.16% (H shares)	15.96%

Notes:

(1) Shandong Zhimeng Holdings Co., Ltd., Shouguang Panjin Property Co., Ltd., Shouguang Hongsen Logistics Co., Ltd. and Shouguang Ruisen New Building Materials Co., Ltd. have entered into a concert party agreement pursuant to which, they are parties acting in concert for the purpose of the shares of the Company. As such, they were deemed to be collectively interested in the total shares held by them by virtue of the SFO.

(2) Shouguang Molong Holdings Co., Ltd. is a wholly-owned subsidiary of Shandong Shouguang Jinxin Investment Development Holdings Group Limited. Therefore, Shandong Shouguang Jinxin Investment Development Holdings Group Limited are deemed to be interested in the 235,617,000 A shares in which Shouguang Molong Holdings Co., Ltd. is interested.

(3) The approximate percentage is based on the 541,722,000 A shares, 256,126,400 H shares and 797,848,400 shares in issue as at 31 December 2021.

Save as disclosed above, as at 31 December 2021, no persons (other than being a Director, Supervisor or chief executive of the Company) had any interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company and the SEHK pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and which were required to be recorded in the register to be kept pursuant to section 336 of the SFO.

Related Parties and Related Party Transactions

1. On 13 November 2020, after the consideration and approval at the fifth special meeting of the sixth session of the board of directors and the 2020 first extraordinary general meeting of the Company held on 25 November 2020, Shouguang Jinxin, the original controlling shareholder of the Company, provided a financial assistance of up to RMB350 million to the Company for a term of less than one year, bearing interest at market rate.

2. On 26 November 2021, after the consideration and approval at the first special meeting of the seventh session of the board of directors of the Company, Shouguang Jinxin, the original controlling shareholder of the Company, provided non-interest bearing borrowings of up to RMB500 million to the Company for a term of less than one year.

Save as disclosed above, the Company had no other connected transaction and none of the related party transactions disclosed in the "Financial Report" section in this report constituted discloseable connected transactions under the Listing Rules. The Company confirms that the disclosure requirements under Chapter 14A of the Listing Rules were met.

Competition and Conflict of Interests

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any businesses (as defined in the Listing Rules) that competes or may compete, either directly or indirectly, with the business of the Group, or has any other conflict of interests with the Group during the Year.

Corporate Governance

Details of corporate governance of the Company are set out in the section headed "Corporate Governance" in this report.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2021. To the best knowledge of the Directors, the Company has fulfilled the public float requirements under Rule 8.08 of the Listing Rules.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 16 May 2022 to Thursday, 19 May 2022, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfers must be lodged with the Company's H share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 13 May 2022.

Auditors

The Company has appointed ShineWing Certified Public Accountants as the auditor of the Company. ShineWing Certified Public Accountants will retire and a resolution for its re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company. There has been no change in the Company's auditors in the past three years.

Events after the Reporting Period

Save for the above-mentioned events subsequent to the balance sheet date, the Group had no other significant events.

On behalf of the Board
Shandong Molong Petroleum Machinery Company Limited
Chairman
Yang Yun Long

Shandong, the PRC, 30 March 2022

Section VI. Environmental and Social Responsibility

The Company or name of subsidiary	Name of major pollutant and specific pollutant	Method of discharge	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration	Implemented standards for pollutant discharge	Total volume of discharge	Approved total volume of discharge	Excessive discharge
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	12mg/m^3	50mg/m^3	150.6kg	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	87mg/m^3	150mg/m^3	5,119kg	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	8.7mg/m^3	10mg/m^3	302kg	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	8mg/m^3	50mg/m^3	94.08kg	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	112mg/m^3	150mg/m^3	3,669kg	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	6.6mg/m^3	10mg/m^3	300.3kg	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	4.2mg/m^3	10mg/m^3	512.4kg	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	5.6mg/m^3	10mg/m^3	439.7kg	—	No
Shandong Molong	Particulate matter	Organised	1	Production complex	5.4mg/m^3	10mg/m^3	1,941kg	—	No
Shandong Molong	Benzene	Organised	1	Production complex	0mg/m^3	0.5mg/m^3	0	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0.076mg/m^3	5mg/m^3	2.23kg	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0.0306mg/m^3	15mg/m^3	0.9kg	—	No
Shandong Molong	VOCs	Organised	1	Production complex	17.4mg/m^3	50mg/m^3	506.88kg	—	No
Shandong Molong	Benzene	Organised	1	Production complex	0mg/m^3	0.5mg/m^3	0	—	No
Shandong Molong	Toluene	Organised	1	Production complex	1.92mg/m^3	5mg/m^3	120.3kg	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0.477mg/m^3	15mg/m^3	29.8kg	—	No
Shandong Molong	VOCs	Organised	1	Production complex	16.3mg/m^3	50mg/m^3	1,392kg	—	No
Shandong Molong	Benzene	Organised	1	Production complex	0mg/m^3	0.5mg/m^3	0	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0mg/m^3	5mg/m^3	0	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0.075mg/m^3	15mg/m^3	1.56kg	—	No
Shandong Molong	VOCs	Organised	1	Production complex	8.44mg/m^3	50mg/m^3	202.8kg	—	No
Shouguang Maolong	Sulfur dioxide	Organised	1	Production complex	19mg/m^3	50mg/m^3	17.8 tonnes	—	No
Shouguang Maolong	Nitrogen oxides	Organised	1	Production complex	13.2mg/m^3	150mg/m^3	9.78 tonnes	—	No
Shouguang Maolong	Particulate matter	Organised	1	Production complex	0.661mg/m^3	10mg/m^3	0.6 tonnes	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	2.35mg/m^3	10mg/m^3	8.03 tonnes	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	1.01mg/m^3	10mg/m^3	1,070kg	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	4.1mg/m^3	10mg/m^3	3.44 tonnes	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	3.6mg/m^3	10mg/m^3	4.4kg	—	No
Shouguang Baolong	Sulfur dioxide	Organised	1	Production complex	2mg/m^3	50mg/m^3	0.19kg	—	No
Shouguang Baolong	Nitrogen oxides	Organised	1	Production complex	59mg/m^3	150mg/m^3	5.57kg	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	5.7mg/m^3	10mg/m^3	0.46kg	—	No
Shouguang Baolong	Sulfur dioxide	Organised	1	Production complex	2mg/m^3	50mg/m^3	4.1kg	—	No
Shouguang Baolong	Nitrogen oxides	Organised	1	Production complex	59mg/m^3	150mg/m^3	16.27kg	—	No
Shouguang Baolong	Particulate matter	Organised	1	Production complex	6.4mg/m^3	10mg/m^3	3.31kg	—	No

Construction and operation of pollution prevention and control facilities

The Company and its subsidiaries conducted their environmental works in strict compliance with the environmental laws and regulations such as the Law of the People's Republic of China on Environmental Protection, the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, the Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise and the Law of the People's Republic of China on Prevention and Control of Water Pollution.

Wastewater treatment facilities: The Company has equipped all production plants with integrated sewage treatment facilities in all factories which have been in normal operation. Wastewater discharged from production process are treated and recycled without outward discharge;

Exhaust treatment facilities: The Company has equipped production lines in all production complexes with the

II. Social Responsibility

During the reporting period, the Company attached great importance to the performance of social responsibility, and has taken a proactive stance in fulfilling social responsibility which was epitomised in the following aspects:

1. Safeguarding shareholders' interest

The Company had established a relatively well-established governance structure and a comprehensive internal control system. Such measures guaranteed the soundness and the level of control of the decision making mechanism of the Company on material issues. At general meetings, the Company adopted both on-the-spot plus online voting to enhance the participation of shareholders. The assembly, convention and voting procedures of the meeting complied with the requirements of the laws, regulations and the Articles of Association. The Company established various forms of communication platforms and channels with the investors through different measures and conducted timely, true, accurate and comprehensive regular information disclosure in strict compliance with the relevant laws, regulations, the Articles of Association and the requirements of the relevant system of the Company in order to ensure that all shareholders of the Company were given fair, just, open and adequate opportunities to acquire the information of the Company, which is aim at protecting various legal rights of all shareholders as stipulated by the laws, regulations and articles in a fair manner.

2. Safeguarding employees' interest

The Company highly emphasised the nurture of talents. We strived to improve the quality of our staff and realised mutual growth of our staff and the enterprise by offering our staff with career planning and organising various corporate training. The Company offered various social insurance to our staff and established relief fund to care and support staff in difficult times and created a harmonious working environment. In 2021, the Group released approximately RMB64 thousand from the relief fund towards helping the family of staff in financial difficulties.

3. Actively participating in social undertakings

The Company pays great attention to the creation of social value and places our focus of fulfilling social responsibility on actively participating in social services. We spare no effort to join social undertakings and charity activities and organised numerous donations with a view to rewarding the society within our capacity. In 2021, in active response to the government's call, the Company participated in the new rural civilisation by providing targeted assistance to certain villages in the Village Coverage (村村通) Project in Shouguang City, which effectively enhanced its corporate reputation. During the flood season, in response and in cooperation with the government in flood control, the Company gave full support to dyke searching, dam protecting and reinforcing works by providing machines and workers. The Company took active steps in pandemic prevention and control in cooperation with the government. The Company also proactively participated in social welfare undertakings by actively liaising with blood donation centres in the central district of Weifang City, advocating and arranging around 100 staff members to participate in voluntary blood donation public welfare activities, which demonstrated the social responsibility and undertaking of the Company.

III. Results of the strengthening and expansion of poverty alleviation and details of rural revitalisation

The Company did not carry out any targeted poverty alleviation work during the reporting period and there was not follow-up plan for targeted poverty alleviation.

Section VII. Material Matters

I. Performance of commitment

1. Undertakings made by parties involved in undertakings including the Company's actual controllers, shareholders, related parties, bidders and the Company during the reporting period or prior periods but subsisting to the end of the reporting period

☐ Applicable Not applicable

During the reporting period, there was no undertaking made by parties involved in undertakings including the Company's beneficial controllers, shareholders, related parties, bidders and the Company during the reporting period or prior periods but subsisting to the end of the reporting period.

2. Corporate assets or project has profit forecast, and still in the period of the profit forecast at reporting period. Explanation for profit forecast of corporate assets or project receives profit forecast its reasons

☐ Applicable Not applicable

II. Occupation of non-operating funds of the listed company by the controlling shareholder and other related parties

☐ Applicable Not applicable

There was no occupation of non-operating funds of the listed company by controlling shareholders and other related parties during the reporting period.

III. Illegal external guarantees

☐ Applicable Not applicable

There were no illegal external guarantees during the reporting period.

IV. Opinions of the board regarding the "modified auditor's report" for the most recent prior period

☐ Applicable Not applicable

V. Opinions of the board, the supervisory board and independent directors (if any) regarding the "modified auditor's report" issued by accounting firm for the current reporting period

☐ Applicable Not applicable

VI. Explanation for the change in accounting policy or accounting estimates or the correction to material accounting errors as compared to the financial report of last year

☐ Applicable Not applicable

The Company did not make any change in accounting policy or accounting estimates or any correction to material errors during the reporting period.

VII. Explanation for the change of the consolidated statements range as compared to the financial report of last year

Whether change appointed accounting firm at current period

☐ Yes No

Engagement of accounting firm, financial consultant or sponsor for audit of internal controls

☐ Applicable Not applicable

IX. Delisting after disclosure of annual report

☐ Applicable Not applicable

X. Matter related to bankruptcy and reorganisation

☐ Applicable Not applicable

There was no matter related to bankruptcy and reorganisation during the reporting period.

XI. Significant lawsuits and arbitrations

Applicable ☐ Not applicable

Basic information about the lawsuit (arbitration)	Amount involved (in RMB ten thousand)	Any estimated liabilities incurred	Progress of the lawsuit (arbitration)	Result and impacts of trial for the lawsuit (arbitration)	Execution of judgment of the lawsuit (arbitration)	Date of disclosure	Reference of disclosure
Investor litigation cases that have been judged or closed through mediation	12,310.01	No	The litigation cases have been judged or closed through mediation, please refer to the financial report section under the title headed "XIV.2 Contingencies" for details	The Company has recognised the related expenses in respect of the litigations.	The Company is in the process of paying claims amounting to RMB 7,243.93 ten thousand for closing the cases.	—	http://www.cninfo.com.cn
Investor litigation cases that have been heard but pending for judgment or have not been heard	65.7	Yes	The litigation cases have been judged or closed through mediation, please refer to the financial report section under the title headed "XIV.2 Contingencies" for details	The Company has made provision for the litigations.	The cases are in progress.	—	http://www.cninfo.com.cn

XII. Punishments and rectifications

Applicable ☐ Not applicable

Name	Type	Reason	Type of investigation punishment	Conclusion (if any)	Date of disclosure	Reference of disclosure
Shandong Molong	Other	Breach of laws and regulations on information disclosure	Investigation initiated or administrative punishment imposed by CSRC	Ordered to rectify, issued warning and imposed a fine of RMB1.35 million	19 October 2021	The Announcement in relation to the Receipt of Decision of Administrative Penalty (Announcement No. 2021–062) are published on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo.
Liu Yun Long	Senior management	Breach of laws and regulations on information disclosure	Investigation initiated or administrative punishment imposed by CSRC	Issued warning and imposed a fine of RMB650 thousand	19 October 2021	The Announcement in relation to the Receipt of Decision of Administrative Penalty (Announcement No. 2021–062) are published on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo.
Liu Min	Director, senior management	Breach of laws and regulations on information disclosure	Investigation initiated or administrative punishment imposed by CSRC	Issued warning and imposed a fine of RMB530 thousand	19 October 2021	The Announcement in relation to the Receipt of Decision of Administrative Penalty (Announcement No. 2021–062) are published on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo.

Descriptions of the rectification

Applicable ☐ Not applicable

The Company and the relevant responsible parties will firmly keep the lesson in mind, better familiarise with the securities laws and regulations, enhance the consciousness of standardised operation and resolutely refuse to repeat the same incident. Meanwhile, the current directors, supervisors and senior management of the Company will seriously and diligently perform their obligations to promote standardised operation of the Company, further enhance the quality of information disclosure and safeguard the interests of the Company and all shareholders to ensure healthy, steady and sustainable development of the Company.

XIII. Integrity of the Company and its controlling shareholder and actual controller

☐ Applicable Not applicable

XIV. Significant related party transactions

1. Related party transactions associated in the ordinary course of business

☐ Applicable Not applicable

The Company did not conduct any related party transaction in the ordinary course of business during the reporting period.

2. Related party transactions in connection with acquisition or disposal of assets or equity interests

☐ Applicable Not applicable

3. Related party transactions in connection with joint external investment

☐ Applicable Not applicable

There was no related party transaction in connection with joint external investment during the reporting period.

4. Amounts due from/to related parties

Applicable ☐ Not applicable

Any non-trade amounts due from/to related parties

Yes ☐ No

Debts due to related parties

Related Party	Related relationship	Reason	Balance at the beginning of the period (RMB ten thousand)	Amount increased during the current period (RMB ten thousand)	Amount repaid during the current period (RMB ten thousand)	Interest rate	Interest for the current period (RMB ten thousand)	Balance at the end of the period (RMB ten thousand)
Shouguang Jinxin	Controlling shareholder of the controlling shareholder	Financial assistance	10,000	33,900	38,900	3.85%/0%	197.98	5,000

Impact of the related debts on the operating results and financial position of the Company

1. On 13 November 2020, after the consideration and approval at the fifth special meeting of the sixth session of the board of directors and the 2020 first extraordinary general meeting of the Company held on 25 November 2020, Shouguang Jinxin, the original controlling shareholder of the Company, provided a financial assistance of up to RMB350 million to the Company for a term of less than one year, bearing interest at market rate.
2. On 26 November 2021, after the consideration and approval at the first special meeting of the seventh session of the board of directors of the Company, Shouguang Jinxin, the original controlling shareholder of the Company, provided non-interest bearing borrowings of up to RMB500 million to the Company for a term of less than one year.

5. Amounts due from/to related financial companies

☐ Applicable Not applicable

The Company did not have any deposit, loan, credit or other financial business with its related financial companies, controlled financial companies with related parties.

6. Amounts due from/to financial companies controlled by the Company with related parties

☐ Applicable Not applicable

The financial companies controlled by the Company did not have any deposit, loan, credit or other financial business with related parties.

7. Other significant related party transactions

☐ Applicable Not applicable

There were no other significant related party transactions during the reporting period.

XV. Significant contracts and their implementation

1. Entrustment, Contracting and leasing

(1) Entrustment

☐ Applicable Not applicable

The Company had no entrustment during the reporting period.

(2) Contracting

☐ Applicable Not applicable

The Company had no contracting during the reporting period.

(3) Leasing

Applicable ☐ Not applicable

Descriptions of the leasing

(1) In December 2020, the Company disposed the land, ground attachments and other assets of the production complex in science park to Shandong Shouguang Vegetable Wholesale Market Co., Ltd. (山東壽光蔬菜批發市場有限公司). On 17 March 2021, the Company entered into a lease agreement with Shandong Shouguang Vegetable Wholesale Market Co., Ltd., pursuant to which, during the relocation period of the park, the Company shall lease back certain assets it disposed for a term ending on 30 June 2022 at an annual rent of RMB1,072 ten thousand.

(2) In order to further reduce production costs and turnaround the continuing loss-making position of Weihai Baolong, a subsidiary, Weihai Baolong entered into the Asset Lease Framework Agreement regarding the Casting and Forging Production Line of Weihai Baolong with Weihai Senming Metal Materials Co., Ltd. (威海森銘金屬材料有限公司) ("Weihai Senming") on 5 March 2021, whereby Weihai Baolong shall lease the related facilities of the casting and forging production line to Weihai Senming for use for a term of 8 years, and Weihai Baolong shall charge rental fee based on the benchmark production volume of such lease.

(3) After consideration at the twelfth meeting of the sixth session of the board of directors of the Company, in order to further expand financing channels, the Company has development the sale-and-leaseback financing business jointly with Yangtze United Financial Leasing Co., Ltd. (長江聯合金融租賃有限公司) with certain production equipment held by the Company as lease objects. The financing amount is not more than RMB60 million and the term is within 36 months. During the lease period, the Company shall continue to use such certain production equipment by way of sale and leaseback until the lease period as agreed in the lease ends. Details can be found in the Announcement on the Development of Finance Lease Business disclosed by the Company (Announcement #2021-052).

2. Significant guarantees

Applicable ☐ Not applicable

Unit: RMB ten thousand

External guarantees of the Company and its subsidiaries (excluding guarantee in favour of subsidiaries)

Name of guaranteed party	Date of disclosure of announcement in relation to the line of guarantee	Line of guarantee	Date of actual occurrence	Actual guarantee amount	Type of guarantee	Collaterals (if any)	Counter-guarantee (if any)	Guarantee period	Fully performed or not	Related party guarantee or not

Guarantees of the Company in favour of subsidiaries

Name of guaranteed party	Date of disclosure of announcement in relation to the line of guarantee	Line of guarantee	Date of actual occurrence	Actual guarantee amount	Type of guarantee	Collaterals (if any)	Counter-guarantee (if any)	Guarantee period	Fully performed or not	Related party guarantee or not
Shouguang Maolong	16 May 2020	14,510.78	30 June 2020	8,373.34	Security	Certain properties and land use rights		3 years	No	No
Shouguang Maolong	27 March 2020	50,000								
Weihai Baolong	23 March 2019	10,000								
Molong I&E	23 March 2019	10,000								
Total line of guarantees granted to subsidiaries during the reporting period (B1)		0	Total actual amount of guarantees in favour of subsidiaries during the reporting period (B2)							8,373.34
Total line of guarantees granted to subsidiaries as at the end of the reporting period (B3)		84,510.78	Total actual amount of guarantees in favour of subsidiaries as at the end of the reporting period (B4)							8,373.34

Guarantees of subsidiaries in favour of subsidiaries

Name of guaranteed party	Date of disclosure of announcement in relation to the line of guarantee	Line of guarantee	Date of actual occurrence	Actual guarantee amount	Type of guarantee	Collaterals (if any)	Counter-guarantee (if any)	Guarantee period	Fully performed or not	Related party guarantee or not
Shouguang Maolong	16 May 2020	4,048.95	30 June 2020	2,336.42	Security	Certain properties and land use rights		3 years	No	No
Shouguang Maolong	16 May 2020	1,440.27	30 June 2020	831.1	Security	Certain properties and land use rights		3 years	No	No
Total line of guarantees granted to subsidiaries during the reporting period (C1)		0	Total actual amount of guarantees in favour of subsidiaries during the reporting period (C2)							3,167.52
Total line of guarantees granted to subsidiaries as at the end of the reporting period (C3)		5,489.22	Total actual amount of guarantees in favour of subsidiaries as at the end of the reporting period (C4)							3,167.52

Guarantees of subsidiaries in favour of subsidiaries

Name of guaranteed party	Date of disclosure of announcement in relation to the line of guarantee	Line of guarantee	Date of actual occurrence	Actual guarantee amount	Type of guarantee	Collaterals (if any)	Counter-guarantee (if any)	Guarantee period	Fully performed or not	Related party guarantee or not
Total guarantees of the Company (being the sum of the above three guarantees)										
Total line of guarantees granted during the reporting period (A1+B1+C1)		0	Total actual amount of guarantees during the reporting period (A2+B2+C2)							11,540.86
Total line of guarantees granted as at the end of the reporting period (A3+B3+C3)		90,000	Total actual amount of guarantees as at the end of the reporting period (A4+B4+C4)							11,540.86
Proportion of total actual guarantees (i.e. A4+B4+C4) to net assets of the Company										8.17%
Including:										
Balance of guarantees given for shareholders, actual controllers and their related parties (D)										0
Balance of debt guarantees direct or indirectly given for guarantee parties with gearing ratio of over 70% (E)										11,540.86
Amount of total guarantees in excess of 50% of net assets (F)										0
Total of the above three guarantee amounts (D+E+F)										11,540.86
For unexpired guarantee contracts, descriptions about the guarantee liabilities occurred or possible joint and several liabilities of repayment with evidence during the reporting period (if any)										Nil
External guarantees in breach of procedural requirements (if any)										Nil

Details of synthetic guarantees

On 15 May 2020, the third special meeting of the sixth session of the board of directors of the Company considered and passed the "Proposal for the provision of guarantee for Shouguang Maolong" (《關於為壽光懋隆提供擔保的議案》). It was agreed that Shouguang Maolong (a wholly-owned subsidiary) should commence the provision of comprehensive financial services with China Great Wall Asset Management Co., Ltd. Shandong Branch with a total amount of not exceeding RMB20,000 ten thousand for a period of no longer than 36 months, and that the Company, Shouguang Baolong and Weihai Baolong should provide certain of their real properties and land use rights, respectively, as security of guarantee in respect of the commencement of the above business by Shouguang Maolong. Such guarantee has been considered and approved at the annual general meeting 2019 of the Company. Details are available on the website of cninfo (http://www.cninfo.com.cn) (Announcement No. 2020-030).

3. Entrust others to manage cash assets

(1) Entrusted wealth management

Applicable ☐ Not applicable

Particulars of entrusted wealth management during the reporting period

Unit: RMB'0,000

Specific type	Source of funds for entrusted wealth management	Amount for entrusted wealth management	Unmatured balance	Amount past due but not received	Amount of impairment provided for uncollected matured wealth management
Bank financial products	Self-owned fund	16,000	0	0	0
Total		16,000	0	0	0

Particulars of high-risk entrusted wealth management with individually significant, low-security, low-liquidity products

☐ Applicable Not applicable

Expected irrecoverable principal or other potential impairment in entrusted wealth management

☐ Applicable Not applicable

(2) Entrusted loans

☐ Applicable Not applicable

The Company had no entrusted loans during the reporting period.

4. Other significant contracts

☐ Applicable Not applicable

The Company had no other significant contracts during the reporting period.

XVI. Descriptions of other significant events

Applicable ☐ Not applicable

1. Change of the scope of business of the Company

The Company convened the eighth extraordinary meeting of the sixth session of the board of directors on 8 February

2. Completion of registration for the transfer under controlling shareholder agreement and change in controlling shareholders of the Company

On 24 March 2021, the Company was notified by Shouguang Molong Holdings Co., Ltd., a controlling shareholder, that it has entered into an agreement for the transfer of 235,617,000 A shares of the Company held by Mr. Zhang En Rong (which represented 29.53% of the total share capital of the Company), and the registration of transfer was completed with China Securities Depository and Clearing Co., Ltd. Shenzhen Branch on 23 March 2021. Upon completion of the share transfer, Molong Holdings holds 235,617,000 shares of the listed company, all of them are circulating shares not subject to lock-up and representing 29.53% of the total share capital of the listed company, making it become a controlling shareholder of the listed company. the actual controller of the listed company remains State-owned Assets Supervision and Administration Commission of Shouguang City (壽光市國有資產監督管理局). The related announcement is available on the information disclosure website of cninfo (http://www.cninfo.com.cn).

3. Progress of the deregistration of a subsidiary

The Company convened the sixth meeting of the sixth session of the board of directors and the sixth meeting of the sixth session of supervisory committee respectively on 27 March 2020, at which the "Proposal for the Deregistration of a Controlled Subsidiary" (《關於註銷控股子公司的議案》) was considered and passed to approve the disposal of Baolong Consultancy (a controlled subsidiary) by way of liquidation and deregistration (Announcement number：2020-017). On 29 December 2021, the Company received a Notice on Approval of Deregistration (《准予註銷登記通知書》) from the Administrative Examination and Approval Service Bureau of Shouguang City confirming that the deregistration procedures regarding Baolong Consultancy have been completed (Announcement number 2021-077). Upon completion of the deregistration, Baolong Consultancy is longer to be consolidated into the consolidated financial statements of the Company.

4. Progress of material disposal of assets

The Company convened the sixth extraordinary meeting of the sixth session of the board of directors on 18 November 2020, and at which the "Proposal for the Disposal of Assets" (《關於出售資產的議案》) was considered and passed, which was also considered and passed by the Company's second extraordinary general meeting in 2020. Details are set out in the Announcement in relation to Disposal of Assets ("《關於出售資產的公告》") (Announcement No. 2020-056) dated 19 November 2020 and disclosed on the designated information disclosure media, namely China Securities Journal, Securities Daily and Securities Times, and the website of cninfo (www.cninfo.com.cn). During the reporting period, the Company received RMB140 million pursuant to the agreement and the aggregated receipts amounted to RMB490 million (representing 97.45% of the total proceeds).

5. Administrative punishments

On 1 June 2021, the Company received an investigation notice from China Securities Regulatory Commission for a suspected incompliance of information disclosure requirements. According to the Securities Law of the People's Republic of China, China Securities Regulatory Commission has decided to initiate investigation proceedings against the Company and conduct investigation against the concerned persons. On 18 October 2021, the Company received a Decision of Administrative Penalty (《行政處罰決定書》) from China Securities Regulatory Commission (Shandong Supervising Commission), deciding to order rectification by, issue a warning to and impose a fine of RMB1.35 million on the Company; issue a warning to and impose a fine of RMB650,000 on Liu Yun Long; and to issue a warning and impose a fine of RMB530,000 on Liu Min.

XVII. Significant events of subsidiaries of the Company

☐ Applicable Not applicable

I. Changes in Shares

1. Changes in Shares

Unit: share

	Prior to the change		Increase/decrease as a result of the change (+, –)					After the change	
	Number of shares	Percentage	Issue of new shares	Bonus issue	Transfer of reserves to share capital	Others	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	106,500	0.01%	—	—	—	—	—	106,500	0.01%
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal person shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	106,500	0.01%	—	—	—	—	—	106,500	0.01%
Including: Domestic legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	106,500	0.01%	—	—	—	—	—	106,500	0.01%
4. Foreign shares	—	—	—	—	—	—	—	—	—
Including: Overseas legal person shares	—	—	—	—	—	—	—	—	—
Overseas natural person shares	—	—	—	—	—	—	—	—	—
II. Shares not subject to lock-up	797,741,900	99.99%	—	—	—	—	—	797,741,900	99.99%
1. RMB ordinary shares	541,615,500	67.88%	—	—	—	—	—	541,615,500	67.88%
2. Domestically-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares	256,126,400	32.10%	—	—	—	—	—	256,126,400	32.10%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	797,848,400	100.00%	—	—	—	—	—	797,848,400	100.00%

Reason(s) for change in shares

☐ Applicable Not applicable

Approval for the change in shares

☐ Applicable Not applicable

Transfer for the change in shares

☐ Applicable Not applicable

Effects of the change in shares on financial indicators such as basic earnings per share, diluted earnings per share and net assets attributable to ordinary shareholders of the Company per Share for the most recent year and period

☐ Applicable Not applicable

Other disclosures where were considered necessary by the Company or required by securities regulatory authorities

☐ Applicable Not applicable

2. Changes in locked-up shares

☐ Applicable Not applicable

II. Issuance and listing of securities

1. Securities issuance (exclusive of preferred share) during the reporting period

☐ Applicable Not applicable

2. Explanation for the changes in total shares of the Company and shareholding structure and movement in the assets and liability structure of the Company

☐ Applicable Not applicable

3. Existing internal staff shares

☐ Applicable Not applicable

III. Profiles of shareholders and the actual controller

1. Number of corporate shareholders and shareholding

Unit: share

Total number of ordinary shareholders at the end of reporting period	35,702 (of which 35,657 were for A shares and 45 were for H shares)	Total number of ordinary shareholders at the end of last month before the annual report disclosure day	38,136	Total number of voted recovery preferred shareholder at the end of reporting period	0	Total number of voted recovery preferred shareholder at the end of last month before the annual report disclosure day	0

Shareholders holding more than 5% of the shares or shareholding of the top ten shareholders

Name of shareholder	Nature of shareholder	Percentage of shareholding	Number of shares held at the end of reporting period	Increase/ decrease in the reporting period	Number of lock-up shares held	Number of non-lock up shares held	Pledged, charged or frozen	
							Status of shares	Number of shares
Shouguang Molong Holdings Co., Ltd.	State-owned legal person	29.53%	235,617,000	235,617,000	0	235,617,000		
HKSCC Nominees Limited	Overseas legal person	13.19%	105,202,930	(141,563,660)	0	105,202,930		
Shandong Zhimeng Holdings Co., Ltd.	Domestic non-state owned legal person	9.20%	73,394,911	73,394,911	0	73,394,911		
Shouguang Hongsen Logistics Co., Ltd.	Domestic non-state owned legal person	3.99%	31,800,000	31,800,000	0	31,800,000		
Shouguang Panjin Property Co., Ltd.	Domestic non-state owned legal person	3.89%	31,000,000	31,000,000	0	31,000,000		
Shouguang Ruisen New Building Materials Co., Ltd.	Domestic non-state owned legal person	2.93%	23,374,800	23,374,800	0	23,374,800		
Zhang Yun San	Domestic natural person	2.90%	23,108,000	(9,060,400)	0	23,108,000		
Hong Kong Securities Clearing Company Limited	Overseas legal person	1.85%	14,736,543	12,033,028	0	14,736,543		
Lin Fu Long	Domestic natural person	0.90%	7,177,502	(17,425,198)	0	7,177,502		
Yuan Yuan	Domestic natural person	0.70%	5,556,200	5,556,200	0	5,556,200		

Remarks on strategic investors or ordinary legal persons becoming top 10 shareholders after placing of new shares (if any)	Not applicable
Related relationship or acting in concert relationship among the above shareholders	Among the above shareholders, Shandong Zhimeng Holdings Co., Ltd., Shouguang Hongsen Logistics Co., Ltd., Shouguang Panjin Property Co., Ltd. and Shouguang Ruisen New Building Materials Co., Ltd. became parties acting in concert through entering into a concert party agreement and they do not control each other. Save for the above, the Company is not aware of any connected relationship or acting in concert among other shareholders.
Description of entrusting/being entrusted voting rights or waiving voting rights of the above Shareholders	Not applicable
Specific descriptions of special repurchase account of top 10 shareholders	Not applicable

Shareholdings of the top ten shareholders of non-lock shares

Name of shareholder	Number of lock-up shares held at the end of the reporting period	Class of shares	Amount
Shouguang Molong Holdings Co., Ltd.	235,617,000	RMB ordinary shares	235,617,000
HKSCC Nominees Limited	105,202,930	Overseas listed foreign shares	105,202,930
Shandong Zhimeng Holdings Co., Ltd.	73,394,911	RMB ordinary shares	8,654,911
Shouguang Hongsen Logistics Co., Ltd.	31,800,000	Overseas listed foreign shares	64,740,000
		Overseas listed foreign shares	31,800,000
Shouguang Panjin Property Co., Ltd.	31,000,000	RMB ordinary shares	200,000
		Overseas listed foreign shares	30,800,000
Shouguang Ruisen New Building Materials Co., Ltd.	23,374,800	Overseas listed foreign shares	23,374,800
Zhang Yun San	23,108,000	RMB ordinary shares	23,108,000
Hong Kong Securities Clearing Company Limited	14,736,543	RMB ordinary shares	14,736,543
Lin Fu Long	7,177,502	RMB ordinary shares	7,177,502
Yuan Yuan	5,556,200	RMB ordinary shares	5,556,200

Explanation for the connected relationship or concert-party relationship in the top ten holders of non-restricted circulating shares, and between top ten holders of nonrestricted circulating shares and Top ten shareholders	Among the above shareholders, Shandong Zhimeng Holdings Co., Ltd., Shouguang Hongsen Logistics Co., Ltd., Shouguang Panjin Property Co., Ltd. and Shouguang Ruisen New Building Materials Co., Ltd. became parties acting in concert through entering into a concert party agreement and they do not control each other. Save for the above, the Company is not aware of any connected relationship or acting in concert among other shareholders.
Explanation for top ten common stockholders participate in securities margin trading	Not applicable

Note: Since the information about the H shares held by Zhang Yun San is not available, no separate information about the H shares held by him is shown in this report. Among the H shareholders of the Company, shares of non-registered shareholders are held by Hong Kong Securities Clearing Company Limited on their behalves.

Any contracted repurchase transactions were entered into by the top 10 ordinary shareholders and the top 10 non-restricted ordinary shareholders during the reporting period

☐ Yes No

The top 10 ordinary shareholders and the top 10 non-restricted ordinary shareholders did not enter into any contracted repurchase transactions during the reporting period.

2. Controlling shareholders of the Company

Nature of controlling shareholder: regional state-owned enterprise
Type of controlling shareholder: legal person

Name of the controlling shareholder	Legal representative/ Person in charge of the entity	Date of establishment	Enterprise code	Principal business
Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司)	Yang Yun Long	29 October 2020	91370783MA3U9BR6XE	General business: conducting investing activities with owned funds; management of corporate headquarters; property management; home rental, land remediation service, conference and exhibition services; corporate management; financial consulting (except for those subject to approval in accordance with the laws, operating activities can be conducted independently in according to the law with business licence)
Shareholdings of controlling shareholders who have control or hold shares in other domestic or overseas listed companies during the reporting period				Nil

Change of the controlling shareholder during the reporting period

Applicable ☐ Not applicable

Name of the new controlling shareholder	Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司)
Date of the change	23 March 2021
Reference of designated website	http://www.cninfo.com.cn
Disclosure date at the designated website	25 March 2021

3. Actual controller and persons acting in concert

Nature of the actual controller: Regional state-owned assets administration authority
Type of the actual controller: Legal person

Name of the actual controller	Legal representative/ Person in charge of the entity	Date of establishment	Enterprise code	Principal business
State-owned Assets Supervision and Administration Bureau of Shouguang City	N/A	1 August 1991	N/A	Responsible for the management and capital operation of the state-owned assets of enterprises and public institutions in Shouguang city.

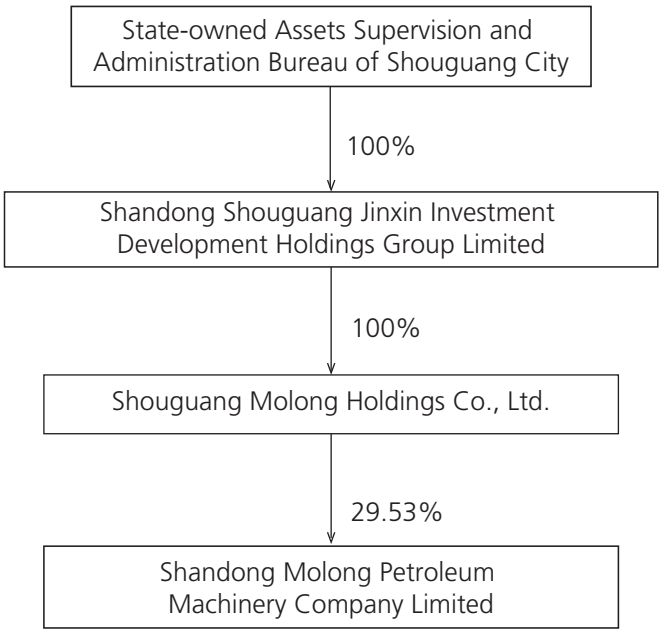
Shareholdings of the actual controller who has control or holds shares in other domestic or overseas listed companies during the reporting period	During the reporting period, Shouguang SAB held 100% equity of Shouguang Jinxin. Shouguang Jinxin held 45.21% equity interests in Chenming Holdings Co., Ltd, which directly and indirectly held a total of 821,454,482 shares in Shandong Chenming Paper Holdings Limited (Stock Code: 000488, 200488, 01812), representing 27.53% of its total share capital. Shouguang Jinxin held 7,650,000 shares of Shandong Univalsoft Joint-stock Co., Ltd. (山東環球軟件股份有限公司) (stock code: 871907), representing 51% of its total share capital.

Changes in the actual controller during the reporting period

☐ Applicable Not applicable

There were no changes in the actual controller of the Company during the reporting period.

Chart illustrating the equity and controlling relationship between the Company and the actual controller



Control by the actual controller over the Company by way of trust or other asset management

☐ Applicable Not applicable

4. Total number of shares charged by the controlling shareholder or the largest shareholder together with its persons acting in concert accounted for 80% of the total shares of the Company held by it

☐ Applicable Not applicable

5. Other legal person shareholders with shareholding of over 10%

Applicable ☐ Not applicable

Name of legal person shareholder	Legal representative/ responsible person of the entity	Date of establishment	Registered capital	Principal business or management activities
Shandong Zhimeng Holdings Co., Ltd. (山東智夢控股有限公司)	Xue Ming Liang	23 March 2020	RMB30 million	Equity investment; corporate management consulting; business information consulting; merchandise imports and exports (financial businesses such as deposit-taking, financing guarantee and wealth management for clients are not permitted without the approval of financial regulatory authorities) (projects which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out)
Shouguang Hongsen Logistics Co., Ltd. (壽光市鴻森物流有限公司)	Song Yong Qi	25 January 2017	RMB11 million	General businesses: domestic freight transportation agency services; loading and unloading services; general cargo storage service (excluding storage of hazardous chemicals and other items requiring approval); car park service; repair and maintenance services for motor vehicles; sales of metal materials; sales of non-metal ore and its products (except for those subject to approval in accordance with the laws, operating activities can be conducted independently in according to the law with business licence) Permitted businesses: road transportation of goods (excluding hazardous goods) (projects which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out, and specific licensed projects shall be subject to the results of approval)
Shouguang Panjin Property Co., Ltd. (壽光市磐金置業有限公司)	Song Long Jiang	12 December 2017	RMB180 million	Real estate development and sales (projects which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out) ***

Name of legal person shareholder	Legal representative/ responsible person of the entity	Date of establishment	Registered capital	Principal business or management activities
Shouguang Ruisen New Building				

Section IX. Preferred Shares

☐ Applicable Not applicable

The Company did not have any preferred shares during the reporting period.

Section X. Bonds

☐ Applicable Not applicable

Auditor's Report

Type of audit opinion	Standard unqualified opinion
Date of signing of the auditor's report	30 March 2022
Name of auditors	ShineWing Certified Public Accountants LLP
Auditor's report file number	XYZH/2022JNAA30070
Names of the CPAs	Kan Jing Ping, Zhang Chao

信永中和

1. Impairment of Inventories

Key Audit Matter	How the matter was addressed in the audit

2. Impairment of fixed assets

Key Audit Matter

As at 31 December 2021, as mentioned in Notes V.21, VII.12 and VII.50 to the consolidated financial statements of Shandong Molong, in 2021, Shandong Molong made a provision for impairment of fixed assets in the amount of RMB9,516.26 ten thousand. The impairment of fixed assets has a significant impact on financial statements of Shandong Molong for the year of 2021.

As the management requires to make significant estimates and assumptions in assessing the recoverable amount of fixed assets, any changes of these estimates and assumptions will greatly affect the recoverable amount of fixed amounts and have a significant effect of the amount. Therefore, we identify the impairment of fixed assets as a key audit matter.

How the matter was addressed in the audit

We mainly performed the following audit procedures:

— To understand, test and evaluate the effectiveness of the design and operation of key internal controls related to the impairment of fixed assets;

— To obtain the basis of judgement by the management of Shandong Molong in ascertaining there is any indication of impairment of fixed assets and analyse its reasonableness; to conduct inventory taking of major fixed assets; check the condition of fixed assets and their use during the current year;

— To evaluate the objectivity, independence and competence of the external valuation expert engaged by the management;

— To review the valuation report issued by the external valuation expert engaged by the management based on his work; to communicate with the external valuation expert to discuss the reasonableness of the valuation method, material assumptions and key parameters adopted in asset impairment tests, analysis the reasonableness of the identification of asset groups the impaired assets belong by the management;

— To check and evaluate the accounting treatment of the impairment of fixed assets by the management of Shandong Molong and the appropriateness of the presentation and disclosure of the related information in the financial statements.

3. Revenue recognition

Key Audit Matter

As mentioned in Notes V.33 and VII.41 to the consolidated financial statements of Shandong Molong, as at 31 December 2021, Shandong Molong had an operating revenue of RMB373,446.28 ten thousand for 2021. The revenue recognition was relatively significant to the net profit.

There are inherent risks in revenue recognition, and there is a significant risk of material misstatement whether the revenue is complete and accurately accounted in the appropriate accounting period. Therefore, we identify the Shandong Molong's revenue recognition as a key audit matter.

How the matter was addressed in the audit

We mainly performed the following audit procedures:

— To understand, test and evaluate the management's effectiveness of the design and operation of key internal controls related to the revenue recognition;

— To extract samples from revenue transactions recorded for the year, conducting substantive test, checking invoices, sales contracts, delivery orders and customers' receipts, verifying the authenticity of revenue recognised, and assessing whether the related revenue recognition is in conformity with the accounting policy for revenue recognition of Shandong Molong;

— To implement assurance process by selecting the transaction amounts and balance with major customers based on the nature and characteristics of those customers;

— To extract from balance statements of sales with significant amount for verification to ascertain the authenticity of sales proceeds;

— To select major customers, check their industrial and commercial registration and other information, and evaluation the reasonableness of the transactions;

— To perform analytical procedures for revenue and costs, and compare product revenue, costs and gross profit for this year with those of last year for analysis;

— To execute cut-off test audit procedures, select samples, check delivery orders and other supporting documents for income transactions recorded before and after the balance sheet date, and assess whether income is recorded in the appropriate accounting period;

— To check and evaluate the appropriateness of the accounting of revenue recognition by management of Shandong Molong and the presentation of and disclosures in the financial statements.

IV. Other Information

The management of Shandong Molong (hereinafter referred to as the "Management") is responsible for the other information. The other information includes the information covered in the Shandong Molong 2021 annual report, but does not include the financial statements and the audit report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

V. Responsibilities of the Management and Those Charged with Governance for the Financial Statements

The Management is responsible for the preparation of the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation; and designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing Shandong Molong's ability to continue as a going concern, disclosing issues related to going concern (if applicable) and applying the going-concern assumption of accounting unless the Management plans to liquidate the Company, terminate operations, or choose other realistic choices.

Those governance is responsible for overseeing Shandong Molong's financial reporting process.

VI. Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or errors, and to issue an auditor's report that contains our opinion. Reasonable assurance is a high level of assurance, but it does not guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements may be caused by fraud or errors, and are generally considered material if reasonable expected misstatement alone or together may affect the financial statement users to make economic decisions on the basis of financial statements.

During the course of audit in accordance with auditing standards, we use professional judgment and maintain professional skepticism. We also carry out the following works:

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide basis for our audit. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

(4) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists is related to events or conditions that may cast significant doubt on Shandong Molong's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements in accordance with the auditing standards or, if such disclosures are inadequate, we should express a modified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements, and also evaluate whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient and appropriate audit evidence regarding the financial information of Shandong Molong entities or business activities to express an opinion on the consolidated financial statements. We are responsible for the directing, supervising and conducting the Company audit and take full responsibility for the audit opinion.

We communicate with the governance on the planned audit scope, time arrangement, significant audit findings and other issues, including any significant internal control deficiencies that we identified during the audit.

We also provide the governance with a statement that we have complied with those relevant ethical requirements regarding independence, and communicate with the governance about all relationships and other matters that may reasonably be considered to affect our independence and relevant precautions, if applicable.

From the matters communicated with the governance, we determine matters that are the most important to the audit of financial statements for the current period, and therefore constitute the key audit matters. We describe these matters in our auditor's report unless the law or regulation prohibit public disclosure of these matters, or in rare circumstances, we determine that a matter should not be communicated in our report if the negative consequences of such communication would reasonably be expected to outweigh the benefits produced in the public interest.

Shinewing Certified Public Accountants LLP

PRC certified public accountants: (Project Partner)

PRC certified public accountants:

Beijing, China

30 March 2022

Consolidated Balance Sheet

Unit: RMB

Item	31 December 2021	31 December 2020
Current assets:		
Monetary funds	**475,191,176.69**	759,979,803.03
Settlement deposits	**—**	—
Lending funds	**—**	—
Financial assets held for trading	**—**	—
Derivative financial assets	**—**	—
Bills receivable	**235,005,278.71**	164,945,170.51
Accounts receivable	**299,530,976.41**	287,920,595.28
Financing receivables	**28,539,024.92**	33,575,777.00
Loans and advances	**—**	951,005.30
Prepayments	**49,598,390.41**	24,755,942.84
Insurance receivables	**—**	—
Reinsurance receivables	**—**	—
Reinsurance contract reserves receivable	**—**	—
Other receivables	**17,440,781.64**	156,486,818.72
Including: Interests receivable	**—**	—
Dividends receivable	**—**	—
Purchases of sell-back financial assets	**—**	—
Inventories	**715,282,787.11**	787,377,614.78
Contract assets	**—**	—
Assets held for sale	**—**	—
Non-current assets due within one year	**—**	—
Other current assets	**26,180,538.95**	21,904,932.90
Total current assets	**1,846,768,954.84**	2,237,897,660.36

Consolidated Balance Sheet

Unit: RMB

Item	31 December 2021	31 December 2020
Non-current assets:		
Loans and advances	**—**	—
Debt investments	**—**	—
Other debt investments	**—**	—
Long-term receivables	**—**	—
Long-term equity investments	**2,144,833.69**	2,314,697.29
Investments in other equity instruments	**—**	—
Other non-current financial assets	**—**	—
Investment properties	**9,929,101.58**	—
Fixed assets	**2,181,361,123.66**	2,493,577,016.35
Construction-in-progress	**10,029,521.56**	7,620,542.62
Productive biological assets	**—**	—
Oil and gas assets	**—**	—
Right-of-use assets	**1,530,636.81**	4,591,910.73
Intangible assets	**376,053,902.88**	393,688,845.70
Development expenditures	**—**	—
Goodwill	**—**	—
Long-term deferred expenses	**—**	—
Deferred income tax assets	**29,065,116.69**	35,217,034.73
Other non-current assets	**728,107.60**	728,107.60
Total non-current assets	**2,610,842,344.47**	2,937,738,155.02
Total assets	**4,457,611,299.31**	5,175,635,815.38

Consolidated Balance Sheet

Unit: RMB

Item	31 December 2021	31 December 2020
Current liabilities:		
Short-term borrowings	**1,916,706,214.72**	2,054,225,378.29
Borrowings from the central bank	**—**	—
Borrowing funds	**—**	—
Financial liabilities held for trading	**—**	—
Derivative financial liabilities	**—**	—
Bills payable	**101,209,067.42**	121,472,511.10
Accounts payable	**599,514,345.81**	648,352,428.48
Receipts in advance	**—**	—
Contract liabilities	**70,368,931.26**	83,749,468.02
Proceeds from disposal of buy-back financial assets	**—**	—
Customer bank deposits and due to banks and other financial institutions	**—**	—
Securities brokerage deposits	**—**	—
Securities underwriting brokerage deposits	**—**	—
Salaries payable	**57,833,087.83**	54,493,884.87
Taxes payable	**25,793,838.53**	27,192,105.60
Other payables	**64,231,003.43**	43,853,326.94
Including: Interests payable	**—**	—
Dividends payable	**—**	—
Brokerage and commission payables	**—**	—
Reinsurance payables	**—**	—
Liabilities held for sale	**—**	—
Non-current liabilities due within one year	**107,001,393.82**	139,784,923.46
Other current liabilities	**67,434,388.00**	50,195,434.08
Total current liabilities	**3,010,092,270.82**	3,223,319,460.84

Consolidated Balance Sheet

Unit: RMB

Item	31 December 2021	31 December 2020
Non-current liabilities:		
Insurance contract reserves	—	—
Long-term borrowings	**37,141,617.50**	114,063,150.53
Bonds payable	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Lease liabilities	—	4,968,359.84
Long-term payables	**37,742,329.02**	4,585,000.00
Long-term salaries payable	—	—
Estimated liabilities	**558,467.38**	14,392,824.64
Deferred revenue	**6,966,655.18**	7,176,480.86
Deferred income tax liabilities	**5,362,198.02**	5,560,648.87
Other non-current liabilities	—	—
Total non-current liabilities	**87,771,267.10**	150,746,464.74
Total liabilities	**3,097,863,537.92**	3,374,065,925.58
Owners' equity:		
Share capital	**797,848,400.00**	797,848,400.00
Other equity instruments	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Capital reserve	**863,356,311.20**	863,169,158.42
Less: Treasury shares	—	—
Other comprehensive income	**(1,671,948.29)**	(2,015,577.82)
Special reserve	—	—
Surplus reserve	**187,753,923.88**	187,753,923.88
General risk reserve	—	11,236.91
Undistributed profits	**(434,047,824.92)**	(66,030,056.80)
Total equity attributable to owners of the parent company	**1,413,238,861.87**	1,780,737,084.59
Minority interests	**(53,491,100.48)**	20,832,805.21
Total owners' equity	**1,359,747,761.39**	1,801,569,889.80
Total liabilities and owners' equity	**4,457,611,299.31**	5,175,635,815.38

Legal representative:	Accountant-in-charge:	Partner-in-charge:
Yang Yun Long	Hao Yun Feng	Zhu Lin

Balance Sheet of the Parent Company

Unit: RMB

Item	31 December 2021	31 December 2020
Current assets:		
Monetary funds	**436,544,593.46**	708,481,226.15
Financial assets held for trading	**—**	—
Derivative financial assets	**—**	—
Bills receivable	**235,005,278.71**	164,945,170.51
Accounts receivable	**479,545,005.49**	442,232,065.03
Financing receivables	**19,659,349.46**	10,980,000.00
Prepayments	**426,201,478.54**	618,700,408.46
Other receivables	**796,550,952.25**	756,323,484.10
Including: Interests receivable	**—**	—
Dividends receivable	**—**	—
Inventories	**436,663,347.98**	511,814,843.00
Contract assets	**—**	—
Assets held for sale	**—**	—
Non-current assets due within one year	**—**	—
Other current assets	**2,043,097.81**	3,749,202.40
Total current assets	**2,832,213,103.70**	3,217,226,399.65

Balance Sheet of the Parent Company

Unit: RMB

Item	31 December 2021	31 December 2020
Non-current assets:		
Debt investments	—	—
Other debt investments	—	—
Long-term receivables	—	—
Long-term equity investments	**1,144,019,921.73**	1,144,019,921.73
Investments in other equity instruments	—	—
Other non-current financial assets	—	—
Investment properties	—	—
Fixed assets	**784,931,166.70**	889,048,148.96
Construction-in-progress	—	—
Productive biological assets	—	—
Oil and gas assets	—	—
Right-of-use assets	**1,530,636.81**	4,591,910.73
Intangible assets	**82,472,382.44**	91,321,208.29
Development expenditure	—	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	**27,076,567.03**	33,048,514.20
Other non-current assets	**378,107.60**	378,107.60
Total non-current assets	**2,040,408,782.31**	2,162,407,811.51
Total assets	**4,872,621,886.01**	5,379,634,211.16

Balance Sheet of the Parent Company

Balance Sheet of the Parent Company

Unit: RMB

Item	**31 December 2021**	31 December 2020
Owners' equity:		
Share capital	**797,848,400.00**	797,848,400.00
Other equity instruments	**—**	—
Including: Preferred shares	**—**	—
Perpetual bonds	**—**	—
Capital reserve	**863,337,643.70**	863,150,490.92
Less: Treasury shares	**—**	—
Other comprehensive income	**—**	—
Special reserve	**—**	—
Surplus reserve	**187,753,923.88**	187,753,923.88
Undistributed profits	**504,279,657.64**	686,906,157.86
Total owners' equity	**2,353,219,625.22**	2,535,658,972.66
Total liabilities and owners' equity	**4,872,621,886.01**	5,379,634,211.16

Consolidated Income Statement

Unit: RMB

Item		2021	2020
I.	**Total operating revenue**	**3,734,462,841.12**	**3,009,719,029.66**
	Including: Operating revenue	**3,734,462,841.12**	3,009,719,029.66
	Interest income	**—**	—
	Insurance premium earned	**—**	—
	Brokerage and commission income	**—**	—
II.	**Total operating costs**	**3,999,888,750.28**	**3,342,727,781.59**
	Including: Operating costs	**3,514,477,916.63**	2,902,436,729.61
	Interest expenses	**—**	—
	Brokerage and commission expenses	**—**	—
	Surrenders	**—**	—
	Net compensation expenses	**—**	—
	Net amount of insurance contract reserves provided	**—**	—
	Policyholder dividend expenses	**—**	—
	Reinsurance premiums	**—**	—
	Tax and surcharges	**20,493,455.61**	19,116,487.72
	Selling expenses	**13,402,249.30**	14,948,332.92
	Administrative expenses	**278,990,958.47**	194,470,836.86
	Research and development expenses	**57,076,465.12**	52,542,810.96
	Finance costs	**115,447,705.15**	159,212,583.52
	Including: Interest expenses	**114,302,110.50**	137,373,401.15
	Interest income	**4,907,692.93**	5,507,436.70
	Add: Other gains	**2,335,726.68**	17,770,915.00
	Investment income	**(169,863.60)**	(39,767.09)
	Including: Gains on investment in associates and joint ventures	**(169,863.60)**	(242,363.72)
	Gain on derecognition of financial assets measured at amortised cost	**—**	—
	Exchange gains	**—**	—
	Net gains on exposure hedges	**—**	—
	Gain on fair value changes	**—**	—
	Credit impairment losses	**14,647,126.44**	1,142,033.60
	Asset impairment losses	**(112,901,651.42)**	(1,047,770.83)
	Gain on disposal of assets	**399,239.27**	353,358,239.23
III.	**Operating profit**	**(361,115,331.79)**	**38,174,897.98**
	Add: Non-operating income	**5,272,356.06**	7,928,370.13
	Less: Non-operating expenses	**6,213,826.89**	28,574,721.15

Consolidated Income Statement

Unit: RMB

Item			2021	2020
IV.	**Total profit**		**(362,056,802.62)**	17,528,546.96
	Less: Income tax expenses		**6,363,692.81**	6,073,146.60
V.	**Net profit**		**(368,420,495.43)**	11,455,400.36
	(i)	By business continuity		
		1. Net profit from continuing operations	**(368,420,495.43)**	11,455,400.36
		2. Net profit from discontinued operations	**—**	—
	(ii)	By attributable ownership		
		1. Net profit attributable to the shareholders of the parent company	**(368,017,768.12)**	32,178,630.99
		2. Loss or profit attributable to minority interests	**(402,727.31)**	(20,723,230.63)
VI.	**Other comprehensive income, net of tax**		**381,810.59**	1,154,980.84
	Other comprehensive income attributable to owners of the parent company, net of tax		**343,629.53**	1,039,482.75
	(i)	Other comprehensive income that may not be reclassified to profit or loss	**—**	—
		1. Changes on remeasurement of defined benefit plans	**—**	—
		2. Other comprehensive income that may not be transferred to profit or loss under equity accounting	**—**	—
		3. Fair value changes in investments in other equity instruments	**—**	—
		4. Fair value changes in credit risk of the Company	**—**	—
		5. Others	**—**	—
	(ii)	Other comprehensive income that will be reclassified to profit or loss	**343,629.53**	1,039,482.75
		1. Other comprehensive income that may be transferred to profit or loss under equity accounting	**—**	—
		2. Fair value changes in other debt investments	**—**	—
		3. Reclassification of financial assets to other comprehensive income	**—**	—
		4. Credit-impaired provision for other debt investments	**—**	—
		5. Cash flow hedge reserve	**—**	—
		6. Exchange differences on translation of foreign financial statements	**343,629.53**	1,039,482.75
		7. Others	**—**	—
	Other comprehensive income attributable to minority shareholders, net of tax		**38,181.06**	115,498.09
VII.	**Total comprehensive income**		**(368,038,684.84)**	12,610,381.20
	Total comprehensive income attributable to owners of the parent company		**(367,674,138.59)**	33,218,113.74
	Total comprehensive income attributable to minority interests		**(364,546.25)**	(20,607,732.54)
VIII.	**Earnings per share:**			
	(i)	Basic earnings per share	**(0.46)**	0.04
	(ii)	Diluted earnings per share	**(0.46)**	0.04

Legal representative: Yang Yun Long | Accountant-in-charge: Hao Yun Feng | Partner-in-charge: Zhu Lin

Income Statement of the Parent Company

Unit: RMB

Item		2021	2020
I.	**Operating revenue**	**2,176,702,888.51**	2,544,622,887.97
	Less: Operating costs	**2,084,142,246.19**	2,434,466,846.40
	Taxes and surcharges	**10,763,552.73**	13,378,251.90
	Selling expenses	**12,340,740.09**	13,920,658.12
	Administrative expenses	**93,471,758.49**	69,313,944.20
	Research and development expenses	**57,076,465.12**	52,542,810.96
	Finance expenses	**84,132,168.54**	125,784,024.09
	Including: Interest expenses	**81,009,405.40**	107,558,200.54
	Interest income	**3,568,165.65**	5,617,437.36
	Add: Other gains	**1,550,089.89**	17,155,249.98
	Investment income	**—**	—
	Including: Gains on investment in associates and joint ventures	**—**	—
	Gain on derecognition of financial assets measured at amortised cost	**—**	—
	Net gains on exposure hedges	**—**	—
	Gain on fair value changes	**—**	—
	Credit impairment losses	**12,504,812.59**	7,576,272.29
	Asset impairment losses	**(20,739,210.42)**	(110,521.57)
	Gain on disposal of assets	**389,458.60**	353,369,095.65
II.	**Operating profit**	**(171,518,891.99)**	**213,206,448.65**
	Add: Non-operating income	**620,398.42**	722,968.78
	Less: Non-operating expenses	**5,756,059.48**	31,079,900.83
III.	**Total profit**	**(176,654,553.05)**	**182,849,516.60**
	Less: Income tax expenses	**5,971,947.17**	4,834,899.31
IV.	**Net profit**	**(182,626,500.22)**	**178,014,617.29**
	(i) Net profit from continuing operations	**(182,626,500.22)**	178,014,617.29
	(ii) Net profit from discontinued operations	**—**	—

Income Statement of the Parent Company

Unit: RMB

Item			2021	2020
V.	**Other comprehensive income, net of tax**			
	(i)	Other comprehensive income that may not be reclassified to profit or loss	—	—
		1. Changes on remeasurement of defined benefit plans	—	—
		2. Other comprehensive income that may not be transferred to profit or loss under equity accounting	—	—
		3. Fair value changes in investments in other equity instruments	—	—
		4. Fair value changes in credit risk of the company	—	—
		5. Others	—	—
	(ii)	Other comprehensive income that will be reclassified to profit or loss	—	—
		1. Other comprehensive income that may be transferred to profit or loss under equity accounting	—	—
		2. Fair value changes in other debt investments	—	—
		3. Reclassification of financial assets to other comprehensive income	—	—
		4. Provision for credit impairment on other debt investments	—	—
		5. Cash flow hedge reserve	—	—
		6. Exchange differences on translation of foreign financial statements	—	—
		7. Others	—	—
VI.	**Total comprehensive income**		**(182,626,500.22)**	**178,014,617.29**
VII.	**Earnings per share:**			
	(i)	Basic earnings per share	—	—
	(ii)	Diluted earnings per share	—	—

Consolidated Statement of Cash Flows

Unit: RMB

Item		2021	2020
I.	**Cash flows from operating activities:**		
	Cash received from sales of goods and rendering of services	**3,542,841,808.43**	3,330,527,492.89
	Net increase in customer bank deposits and due to banks and other financial institutions	**—**	—
	Net increase in borrowings from the central bank	**—**	—
	Net increase in placements from other financial institutions	**—**	—
	Cash received from receiving insurance premium of original insurance contract	**—**	—
	Net cash received from reinsurance business	**—**	—
	Net increase in deposits from policyholders and investments	**—**	—
	Cash received of interests, fees and commissions	**—**	—
	Net increase in placements from banks and other financial institutions	**—**	—
	Net increase in repurchase business capital	**—**	—
	Net cash proceeds from securities brokerage	**—**	—
	Receipts of tax refunds	**10,541,216.58**	11,484,131.39
	Other cash received relating to operating activities	**33,245,636.59**	62,145,237.72
	Sub-total of cash inflows from operating activities	**3,586,628,661.60**	3,404,156,862.00
	Cash paid for purchasing goods and receiving services	**3,066,616,588.89**	2,746,478,478.65
	Net increase in loans and advances to customers	**(3,180,579.00)**	(13,751,418.15)
	Net increase in deposits with central bank and other financial institutions	**—**	—
	Cash paid for compensation of original insurance contract	**—**	—
	Net increase in lending funds	**—**	—
	Cash paid for interests, fees and commissions	**—**	—
	Cash paid for policy dividends	**—**	—
	Cash paid to and on behalf of employees	**237,173,190.04**	218,845,466.30
	Cash paid for taxes	**87,793,221.20**	64,671,810.63
	Other cash paid relating to operating activities	**162,433,883.14**	181,011,346.51
	Sub-total of cash outflows from operating activities	**3,550,836,304.27**	3,197,255,683.94

Consolidated Statement of Cash Flows

Unit: RMB

Item		2021	2020
II.	**Cash flows from investing activities:**		
	Cash received from disposal of investments	—	—
	Cash received from gains on investments	—	202,596.63
	Net cash from disposal of fixed assets, intangible assets and other long-term assets	**141,494,574.19**	359,483,822.99
	Net cash received from disposal of subsidiaries and other business units	—	—
	Other cash received relating to investing activities	—	—
	Sub-total of cash inflows from investing activities	**141,494,574.19**	359,686,419.62
	Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets	**51,969,039.99**	45,411,071.25
	Cash paid for acquisition of investments	—	—
	Net increase in pledged loans	—	—
	Net cash paid for acquisition of subsidiaries and other business units	—	—
	Other cash paid relating to investing activities	—	—
	Sub-total of cash outflows from investing activities	**51,969,039.99**	45,411,071.25
	Net cash flows generated from investing activities	**89,525,534.20**	314,275,348.37

Consolidated Statement of Cash Flows

Unit: RMB

Item		2021	2020
III.	**Cash flows from financing activities:**		
	Cash received from capital contributions	**—**	—
	Including: Cash received from minority shareholder investment by subsidiary	**—**	—
	Borrowings received	**2,287,714,757.03**	2,852,941,196.24
	Other cash received relating to financing activities	**—**	—
	Sub-total of cash inflows from financing activities	**2,287,714,757.03**	2,852,941,196.24
	Cash repayments of amounts borrowed	**2,501,463,050.37**	3,024,882,265.41
	Cash paid for dividend and profit distribution or interest payment	**105,049,340.61**	134,196,138.89
	Including: Dividend and profit paid to minority shareholders by subsidiary	**—**	—
	Other cash paid relating to financing activities	**90,696,272.67**	—
	Sub-total of cash outflows from financing activities	**2,697,208,663.65**	3,159,078,404.30
	Net cash flows generated from financing activities	**(409,493,906.62)**	(306,137,208.06)
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	**(1,603,983.73)**	(11,306,958.07)
V.	**Net increase in cash and cash equivalents**	**(285,779,998.82)**	203,732,360.30
	Add: Balance of cash and cash equivalents at the beginning of the period	**699,989,196.48**	496,256,836.18
VI.	**Balance of cash and cash equivalents at the end of the period**	**414,209,197.66**	699,989,196.48

Statement of Cash Flows of the Parent Company

Unit: RMB

Item		2021	2020
I.	**Cash flows from operating activities:**		
	Cash received from sales of goods and rendering of services	**1,895,258,103.49**	2,728,716,449.21
	Receipts of tax refunds	**10,541,216.58**	11,386,191.32
	Other cash received relating to operating activities	**48,127,509.74**	57,281,900.22
	Sub-total of cash inflows from operating activities	**1,953,926,829.81**	2,797,384,540.75
	Cash paid for purchasing goods and receiving services	**1,682,099,387.51**	1,979,664,494.16
	Cash paid to and on behalf of employees	**151,058,474.39**	140,012,760.59
	Cash paid for taxes	**48,366,631.74**	55,960,222.84
	Other cash paid relating to operating activities	**281,534,264.15**	93,653,455.62
	Sub-total of cash outflows from operating activities	**2,163,058,757.79**	2,269,290,933.21
	Net cash flows generated from operating activities	**(209,131,927.98)**	528,093,607.54
II.	**Cash flows from investing activities:**		
	Cash received from disposal of investments	**—**	—
	Cash received from gains on investments	**—**	—
	Net cash from disposal of fixed assets, intangible assets and other long-term assets	**141,329,450.24**	350,353,720.67
	Net cash received from disposal of subsidiaries and other business units	**—**	—
	Other cash received relating to investing activities	**—**	—
	Sub-total of cash inflows from investing activities	**141,329,450.24**	350,353,720.67
	Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets	**16,639,557.79**	13,478,632.52
	Cash paid for acquisition of investments	**—**	—
	Net cash paid for acquisition of subsidiaries and other business units	**—**	—
	Other cash paid relating to investing activities	**—**	—
	Sub-total of cash outflows from investing activities	**16,639,557.79**	13,478,632.52
	Net cash flows generated from investing activities	**124,689,892.45**	336,875,088.15

Statement of Cash Flows of the Parent Company

Unit: RMB

Item		2021	2020
III.	**Cash flows from financing activities:**		
	Cash received from capital contributions	—	—
	Borrowings received	**1,789,114,757.03**	2,103,910,240.90
	Other cash received relating to financing activities	—	—
	Sub-total of cash inflows from financing activities	**1,789,114,757.03**	2,103,910,240.90
	Cash repayments of amounts borrowed	**1,914,029,559.57**	2,658,342,766.87
	Cash paid for dividend and profit distribution or interest payment	**77,914,081.82**	106,295,904.76
	Other cash paid relating to financing activities	—	—
	Sub-total of cash outflows from financing activities	**1,991,943,641.39**	2,764,638,671.63
	Net cash flows generated from financing activities	**(202,828,884.36)**	(660,728,430.73)
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	**(1,551,251.07)**	(11,157,610.90)
V.	**Net increase in cash and cash equivalents**	**(288,822,170.96)**	193,082,654.06
	Add: Balance of cash and cash equivalents at the beginning of the period	**664,816,726.15**	471,734,072.09
VI.	**Balance of cash and cash equivalents at the end of the period**	**375,994,555.19**	664,816,726.15

Amounts for the current period

Unit: RMB

Item		2021														
		Equity attributable to owners of the parent company														
			Other equity instruments													
		Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Others	Sub-total	Minority interests	Total owners' equity
I.	**Balance at the end of the same period last year**	797,848,400.00	—	—	—	863,169,158.42	—	(2,015,577.82)	—	187,753,923.88	11,236.91	(66,030,056.80)	—	1,780,737,084.59	20,832,805.21	1,801,569,889.80
	Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Correction of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
II.	**Balance at the beginning of the current year**	797,848,400.00	—	—	—	863,169,158.42	—	(2,015,577.82)	—	187,753,923.88	11,236.91	(66,030,056.80)	—	1,780,737,084.59	20,832,805.21	1,801,569,889.80
III.	**Changes in the current period**	—	—	—	—	187,152.78	—	343,629.53	—	—	(11,236.91)	(368,017,768.12)	—	(367,498,222.72)	(74,323,905.69)	(441,822,128.41)
	(i) Total comprehensive income	—	—	—	—	—	—	343,629.53	—	—	—	(368,017,768.12)	—	(367,674,138.59)	(364,546.25)	(368,038,684.84)
	(ii) Owners' capital contribution and reduction	—	—	—	—	187,152.78	—	—	—	—	—	—	—	187,152.78	—	187,152.78
	1. Ordinary shares contributed by owners	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	2. Capital contributed by other equity instruments holders	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	4. Others	—	—	—	—	187,152.78	—	—	—	—	—	—	—	187,152.78	—	187,152.78
	(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	2. Appropriations to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	3. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	(iv) Transfer of owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	1. Conversion of capital reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	2. Conversion of surplus reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	3. Surplus reserve making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	4. Changes in defined benefit plans carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	5. Other comprehensive income carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	6. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	1. Charge for the period	—	—	—	—	—	—	—	24,468,609.59	—	—	—	—	24,468,609.59	—	24,468,609.59
	2. Utilised during the period	—	—	—	—	—	—	—	24,468,609.59	—	—	—	—	24,468,609.59	—	24,468,609.59
	(vi) Others	—	—	—	—	—	—	—	—	—	(11,236.91)	—	—	(11,236.91)	(73,959,359.44)	(73,970,596.35)
IV.	**Balance at the end of the current period**	797,848,400.00	—	—	—	863,356,311.20	—	(1,671,948.29)	—	187,753,923.88	—	(434,047,824.92)	—	1,413,238,861.87	(53,491,100.48)	1,359,747,761.39

Amounts for the prior period

Unit: RMB

Item	2020														
	Equity attributable to owners of the parent company														
		Other equity instruments													
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Others	Sub-total	Minority interests	Total owners' equity
I. Balance at the end of the same period last year	797,848,400.00	—	—	—	863,169,158.42	—	(3,055,060.57)	—	187,753,923.88	11,236.91	(98,208,687.79)	—	1,747,518,970.85	41,440,537.75	1,788,959,508.60
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Correction of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	863,169,158.42	—	(3,055,060.57)	—	187,753,923.88	11,236.91	(98,208,687.79)	—	1,747,518,970.85	41,440,537.75	1,788,959,508.60
III. Changes in the current period	—	—	—	—	—	—	1,039,482.75	—	—	—	32,178,630.99	—	33,218,113.74	(20,607,732.54)	12,610,381.20
(i) Total comprehensive income	—	—	—	—	—	—	1,039,482.75	—	—	—	32,178,630.99	—	33,218,113.74	(20,607,732.54)	12,610,381.20
(ii) Owners' capital contribution and reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Ordinary shares contributed by owners	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital contributed by other equity instruments holders	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Appropriations to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Conversion of capital reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Conversion of surplus reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserve making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Changes in defined benefit plans carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
5. Other comprehensive income carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Charge for the period	—	—	—	—	—	—	—	26,986,008.44	—	—	—	—	26,986,008.44	—	26,986,008.44
2. Utilised during the period	—	—	—	—	—	—	—	26,986,008.44	—	—	—	—	26,986,008.44	—	26,986,008.44
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	863,169,158.42	—	(2,015,577.82)	—	187,753,923.88	11,236.91	(66,030,056.80)	—	1,780,737,084.59	20,832,805.21	1,801,569,889.80

Amounts for the current period

Unit: RMB

Item		2021											
			Other equity instruments										
		Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Others	Total owners'equity
I.	**Balance at the end of the same period last year**	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	686,906,157.86	—	2,535,658,972.66
	Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
	Correction of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—
	Others	—	—	—	—	—	—	—	—	—	—	—	—
II.	**Balance at the beginning of the current year**	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	686,906,157.86	—	2,535,658,972.66
III.	**Changes in the current period**	—	—	—	—	187,152.78	—	—	—	—	(182,626,500.22)	—	(182,439,347.44)
	(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	(182,626,500.22)	—	(182,626,500.22)
	(ii) Owners' capital contribution and reduction	—	—	—	—	187,152.78	—	—	—	—	—	—	187,152.78
	1. Ordinary shares contributed by owners	—	—	—	—	—	—	—	—	—	—	—	—
	2. Capital contributed by other equity instruments holders	—	—	—	—	—	—	—	—	—	—	—	—
	3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—	—
	4. Others	—	—	—	—	187,152.78	—	—	—	—	—	—	187,152.78
	(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—
	1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—
	2. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—
	3. Others	—	—	—	—	—	—	—	—	—	—	—	—
	(iv) Transfer of owners' equity	—	—	—	—	—	—	—	—	—	—	—	—
	1. Conversion of capital reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—
	2. Conversion of surplus reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—
	3. Surplus reserve making up of losses	—	—	—	—	—	—	—	—	—	—	—	—
	4. Changes in defined benefit plans carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
	5. Other comprehensive income carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
	6. Others	—	—	—	—	—	—	—	—	—	—	—	—
	(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—
	1. Charge for the period	—	—	—	—	—	—	—	9,239,245.78	—	—	—	9,239,245.78
	2. Utilised during the period	—	—	—	—	—	—	—	9,239,245.78	—	—	—	9,239,245.78
	(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—
IV.	**Balance at the end of the current period**	797,848,400.00	—	—	—	863,337,643.70	—	—	—	187,753,923.88	504,279,657.64	—	2,353,219,625.22

Amounts for the prior period

Unit: RMB

Item	2020											
		Other equity instruments										
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Others	Total owners' equity
I. Balance at the end of the same period last year	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	508,891,540.57	—	2,357,644,355.37
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
Correction of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	508,891,540.57	—	2,357,644,355.37
III. Changes in the current period	—	—	—	—	—	—	—	—	—	178,014,617.29	—	178,014,617.29
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	178,014,617.29	—	178,014,617.29
(ii) Owners' capital contribution and reduction	—	—	—	—	—	—	—	—	—	—	—	—
1. Ordinary shares contributed by owners	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital contributed by other equity instruments holders	—	—	—	—	—	—	—	—	—	—	—	—
3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—
2. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of owners' equity	—	—	—	—	—	—	—	—	—	—	—	—
1. Conversion of capital reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—
2. Conversion of surplus reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserve making up of losses	—	—	—	—	—	—	—	—	—	—	—	—
4. Changes in defined benefit plans carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
5. Other comprehensive income carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
6. Others	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—
1. Charge for the period	—	—	—	—	—	—	—	11,471,893.58	—	—	—	11,471,893.58
2. Utilised during the period	—	—	—	—	—	—	—	11,471,893.58	—	—	—	11,471,893.58
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	686,906,157.86	—	2,535,658,972.66

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

III. General Information of the Company

Shandong Molong Petroleum Machinery Company Limited (hereunder the "Company", together with its subsidiaries, the "Group") is a joint stock limited company registered in the People's Republic of China, the predecessor company is Shandong Molong Holdings Company, which was established jointly by Zhang En Rong, Lin Fu Long, Zhang Yun San, Xie Xin Cang, Liu Yun Long, Cui Huan You, Liang Yong Qiang, Shengli Oil Field Kaiyuan Oil Exploitation Company Limited (勝利油田凱源石油開發有限責任公司) and Gansu Industrial University Alloy Materials Factory (甘肅工業大學合金材料總廠) on 27 December 2001 with the approval from Office for Restructuring the Economic System of Shandong Province (山東省經濟體制改革辦公室) with the letter Lu Ti Gai Han Zi [2001] No. 53 (魯體改函字[2001]53號文).

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2003] No. 50 (證監國合字[2003]50號文), on 15 April 2004, the Company issued 134,998,000 additional overseas listed foreign shares (H Shares) at the issuing price of HKD0.70 per share with a nominal value of RMB0.10 each, which were listed in the Growth Enterprise Market of the Stock Exchange of Hong Kong.

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2005] No. 13 (證監國合字[2005]13號文), on 12 May 2005, the Company issued 108,000,000 additional overseas listed foreign shares (H Shares) at the issuing price of HKD0.92 per share with a nominal value of RMB0.10 each.

Upon the approval by Zheng Jian Guo He Zi [2007] No. 2 (證監國合字[2007]2號文) issued and signed by China Securities Regulatory Commission on 26 January 2007 and the approval issued by the Stock Exchange of Hong Kong on 6 February 2007, the listing status of the Company's overseas listed foreign shares (H Shares) in the Growth Enterprise Market of the Stock Exchange of Hong Kong has been cancelled on 7 February 2007, and changed to list on the Main Board of the Stock Exchange of Hong Kong.

Upon the approval by China Securities Regulatory Commission with Zheng Jian Xu Ke [2010] No. 1285 (證監許可[2010]1285號文), on 11 October 2010, the Company offered 70,000,000 Renminbi ordinary shares (A Shares) with nominal value of RMB1 each at an offering price of RMB18 per share, and listed for trading on the Shenzhen Stock Exchange since 21 October 2010. The Company's registered capital has changed to RMB398,924,200.00, and the total number of shares has changed to 398,924,200 shares.

Pursuant to the resolutions of 2011 Annual General Meeting convened on 25 May 2012, on the basis of a total of 398,924,200 shares as at 31 December 2011, the Company enlarged its share capital through conversion from capital reserve in the proportion of 1 shares for each existing share, converting 398,924,200 shares in aggregate, and the conversion date was 19 July 2012. Upon the conversion, the Company's registered capital has changed to RMB797,848,400.00, and the total number of shares has changed to 797,848,400 shares.

On 23 February 2021, Mr. Zhang En Rong, the original controlling shareholder and the actual controller of the Company, entered into the Share Transfer Agreement with Shouguang Molong Holdings Co., Ltd.(壽光墨龍控股有限公司) ("Molong Holdings"). Mr. Zhang En Rong transferred 235,617,000 A shares of the Company (representing 29.53% of the total share capital of the Company) held by him to Molong Holdings by way of transfer agreement.

As at 31 December 2021, the Company had a registered capital of 797,848,400.00, divided into a total of 797,848,400 shares.

The Company's place of registration and place of business is No. 999 Wen Sheng Street, Shouguang City, Shandong Province.

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

III. General Information of the Company *(continued)*

The Company and its subsidiaries belong to the machinery manufacturing industry and are mainly engaged in the manufacture of special equipment for petroleum machinery. The scope of business covers the production and sale of oil pumps, sucker rods, pumping units, tubing, petroleum machinery, textile machinery, steel rolling and processing, special equipment, gear and gearbox, special equipment for oil drilling, valve and cock, special metallurgy equipment, mechanical parts processing; development of petroleum machinery and related products; commodity information services (excluding intermediaries); technology promotion services; energy-saving technology promotion services; technology imports and exports; goods imports and exports; inspection services; measurement services. (Project approved by law can only be carried out with the approval of the relevant department, and the validity is subject to the licence).

The controlling shareholder of the Company is Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司) and the actual controller of the Company is the State-owned Assets Supervision and Administration Commission of Shouguang City (壽光市國有資產監督管理局).

The Group's consolidated financial statements covers eight companies including Shouguang Baolong Petroleum Equipment Co., Ltd. (壽光寶隆石油器材有限公司), Shouguang Maolong New Materials Technology Development Co., Ltd. (壽光懋隆新材料技術開發有限公司) and Weihai Baolong Special Petroleum Materials Co., Ltd. (威海市寶隆石油專材有限公司). Compared to last year, Shouguang Baolong Management and Consultancy Co., Ltd. (壽光市寶隆管理諮詢有限公司) is excluded due to its deregistration during this year.

Particulars of the subsidiaries of the Group are described in "VIII. Change in the scope of consolidation" of this note and "IX. Interests in other entities" of this note.

IV. Basis of preparation of the financial statements

1. Basis of preparation

The financial statements of the Group have been prepared using the going-concern basis and the transactions and events actually occurred and in accordance with the Companies Ordinance of Hong Kong and the Listing Rules of the SEHK, on the basis of the accounting policies and accounting estimates as stated in "V. Significant accounting policies and accounting estimates" of this note.

2. Going concern

In order to improve the company's liquidity and cash flow to maintain the company's continuing operations, the Company has implemented or prepared to implement the following measures:

1) the Company received a financial assistance of RMB500 million from Shandong Shouguang Jinxin Investment Development Holdings Group Limited (山東壽光金鑫投資發展控股集團有限公司), the controlling shareholder of the Company's controlling shareholder.

2) the Company increased its efforts in promoting new products with higher gross margin and sales of high-end castings, strengthened its internal management, deepened the internal tapping, intensified inputs to technological upgrade, adopted multiple measures to reduce production cost and enhance the profitability of the Company.

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

IV. Basis of preparation of the financial statements *(continued)*

2. Going concern *(continued)*

3) the cooperation between the Group and financial institutions is currently well advanced. While maintain the existing financing channels and credit lines, the Company diversified into other financing channels and modes.

4) the Group is adopting measures to actively explore new investment and business opportunities such as fostering consolidation of plants and further promoting the furnace rehabilitation technology, in order to make profit and gain adequate working capital.

As at the date of this financial report, the Group had unutilised credit facilities from financial institutions of RMB410 million, and had stable cash flows from operating activities as there was a large number of orders unfulfilled. The Company has launched its newly-developed products into the market and the prospect is promising.

Based on the forgoing, management of the Company believes that the Company is able to repay its debts when they become due and can continue its business as a going concern.

V. Significant accounting policies and accounting estimates

Specific accounting policies and accounting estimates:

The Group has adopted the accounting policies and accounting estimates specific to the characteristics of its actual production and operation, including the business cycle, recognition and measurement of financial assets, measurement of inventory dispatched, classification and depreciation of fixed assets, amortisation of intangible assets, criteria for capitalisation of research and development expenditures, recognition and measurement of revenue and others.

1. Statement of compliance with the ASBEs

The Company have prepared the financial statements in accordance with the ASBEs, which gives a true and complete view of the financial position, trading results, cashflows and other information of the Company and of the Group.

2. Accounting period

The accounting period of the Group is from 1 January to 31 December of each calendar year.

3. Business cycle

The Group's business cycle is 12 months. The period from 1 January to 31 December every year is regarded as a business cycle, which is used for determining the classification of the liquidity of assets and liabilities.

4. Reporting currency

The reporting currency of the Group is RMB.

V. Significant accounting policies and accounting estimates *(continued)*

5. Accounting for business combinations under common and uncommon control

The assets and liabilities that the Group acquires as the combining party in a business combination under common control shall be measured at their book value of the combined party on the combining date in the consolidated statements of the ultimate controlling party. The balance between the book value of the net assets acquired and that of the consideration paid shall be used to adjust capital reserves. If capital reserves are insufficient for offsetting, retained earnings will be adjusted.

The identifiable assets, liabilities and contingent liabilities acquired from the acquiree in a business combination not under common control shall be measured at fair value on the acquisition date. The combination costs shall be the aggregate of the fair value of cash or non-cash assets paid by the Group on the acquisition date to obtain control over the acquiree, the debts issued or undertaken by the Group and the equity securities issued as well as all relevant direct costs for the business combination (for a business combination realised by multiple transactions, the combination costs shall be the aggregate of the costs of all separate transactions). The amount of the combination costs in excess of the fair value of the identifiable net assets of the acquiree shall be recognised as goodwill. If the combination costs are less than the fair value of the identifiable net assets of the acquiree, the fair value of the identifiable assets, liabilities and contingent liabilities acquired from the combination as well as the fair value of the non-cash assets or the equity securities issued for paying the consideration will be reviewed. If the combination costs are still less than the fair value of the identifiable net assets after review, the balance shall be accounted for as non-operating income for the current period.

6. Preparation of consolidated financial statements

The Group incorporates all controlled subsidiaries and structured entities into the scope of the consolidated financial statements.

In preparation of the consolidated financial statements, necessary adjustments will be made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the Group's accounting policies if there is inconsistency on the accounting policies and accounting period between the Company and its subsidiaries.

Significant intra-group transactions, current balance and unrealised profits within the scope of consolidation shall be offset in preparing the consolidated financial statements. The shtcurr0.5(e)0.6(d)13and 0.5(a)0.6(n)0..126n4Aepesod 0.5(li

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V. Significant accounting policies and accounting estimates *(continued)*

6. Preparation of consolidated financial statements *(continued)*

In preparing consolidated financial statements, equity interests acquired by two or more transactions, which finally achieves the business combination, shall be adjusted as if they had been in existence in the current state since the ultimate controlling party gains control. When preparing the comparative statements, to the extent that the Group and the combined party are both under the control of the ultimate controlling party, the relative assets and liabilities of the combined party shall be included in the comparative statements of the Group's consolidated financial statements, and the increase in net assets arising from the combination will be adjusted against the ultilevimat20compar(intly)los0.5(osta dous in te)sco(risome(con(osta hang11(o athe combin9(be) ad/0 -1dayTJ/ions, nts, tatement

V. Significant accounting policies and accounting estimates *(continued)*

6. Preparation of consolidated financial statements *(continued)*

For the Group's disposal on the subsidiaries' equity investment by steps until the loses of controls, if transactions in disposal of subsidiaries' equity investment until losing control are in a package deal, each transaction shall be treated as one transaction of disposal on subsidiaries and loses of control; but the difference between considerations from each disposal of investment and shared net asset of the subsidiary before losing controls shall be recognised as other comprehensive income in the consolidated financial statements, and transferred to investment income for the period of losing controls.

7. Classifications of joint arrangement and accounting treatment of joint operation

The joint arrangement of the Group includes joint operations and joint ventures. For joint operation projects, as a joint operation party the Group recognises assets and liabilities solely held by the Group and assets and liabilities held on proportion. Revenue and expenses solely or proportionally recognised in accordance with relevant agreements. Transactions on asset purchase or sales with joint ventures, that do not form normal business activity shall only recognise parts of profits and losses generated in above transactions belonging to other joint operation parties.

8. Criteria for determination of cash and cash equivalents

Cash in cash flow statement of the Group shall be cash on hand and deposits available for payment at any time. Cash equivalents in cash flow shall be investments which shall be short-term (normally become due within 3 months after purchasing date), highly liquid, readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

9. Foreign currency operations and translation of foreign currency statements

(1) Foreign currency transactions

For foreign currency transactions, the Group translate the foreign currency amounts into RMB amounts at the spot rates of exchanges on a trade-date basis. On balance sheet date, foreign currency monetary items are translated into RMB at the prevailing exchange rate of that date. Exchange differences arising thereon are directly expensed in the profit and loss for the current period unless they arise from foreign currency borrowings for the purchase or construction of qualifying assets which are eligible for capitalisation.

(2) Translation of foreign currency financial statements

Assets and liabilities in foreign currency balance sheet are translated at the spot rate prevailing at the balance sheet date. Except for "undistributed profits", items under the owners' equity are translated at the spot exchange rate when they occur. Income and expenses in income statement are translated at the exchange rate prevailing on the first day of each month. The resulting differences are presented under other comprehensive income. Cash flow dominated in foreign currency are translated at the annual average exchange rate. Effects on cash arising from the change of exchange rate are presented as separate item in the cash flow statement.

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V. Significant accounting policies and accounting estimates *(continued)*

10. Financial instruments

Financial asset or financial liability is recognised when the Group becomes a contractual party of a financial instrument.

(1) Financial assets

1) Classification, recognition and measurement of financial assets

The Group classifies its financial assets into the following category based on the business model within which the financial asset is managed and the characteristics of contractual cashflow of the financial asset: financial assets at amortised cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss for the period.

A financial asset is classified as financial assets at amortised cost if it meets both of the following conditions: ① It is managed within a business model whose objective is to collect contractual cash flows. ② The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially measured at fair value, with the related transaction costs included in the amount initially recognised. The financial assets are subsequently measured at amortised cost. Financial assets of this kind not included in any hedge relationship are depreciated using effective interest method, with impairment, exchange gain or loss and any gain or loss arising from derecognisation included in the profit or loss for the current period. The Group's financial assets of this kind include: accounts receivable, bills receivable and other receivables.

Financial assets are classified as financial assets at fair value through other comprehensive income if both of the following conditions are met: ① the assets are managed within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; and ② the contractual terms of the financial assets specify that cash flows arising on specified dates are solely payments of principal and interest on the outstanding principal. Financial assets of this kind are initially measured at fair value and relevant transaction costs are recorded in the initially recognised amount. All gains or loss arising from financial assets of this kind not included in any hedge relationship (excluding the credit impairment loss or gain, the profit or loss on currency exchange, interests on financial assets measured by effective interest method) shall be recorded in other comprehensive income. At the time of derecognition of financial assets, the cumulative profit or loss previously recorded in other comprehensive income shall be released from other comprehensive income and recorded in the profit or loss of the current period. The Group's financial assets of this kind include: other debt investments and financing receivables.

The Group recognises interest income using the effective interest method. The interest income is calculated by applying the effective interest rate to the carrying amount of a financial asset, with the following exceptions: ① For a purchased or originated credit-impaired financial asset, whose interest income is calculated since initial recognition by applying the credit-adjusted effective interest rate to its amortised cost. ② For a financial asset that is not a purchased or originated credit-impaired financial asset but has subsequently become credit-impaired, whose interest income is then calculated by applying the effective interest rate to its amortised cost.

V. Significant accounting policies and accounting estimates *(continued)*

10. Financial instruments *(continued)*

(1) Financial assets *(continued)*

1) Classi cation, recognition and measurement of nancial assets (continued)

The Group designates non-trading equity instrument investments as financial assets measured at fair value through other comprehensive income. Once the designation is made, it cannot be revoked. The non-trading equity instrument investment designated by the Group at fair value through other comprehensive income is recognised initially at fair value, and related transaction expense is included in the initially recognised amount. Except for dividends (excluding any portion as return of investment cost) received and recorded in the current profit and loss, other related gains and losses (including exchange gains and losses) are included in other comprehensive income and subsequently may not be transferred to the current profits and losses. When it is derecognised, the accumulated gain or loss previously included in other comprehensive income is transferred from other comprehensive income and is included in retained earnings. The Group currently does not have any investment in equity instruments designated at fair value through other comprehensive income.

Except those classified as financial assets at amortised cost and financial assets at fair value through other comprehensive income, the Group classifies the remaining financial assets as financial assets at fair value through profit or loss. Financial assets of this kind are initially measured at fair value and relevant transaction costs are included directly in the initially recognised amount. The profit or loss on financial assets of this kind is included in the profit or loss of the current period.

When the Group changes the business model for managing financial assets, all financial assets being affected are reclassified. There were no such circumstances in the year.

2) Basis of recognition and method of measurement of transfer of nancial assets

A financial asset is derecognised if any one of the following conditions is satisfied: ① the contractual rights to receive cash flows from the financial asset have ceased; ② the financial asset has been transferred and the Group has transferred substantially all the risks and rewards incidental to the ownership of the financial asset; ③ the financial asset has been transferred and the Group has neither transferred nor retained substantially all the risks and rewards incidental to the ownership of the financial asset, and has not retained its control over the financial asset.

Where the transfer of a financial asset in whole satisfies the criteria of derecognition, the difference between the carrying amount of the financial asset transferred at the date of derecognisation and the sum of consideration received for the transfer and any cumulative gain or loss of fair value that has been recognised directly in other comprehensive income for the part derecognised (the transferred financial assets shall meet the following criteria simultaneously: it is held by the Group within a business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of interest on the principal amount) is included in profit or loss for the current period.

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V. Significant accounting policies and accounting estimates *(continued)*

10. Financial instruments *(continued)*

(1) Financial assets *(continued)*

2) Basis of recognition and method of measurement of transfer of nancial assets (continued)

Where the transfer of financial asset in part satisfies the criteria of derecognition, the carrying amount of the entire financial asset transferred is allocated between the part to be derecognised and the part not to be derecognised in proportion to their respective relative fair values, and the difference between the sum of the consideration received for the transfer and any cumulative gain or loss of fair value for the part derecognised that has been recognised directly in other comprehensive income for the part derecognised (the transferred financial assets shall meet the following criteria simultaneously: it is held by the Group within a business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that

V. Significant accounting policies and accounting estimates *(continued)*

10. Financial instruments *(continued)*

(2) Financial liabilities *(continued)*

2) Criteria for derecognition of nancial liabilities

When the present obligations of financial liabilities are released in whole or in part, such financial liabilities are derecognised to the extent of the obligations released. Where the Group enters into an agreement with its creditor to replace existing financial liabilities by assuming new financial liabilities with contractual terms substantively differ from tho6(omar3d.5(assumie 2.668 h it.8661 45.8009 45ao037naao)Q1i,

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V. Significant accounting policies and accounting estimates *(continued)*

10. Financial instruments *(continued)*

(5) Classification and treatment of financial liabilities and equity instruments

The Group classifies financial liabilities and equity instruments on the following principles: ① Where the Group is unable to unconditionally avoid delivering cash or another financial asset to fulfil a contractual obligation, the contractual obligation meets the definition of a financial liability. Although some financial instruments do not explicitly include the terms and conditions imposing the contractual obligation to deliver cash or another financial asset, they may indirectly give rise to the contractual obligation through other terms and conditions. ② Where a financial instrument will or may be settled in the Group's own equity instrument, consideration shall be given to whether the Group's own equity instrument as used to settle the instrument is a substitute of cash or another financial asset or the residual interest in the assets of an entity after deducting all of its liabilities. In the former case, the instrument shall be the issuer's financial liability; in the latter case, the instrument shall be the equity instrument of the issuer. Under certain circumstances whereby a financial instrument contract stipulates that the Group will or may use its own equity instrument to settle the financial instrument, and the amount of the contractual right or obligation equal to the number instrument, consideration shall be given to whether the Group's own equity instrument as used to settle the instrument is a substitute of cash or another financial asset or the residual interest in the assets of an entity after deducting all of its liabilities. In the former case, the instrument shall be the issuer's financial liability; in the latter case, the instrument shall be the equity instrument of the issuer. Under certain circumstances whereby a financial instrument contract stipulates that the Group will or may use its own equity instrument to settle the financial instrument, and the amount of the contractual right or obligation equal to the number of its own equity instruments to be received or delivered multiplied by their fair value at the time of settlement, the contract shall be classified as a financial liability, regardless of whether the amount of the contractual right or obligation is fixed, or fluctuates in full or in partly in response to changes in a variable other than the market price of the Group's own equity instruments (for example an interest rate, a commodity price or a financial instrument price).

When classifying a financial instrument (or a component thereof) in consolidated financial statements, the Group shall consider all terms and conditions agreed between members of the Group and the holders of the financial instrument. If the Group as a whole has an obligation in respect of the instrument to settle it by delivering cash or another financial asset or in such a way that it would be a financial liability, such instrument shall be classified as a financial liability.

If the financial instrument or its component is attributable to the financial liability, the relevant interests, dividends, gains or losses, and gains or losses arising from redemption or refinancing, shall be recorded in the profit or loss of the current period.

If the financial instrument or its component is attributable to equity instrument, the Group treats it as change in equity when it is issued (including refinanced), repurchased, sold or cancelled, and does not recognise changes in fair value of equity instrument.

V. Significant accounting policies and accounting estimates *(continued)*

11. Bills receivable

The business model of the Group's bills receivable is trade acceptance bills that collect contractual cash flows. Impairment provision of bills receivable as at the end of the year shall be made on the basis of expected credit loss of accounts receivable.

12. Accounts receivable

For the accounts receivable arising from the transactions regulated by the "Accounting Standards for Business Enterprises No. 14 — Revenue" and including no significant financing components, the Group always measures its loss allowance at an amount equal to the lifetime expected credit losses.

Judgment of whether credit risk has increased significantly since initial recognition. By comparing the default probability of the financial instrument within the estimated duration determined at initial recognition against the default probability of such instrument within the estimated duration determined on the balance sheet date, the Group determines whether the credit risk of financial instrument has increased significantly. However, if the Group determines that a financial instrument has only a low credit risk on the balance sheet date, it can be assumed that the credit risk of the financial instrument has not increased significantly since initial recognition. In normal circumstance, if the financial instrument is more than 30 days past due, it indicates that the credit risk of financial instrument has increased significantly; unless the Group can obtain reasonable and supportable information without undue cost or effort, which demonstrates that even if it is more than 30 days past due, the credit risk has not increased significantly since the initial confirmation. When determining whether the credit risk has increased significantly since the initial confirmation, the Group shall consider the reasonable and supportable information, including forward-looking information, that is available without undue cost or effort.

Information considered by the Group includes:

— the issuer or debtor has significant financial difficulty;

— the debtor has a breach of the contract, such as default or delay in payment of interest or principal;

— after consideration for relevant economic or contractual conditions based on the debtor's financial difficulty, the creditor grants the debtor a concession which would not be granted for any other situation;

— the debtor will probably enter bankruptcy or financial restructuring;

— the issuer's or debtor's financial difficulty conduces to the disappearance of the active market of the financial asset;

— a financial asset is purchased or originated at a large discount and the discount reflects the occurrence of credit loss.

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V. Significant accounting policies and accounting estimates *(continued)*

12. Accounts receivable *(continued)*

For bills receivable and accounts receivable, the Group adopts expected credit loss approach to provide for allowances for bad debts. For bills receivable and accounts receivable which have significant different credit risk, expected credit loss is determined on an individual basis. Apart from determining expected credit loss on accounts receivable and bills receivable on an individual basis, the Group also determines the expected credit losses on a collective basis based on the age distribution and whether it is the common risk characteristics of related party amounts within the scope of consolidation. For the combination of expected credit losses based on aging characteristics and the combination of expected credit loss of related parties within the scope of consolidation, the Group calculates the expected credit loss on accounts receivable and bills receivable using the exposure to default risk and expected credit loss rate of on accounts receivable and bills receivable, and determine the expected credit loss rate based on default probability and default loss rate.

Assessment based on combination. For bills receivable and accounts receivable, the Group is unable to obtain sufficient evidence of a significant increase in credit risk at a reasonable cost at the level of individual instruments, whereas it is feasible to assess whether credit risk increases significantly on the basis of portfolio. Therefore, the Group divides the bills receivable and accounts receivable into groups, considers and assesses whether there is a significant increase in credit risk on portfolio-basis by taking the dates of initial recognition of bills receivable and accounts receivable as the common risk characteristics. Using the age as a common risk feature, the Group divides bills receivable and accounts receivable into groups and assesses whether credit risk significantly increases on a combined basis.

Measurement of expected credit loss. The expected credit loss means that the risk of default is the weighted average of credit list of weighted financial instrument. Credit loss refers to the difference between all contractual cash flows receivable according to the contract and discounted according to the original effective interest rate and all cash flows receivable, that is, the present value of all cash shortages.

The Group measures the expected credit loss on bills receivable and accounts receivable as of the balance sheet date. When the expected credit loss is greater than the carrying amount of loss allowance for the bills receivable and accounts receivable at that time, the Group recognises the difference as loss allowance for the bills receivable and accounts receivable which shall be charged to "credit impairment loss" or credited to "provision for bad debts". In the case contrary to the aforesaid, the Group recognises the difference as impairment gain and makes the account contrarily.

When any credit loss of the Group is actually incurred and it is certain that relevant notes receivable and accounts receivable cannot be recovered, after an approval for write-off is obtained, the approved amount of write-off shall be charged to "provision for bad debts" and credited to "notes receivable" or "accounts receivable". If the amount written off is greater than the loss allowance, the difference is charged to "credit impairment loss" for the relevant period.

Based on the actual credit loss in previous years and taking into account of forward-looking information of the year, the Group's accounting estimation policies for measuring expected credit losses by age group, are as follows:

Item	Within 1 year	1–2 years	2–3 years	3–5 years	Over 5 years
Default loss rate	1.00%	50.00%	75.00%	85.00%	100.00%

V. Significant accounting policies and accounting estimates *(continued)*

13. Financing receivables

For those bills receivable and accounts receivable which the contractual cash flow characteristics are consistent with the basic lending arrangements and the Company's business model for managing such financial assets is to collect the contractual cash flows and for sale, the Company classifies such bills receivable and accounts receivable as financing receivables and measures them at fair value through other comprehensive income. At initial recognition, the fair value is always the transaction price and any change in fair value is accounted through other comprehensive income. Upon derecognition, the cumulative gain or loss previously included in other comprehensive income is transferred from other comprehensive income and credited to the profit or loss for the period.

14. Other receivables

Recognition and accounting methods for expected credit loss on other receivables

The Group provides for the loss of other receivables according to the following circumstances: ① for financial assets that the credit risk has not increased significantly since initial recognition, the Group measures the loss allowance at an amount of future 12-month expected credit losses; ② for financial assets that the credit risk has increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to the lifetime expected credit losses of the financial instrument; ③ for purchased or originated credit-impaired financial assets, the Group measures the loss allowance at an amount equal to the lifetime expected credit losses.

Assessment made on a combined basis: For other receivables, the Group is unable to obtain sufficient evidence for any significant increase in credit risk at reasonable cost for one instrument, but finds it feasible to assess whether there is any significant increase in credit risk on a combined basis, therefore, by taking the payment nature of other receivables as the common characteristics of risk, the Group categorizes other receivables into different groups and considers and assesses on a combined basis whether the credit risk significantly increase the expected credit loss of other receivables of the Group measured at the balance sheet date. When the expected credit loss is greater than the carrying amount of loss allowance for other receivables at that time, the Group recognises the difference as loss allowance for other receivables which shall be charged to "credit impairment loss" or credited to "provision for bad debts". In the case contrary to the aforesaid, the Group recognises the difference as impairment gain and makes the account contrarily.

When any credit loss of the Group is actually incurred and it is certain that relevant other receivables cannot be recovered, after an approval for write-off is obtained, the approved amount of write-off shall be charged to "provision for bad debts" and credited to "other receivables". If the amount written off is greater than the loss allowance, the difference is charged to "credit impairment loss" for the relevant period.

15. Inventories

Inventories of the Group mainly include raw materials, entrusted processed materials, work-in-progress and finished products.

The inventory taking system shall be on a perpetual basis. Inventories are initially measured at cost; when inventories are delivered, weight average method is adopted to determine the actual cost of inventories delivered. Low-value consumable and packaging materials are amortised by one-time written-off.

Net realisable value of goods-in-stock, work-in-progress or held-for-sale raw materials are determined by their estimated sales less the related selling expenses and taxes. Net realisable value of held-for-production raw materials are determined by their estimated sales price of finished products less the production cost, related selling expenses and taxes.

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V. Significant accounting policies and accounting estimates *(continued)*

16. Contract assets

Recognition and criteria of contract assets

A contract asset is the Group's right to consideration in exchange for goods that it has transferred to a customer, and the right is conditioned on factors other than the passage of time. If the Group sells two clearly distinguishable goods to the customer, and it has the right to receive payment because one of the goods has been delivered, but the receipt of such payment is conditioned on the delivery of another goods, the Group shall recognise such right to receive payment as contract asset.

For the recognition of expected credit losses on contract assets, please refer to the method for accounts receivable in note 12 above.

The Group measures the expected credit loss on contract assets as of the balance sheet date. When the expected credit loss is greater than the carrying amount of loss allowance for the contract assets at that time, the Group recognises the difference as impairment loss which shall be charged to "credit impairment loss" or credited to "impairment allowance for contract assets". In the case contrary to the aforesaid, the Group recognises the difference as impairment gain and makes the account contrarily.

When any credit loss of the Group is actually incurred and it is certain that relevant contract assets cannot be recovered, after an approval for write-off is obtained, the approved amount of write-off shall be charged to "impairment allowance for contract assets" and credited to "contract assets". If the amount written off is greater than the loss allowance, the difference is charged to "credit impairment loss" for the relevant period.

17. Contract costs

(1) Method for determining the amount of assets related to contract costs

The Group's assets relating to contract costs include costs to fulfil a contract and costs of obtaining a contact.

Contract performance costs represent the costs incurred by the Group in performing its contract. When the costs are not within the scope of other accounting standards for business enterprises, the Group recognises those costs as an asset if they meet all of the following criteria: the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify, including direct labor cost, directly material cost, manufacturing overheads, costs that are explicitly chargeable to the customer under the contract and other costs that are incurred only because the Group has entered into the contract; the costs generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and the costs are expected to be recovered.

The cost of obtaining a contract is the incremental cost that the Group incurs to obtain a contract. If the cost is expected to be recovered, it is treated as the cost of obtaining a contract and recognised as an asset; if the amortisation period of such asset is less than one year, it is recorded in profit or loss for the current period when incurred. Incremental costs are the costs that they would not have incurred if the Group had not obtained the contract (for example, sales commission). For other expenses incurred by the Group for obtaining a contract in addition to the incremental costs expected to be recovered (such as travel expenses incurred regardless of whether the contract is obtained or not), they are recorded in profit or loss for the current period when incurred. However, those expressly bore by the customer are excluded.

V. Significant accounting policies and accounting estimates *(continued)*

17. Contract costs *(continued)*

(2) Amortisation of assets related to contract costs

The Group amortises the asset relating to contract costs on a basis that is consistent with the revenue recognition relating to the asset and recognises it in profit or loss.

(3) Impairment of assets related to contract costs

When determining the impairment loss of an asset related to the contract cost, the Group first determines the impairment loss for other assets related to the contract, which is determined in accordance with other relevant accounting standards for business enterprises; then, the Group provides for impairment allowance and recognises as an impairment loss of asset to the extent that the carrying amount of such asset exceeds the difference between the following: the remaining amount of consideration that the Group expects to receive for the transfer of goods to which the asset relates; and the costs that are estimated to be incurred for the transfer of the relevant goods.

The Group shall recognise in profit or loss a reversal of an impairment loss previously recognised when the impairment conditions change and the aforesaid difference is higher than the carrying amount of the asset. The increased carrying amount of the asset shall not exceed the amount that would have been determined if no impairment loss had been recognised previously.

18. Assets held for sale

(1) The Group classifies non-current assets or disposal group that meet the following criteria as held for sale: 1) can immediately be disposed of under the current conditions based on cases of disposals of such assets or disposal groups in similar transactions; 2) the disposal is highly probable that a decision has been made on a plan for the disposal and an undertaking to purchase has been obtained, and the disposal is expected to be completed within a year. Relevant approval is required for disposals requiring approval from the relevant authorities or regulators as required by the relevant regulations. Before the Group first classifies a non-current asset or disposal group as held for sale, the book value of the non-current asset or each asset and liability in the disposal group is measured according to the requirements of the relevant accounting standards. On initial measurement or remeasurement on the balance sheet date of a non-current asset or a disposal group held for sale, where the book value is higher than the fair value less cost of disposal, the book value is written down to the fair value less disposal. The amount of write-down is recognised as an impairment loss of the asset and charged to profit and loss of the period. At the same time, provision is made for impairment of assets held for sale.

(2) Non-current assets or disposal groups which the Group acquired specifically for disposal, satisfy the criterion of "disposal is expected to be completed within one year" on the date of acquisition, and is probable to satisfy other criteria of classifying as held for sale shortly (usually within 3 months), are classified as held for sale on the date of acquisition. At initial measurement, the amounts initially measured assuming it is not classified as held for sale and the fair value less cost of disposal are compared, and the lower of the two is measured. Other than non-current assets or disposal groups acquired in a business combination, the difference arising from recognising the fair value less cost of disposal of non-current assets or disposal groups as initial measurement is recognised in profit and loss in the period.

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V. Significant accounting policies and accounting estimates *(continued)*

18. Assets held for sale *(continued)*

(3) Where the Group has lost control of a subsidiary due to reasons such as disposal of investment in the subsidiary, regardless of the Group retains any part of equity investment after disposal, upon the investment in the subsidiary intended to be disposed satisfying the criterion for classification as held for sale, the investment in the subsidiary will be entirely classified as held for sale in the separate financial statements of the parent company, and all assets and liabilities of the subsidiary are classified as held for sale in the consolidated financial statements.

(4) Where there is an increase in fair value less cost of disposal of a non-current asset held for sale on subsequent balance sheet dates, the amount previously written down should be recovered and reversed in the impairment loss of assets recognised after classification as held for sale, with the reversed amount recognised in profit and loss of the period. Asset impairment loss recognised before classification as held for sale is not reversible.

(5) Asset impairment loss recognised for disposal groups held for sale is first offset against the book value of goodwill of disposal groups, and then offset against the book values proportionally according to the share of book value of each non-current asset.

Where there is an increase in fair value less cost of disposal of a disposal group held for sale in subsequent balance sheet dates, the amount previously written down should be recovered and reversed in asset impairment loss of non-current assets recognised as required by the appropriate relevant measurement after classification as held for sale, with the reversed amount recognised in profit and loss of the period. The book value of the offset goodwill and impairment loss of non-current assets recognised before classification as held as for sale are not reversible.

Reversed amount after the recognition of asset impairment loss of the disposal group held for sale should be added proportionally to the book value share according to the share of the book value of each non-current asset in the disposal group other than goodwill.

(6) No provision for depreciation or amortisation of non-current assets or non-current assets in disposal groups held for sale is made, and the interest on liabilities and other expenses of disposal groups held for sale continues to be recognised.

(7) When a non-current asset or a disposal group held for sale no longer satisfies the criteria of classification as held for sale and ceases to be classified as held for sale, or a non-current asset is removed from the disposal group held for sale, it is measured is based on the lower of the following: 1) the book value before classification as held for sale adjusted by recognition of depreciation, amortisation or impairment assuming there was no classification as held for sale; 2) the recoverable amount.

(8) Upon derecognition of a non-current asset or a disposal group held for sale, the unrecognised gain or loss is accounted for in profit or loss of the period.

V. Significant accounting policies and accounting estimates *(continued)*

19. Long-term equity investments

Long-term equity investments include the Group's investments in subsidiaries, investments in associates and jointly ventures.

Our judgement of joint control is based on the fact of arrangements that all participants involved or groups of participants jointly control and that policies of relevant activities must be unanimously agreed by participants who jointly control the arrangement.

When the Group owns 20% above but less than 50% of the voting right of the investee directly, or indirectly through subsidiaries, it is considered to have a significant influence on the investee. If the voting right in the investee is less than 20%, the influence on investee will be decided based on facts and circumstances including representatives in the board of directors of similar authority of the investee, or participation in the process of formulating the financial and operating policies of the investee, having significant transactions with the investee, dispatching management personnel to the investee, and providing key technology and data to the investee.

An investee that is under the control of the Group is deemed as a subsidiary of the Group. For long-term equity investments acquired through a business combination under common control, they will be used as the initial investment cost of long-term equity investment according to the share of the consolidated party in the book value of net assets in the financial statements of the ultimate controlling party on the date of consolidation. If the book value of net assets of the consolidated party at the date of consolidation is negative, long-term equity investment cost is recognised as nil.

For shareholding which obtained by different transactions in stages and become business combination finally, if it belongs to a basket of transactions, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to a basket of transactions, according to proportion of fair value of net assets of acquiree after the combination in the consolidated financial statements, and accounted as the initial investment cost of long-term investment. Difference between initial investment cost and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust share premium. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

For long-term equity investments acquired through business combination under uncommon control, consolidation cost will be treated as the initial investment cost.

For shareholding which obtained by different transactions in stages and become business combination finally, if it belongs to a basket of transactions, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to a basket of transactions, Initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will cc trai.c is to adjust nt

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V. Significant accounting policies and accounting estimates *(continued)*

19. Long-term equity investments *(continued)*

The Group's investments in subsidiaries are accounted for using the cost method and using equity method for the investments in joint ventures and associates.

For long-term equity investments for which the subsequent measure is accounted for using cost method, when making additional investment, carrying value of the long-term equity investments will be added according to the fair value of cost of additional investment and the related expenses incurred by related transactions. For cash dividend or profit paid by the invested company, it shall be recognised as investment income for the current period using the amount which it entitles.

For long-term equity investment for which the subsequent measurement is accounted for under equity method, carrying value of long-term equity investment shall be increased or decreased accordingly according to the change in the shareholders equity of the invested company. When determining the amount of proportion of net profit or loss in the invested company which it entitles, fair value of each identifiable assets of the invested company at the time when the investment is obtained shall be used as basis, and according to the accounting policies and accounting period of the Group, and after offsetting profit or loss incurred in internal transaction between associates and joint ventures, and calculate the proportion which is attributable to the investing company according to the shareholding, and recognised after adjustment is made to the net profit of the investees.

On disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognised as investment income for the period. For the long-term equity investment calculated by equity method, the other comprehensive income related to the accounting of the original equity method shall be treated on the same basis as the direct disposal of related assets or liabilities by the invested company when terminating the accounting of the equity method. The owner's equity recognized as a result of changes in the owner's equity of the invested entity other than net profit and loss, other comprehensive income and profit distribution shall be transferred to the current investment income when the equity method is terminated.

When the Company ceases to have common control or significant influence on the invested company due to the reasons such as disposal of part of its equity investment, if ASBE 22 — Recognition and Measurement of Financial Asset (Cai Hui [2017] No. 7) is applicable for accounting, the remaining shareholding after disposal shall be accounted for in accordance with the relevant provisions of the standard on recognition and measurement of financial instruments, and the difference between fair value and the carry value on the date of loss of common control or significant influence will be included in the profit or loss for the current period. Other comprehensive income recognised as a result of the equity method of accounting for the original equity investment is treated on the same basis as the direct disposal of the related assets or liabilities by the investee upon the termination of the equity method of accounting and is carried forward proportionately. Owner's equity recognized as a result of changes in the investee's ownership interest other than net profit or loss, other comprehensive income and profit distribution should be transferred proportionately to current investment income. For loss of control in the invested company due to partly disposed long-term equity investment, for remaining shareholding which can apply common control or impose significant influence to the invested company after disposal, shall be accounted for under equity method. Difference between the carrying value of equity disposal and the disposal consideration shall be included as investment income. Such remaining shareholding shall be treated as accounting for under equity method since the shareholding is obtained and make adjustment. For remaining shareholding which cannot apply common control or impose significant influence after disposal, if ASBE 22 — Recognition and Measurement of Financial Assets (Cai Hui [2017] No. 7) is applicable to accounting treatment, it can be accounted as under the relevant provisions of the standard on recognition and measurement of financial instrument, and difference between carrying value of equity disposal and the disposal consideration shall be included as investment income, difference between fair value and the carrying value of remaining shareholding on the date loss of control shall be included in the investment profit or loss for such period.

V. Significant accounting policies and accounting estimates *(continued)*

19. Long-term equity investments *(continued)*

For each transaction which equity are disposed in stages until loss of control, which does not belong to package transaction, the accounting for each transaction shall be conducted separately. For the package transaction, the accounting for each transaction shall be treated as disposing subsidiary and loss of its control. However, the difference between each disposal price before loss of control and the carrying value of the corresponding long-term investment of the equity disposed, shall be recognised as other comprehensive income, and shall be transfer to the profit or loss for the current period upon loss of control.

20. Investment Properties

Measurement model for investment properties

Cost method

Method for depreciation or amortisation

The Group's investment properties are leased buildings, which are measured using cost model.

The Group depreciates investment properties using straight line method. The expected useful lives, residual values and annual rates of depreciation (amortisation) are as follows:

No.	Type	Depreciation period (year)	Residual value rate (%)	Annual depreciation rate (%)
1	Buildings	20	5	4.75

21. Fixed assets

(1) Criteria for recognition

Fixed assets are tangible assets with significant value and useful lives for more than one year, and held for use in the production goods, renting of services, for rental, or for administrative purposes.

Fixed assets are recognised when it is highly probable of economic benefits inflow to the Group and their costs can be measured reliably. The Group's fixed assets include buildings, machinery, electronic equipment, vehicles and other equipment, etc..

(2) Depreciation method

Category	Depreciation method	Depreciation period (year)	Residual value rate (%)	Annual depreciation rate (%)
Buildings	Straight-line	20	5	4.75
Machinery	Straight-line	5–20	5	19.00–4.75
Electronic equipment	Straight-line	3–5	5	31.67–19.00
Vehicles	Straight-line	5	5	19.00
Other equipment	Straight-line	5	5	19.00

The Group reviews the expected life of use, estimated net residual value and depreciation method of fixed assets at the end of each year, and changes, if any, are treated as changes in accounting estimates.

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V. Significant accounting policies and accounting estimates *(continued)*

22. Construction-in-progress

Construction in progress is carried forward to fixed assets from the date when it is ready for its intended use according to its project budget, project fee or actual project cost, and depreciation is provided commencing from the next following month. Upon the completion of final account audit of the completed project, adjustment will be made for any difference from the original value of the fixed assets.

23. Borrowing costs

In terms of the borrowing costs involving fixed assets, investment real estate and inventory directly attributable to over one year construction or production to achieve its intended use or sale, the capitalization of the borrowing costs can commence only when all of the conditions are satisfied; expenditures for the asset are being incurred, borrowing costs are being incurred, and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. When the qualified asset under acquisition, construction or production is ready for the intended use or sale, the capitalisation of the borrowing costs shall be ceased. The amount of other borrowing costs shall be recognised in profits of losses in the current period. If the qualified asset is interrupted abnormally during construction or production, and interruption has lasted for three consecutive months, the capitalisation of the borrowing costs shall be suspended until the construction or production of a fixed assets is resumed.

The amount of interest of specific borrowings occurred for the period shall be capitalised after deducting any interest earned from depositing the unused specific borrowings in the bank or any investment income arising on the temporary investment of those borrowings during the capitalisation period. The capitalised amount of general borrowings shall be determined on the basis that the weighted average (of the excess amounts of cumulative assets expenditures over the specific borrowings) times capitalisation rate (of used general borrowings). The rate of capitalisation is determined by the weighted average interest rate of general borrowing.

24. Right-of-use assets

A right-of-use asset is a right to use a leased asset by the Group, as a lessee, within a lease term.

(1) Initial measurement

At the commencement of a lease term, the Group initially measures a right-of-use asset at cost, which cos 60.19ojetion pesuGpenditur llncurr ats:tⅧoccu1(otially1(otiabilityy1(of-use)9(a1(ot)9(at)9(d;t)5.18.5 13C03937 2

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V. Significant accounting policies and accounting estimates *(continued)*

25. Intangible assets *(continued)*

(2) Accounting policy regarding the expenditure on the internal research and development

The Group's major research and development projects relate to tubing and casing of different models and materials.

With reference to the nature of expenditures and uncertainty of the final achievement, expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

From early investigations to the applications after maturity, the new product R&D projects of the Group shall undergo two phases, namely research and development. The research phase includes such stages as investigation, substantiation, the initiation and approval of annual new product R&D plans, early researches (including formula design, process design, equipment selection, formulation of technical standards, etc.), the preparation and approval of monthly new product R&D plans and so on, among which the completion of approval of monthly new product R&D plans symbolises the end of the phase of research for a new product. The development phase includes specifically such stages as trial production of the new product, project acceptance, etc., the latter of which symbolises the end of the phase of development for a new product.

Start time of the phase of development: the point when the approval of monthly new product R&D plans is completed, the early researches are completed and the formula, production process and technical standards for the product are finalised.

Expenditure at the research phase is recognised in profit or loss of the period in which it is incurred.

Expenditure on the development phase is recognised as an intangible asset when all of the following criteria are met:

1) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

2) the management's intention to complete, use or sell the intangible asset;

3) the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;

5) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Expenditure on the development phase which does not meet the above criteria is included in profit or loss of the period in which it is incurred. Expenditure in the development phase which has been included in the profit or loss in the prior period will not be recognised as asset in subsequent period. The capitalised expenditures in development phase are presented as development expenditures in the balance sheet and it is carried down into the intangible asset since the date when the asset is ready for its intended use.

V. Significant accounting policies and accounting estimates *(continued)*

26. Impairment of long-term assets

The Company assesses items such as long-term equity investments, investment properties measured at cost, fixed assets, construction-in-progress, right-of-use assets, intangible assets with definite life and operating lease assets, the Company conducts impairment test where there is any indication of impairment. Intangible assets with indefinite goodwill and useful life are tested at the end of each year for impairment, whether indication of impairment exist or not.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but the asset is traded in an active market, fair value shall be determined based on the bid price. If there is neither sale agreement nor active market for an asset, fair value shall be based on the best available information. Costs of disposal are expenses attributable to disposal of the asset, including legal fee, relevant tax and surcharges, transportation fee and direct expenses incurred to prepare the asset for its intended sale. The present value of the future cash flows expected to be derived from the asset over the course of continued use and final disposal is determined as the amount discounted using an appropriately selected discount rate. Provisions for assets impairment shall be made and recognised for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the asset group to which the asset belongs. The asset group is the smallest group of assets capable of generating cash flows independently.

When performing impairment test on goodwill that is separately presented in the financial statements, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

If the carrying amount of such asset exceeds its recoverable amount after impairment test, the difference is recognised as impairment losses. The above impairment losses is irreversible in the subsequent accounting period once recognised.

27. Long-term deferred expenses

The Group's long-term deferred expenses will be amortised evenly during its beneficial period, If the long-term prepayments are no longer beneficial to the subsequent accounting periods, the unamortized balance is then fully transferred to profit or loss for the current period.

28. Contract liabilities

Contract liabilities represent the obligation of the Group to transfer goods to customers for the consideration which has been received or receivable from customers. Where customers have already paid the contract consideration or the Group has obtained the unconditional right to receive the contract consideration before the Group transfers the goods to customers, the amount received or receivable is recognised as contract liabilities when the customers' payment is actually made or is due, whichever is earlier.

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V. Significant accounting policies and accounting estimates *(continued)*

29. Employee compensations

(1) Accounting for short-term employee compensations

The Group's employee compensations include short-term compensation, post-employment benefits, termination benefits and other long-term benefits.

Short-term employee benefits include staff salaries, bonuses, allowances and subsidies, employee welfare expenditures, social security contributions (e.g. compensation insurance, work injury insurance and birth insurance), housing funds, union running costs, employee education costs, short-term paid leaves, short-term profit sharing schemes, non-monetary welfare and other short-term salaries. The Group recognises employee remuneration payables as liabilities during the accounting period in which employees render their services and included in profits or losses in the current period or related cost of assets based on the beneficiaries of the services.

(2) Accounting for post-employment benefits

Post-employment benefits mainly include basic pension insurance, unemployment insurance and others. Based on the Company's risks and obligations, they are classified as defined contribution plans and defined benefit plans. As for the defined contribution plans, the contributions which are made for individual subjects in exchange for the staff's services rendered in the accounting period shall be recognised as liabilities on the balance sheet date and included in profit or loss of the period or relevant asset costs according to the beneficiaries. The Group has currently no defined benefit plan.

(3) Accounting for termination benefits

The Group has currently no termination benefits.

(4) Accounting for other long-term compensations

The Group has currently no other long-term compensations.

30. Lease liabilities

(1) Initial measurement

The Group initially measures a lease liability at the present value of outstanding lease payments at the commencement date of the lease term.

1) Lease payments

A lease payment refers to the amount paid by the Group to a lessor in relation to the right to use a leased asset during the lease term, which includes: ① the fixed payments and the substantial fixed payments, net of the lease incentive amount, if any; ② the variable lease payments depending on an index or ratio, which are determined at the time of initial measurement based on the index or ratio on the commencement date of the lease term; ③ the price of exercising the option to purchase, if the Company can reasonably be certain that it will exercise the option; ④ the amount payable to exercise the option to terminate the lease, if the lease term reflects that the Group will exercise the option to terminate the lease; ⑤ the amount payable based on the residual value of the guarantee provided by the Group.

V. Significant accounting policies and accounting estimates *(continued)*

30. Lease liabilities *(continued)*

(1) Initial measurement *(continued)*

2) Discount rate

In calculating the present value of a lease payment, the Group uses the average borrowing rate of the main lease as the discount rate.

(2) Subsequent measurement

After the commencement date of the lease term, the Group follows the principles below for the subsequent measurement of a lease liability: ① to increase the carrying amount of the lease liability when recognising the interest on the lease liability; ② to reduce the carrying amount of the lease liability when a lease payment is made; ③ to remeasure the carrying amount of the lease liability when there is a change in lease payment due to a change of reassessment or the lease.

The interest expenses of a lease liability in each period during the lease term based on fixed periodic interest rate are charged to the profit of loss of the current period, except those are capitalised. Periodic interest rate is the discount rate used by the Group for initial measurement of the lease liability, or the revised discount rate used by the Group when remeasuring the lease liability at the revised discount rate due to a change of lease payments or a change of the lease.

(3) Remeasurement

After the commencement date of the lease term, the Group remeasures the lease liability based on the lease payments after the change, with a corresponding adjustment made to the carrying amount of the right-of-use asset. The carrying amount of the right-of-use asset is reduced to zero. If there is any further reduction of the lease liability, the Group charge the remaining amount to the profit or loss for the current period. ① There is a change in the substantial fixed payment (in that case, the original discount rate is used for discounting); ② There is a change in projected payable of the guarantee residual value (in that case, the original discount rate is used for discounting); ③ There is a change in the index or ratio used for determining the lease payment (in that case, the revised discount rate is used for discounting); ④ There is a change in the assessment result of the purchase option (in that case, the revised discount rate is used for discounting); ⑤ There is a change in the assessment result of the extension or termination option or the actual exercise of the option (in that case, the original revised rate is used for discounting).

31. Provisions

A provision is recognised as a liabilities when an obligation related to a contingency, such as guarantees provided to outsiders, pending litigations or arbitrations, product warranties, redundancy plan, onerous contract, reconstructing, expected disposal of fixed assets, satisfied all of the following conditions: the obligation is a present obligation of the Group; it is probable that an outflow of economic benefits will be required to settle the obligation; and the amount of the obligation can be measured reliably.

A provision shall be initially measured at the best estimate of the expenditure required to settle the related present obligation. Considering the factors, such as risk, uncertainties, and time value of money related to the contingencies. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflows. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

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V. Significant accounting policies and accounting estimates *(continued)*

31. Provisions *(continued)*

If all or part of the expense necessary for settling the provisions is expected to be compensated by the third party, the amount of compensation is separately recognised as an asset when it is basically determined to be recoverable, and the recognised amount of the compensation shall not exceed the carrying amount of the provisions.

The Group reviews the carrying amount of provisions at the balance sheet date and makes appropriate adjustments to reflect the current best estimate.

32. Safety Production

The Group collects, utilises and reviews the production safety fee pursuant to the relevant requirements of Notice of the Ministry of Finance and the State Administration of Work Safety on Issuing the Administrative Measures for the Collection and Utilisation of Enterprise Work Safety Funds (No. 16 [2012] of the Ministry of Finance and the State Administration of Work Safety) and Notice of the Ministry of Finance on Issuing Interpretation No. 3 of the Accounting Standards for Business Enterprises (No. 8 [2009] of the Ministry of Finance).

The provision of Group's machinery production enterprise safety production costs is based on the actual sales revenue in last year, which is extracted monthly by taking excess regressive manner in accordance with the following standard. The provision will be used for enhancing and improving safe production conditions of enterprises or projects.

(1) Operating income of RMB10 million and below, accrued in accordance with 2%;

(2) Operating income of RMB10 million to RMB100 million (inclusive), accrued in accordance with 1%;

(3) Operating income of RMB100 million to RMB1,000 million (inclusive), accrued in accordance with 0.2%;

(4) Operating income of RMB1,000 million to RMB5,000 million (inclusive), accrued in accordance with 0.1%;

(5) Operating income above RMB5,000 million, accrued in accordance with 0.05%.

The provision of the production safety fee for newly established enterprises and machinery production enterprise with production less than one year is based on actual sales revenue for the year. The provision is accrued monthly.

The provision of production safety fee is recognised in profit and loss for the current period and "special reserve" account shown separately under owner's equity. When using the reserve for maintaining production safety fee, the amount will be debited from the "special reserve" if the fee is expenses nature. When using the reserve for maintaining production safety fee of fixed asset, the amount will be debited from the "construction-in-progress" item for the amount recorded in the cost of related assets. When the status of the project is ready for intended use, the costs of such production safety fee should be recognised as fixed assets. Meanwhile, "special reserve" will be offset by the cost forming fixed asset. If the balance of "special reserve" is inadequate for offsetting purpose, the production safety fee will be recognised in profit and loss for the current period.

V. Significant accounting policies and accounting estimates *(continued)*

33. Revenue

Accounting policy adopted for the recognition and measurement of revenue

The Group's operation revenue is mainly from sale of goods and rendering of services.

(1) Principles of revenue recognition

Revenue is recognised when the Group satisfies the performance obligation in the contract by transferring the control over relevant goods or services to the customers.

Where a contract has two or more performance obligations, the Group determines the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocates the transaction price in proportion to those stand-alone selling prices. The Group recognises as revenue the amount of the transaction price that is allocated to each performance obligation.

The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Group recognises the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The consideration which the Group expects to refund to the customer is recognised as liabilities and excluded from transaction price. Where the contract contains a significant financing component, the Group recognizes the transaction price at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer. The difference between the amount of promised consideration and the cash selling price is amortised using an effective interest method over the contract term. The Group does not adjust the consideration for any effects of a significant financing component if it expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Group satisfies a performance obligation over time if one of the following criteria is met; or otherwise, a performance obligation is satisfied at a point in time:

1) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

2) the customer can control the asset created or enhanced during the Group's performance.

3) the Group's performance does not create an asset with an alternative use to it and the Group has an enforceable right to payment for performance completed to date.

For performance obligation satisfied over time, the Group recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation, which is determined by input method. When the outcome of that performance obligation cannot be measured reasonably, but the Group expects to recover the costs incurred in satisfying the performance obligation, the Group recognises revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

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V. Significant accounting policies and accounting estimates *(continued)*

33. Revenue *(continued)*

(1) Principles of revenue recognition *(continued)*

For performance obligation satisfied at a point in time, the Group recognises revenue at the point in time at which the customer obtains control of relevant goods or services. To determine whether a customer has obtained control of goods or services, the Group considers the following indicators:

1) the Group has a present right to payment for the goods or services.

2) the Group has transferred the legal title of the goods to the customer.

3) the Group has transferred physical possession of the goods to the customer.

4) the Group has transferred the significant risks and rewards of ownership of the goods to the customer.

5) the customer has accepted the goods or services.

The Group's right to consideration in exchange for goods or services that it has transferred to a customer is stated as contract asset. The Group recognises allowances for impairment loss for expected credit loss on contract assets. Receivable is the Group's unconditional right to consideration to be received from a customer. A contract liability is the Group's obligation to transfer goods or services to a customer for which the consideration is received or receivable by the Group from the customer.

(2) Specific accounting policies related to the main activities of the Company's revenue are described below:

① *Contracts for sale of goods*

Contracts for sale of goods between the Group and its customers usually include only the performance obligations in respect of the transfer of goods. In general, the Group recognizes revenue at the point in time when the customer accepts the control of the goods, taking into full consideration of the following factors: obtaining the present right to receiving payment in respect of the goods; transfer of substantial risks and returns in respect of the title to the goods; transfer of legal title in respect of the goods; transfer of the physical asset of the goods; and the acceptance of goods by customers.

② *Contracts for provision of services*

Contracts for provision of services between the Group and its customers usually contain performance obligations such as technical services and after-sale maintenance services. While the Group performs the contract, the customer obtains and consumes the economic benefit brought by the Group's performance, and in respect of the portion of revenue arising from the Group's performance completed to date, the Group is entitled, during the entire validity period of the contract, to recognise revenue according to progress of performance within such period for satisfying such performance obligations during a period of time, however other than circumstances that the progress of performance cannot be reasonably determined. The Group determines progress of performance in respect of the provision of services using input method. When the progress of performance cannot be reasonably determined, if the costs incurred are expected to be compensated, the Group recognises revenue based on the amount of costs incurred, until the progress of performance can be reasonably determined.

Difference in accounting policy for revenue recognition arises when adopting different business models for the same type of business

V. Significant accounting policies and accounting estimates *(continued)*

34. Government grants

The Group's government grants include financial funding, interest subsidy for loans and tax rebates, of which government grants related to assets represent the government grants obtained by the Group and applied towards acquiring and constructing or otherwise develop long-term assets. Government grants related to income represent the government grants other than those related to assets. If no grantee is specified in the government documents, the Group shall determine based on the above classification principles, otherwise, it is classified as a government grant related to income in its entirety.

If a government grant is a monetary asset, it is measured at the amount actually received. For the grants being allocated in accordance with fixed quotas, or if there is sufficient evidence at end of the year to show that the entity complies with the conditions of financial policies and is expected to receive supporting funds, the grants shall be measured at receivable amount. If a government grant is a non-monetary asset, it is measured at its fair value, and in the event the fair value cannot be acquired in a reliable way, it is measured at its nominal amount (RMB1).

Government grants related to assets are recognised as deferred income and are allocated evenly to profit or loss for the period over the useful life of the relevant asset. The balance of undistributed deferred income of a related asset which is disposed, transferred, retired or damaged before the end of its useful life is transferred to gain or loss of disposal of assets for the period.

If a government grant related to income is to compensate the related cost, expenses or losses to be incurred in subsequent periods, it is recognised as deferred income, and is recognised in profit or loss for the period when the related cost, expenses or losses incurred. If a government grant is related to the ordinary activities, it is included in other income based on the economic substance of the business. Government grants not related to the ordinary activities are included in non-operating income or expenses.

Interest subsidies for policy-related preferential loans obtained by the Group are classified as interest subsidy funds paid to lending banks or interest subsidy funds directly paid to the Group, which are accounted for based on the following principles:

(1) for interest subsidy funds paid to lending banks, the lending banks provide loans to the Group at policy-related preferential rates, and the Group recognises the borrowing amount actually received as the book value of the borrowing, and calculates the relevant borrowing expenses based on the principal and the policy-related preferential rate of the borrowing.

(2) For interest subsidy funds paid directly to the Group, the Group will offset the corresponding interest subsidy against the relevant borrowing expenses.

For government grants recognised that needs to be returned, the Group accounts the returning amount in the period according to the following:

(1) Where it has been offset against the carrying value of the relevant asset on initial recognition, the carrying value of the asset is adjusted.

(2) Where relevant deferred income exists, the balance of the carrying amount of the relevant deferred income is offset and the excess is recognised in profit or loss for the period.

(3) In other cases, it is directly recognised in profit or loss for the period.

V. Significant accounting policies and accounting estimates *(continued)*

35. Deferred income tax assets/deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities of the Group are calculated and recognised based on the difference between tax bases and carrying amounts of assets and liabilities (temporary differences). Deferred income tax asset is recognised for the deductible losses that are deductible against taxable profit in subsequent years in accordance with the requirements under tax laws. No deferred tax liability is recognised for temporary difference arising from initial recognition of goodwill. No deferred income tax asset or deferred income tax liability is recognised for a temporary difference arising from initial recognition of asset or liability due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the applicable tax rates for the period when the asset is expected to be realised or the liability is expected to be settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available to deduct from the deductible temporary difference, deductible losses and tax credits.

36. Leases

(1) Identification of leases

A lease is a contract under which the lessor conveys the right to use an asset to the lessee for a period of time in exchange for consideration. At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of one or more identified assets for a period of time in exchange of consideration. To determine whether a contract conveys the right to control the use of an identified asset, the Group assesses whether the lessee has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of uses, and also whether the lessee has the right to direct the use of the identified asset.

For a contract that contains multiple lease components, the Group separates the contract and accounts for each lease component as a lease separately. For a contract that contains lease and non-lease components, the Group separates and accounts for the lease and non-lease components.

(2) The Group as a lessee

1) Lease recognition

The Group recognises right-of-use assets and lease liabilities for leases at the beginning of the lease term. For the recognition and measurement of right-of-use assets and lease liabilities, see "24. Right-of-use assets" and "30. Lease liabilities" in Note V.

2) Modifications of leases

Modifications of leases refer to the changes in the lease scope, lease consideration, and lease term other than the original contract terms, including the addition or termination of the rights of use of one or more leased assets, and the extension or shortening of the lease term stipulated in the contract. The effective date of the modifications of leases is a date fixed for the modification of the lease as agreed by both parties.

If modification of lease happens and meets the following conditions, the Group accounts for the modification of lease as a separate lease: ① the modification of lease expands the scope of lease or extends the duration of lease by adding right of use of one or more leased assets; ② the increased consideration and the standalone price of the expanded part of lease or the extended duration of lease are equivalent after adjustment is made based on the contract.

V. Significant accounting policies and accounting estimates *(continued)*

36. Leases *(continued)*

(2) The Group as a lessee *(continued)*

2) Modi cations of leases (continued)

If the modification of lease is not accounted for as a separate lease, on the effective date of the modification of lease, the Group allocates the consideration of the modified contract in accordance with the accounting standard in respect of leases and re-determines the lease term after modification; and discount the lease payments after modification at the discount rate after modification for remeasurement of lease liability. When calculating the present value of the lease payment after modification, the Group uses the interest rate implicit in lease of the remaining lease term as the discount rate. If the interest rate implicit in lease of the remaining lease term cannot be determined, the Group uses lessee's incremental borrowing rate at the effective date of the modification of the lease as the discount rate. The Group accounts for the consequences of the above adjustment under the following circumstances: ① If the modification of lease results in a narrower scope of lease or a shorter lease term, the lessor reduces the carrying amount of the right-of-use asset to reflect the gain or loss on partly or wholly termination of the lease in the profit or loss of the current year. ② For other modifications of lease that result in remeasurement of lease liability, the lessee made corresponding adjustment to the carrying amount of the right-of-use asset.

3) Short-term leases and leases of low-value asset

For short-term leases with lease term of less than 12 months and leases of a single lease asset which is of relatively low value when it is new, the Group has elected not to recognise right-of-use asset and lease liability. The Group charges the lease payments of short-term leases and the low-value asset leases to the cost of the underlying assets or the profit or loss for the current period in each period of the lease term on a straight-line basis.

(3) The Group as a lessor

On the basis of determining the contract is or contains a lease as mentioned in "V. 36.(1)", the Group, as a lessor, classifies the lease as finance lease and operating lease at the inception of the lease.

If a lease transfers, in substance, substantially all of the risks and rewards of the ownership of the leased asset, the lessor classifies the lease as finance lease. Other than that, all leases are classified as operating leases.

A lease is usually classified as a finance lease by the Group when one or more of the following conditions are satisfied: ① When the lease term expires, the ownership of the leased asset is transferred to the lessee; ② The lessee has the option to purchase the leased asset. The purchase price entered into is sufficiently low compared to the fair value of the leased asset when the option is expected to be exercised. Therefore, it can be reasonably certain at the commencement date of the lease that the lessee will exercise the option; ③ The ownership of the asset is not transferred, but the lease term takes up most of the useful life of the leased assets (not less than 75% of the useful life of the leased asset); ④ On the commencement date of the lease, the present value of the lease receipt is basically equivalent to the fair value of the leased asset (not less than 90% of the fair value of the leased asset); ⑤ The leased assets are of a special nature. If no major modifications are made, it can only be used by the lessee. If one or more of the following indications exist in a lease, the Group may also classify it as a finance lease: ① If the lessee cancels the lease and the loss caused to the lessor arising from the cancellation of lease is borne by the lessee; ② The gain or loss arising from the fair value change in the balance of the asset belongs to the lessee; ③ The lessee is able to continue the lease for the next period at a rent far below the market level.

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V. Significant accounting policies and accounting estimates *(continued)*

36. Leases *(continued)*

(3) The Group as a lessor *(continued)*

1) Accounting for finance leases

Initial measurement

At the commencement date of the lease, the Group recognises the finance lease receivables for finance leases and derecognises finance lease assets. On initial measurement of finance lease receivables, the net lease investment is used to record the value of the finance lease receivable.

The net lease investment is the sum of the unguaranteed residual value and the present value of outstanding lease receipts at the commencement date of the lease term (discounted by the interest rate implicit in the lease). A lease receipt is the payment receivable from the lessee by the lessor for conveying the right to use a leased asset within the lease period, which comprises: ① the fixed payments and the substantial fixed payments to be made by the lessee, net of the lease incentive amount, if any; ② the variable lease payments depending on an index or ratio, which are determined at the time of initial measurement based on the index or ratio on the commencement date of the lease term; ③ the price of exercising the option to purchase, provided that it is reasonably certain that the lessee will exercise the option; ④ the amount payable by the lessee for exercising the option to terminate the lease, provided that the lease term reflects that the lessee will exercise the option to terminate the lease; ⑤ the residual value of the guarantee provided by the lessee, its related party and an independent third party having financial capability to fulfil the obligation under the guarantee.

Subsequent measurement

The Group calculates and recognises interest income in each period during the lease term based on fixed periodic interest rate. Periodic interest rate is the implicit discount rate used to determine the net lease investment (For sub-leases where the implicit interest rate cannot be determined, the discount rate of the original lease is used (adjusted by any initial direct expenses in relation to the sub-lease), or the revised discount rate fixed when the modification of the finance lease is not treated as a separate lease and the leased is classified as finance lease in accordance with the relevant requirement with the criteria are satisfied had the modification take effect on the commencement date of the lease.

Accounting for lease modification

If the finance lease is modified and meets the following conditions, the Group accounts for the modification as a separate lease: ① The modification expands the lease scope by adding right to use of one or more leased assets; ② The increased consideration is equal to the standalone price of the expanded lease scope as adjusted based on the contract.

If the modification of finance lease is not accounted for as a separate lease, and it satisfies the criteria of classification of the lease as an operating lease had the modification takes effect on the lease commencement date, the Group accounts for the lease modification as a new lease since the effective date of the lease modification, with the net lease investment prior to the effective date of the lease modification as the carrying amount of the leased asset.

V. Significant accounting policies and accounting estimates *(continued)*

36. Leases *(continued)*

(3) The Group as a lessor *(continued)*

2) Accounting for operating leases

Treatment for rents

In each period during the lease term, the Group recognises lease receipts from operating lease as rental income on a straight line basis.

Incentive measures provided

For rent-free period, the Group allocates the total rent over the lease term without deducting rent-free period on a straight line basis, and recognises rental income during the rent-free period. If the Group bears certain expenses on behalf of the lessee, such expenses are deducted from the rental income and the balance of rental income after deduction is allocated over the lease term.

Initial direct expenses

The initial direct expenses incurred by the Group in relation to the operating leases are capitalised as cost of the leased asset, and equally charged to the profit or loss for the current period over the lease term in accordance with the same basis of recognition as rental income.

Depreciation

For the fixed assets in operating lease assets, they are depreciated using the policy similar to the depreciation of assets. For other operating lease assets, they are amortised on a systematic and reasonable manner.

Variable lease payments

The variable lease payments received by the Group that have not included in lease receipts relating the operating leases are credited to the profit or loss of the current period when they occur.

Modifications of operating leases

A modification of operating lease is accounted for by the Group as a new lease since its effective date. Any prepaid lease payments or lease receivables relating to the modification is treated as a receipt for new lease.

37. Other Significant Accounting Policies and Accounting Estimates

(1) Accounting for income tax

Income tax is accounted for using liability method. Income tax expenses represent the sum of current tax and deferred tax. Current tax and deferred tax relating to the transactions or matters that are directly recorded in shareholders' equity are deal with in shareholders' equity. Deferred tax arising from business combination is adjusted to the carrying value of goodwill. All other current tax and deferred tax are recognised in profit or loss for the period.

The tax currently payable is the amount of tax payable to taxation bureau by the enterprises in respect of the transactions and matters of the current period calculated according to the taxation regulations. The deferred income tax is the difference between the balances of the deferred income tax assets and deferred tax liabilities that should be recognised using the balance sheet liabilities approach at the end of period and their balances originally recognised.

1 January 2021 to 31 December 2021
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V. Significant accounting policies and accounting estimates *(continued)*

37. Other Significant Accounting Policies and Accounting Estimates *(continued)*

(2) Segment information

The Group's operating segments are identified based on internal organisation structure, management requirements and internal reporting system. The reportable segments are determined and disclosed based on the operating segments.

Operating segment is a component of the Group that satisfies the following criteria simultaneously: the component can generate revenue and expenses in business activities; the management of the Group can assess the operating performance of the component in order to allocate resources and assess performance; and the Group can acquire accounting information such as the financial position, operating performance and cash flow of the component. If two or more operating segments carry similar economic characteristics, and satisfy certain criteria, they are combined as one operating segment.

(3) Discontinued operations

Discontinued operations refer to components of the Group which satisfy any of the following conditions and can be individually distinguished, and such components have been disposed of or classified as available-for-sale: (1) the components represent an independent major business or a separate major region of operation; (2) the components are part of an intended disposal plan related to an independent major business or a separate major region of operation; (3) the components are subsidiaries acquired specifically for resale.

38. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

☐ Applicable Not applicable

(2) Changes in significant accounting estimates

☐ Applicable Not applicable

(3) Adjustments to the relevant items in the financial statements at the beginning of the year upon implementation of the New Lease Standard for the first time since 2021

☐ Applicable Not applicable

(4) Retrospective adjustments to the comparative figures for prior period upon implementation of the New Lease Standard for the first time since 2021

☐ Applicable Not applicable

VI. Taxation

1. Main tax types and tax rates

Type	Calculation basis	Rate
Value-added tax	Value-added tax payable is the balance of output tax after deducting deductible import tax	13%, 9%, 5%
Urban maintenance and construction tax	Turnover tax actually paid	7%
Enterprise income tax	Taxable profits	15%, 16.5%, 25%
Education surcharge	Turnover tax actually paid	3%
Local education surcharge	Turnover tax actually paid	2%

Disclosures regarding taxpaying entities subject to different enterprise income tax rates

Name of taxpaying entity	Income tax rate
The Company	15%
Shouguang Molong Logistic Co., Ltd.	25%
MPM International Limited	16.5%
Shouguang Baolong Petroleum Equipment Co., Ltd.	25%
Shouguang Maolong New Materials Technology Development Co., Ltd.	25%
Shouguang Molong Electro-mechanical Equipment Co., Ltd.	25%
Weihai Baolong Special Petroleum Materials Co., Ltd.	25%
Shandong Molong Import & Export Co., Ltd.	20%
Shandong Molong Energy Technology Co., Ltd.	25%

2. Tax incentives

(1) According to the document of "Letter Regarding 2020 2nd Batch Filing of High-tech Enterprises of Shandong Province" (Guo Ke Huo Zi [2021] No. 25) issued by the Leading Group Office of National High-tech Enterprises Recognition and Management, the Company has been recognised as a high-tech enterprise and obtained a certificate of high-tech enterprise No. GR202037004362. The certificate of high-tech enterprise was issued on 8 December 2020 and is valid for a term of three years.

According to the regulations of high-tech enterprise recognition and relevant national tax policies, the Company can enjoy preferential national tax policies for three consecutive years (from 2020 to 2022) from the re-recognition of high-tech enterprises, i.e. paying enterprise income tax at a rate of 15%.

(2) According to the Announcement on Matters Concerning the Implementation of Preferential Income Tax Policies to Support the Development of Small Low-Profit Enterprises and Individual Industrial and Commercial Entities of the State Administration of Taxation (SAT Announcement [2021] No. 8), from 1 January 2021 to 31 December 2022, small low-profit enterprises shall calculate taxable income at a reduced rate of 12.5% for the part of taxable income not exceeding RMB1 million, which is subject to enterprise income tax at the rate of 20%; and shall calculate taxable income at a reduced rate of 50% or the part of annual taxable income exceeding RMB1 million but not exceeding RMB3 million, they shall calculate the taxable income at a reduced rate of 50%, which is subject to enterprise income tax at the rate of 20%. Shandong Molong Import & Export Co., Ltd. (山東墨龍進出口有限公司), a subsidiary of the Company, met the criteria and thus enjoy the preferential income tax rate of 20% as a small low-profit enterprise.

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items

1. Monetary funds

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Cash on hand	**58,440.85**	53,744.41
Cash at banks	**230,349,439.42**	509,754,630.52
Other monetary funds	**244,783,296.42**	250,171,428.10
Total	**475,191,176.69**	759,979,803.03
Including: total deposits overseas	**2,258,360.54**	2,326,746.13
Total funds restricted for use as security, pledge or freeze	**244,433,969.19**	249,902,559.65

Other descriptions:

(1) The Group's deposits overseas represented the monetary funds of MPM, a Hong Kong-based subsidiary.

(2) The Company's other monetary funds at the end of the period included bank acceptance margins of RMB242,574,290.00 (as at the beginning of the year: RMB242,336,453.10), loan margins of RMB0.00 (as at the beginning of the year: RMB7,240,000.00), USD-denominated margins of RMB637,575.16 (as at the beginning of the year: RMB0.00) and deposits in other financing institutions of RMB1,571,431.26 (as at the beginning of the year: RMB594,975.00).

(3) The Group had security deposits for bank acceptance bills with maturity date over 3 months of RMB59,759,875.00 (as at the beginning of the year: RMB59,664,500.00).

(4) Monetary funds restricted for use

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Bank deposits	**1,222,104.03**	326,106.55
Other monetary funds	**243,211,865.16**	249,576,453.10
Total	**244,433,969.19**	249,902,559.65

As at the balance sheet date, the Company had funds of RMB1,222,104.03 subject to judicial freezing for litigations.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

2. Bills receivable

(1) Presentation of bills receivable by type

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Trade acceptance bills	**235,005,278.71**	164,945,170.51
Total	**235,005,278.71**	164,945,170.51

Unit: RMB

	Balance at the end of the period					Balance at the beginning of the period				
	Book balance		Provision for bad debts			Book balance		Provision for bad debts		
Type	Amount	Percentage	Amount	Provision rate	Book balance	Amount	Percentage	Amount	Provision rate	Book balance
Including: Bills receivable provided for bad debts on a collective basis	**237,379,069.40**	**100.00%**	**2,373,790.69**	**1.00%**	**235,005,278.71**	166,611,283.34	100.00%	1,666,112.83	1.00%	164,945,170.51
Including: Bills receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	**237,379,069.40**	**100.00%**	**2,373,790.69**	**1.00%**	**235,005,278.71**	166,611,283.34	100.00%	1,666,112.83	1.00%	164,945,170.51
Total	**237,379,069.40**	**100.00%**	**2,373,790.69**	**1.00%**	**235,005,278.71**	166,611,283.34	100.00%	1,666,112.83	1.00%	164,945,170.51

Provision for bad debts on a collected basis: Bills receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics

Unit: RMB

	Balance at the end of the period		
Name	Book balance	Bad debt provision	Provision rate
Within 1 year	237,379,069.40	2,373,790.69	1.00%
Total	237,379,069.40	2,373,790.69	—

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

2. Bills receivable *(continued)*

(1) Presentation of bills receivable by type *(continued)*

Basis for determining the group:

Age of the bills receivable as at the end of the year: The bills receivable of the Group as at the end of the year were all aged within 1 year.

If provision for bad debts of bills receivable was made using the general approach of expected credit loss, please disclose the information on provision for bad debts with reference to the disclosures of other receivables:

☐ Applicable Not applicable

(2) Provision, recovery or reversal of provision for bad debts for the current period

Provision for bad debts for the current period:

Unit: RMB

			Movement during the current period			
Type	Balance at the beginning of period	Provision	Recovery or reversal	Write-off	Others	Balance at the end of the period
Provisions for impairment of bills receivable	1,666,112.83	707,677.86	—	—	—	2,373,790.69
Total	1,666,112.83	707,677.86	—	—	—	2,373,790.69

Including any significant recovery or reversal of provision for bad debts for the period:

☐ Applicable Not applicable

(3) Pledged bills receivable of the Company at the end of the period

Unit: RMB

Item	Pledged amount at the end of the period
Trade acceptance bills	57,940,860.42
Total	57,940,860.42

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

2. Bills receivable *(continued)*

(4) Bill receivables that have been endorsed or discounted at the end of the period and have not yet expired at the balance sheet date

Unit: RMB

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

3. Accounts receivable *(continued)*

(1) Disclosure of accounts receivable by type *(continued)*

Provision for bad debts on an individual basis: Accounts receivable provided for bad debts on an individual basis due to significantly different credit risk

Unit: RMB

	Balance at the end of the period			
Name	Book balance	Bad debt provision	Provision rate	Reason for provision
Hebei Zhongtai Steel Pipes Manufacturing Company Limited (河北中泰鋼管製造有限公司)	17,352,948.73	6,941,179.49	40.00%	Provision was made based on the expected credit loss amount of the customer
Total	17,352,948.73	6,941,179.49	—	—

Provision for bad debts on a collective basis: Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics

Unit: RMB

	Balance at the end of the period		
Name	Book balance	Bad debt provision	Provision rate
Within 1 year	286,440,544.44	2,864,405.44	1.00%
1–2 years	9,564,790.04	4,782,395.02	50.00%
2–3 years	2,354,706.30	1,766,029.73	75.00%
3–4 years	168,705.00	143,399.25	85.00%
4–5 years	977,938.85	831,248.02	85.00%
Over 5 years	89,981,026.72	89,981,026.72	100.00%
Total	389,487,711.35	100,368,504.18	—

If provision for bad debts of accounts receivables was made using the general approach of expected credit loss, please disclose the information on provision for bad debts with reference to the disclosures of other receivables:

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

3. Accounts receivable *(continued)*

(1) Disclosure of accounts receivable by type *(continued)*

Disclosure by age

Unit: RMB

Age	Book balance
Within 1 year (inclusive)	286,440,544.44
1 to 2 years	9,564,790.04
2 to 3 years	2,354,706.30
Over 3 years	108,480,619.30
3 to 4 years	168,705.00
4 to 5 years	977,938.85
Over 5 years	107,333,975.45
Total	406,840,660.08

(2) Provision, recovery or reversal of provision for bad debts for the current period

Provision for bad debts for the current period:

Unit: RMB

Type	Balance at the beginning of the period	Movement during the current period				Balance at the end of the period
		Provision	Recovery or reversal	Write-off	Others	
Provision for bad debts of accounts receivable	123,418,885.57	2,697,733.02	16,594,741.67	2,212,193.25	—	107,309,683.67
Total	123,418,885.57	2,697,733.02	16,594,741.67	2,212,193.25	—	107,309,683.67

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(Unless otherwise indicated, all gures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

3. Accounts receivable *(continued)*

(2) Provision, recovery or reversal of provision for bad debts for the current period *(continued)*

Including material recovery or reversal of provision for bad debts for the period:

Unit: RMB

Name of entity	Amount of recovery or reversal	Method of recovery
Fairmont international Oil Corporation	**15,649,487.13**	Monetary payments
Samasu International Oil Corporation	**945,254.54**	Monetary payments
Total	**16,594,741.67**	—

(3) Accounts receivables actually written off during the period

Unit: RMB

Item	Amount
SAMASU INTERNATIONAL OIL CORPORATION	2,212,193.25

Including material write-off of accounts receivables:

Unit: RMB

Name of entity	Nature of accounts receivable	Amount Written off	Reason for the write-off	Procedures for the write-off	Whether it is arising from connected transaction
SAMASU INTERNATIONAL OIL CORPORATION	Payment	2,212,193.25	Both parties entered into a settlement agreement	Entering into of a settlement agreement	No
Total	—	2,212,193.25	—	—	—

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

3. Accounts receivable *(continued)*

(3) Accounts receivables actually written off during the period *(continued)*

Details of the write-off of accounts receivable:

Note: According to the settlement agreement entered into between the Company with Fairmont International Oil Corporation and Samasu International Oil Corporation on 10 June 2021, Fairmont International Oil Corporation and Samasu International Oil Corporation made payments to the Company in the amount of USD2,398,425.59 and USD145,172.24, respectively, on 17 June 2021. The Company gave up the recourse of other debts after receiving the payments. After being paid, the Company wrote off USD338,735.22 of the accounts receivable from Samasu International Oil Corporation.

(4) Balance of five largest accounts receivable as at the end of the period by debtors

Unit: RMB

Name of entity	Balance of accounts receivable at the end of the period	Percentage of the total balance of accounts receivable at the end of the period	Balance of bad debt provision at the end of the period
Entity I	73,951,944.87	18.18%	739,519.45
Entity II	66,918,716.83	16.45%	3,821,211.84
Entity III	54,689,548.95	13.44%	546,895.49
Entity IV	46,429,189.80	11.41%	464,291.90
Entity V	44,633,850.89	10.97%	44,633,850.89
Total	286,623,251.34	70.45%	—

(5) Amount of assets or liabilities arising from transfer of accounts receivable with continuous involvement

As at 31 December 2021, the Group had no assets or liabilities arising from transfer of accounts receivable with continuous involvement.

(6) Account receivables derecognised on transfer of financial assets

As at 31 December 2021, the Group had no accounts receivable derecognised on the transfer of financial assets.

Other descriptions:

As at 31 December 2021, the Group had no accounts receivable restricted for use.

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

4. Financing receivables

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Bank acceptance bills	**28,539,024.92**	33,575,777.00
Total	**28,539,024.92**	33,575,777.00

Increase or decrease movements and fair value changes of financing receivables during the period

Applicable ☐ Not applicable

The Group uses the carrying amount of the bank acceptance bills as their fair value due to their short remaining terms and their carrying amount approximates to their fair value.

No provision for asset impairment was made by the Group as the acceptors of the bank acceptance bills it holds are all financial institutions with good credit standing.

If provision for impairment of financing receivables was made using the general approach of expected credit loss, please disclose the information on provision for impairment with reference to the disclosures of other receivables:

☐ Applicable Not applicable

Other descriptions:

(1) There were no pledged financing receivables as at the end of the year.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

4. Financing receivables *(continued)*

(2) Financing receivables that have been endorsed or discounted at the end of the period and have not yet expired at the balance sheet date

Unit: RMB

Item	**Amount derecognised as at the end of the period**	Amount not derecognised as at the end of the period
Bank acceptance bills	**676,377,402.37**	—
Total	**676,377,402.37**	—

5. Loans and advances

Unit: RMB

Item	**Balance at the end of the year**	Balance at the beginning of the year
Loans and advances, net	—	951,005.30
Total	—	951,005.30

During the year, Shouguang Baolong Management and Consultancy Co., Ltd. (壽光市寶隆管理諮詢有限公司), a subsidiary of the Group completed deregistration by liquidation. Its loans and advances were all written off in the course of liquidation based on the conditions of the relevant loans and advances. There was no balance of the item as at the end of the year.

(1) Breakdown of loans and advances

Unit: RMB

Item	**Balance at the end of the year**	Balance at the beginning of the year
Loans and advances	—	38,938,901.90
Less: Loss allowances for loans	—	37,987,896.60
Loans and advances, net	—	951,005.30

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(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

5. Loans and advances *(continued)*

(2) Loans and advances by guarantee are presented as follows

Unit: RMB

Type of borrowings	Balance at the end of the year	Balance at the beginning of the year
Guaranteed loans	—	951,005.30
Total	—	951,005.30

(3) By lender type

Unit: RMB

	Balance at the beginning of the year				
	Book balance		Loss allowance for loans		
Type	Amount	Percentage (%)	Amount	Provision rate (%)	Net amount of loans
Corporate loans	36,913,901.90	94.80	35,962,896.60	97.42	951,005.30
Personal loans	2,025,000.00	5.20	2,025,000.00	100.00	—
Total	38,938,901.90	100.00	37,987,896.60	—	

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

5. Loans and advances *(continued)*

(4) Loss allowances for loans and advances

As of 31 December 2021, the profile of the Group's loans based on their securities and guarantees and status using the expected credit loss model was as follows:

Unit: RMB

Loss allowance for loans	Stage 1 Next 12-month expected credit loss	Stage 2 Lifetime expected credit loss (without credit impairment)	Stage 3 Lifetime expected credit loss (with credit impairment)	Total
Balance at 1 January 2021	—	—	37,987,896.60	37,987,896.60
Book balance of loans and advances granted during the year at 1 January 2021	—	—	—	—
— Transfer to Stage 2	—	—	—	—
— Transfer to Stage 3	—	—	—	—
— Reversal to Stage 2	—	—	—	—
— Reversal to Stage 1	—	—	—	—
Provided during the year	—	—	—	—
Reversed during the year	—	—	2,091,573.70	2,091,573.70
Charged off during the year	—	—	35,896,322.90	35,896,322.90
Written off during the year	—	—	—	—
Other movements	—	—	—	—
Balance at 31 December 2021	—	—	—	—

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

5. Loans and advances *(continued)*

(5) Loss allowance for loans

Unit: RMB

Type	Balance at the beginning of the year	Movement during the year: Provision	Movement during the year: Recovery or reversal	Movement during the year: Charge-off or write-off	Balance at the end of the year
Loss allowance for loans	37,987,896.60	—	2,091,573.70	35,896,322.90	—
Total	37,987,896.60	—	2,091,573.70	35,896,322.90	—

(6) Loans and advances actually charged off during the year

Unit: RMB

Item	Amount
Loans and advances	35,896,322.90

6. Prepayments

(1) Presentation of prepayments by age

Unit: RMB

Age	Balance at the end of the period: Amount	Balance at the end of the period: Percentage	Balance at the beginning of the period: Amount	Balance at the beginning of the period: Percentage
Within 1 year	**48,617,999.52**	**98.02%**	24,122,905.08	97.44%
1 to 2 years	**799,233.62**	**1.61%**	—	—
2 to 3 years	**—**	**—**	10,800.00	0.04%
Over 3 years	**181,157.27**	**0.37%**	622,237.76	2.52%
Total	**49,598,390.41**	**—**	24,755,942.84	—

Reason(s) for significant prepayments with an age over 1 year and not settled when due:

The Group did not have any material prepayments with an age over one year as at the end of the year.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

6. Prepayments

(2) Balance of five largest prepayments as at the end of the period by prepaid entity

Name of entity	Balance at the end of the year	Age	Percentage of total balance of prepayments at the end of the year (%)
Entity I	29,954,987.56	Within 1 year	60.40
Entity II	6,144,959.09	Within 1 year	12.39
Entity III	2,635,200.00	Within 1 year	5.31
Entity IV	2,063,521.40	Within 1 year	4.16
Entity V	1,655,474.16	Within 1 year	3.34
Total	42,454,142.21	—	85.60

7. Other receivables

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Other receivables	**17,440,781.64**	156,486,818.72
Total	**17,440,781.64**	156,486,818.72

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

7. Other receivables *(continued)*

(1) Other receivables by payment nature

Unit: RMB

Payment nature	Book balance at the end of the period	Book balance at the beginning of the period
Staff turnover loans	**871,000.00**	1,227,252.00
Deposits/margins	**3,543,428.90**	2,108,347.00
Amounts due from administrative entities	**1,390,351.30**	1,300,685.00
Amounts due from other entities	**14,534,560.09**	154,115,315.32
Less: Provision for bad debts of other receivables	**(2,898,558.65)**	(2,264,780.60)
Total	**17,440,781.64**	156,486,818.72

(2) Provision for bad debts

Unit: RMB

Provision for bad debts	Stage 1 Next 12-month expected credit loss	Stage 2 Lifetime expected credit loss (without credit impairment)	Stage 3 Lifetime expected credit loss (with credit impairment)	Total
Balance at 1 January 2021	788,527.49	1,476,253.11	—	2,264,780.60
Balance at 1 January 2021 for the current period	—	—	—	—
Provided during the period	926,149.44	—	—	926,149.44
Reversed during the period	—	292,371.39	—	292,371.39
Balance at 31 December 2021	1,714,676.93	1,183,881.72	—	2,898,558.65

Movements of book balance of significant changes in loss allowance for the current period

☐ Applicable Not applicable

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

7. Other receivables *(continued)*

(2) Provision for bad debts *(continued)*

Disclosure by age

Unit: RMB

Age	Book balance
Within 1 year (inclusive)	4,853,120.54
1 to 2 years	13,565,457.23
2 to 3 years	69,800.00
Over 3 years	1,850,962.52
3 to 4 years	540,278.91
Over 5 years	1,310,683.61
Total	20,339,340.29

(3) Provision, recovery or reversal of provision for bad debts for the current period

Provision for bad debts for the current period:

Unit: RMB

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

7. Other receivables *(continued)*

(5) Balance of five largest other receivables as at the end of the period by debtor

Unit: RMB

Name of entity	Nature of payment	Balance at the end of the period	Age	Percentage of the total balance of other receivables at the end of the period	Balance of bad debt provision at the end of the period
Shandong Shouguang Vegetable Wholesale Market Co., Ltd. (山東壽光蔬菜批發市場有限公司)	Amounts due from other entities	12,808,000.00	1–2 years	62.97%	1,536,960.00
Sinopec International Business Co., Ltd., Nanjing Bidding Centre (中國石化國際事業有限公司南京招標中心)	Security deposits	1,163,185.30	Within 1 year	5.72%	—
Sinopec International Business Co., Ltd., Nanjing Bidding Centre (中國石化國際事業有限公司南京招標中心)	Security deposits	756,469.60	1-2 years	3.72%	—
Wendeng Gaocun Town People's Government (文登市高村鎮人民政府)	Amounts due from administrative entities	1,300,000.00	Over 5 years	6.39%	624,000.00
Shouguang Social Insurance Affairs Administration Centre (壽光市社會保險事業管理中心)	Amounts due from entities	1,045,669.89	Within 1 year	5.14%	157,245.54
Shaanxi Energy Chemical Industry Exchange Co., Ltd. (陝西能源化工交易所股份有限公司)	Security deposits	848,153.00	Within 1 year	4.17%	—
Total	—	17,921,477.79	—	88.11%	2,318,205.54

(6) Government grants receivable

Nil

(7) Other receivables derecognised on transfer of financial assets

As at 31 December 2021, the Group had no other receivables derecognised on transfer of financial assets.

(8) Amount of assets or liabilities arising from transfer of other receivables with continuous involvement

As at 31 December 2021, there were no assets or liabilities arising from transfer of other receivables with continuous involvement.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

7. Other receivables *(continued)*

(8) Amount of assets or liabilities arising from transfer of other receivables with continuous involvement *(continued)*

Other descriptions:

(1) As at 31 December 2021, the Group did not have any pledged other receivables.

(2) Borrowings due from employees

Name of borrower	Li Jia Peng	Li Song Ming	Diao Shi Jin	Liu Chun Jing	Other employees
Purpose of borrowing	Business working capital	Business working capital	Business working capital	Business working capital	Business working capital
Amount of borrowing					
— Current year (RMB)	100,000.00	100,000.00	—	—	671,000.00
— Prior year (RMB)	—	100,000.00	300,000.00	100,000.00	727,252.00
Amount of bad debt provision (RMB)	—	—	—	—	—

8. Inventories

Should the Company comply with the disclosure requirements for property industry

No

(1) Category of inventories

Unit: RMB

	Balance at the end of the period			Balance at the beginning of the period	
Item	Book balance	Provision for impairment of inventories or provision for devaluation of costs of contract performance	Book value	Book balance	Provision for impairment of inventories or provision for

Item	GPS

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

8. Inventories *(continued)*

(2) Provision for impairment of inventories or provision for devaluation of costs of contract performance

Unit: RMB

Item	Balance at the beginning of the period	Increase during the current period		Decrease during the current period		Balance at the end of the period
		Provision	Others	Reversal or charge-off	Others	
Raw materials	5,068,482.54	6,416,206.16	—	1,950,529.35	—	9,534,159.35
Work-in-progress	1,481,224.74	2,089,901.26	—	1,051,157.76	—	2,519,968.24
Goods in stock	5,966,469.73	8,480,952.26	—	2,755,270.30	—	11,692,151.69
Sub-contracting materials	330.20	2,027,770.81	—	330.20	—	2,027,770.81
Total	12,516,507.21	19,014,830.49	—	5,757,287.61	—	25,774,050.09

Note: The Company reversed RMB1,275,797.68 and charged off RMB4,481,489.93 from the impairment allowances for inventories during the current period, respectively.

Allowances for impairment of inventories

Item	Specific basis to determine net realisable value	Reason for reversal or charge-off during the current year
Raw materials	The selling price of the products formed by the production of the materials and semi-finished products minus the further processing costs and related sales expenses and related expenses of taxation	Material requisition for production and price change
Work-in-progress		Material requisition for production and price change
Sub-contracting materials		Material requisition for production and price change
Finished products om tup as		

Notes to the Financial Statements

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

11. Investment properties

(1) Investment properties under cost model

Applicable ☐ Not applicable

Unit: RMB

Item		Building and structures	Total
I.	**Carrying amount at cost**		
1.	Balance at the beginning of the period	—	—
2.	Increased during the current period	**29,316,909.77**	29,316,909.77
(1)	Purchases	—	—
(2)	Transfer from inventories/fixed assets/ construction-in-progress	**29,316,909.77**	29,316,909.77
(3)	Additions from business combinations	—	—
3.	Decreased during the current period	—	—
(1)	Disposals	—	—
(2)	Other transfers	—	—
4.	Balance at the end of the period	**29,316,909.77**	29,316,909.77
II.	**Accumulated depreciation and accumulated amortisation**		
1.	Balance at the beginning of the period	—	—
2.	Increased during the current period	**14,771,329.91**	14,771,329.91
(1)	Provision or amortisation	**674,999.34**	674,999.34
(2)	Transfer from fixed assets/construction-in-progress	**14,096,330.57**	14,096,330.57
3.	Decreased during the current period	—	—
(1)	Disposals	—	—
(2)	Other transfers	—	—
4.	Balance at the end of the period	**14,771,329.91**	14,771,329.91
III.	**Provision for Impairment**		
1.	Balance at the beginning of the period	—	—
2.	Increased during the current period	**4,616,478.28**	4,616,478.28
(1)	Provision	—	—
(2)	Transfer from fixed assets/ construction-in-progress	**4,616,478.28**	4,616,478.28
3.	Decreased during the current period	—	—
(1)	Disposals	—	—
(2)	Other transfers	—	—
4.	Balance at the end of the period	**4,616,478.28**	4,616,478.28
IV.	**Book value**		
1.	Book value at the end of the period	**9,929,101.58**	9,929,101.58
2.	Book value at the beginning of the period	—	—

(2) Investment properties under fair value model

☐ Applicable Not applicable

(3) Investment properties with incomplete property ownership certificate

Nil

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

12. Fixed assets

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Fixed assets	**2,181,361,123.66**	2,493,577,016.35
Total	**2,181,361,123.66**	2,493,577,016.35

(1) Details of fixed assets

Unit: RMB

Item	Buildings	Machinery	Electronics and others	Vehicles	Total
I. Carrying amount at cost					
1. Balance at the beginning of the period	952,316,538.20	3,309,613,999.73	116,666,978.80	13,371,621.87	4,391,969,138.60
2. Increased during the current period	270,187.54	17,085,996.24	2,274,503.67	1,891,905.44	21,522,592.89
(1) Purchases	270,187.54	3,812,307.58	1,543,223.30	1,891,905.44	7,517,623.86
(2) Transfer from construction-in-progress	—	13,273,688.66	731,280.37	—	14,004,969.03
(3) Additions from business combinations	—	—	—	—	—
3. Decreased during the current period	29,711,847.14	26,341,836.07	2,805,122.28	1,007,228.24	59,866,033.73
(1) Disposals or retirements	394,937.37	26,341,836.07	2,805,122.28	1,007,228.24	30,549,123.96
(2) Transfer to investment properties	29,316,909.77	—	—	—	29,316,909.77
4. Balance at the end of the period	922,874,878.60	3,300,358,159.90	116,136,360.19	14,256,299.07	4,353,625,697.76
II. Accumulated depreciation					
1. Balance at the beginning of the period	279,617,559.03	1,455,564,671.50	89,261,635.62	7,239,675.32	1,831,683,541.47
2. Increased during the current period	44,013,918.15	169,573,426.21	7,349,016.08	2,362,611.89	223,298,972.33
(1) Provision	44,013,918.15	169,573,426.21	7,349,016.08	2,362,611.89	223,298,972.33
3. Decreased during the current period	14,146,692.55	22,299,140.52	2,658,048.18	868,044.56	39,971,925.81
(1) Disposals or retirements	50,361.98	22,299,140.52	2,658,048.18	868,044.56	25,875,595.24
(2) Transfer to investment properties	14,096,330.57	—	—	—	14,096,330.57
4. Balance at the end of the period	309,484,784.63	1,602,838,957.19	93,952,603.52	8,734,242.65	2,015,010,587.99
III. Impairment provision					
1. Balance at the beginning of the period	4,986,478.28	61,722,102.50	—	—	66,708,580.78
2. Increased during the current period	905,320.54	94,256,448.07	850.00	—	95,162,618.61
(1) Provision	905,320.54	94,256,448.07	850.00	—	95,162,618.61
3. Decreased during the current period	4,616,478.28	735.00	—	—	4,617,213.28
(1) Disposals or retirements	—	735.00	—	—	735.00
(2) Transfer to investment properties	4,616,478.28	—	—	—	4,616,478.28
4. Balance at the end of the period	1,275,320.54	155,977,815.57	850.00	—	157,253,986.11
IV. Book value					
1. Book value at the end of the period	612,114,773.43	1,541,541,387.14	22,182,906.67	5,522,056.42	2,181,361,123.66
2. Book value at the beginning of the period	667,712,500.89	1,792,327,225.73	27,405,343.18	6,131,946.55	2,493,577,016.35

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(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

12. Fixed assets *(continued)*

(2) Temporarily idle fixed assets

Unit: RMB

Item	Carrying amount at cost	Accumulated depreciation	Impairment provision	Book value	Remark
Buildings	61,615,371.41	36,639,771.13	905,320.54	24,070,279.74	—
Machinery	416,489,570.51	295,487,316.44	76,427,932.97	44,574,321.10	—
Vehicles	870,834.83	544,229.28	—	326,605.55	—
Electronics and others	37,262,863.69	35,123,666.49	850.00	2,138,347.20	—
Total	516,238,640.44	367,794,983.34	77,334,103.51	71,109,553.59	—

(3) Fixed assets under operating lease

Unit: RMB

Item	Book value at the end of the period
Buildings	9,929,101.58
Machinery and others	25,552,870.63
Total	35,481,972.21

(4) Fixed assets with incomplete property ownership certificate

Unit: RMB

Item	Book value	Reason for incomplete property ownership certificate
Workshop plant, office building and staff canteen of Maolong New Materials	**227,773,258.67**	Not yet applied

Other descriptions:

The Group had no fixed assets that were leased in under finance leases.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

13. Construction-in-progress

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Construction-in-progress	**10,029,521.56**	7,620,542.62
Total	**10,029,521.56**	7,620,542.62

(1) Details of construction-in-progress

Unit: RMB

	Balance at the end of the period			Balance at the beginning of the period		
Item	**Book balance**	**Provision for impairment**	**Book value**	Book balance	Provision for impairment	Book value
Other miscellaneous projects	10,029,521.56	—	10,029,521.56	7,620,542.62	—	7,620,542.62
Total	10,029,521.56	—	10,029,521.56	7,620,542.62	—	7,620,542.62

(2) Provision for impairment of construction-in-progress for the current period

No impairment was provided for construction-in-progress as there were no indication of impairment of construction-in-progress at the end of the year.

Other descriptions:

As at the end of the year, there were no restrictions on the ownership or use right of construction-in-progress due to pledge, guarantee or any other reasons.

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(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

14. Right-of-use assets

Unit: RMB

Item		Buildings and related land use rights	Total
I.	**Carrying amount at cost**		
	1. Balance at the beginning of the period	4,591,910.73	4,591,910.73
	2. Increased during the current period	—	—
	3. Decreased during the current period	—	—
	4. Balance at the end of the period	4,591,910.73	4,591,910.73
II.	**Accumulated depreciation**		
	1. Balance at the beginning of the period	—	—
	2. Increased during the current period	3,061,273.92	3,061,273.92
	(1) Provision	3,061,273.92	3,061,273.92
	3. Decreased during the current period	—	—
	4. Balance at the end of the period	3,061,273.92	3,061,273.92
III.	**Book value**		
	1. Book value at the end of the period	1,530,636.81	1,530,636.81
	2. Book value at the beginning of the period	4,591,910.73	4,591,910.73

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

15. Intangible assets

(1) Details of intangible assets

Unit: RMB

Item		Land use rights	Patents	Non-patented technology	Software	Total
I.	**Carrying amount at cost**					
	1. Balance at the beginning of					

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

16. Development expenditures

Unit: RMB

Item	Balance at the beginning of the period	Increase during the current period		Decrease during the current period		Balance at the end of the period
		Internal development expenditures	Others	Recognised as intangible assets	Transfer to profit or loss for the current period	
Project I	—	2,495,446.15	—	—	2,495,446.15	—
Project II	—	7,286,215.21	—	—	7,286,215.21	—
Project III	—	4,717,944.36	—	4,717,944.36	—	—
Project IV	—	5,818,198.46	—	—	5,818,198.46	—
Project V	—	6,105,531.21	—	—	6,105,531.21	—
Project VI	—	5,526,632.72	—	—	5,526,632.72	—
Project VII	—	5,053,823.83	—	—	5,053,823.83	—
Total	—	37,003,791.94	—	4,717,944.36	32,285,847.58	—

Other descriptions:

Please refer to V.25 of this note for the division in the phase of research and development expenditures and the phase of development, the time and basis of capitalisation of development phase.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

17. Deferred income tax assets/deferred income tax liabilities

(1) Deferred income tax assets before offsetting

Unit: RMB

	Balance at the end of the period		Balance at the beginning of the period	
Item	**Deductible temporary difference**	**Deferred income tax assets**	Deductible temporary difference	Deferred income tax assets
Unrealised profits from intragroup transactions	**7,954,198.64**	**1,988,549.66**	8,674,082.12	2,168,520.53
Provision for bad debts of bills receivable	**2,373,790.69**	**356,068.60**	1,666,112.83	249,916.92
Provision for bad debts of accounts receivable	**106,898,400.53**	**16,034,760.08**	123,240,340.22	18,486,051.03
Provision for bad debts of other receivables	**1,722,904.75**	**258,435.71**	805,648.76	120,847.31
Allowance for impairment of inventories	**14,728,514.57**	**2,209,277.19**	9,699,861.11	1,454,979.17
Difference in amortisation of intangible assets	**54,228,368.96**	**8,134,255.34**	70,518,640.46	10,577,796.07
Estimated liabilities	**558,467.38**	**83,770.11**	14,392,824.64	2,158,923.70
Total	**188,464,645.52**	**29,065,116.69**	228,997,510.14	35,217,034.73

(2) Deferred income tax liabilities before offsetting

Unit: RMB

	Balance at the end of the period		Balance at the beginning of the period	
Item	**Taxable temporary difference**	**Deferred income tax liabilities**	Taxable temporary difference	Deferred income tax liabilities
Long-term equity investments	**15,237.52**	**3,809.38**	15,237.52	3,809.38
Intangible assets	**21,433,554.56**	**5,358,388.64**	22,227,357.96	5,556,839.49
Total	**21,448,792.08**	**5,362,198.02**	22,242,595.48	5,560,648.87

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(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

17. Deferred income tax assets/deferred income tax liabilities *(continued)*

(3) Deferred income tax assets or liabilities presented on a net basis after offsetting

Unit: RMB

Item	Offsetting between deferred income tax assets and liabilities at the end of the period	Balance of deferred income tax assets or liabilities after offsetting at the end of the period	Offsetting between deferred income tax assets and liabilities at the beginning of the period	Balance of deferred income tax assets or liabilities after offsetting at the beginning of the period
Deferred income tax assets	—	29,065,116.69	—	35,217,034.73
Deferred income tax liabilities	—	5,362,198.02	—	5,560,648.87

(4) Breakdown of unrecognised deferred income tax assets

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Deductible temporary differences	**174,502,936.99**	109,150,800.67
Deductible losses	**1,249,185,686.71**	986,842,767.09
Total	**1,423,688,623.70**	1,095,993,567.76

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

17. Deferred income tax assets/deferred income tax liabilities *(continued)*

(5) Deductible losses of unrecognised deferred income tax assets expiring in the following years

Unit: RMB

Year	**Amount at the end of the period**	Amount at the beginning of the period	Remark
2021	**—**	158,888,578.18	—
2022	**175,248,363.36**	175,248,363.36	—
2023	**52,476,863.76**	52,476,863.76	—
2024	**219,261,742.73**	219,282,588.57	—
2025	**163,165,974.67**	164,322,306.42	—
2026	**295,336,582.84**	144,086,568.32	—
2029	**72,537,498.48**	72,537,498.48	—
2031	**271,158,660.87**	—	—
Total	**1,249,185,686.71**	986,842,767.09	—

18. Other non-current assets

Unit: RMB

	Balance at the end of the period			Balance at the beginning of the period		
Item	**Book balance**	**Provision for impairment**	**Book value**	Book balance	Provision for impairment	Book value
Prepayments for equipment	350,000.00	—	350,000.00	350,000.00	—	350,000.00
Prepayment for construction works	378,107.60	—	378,107.60	378,107.60	—	378,107.60
Total	728,107.60	—	728,107.60	728,107.60	—	728,107.60

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(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

19. Short-term borrowings

(1) Category of short-term borrowings

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Pledged borrowings	—	19,560,839.26
Guaranteed borrowings	**1,024,227,167.50**	827,986,114.72
Credit borrowings	**353,379,047.22**	696,244,933.51
Borrowings for bills discounting and letters of credit	**539,100,000.00**	510,433,490.80
Total	**1,916,706,214.72**	2,054,225,378.29

Explanations about the classification of short-term borrowings:

Details of the interest rate: In 2021, the weighted average annual interest rate for short-term borrowings of the Group was 4.69% (2020: 4.46%).

(2) Details of outstanding overdue short-term borrowings

The Group did not have any outstanding overdue short-term borrowing as at the end of the year.

20. Bills payable

Unit: RMB

Type	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	**101,209,067.42**	121,472,511.10
Total	**101,209,067.42**	121,472,511.10

As at the end of the period, total outstanding overdue bills payable amounted to RMB0.00.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

21. Accounts payable

(1) Presentation of accounts payable

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Amounts due to suppliers	**599,514,345.81**	648,352,428.48
Total	**599,514,345.81**	648,352,428.48

(2) Material accounts payable with an age of more than one year

Unit: RMB

Item	Balance at the end of the period	Reasons for outstanding or carrying forward
Entity I	**5,333,245.98**	Settlement conditions unfulfilled
Entity II	**4,090,685.89**	Settlement conditions unfulfilled
Entity III	**3,906,684.00**	Settlement conditions unfulfilled
Entity IV	**3,884,199.70**	Settlement conditions unfulfilled
Entity V	**3,537,794.87**	Settlement conditions unfulfilled
Total	**20,752,610.44**	—

Other descriptions:

Presentation of accounts payable by age

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all gures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

21. Accounts payable *(continued)*

(2) Material accounts payable with an age of more than one year *(continued)*

An aging analysis of accounts payable (including amounts due from related parties) based on transaction dates is as follows:

Unit: RMB

Item	Balance at

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

23. Salaries payable

(1) Presentation of salaries payable

Unit: RMB

Item	Balance at the beginning of the period	Increase during the current period	Decrease during the current period	Balance at the end of the period
I. Short-term salaries	54,493,884.87	218,235,559.93	214,896,356.97	57,833,087.83
II. Post-employment benefits — defined contribution plans	—	20,617,695.51	20,617,695.51	—
Total	54,493,884.87	238,853,255.44	235,514,052.48	57,833,087.83

(2) Presentation of short-term salaries

Unit: RMB

Item	Balance at the beginning of the period	Increase during the current period	Decrease during the current period	Balance at the end of the period
1. Wages, bonuses, allowances and subsidies	39,050,417.01	191,568,397.82	190,049,204.66	40,569,610.17
2. Staff welfare	—	3,904,387.65	3,904,387.65	—
3. Social insurances	—	10,893,245.73	10,893,245.73	—
Including: Medical insurance	—	8,830,379.69	8,830,379.69	—
Work injury insurance	—	850,430.38	850,430.38	—
Maternity insurance	—	1,212,435.66	1,212,435.66	—
4. Housing provident fund	—	6,886,211.02	6,886,211.02	—
5. Union fund and staff education fund	15,443,467.86	4,983,317.71	3,163,307.91	17,263,477.66
Total	54,493,884.87	218,235,559.93	214,896,356.97	57,833,087.83

(3) Presentation of defined contribution plans

Unit: RMB

Item	Balance at the beginning of the period	Increase during the current period	Decrease during the current period	Balance at the end of the period
1. Basic pension insurance	—	19,756,274.70	19,756,274.70	—
2. Unemployment insurance	—	861,420.81	861,420.81	—
Total	—	20,617,695.51	20,617,695.51	—

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

23. Salaries payable *(continued)*

(3) Presentation of defined contribution plans *(continued)*

Other descriptions:

The Group participates in social insurance plans established by government agencies as required. According to the plans, the Group pays premiums to these plans in accordance with the relevant regulations of the local government. In addition to the above payment of premiums, the Group no longer undertakes further payment obligations. After the payment of relevant premiums, the Company has no right to utilise the above premiums. The corresponding expenditures are charged to the current profit or loss or related asset cost when incurred.

Salaries payables of the Group as at the end of the year included accrued wages, bonuses and allowances of RMB40,569,610.17 in total, which were expected to be paid in the first half of 2022.

As at 31 December 2021, contributions to all planned pension insurances and unemployment insurances of the Group have made.

For each of the two financial years ended 31 December 2020 and 2021, the Group did not have any forfeited contributions (by employers on behalf of employees who leave the plans prior to fully vesting in such contributions) under defined contribution plans available for the Group to reduce the existing level of contributions.

24. Taxes Payable

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Value-added tax	**14,640,926.26**	15,593,882.12
Enterprise income tax	**6,222,288.30**	6,510,813.92
Individual income tax	**99,319.08**	1,083,896.01
Urban maintenance and construction tax	**1,283,658.93**	1,015,263.75
Property tax	**936,701.23**	1,231,131.25
Land use tax	**869,314.20**	639,164.00
Education surcharge	**916,899.23**	724,499.53
Local water resources fund	**—**	74,457.99
Stamp duty	**673,404.96**	236,453.80
Others	**151,326.34**	82,543.23
Total	**25,793,838.53**	27,192,105.60

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(Unless otherwise indicated, all gures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

26. Non-current liabilities due within one year

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Long-term borrowings due within one year	**77,665,842.90**	76,549,075.94
Long-term payables due within one year	**23,753,396.36**	53,044,531.57
Lease liabilities due within one year	**5,582,154.56**	10,191,315.95
Total	**107,001,393.82**	139,784,923.46

27. Other current liabilities

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Unmatured endorsed trade acceptance bills	**58,359,800.00**	42,860,229.13
Output tax to be transferred	**9,074,588.00**	7,335,204.95
Total	**67,434,388.00**	50,195,434.08

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

28. Long-term borrowings

(1) Category of long-term borrowings

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Secured borrowings	**114,807,460.40**	190,612,226.47
Less: Amounts due within one year	**(77,665,842.90)**	(76,549,075.94)
Total	**37,141,617.50**	114,063,150.53

Other descriptions, including interest rate intervals:

In 2021, the Group had only one long-term borrowing which bore an interest rate of 6.70%.

Profile of maturity dates of long-term borrowings is as follows:

Unit: RMB

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

29. Lease liabilities

Unit: RMB

Item	**Amount at the end of the period**	Amount at the beginning of the period
Lease liabilities	**5,582,154.56**	15,159,675.79
Less: Amounts due within one year	**(5,582,154.56)**	(10,191,315.95)
Total	—	4,968,359.84

30. Long-term payables

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Long-term payables	**37,742,329.02**	4,585,000.00
Total	**37,742,329.02**	4,585,000.00

(1) Presentation of long-term payables by payment nature

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Leaseback financings	**37,742,329.02**	4,585,000.00

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

30. Long-term payables *(continued)*

(1) Presentation of long-term payables by payment nature *(continued)*

Other descriptions:

The Group's long-term payables carried an effective interest rate of 9.66% in 2021.

Profile of maturity dates of long-term payables

Unit: RMB

Item	Balance at the end of the year	Balance at the beginning of the year
Leaseback financings	**61,495,725.38**	57,629,531.57
Total	**61,495,725.38**	57,629,531.57
The carrying amounts of the above borrowings are repayable:		
Within one year	**23,753,396.36**	53,044,531.57
After one year from the balance sheet date but within two years	**19,674,948.82**	4,585,000.00
After two years from the balance sheet date but within five years	**18,067,380.20**	—
Less: Amount due within one year shown under current liabilities	**23,753,396.36**	53,044,531.57
Amount shown under non-current liabilities	**37,742,329.02**	4,585,000.00

31. Estimated liabilities

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period	Cause
Pending litigations	558,467.38	14,392,824.64	See XIV.2 of this note for details
Total	558,467.38	14,392,824.64	—

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

32. Deferred income

Unit: RMB

Item	Balance at the beginning of the period	Increase during the current period	Decrease during the current period	Balance at the end of the period	Cause
Government grants	7,176,480.86	—	209,825.68	6,966,655.18	Asset-related government grants
Total	7,176,480.86	—	209,825.68	6,966,655.18	—

Projects involving government grants:

Unit: RMB

Liability	Balance at the beginning of the period	Amount of new grants during the current period	Amount included in non-operating income during the current period	Amount included in other income during the current period	Amount charged against costs and expenses during the current period	Other movements	Balance at the end of the period	Asset-related/ income-related
Grants for ancillary infrastructure	6,780,983.62	—	—	173,871.38	—	—	6,607,112.24	Asset-related
Grants for defense basement construction	395,497.24	—	—	35,954.30	—	—	359,542.94	Asset-related
Total	7,176,480.86	—	—	209,825.68	—	—	6,966,655.18	—

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

32. Deferred income *(continued)*

Other descriptions:

Note 1: According to Notice on Finance of Shouguang Molong Logistic Company Limited's Subsidy Funds for Infrastructure (Shangzhengfa [2016] No.3) issued by the People's government of Shangkou Town, the Group received subsidy funds for infrastructure of RMB6,954,855.00 on 24 February 2016, and recognised the government grant as the government grant related to assets. The depreciation of the underlying assets for the year amounting RMB173,871.38 was charged to the profit or loss for the current period.

Note 2: According to the Request for return of preferential policy to the phase II project of Weihai Baolong Special Petroleum Materials Co., Ltd. (Gaozhengqingzi [2018] No. 42) issued by the People's Government of Gaocun Town, Wendeng District, Weihai City, Weihai Baolong, a subsidiary of the Company, received a grant of RMB719,085.90 for the construction of defense basement on 25 February 2019. The company recognised such government grant as an asset-related government grant. The depreciation of the underlying assets for the year amounting RMB35,954.30 was charged to the profit or loss for the current period.

33. Share Capital

Unit: RMB

		Increase or decrease on the change (+, –)					
	Balance at the beginning of the period	Issue of new shares	Bonus issue	Transfer of reserves into shares	Others	Sub-total	Balance at the end of the period
Total number of shares	797,848,400.00	—	—	—	—	—	797,848,400.00

34. Capital Reserves

Unit: RMB

Item	Balance at the beginning of the period	Increase during the current period	Decrease during the current period	Balance at the end of the period
Capital premium (share capital premium)	849,481,990.92	—	—	849,481,990.92
Other capital reserves	13,687,167.50	187,152.78	—	13,874,320.28
Total	863,169,158.42	187,152.78	—	863,356,311.20

Other descriptions, including the increase or decrease movements during the current period and the reason(s) for such movements:

The controlling shareholder of the controlling shareholder of the Company provided the Company with a nil-consideration financial assistance, the interest on the borrowing was recognised as a capital reserve according to the relevant requirements.

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

35. Other comprehensive income

Unit: RMB

Item	Balance at the beginning of the period	Amount for the current period						
		Amount before income tax for the current period	Less: Transfer of amount previously included in other comprehensive income to profit or loss for the current period	Less: Transfer of amount previously included in other comprehensive income to retained earnings for the current period	Less: Income tax expenses	Attributable to the parent company after tax	Attributable to minority shareholders after tax	Balance at the end of the period
I. Other comprehensive income that may not reclassified to profit or loss	—	—	—	—	—	—	—	—
II. Other comprehensive income that will be reclassified to profit or loss	(2,015,577.82)	381,810.59	—	—	—	343,629.53	38,181.06	(1,671,948.29)
Exchange differences on translation of foreign financial statements	(2,015,577.82)	381,810.59	—	—	—	343,629.53	38,181.06	(1,671,948.29)
Total other comprehensive income	(2,015,577.82)	381,810.59	—	—	—	343,629.53	38,181.06	(1,671,948.29)

36. Special Reserve

Unit: RMB

Item	Balance at the beginning of the period	Increase during the current period	Decrease during the current period	Balance at the end of the period
Safety production fees	—	24,468,609.59	24,468,609.59	—
Total	—	24,468,609.59	24,468,609.59	—

Other descriptions, including the increase or decrease during the current period and the reason(s) for such changes:

Note: The Group provided for and utilised production safety fee in accordance with the Measures on the Withholding and Usage of Safety Production Fees of Enterprises (企業安全生產費用提取和使用管理辦法) (Caiqi [2012] No.16) jointly issued by the Ministry of Finance and the State Administration of Work Safety.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

37. Surplus Reserve

Unit: RMB

Item	Balance at the beginning of the period	Increase during the current period	Decrease during the current period	Balance at the end of the period
Statutory surplus reserve	187,753,923.88	—	—	187,753,923.88
Total	187,753,923.88	—	—	187,753,923.88

38. General risk reserve

Unit: RMB

Item	Balance at the beginning of the year	Increase during the current year	Decrease during the current year	Balance at the end of the year
General risk reserve	11,236.91	—	11,236.91	—
Total	11,236.91	—	11,236.91	—

The decrease in general risk reserve during the current year was attributable to the liquidation and deregistration of a subsidiary of the Company.

39. Undistributed profits

Unit: RMB

Item	Current period	Prior period
Undistributed profits at the end of the prior period before adjustments	**(66,030,056.80)**	(98,208,687.79)
Undistributed profits at the beginning of the period after adjustments	**(66,030,056.80)**	(98,208,687.79)
Add: Net profit attributable to owners of the parent company for the period	**(368,017,768.12)**	32,178,630.99
Undistributed profits at the end of the period	**(434,047,824.92)**	(66,030,056.80)

Note: The Company did not distribute any dividends for the current year. During the track record period, the Company did not distribute any dividends in 2020 either. As at 31 December 2021, the Company had no profit available for distribution to shareholders.

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

39. Undistributed profits

Breakdown of adjustments to undistributed profits as at the beginning of the period:

(1) The effect of the retrospective adjustments according to ASBE and their new related requirements on the undistributed profits as at the beginning of the period amounted to RMB0.00.

(2) The effect of the changes in accounting policies on the undistributed profits as at the beginning of the period amounted to RMB0.00.

(3) The effect of corrections of significant accounting errors on the undistributed profits as at the beginning of the period amounted to RMB0.00.

(4) The effect of the change of the scope of combination under common control on the undistributed profits as at the beginning of the period amounted to RMB0.00.

(5) The effect of other adjustments on the undistributed profits as at the beginning of the period amounted to RMB0.00.

40. Minority interests

Minority interests attributable to minority shareholders of each subsidiary

Unit: RMB

Name of subsidiary	Proportion of minority shareholding (%)	Balance at the end of the period	Balance at the beginning of the year
Shouguang Baolong	30.00	(53,415,263.28)	(50,841,975.41)
Baolong Consultancy	50.00	0.00	71,780,347.47
MPM	10.00	(75,837.20)	(105,566.85)
Total	—	(53,491,100.48)	20,832,805.21

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

41. Operating revenue and operating costs

Unit: RMB

Item	Amount for the current period		Amount for the last period	
	Revenue	**Costs**	Revenue	Costs
Principal operations	**3,628,736,513.11**	**3,419,126,424.09**	2,945,891,154.47	2,844,382,010.97
Other operations	**105,726,328.01**	**95,351,492.54**	63,827,875.19	58,054,718.64
Total	**3,734,462,841.12**	**3,514,477,916.63**	3,009,719,029.66	2,902,436,729.61

Whether the lower of the audited net profit before or after deducting extraordinary gains or losses is a negative number

Yes ☐ No

Unit: RMB

Item	Current year	Particulars of deductions	Prior year	Particulars of deductions
Amount of operating revenue	**3,734,462,841.12**	Mainly comprised of revenue from sales of products and scraps.	3,009,719,029.66	Mainly comprised of revenue from sales of products and scraps.
Total amount of deductions from operating revenue	**105,726,328.01**	Mainly comprised of revenue from sales scraps.	63,827,875.19	Mainly comprised of revenue from sales scraps.
Proportion of total amount of deductions from operating revenue to operating revenue	**2.83%**	—	2.12%	—
I. Revenue from operations not related to principal operations	**—**	—	—	—
1. Revenue from other businesses other than normal operation, such as revenue realized from leasing fixed assets, intangible assets, packaging materials, sales from materials, exchanges for non-monetary assets with materials, engaging in entrusted management business, and revenue included in operating revenue but generated from business other than normal operation of the listed company.	**104,266,398.19**	Mainly comprised of revenue from sales from scraps.	63,827,875.19	Mainly comprised of revenue from sales from scraps.
3. Revenue generated from the new trading business in the current and prior accounting years.	**1,459,929.82**	Trading revenue recognised on a net basis.	—	—
Subtotal of revenue from businesses not related to the principal operations	**105,726,328.01**	Mainly comprised of revenue from sales of scraps.	63,827,875.19	Mainly comprised of revenue from sales of scraps.
II. Commercially non-substantial revenue	**—**	—	—	—
Sub-total of commercially non-substantial revenue	**0.00**	Nil	0.00	Nil
Amount of operating revenue after deductions	**3,628,736,513.11**	Mainly comprised of revenue from sales of products.	2,945,891,154.47	Mainly comprised of revenue from sales of products.

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(Unless otherwise indicated, all gures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

41. Operating revenue and operating costs *(continued)*

Information on revenue:

Unit: RMB

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

41. Operating revenue and operating costs *(continued)*

Information on transaction price allocated to remaining performance obligations:

The revenue corresponding to the contracts entered into with obligations not performed or not yet fully performed as at the end of the current reporting period amounted to approximately RMB614 million, which are expected to be recognised as revenue in 2022.

42. Taxes and surcharges

Unit: RMB

Item	**Amount for the current period**	Amount for the last period
Urban maintenance and construction tax	**6,078,083.82**	4,167,747.78
Education surcharge	**4,340,325.39**	2,973,995.71
Property tax	**3,740,773.23**	4,948,156.52
Land use tax	**3,477,256.79**	5,103,421.99
Other taxes	**2,857,016.38**	1,923,165.72
Total	**20,493,455.61**	19,116,487.72

43. Selling expenses

Unit: RMB

Item	**Amount for the current period**	Amount for the last period
Staff remunerations	**6,862,459.45**	5,310,781.48
Agency fees	**314,464.92**	2,741,588.42
Depreciation charges	**238,677.67**	266,799.66
Travelling expenses	**546,340.84**	449,573.11
Entertainment expenses	**2,560,398.88**	2,817,343.60
Transportation expenses	**217,865.52**	213,777.86
Office expenses	**278,491.32**	266,415.16
Others	**2,383,550.70**	2,882,053.63
Total	**13,402,249.30**	14,948,332.92

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(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

44. Administrative expenses

Unit: RMB

Item	**Amount for the current period**	Amount for the last period
Amortisation of intangible assets	**10,536,947.21**	11,429,836.48
Depreciation charges	**82,325,454.16**	70,525,510.36
Staff remunerations	**68,697,351.30**	46,082,534.12
Machinery material consumables	**38,731,125.23**	11,945,724.18
Entertainment expenses	**3,613,699.35**	2,993,256.31
Board of directors' expenses	**2,647,404.59**	3,138,878.65
Utilities	**15,756,855.28**	12,575,254.48
Commissions	**4,344,594.71**	2,919,698.99
Repair charges	**29,906,613.57**	16,921,497.86
Freight costs	**1,180,526.93**	261,328.39
Office expenses	**768,936.75**	692,240.03
Property insurance	**1,296,798.03**	1,533,179.23
Environmental costs	**1,229,089.76**	876,260.74
Others	**17,955,561.60**	12,575,637.04
Total	**278,990,958.47**	194,470,836.86x869 1 Tf5scs4.197

17,955,561.60

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

45. Research and development expenditures

Unit: RMB

Item	**Amount for the current period**	Amount for the last period
Research and development of new products during the current year	**45,260,525.15**	44,788,225.44
Amortisation of non-patent technology for the year	**11,815,939.97**	7,754,585.52
Total	**57,076,465.12**	52,542,810.96

Other descriptions:

Use of research and development expenditures of new products during the current year is described in VII.16 of this note.

46. Finance costs

Unit: RMB

Item	**Amount for the current period**	Amount for the last period
Interest expenses	**114,302,110.50**	137,373,401.15
Less: Interest income	**(4,907,692.93)**	(5,507,436.70)
Add: Foreign exchange losses	**1,550,959.54**	20,442,211.52
Other expenses	**4,502,328.04**	6,904,407.55
Total	**115,447,705.15**	159,212,583.52

47. Other income

Unit: RMB

Source of other income	**Amount for the current period**	Amount for the last period
Subsidies and grants for enterprises	**—**	13,041,300.00
Stability subsidies and social insurance subsidies	**1,402,091.88**	2,244,789.32
Grants for defense basement construction	**35,954.30**	35,954.30
Reward for technological innovation patents and acquisition of international brands	**106,000.00**	1,630,000.00
Others	**791,680.50**	818,871.38
Total	**2,335,726.68**	17,770,915.00

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(Unless otherwise indicated, all gures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

51. Gain on disposal of assets

Unit: RMB

Source of gain on disposal of assets	Amount for the current period	Amount for the last period
Gains on disposal of non-current assets	**399,239.27**	353,358,239.23
Including: Gains on disposal of non-current assets classified as held-for-sale	—	—
Including: Gains on the disposal of fixed assets	—	—
Gains on disposal of intangible assets	—	—
Gains on disposal of non-current assets not classified as held-for-sale	**399,239.27**	353,358,239.23
Including: Gains on the disposal of fixed assets	**399,239.27**	180,980,820.92
Gains on disposal of intangible assets	—	172,377,418.31
Total	**399,239.27**	353,358,239.23

52. Non-operating Income

Unit: RMB

Item	Amount for the current period	Amount for the last period	Amount credited to non-recurring profit or loss for the current period
Gain on scrapping and retirement of fixed assets	58,988.81	—	58,988.81
Others	5,213,367.25	7,928,370.13	5,213,367.25
Total	5,272,356.06	7,928,370.13	5,272,356.06

53. Non-operating expenses

Unit: RMB

Item	Amount for the current period	Amount for the last period	Amount charged to non-recurring profit or loss for the current period
Donations to external parties	245,000.00	120,000.00	245,000.00
Loss on scrapping and retirement of non-current assets loss	3,636,447.61	2,426,957.31	3,636,447.61
Estimated liabilities	979,747.94	25,358,236.00	979,747.94
Others	1,352,631.34	669,527.84	1,352,631.34
Total	6,213,826.89	28,574,721.15	6,213,826.89

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(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

54. Income tax expenses

(1) List of income tax expenses

Unit: RMB

Item	Amount for the current period	Amount for the last period
Current income tax expenses	**410,225.62**	1,251,926.93
Deferred income tax expenses	**5,953,467.19**	4,821,219.67
Total	**6,363,692.81**	6,073,146.60

(2) Reconciliations between accounting profit and income tax expenses

Unit: RMB

Item	Amount for the current period
Total profit	(362,056,802.62)
Income tax expenses calculated at statutory/applicable tax rate	(54,308,520.39)
Effect of different tax rates applicable to subsidiaries	(15,516,259.02)
Effect of adjustments to income tax for previous years	201,945.66
Effect of non-taxable income	(224,817.83)
Effect of non-deductible costs, expenses and loss	3,223,078.80
Effect of utilisation of previously unrecognised deductible loss on deferred income tax assets	(25,866,036.45)
Effect of deductible temporary differences or deductible losses on deferred income tax assets unrecognised in the period	109,859,312.53
Effect of additions and deductions in research and development expenditures	(11,005,010.49)
Income tax expenses	6,363,692.81

55. Other comprehensive income

Refer to note VII.35 for details.

56. Statement of cash flows line items

(1) Other cash received relating to operating activities

Unit: RMB

Item	Amount for the current period	Amount for the last period
Government grants	**2,125,901.00**	17,561,596.32
Interest income	**4,907,692.93**	5,719,712.15
Decrease in security deposits	**15,744,127.52**	—
Amounts due from administrative entities	**—**	23,886,941.48
Others	**10,467,915.14**	14,976,987.77
Total	**33,245,636.59**	62,145,237.72

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

56. Statement of cash flows line items *(continued)*

(2) Other cash paid relating to operating activities

Unit: RMB

Item	**Amount for the current period**	Amount for the last period
Expenditures for research and development of new products	**28,429,826.67**	36,630,431.65
Consumables	**20,207,380.36**	4,576,755.04
Agency fees	**4,659,059.63**	5,601,454.49
Travelling expenses	**813,832.97**	631,460.52
Repair charges	**24,925,676.09**	13,839,218.26
Utilities	**12,385,660.45**	12,559,907.95
Entertainment expenses	**6,174,098.23**	5,806,119.91
Increase in bill deposits	**—**	18,000,000.00
Compensations for investors' claims	**16,380,729.75**	25,814,869.76
Handling charges by financial institutions	**4,501,924.14**	3,532,525.18
Others	**43,955,694.85**	54,018,603.75
Total	**162,433,883.14**	181,011,346.51

(3) Other cash paid relating to financing activities

Unit: RMB

Item	**Amount for the current period**	Amount for the last period
Refunds of capital contributions of minority shareholders by a subsidiary on liquidation	**73,960,772.67**	—
Increase in bills discount deposits	**16,735,500.00**	—
Total	**90,696,272.67**	—

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(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

57. Supplemental information of statement of cash flows

(1) Supplemental information of statement of cash flows

Unit: RMB

Supplemental information	Amount for the current period	Amount for the last period
1. Reconciliations of net profit to cash flows from operating activities:		
Net profit	**(368,420,495.43)**	11,455,400.36
Add: Provision for impairment of assets	**98,254,524.98**	(94,262.77)
Depreciation of fixed assets, oil and gas assets and productive biological assets	**223,973,971.67**	234,379,707.18
Depreciation of right-of-use assets	**3,061,273.92**	—
Amortisation of intangible assets	**22,352,887.18**	19,184,422.00
Amortisation of long-term deferred expenses	**—**	—
Loss on disposal of fixed assets, intangible assets and other long-term assets	**(399,239.27)**	(353,358,239.23)
Loss on retirement of fixed assets	**3,577,458.80**	2,426,957.31
Loss on fair value changes	**—**	—
Finance expenses	**115,853,070.04**	123,947,523.59
Loss on investments	**169,863.60**	39,767.09
Decrease in deferred income tax assets	**6,151,918.04**	5,014,870.18
Increase in deferred income tax liabilities	**(198,450.85)**	(193,650.51)
Decrease in inventories	**54,355,794.86**	144,296,653.68
Decrease in trade receivables	**(55,643,095.93)**	231,613,916.19
Increase in trade payables	**(67,297,124.28)**	(211,811,887.01)
Others	**—**	—
Net cash flows generated from operating activities	**35,792,357.33**	206,901,178.06
2. Significant investing and financing activities not involving cash receipts or payments:		
Debts transferred to capital	**—**	—
Convertible corporate bonds due within one year	**—**	—
Fixed assets under finance leases	**—**	—
3. Net changes in cash and cash equivalents:		
Balance of cash at the end of the period	**414,209,197.66**	699,989,196.48
Less: Balance of cash at the beginning of the period	**699,989,196.48**	496,256,836.18
Add: Balance of cash equivalents at the end of the period	**—**	—
Less: Balance of cash equivalents at the beginning of the period	**—**	—
Net increase in cash and cash equivalents	**(285,779,998.82)**	203,732,360.30

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

57. Supplemental information of statement of cash flows *(continued)*

(2) Composition of cash and cash equivalents

Unit: RMB

Item	Amount at the end of the period	Amount at the beginning of the period
I. Cash	**414,209,197.66**	699,989,196.48
Including: Cash on hand	**58,440.85**	53,744.41
Bank deposits readily available for payments	**229,127,335.39**	509,428,523.97
Other monetary funds readily available for payments	**185,023,421.42**	190,506,928.10
III. Balance of cash and cash equivalents at the end of the period	**414,209,197.66**	699,989,196.48

Other descriptions:

Note: At the end of the year, the Company had security deposits for bank acceptance bills with maturity date over 3 months of RMB59,759,875.00.

As at 31 December 2021, the Company had balances of monetary funds of RMB475,191,176.69, which was included in the statement of cash flows under cash balance at the end of the period amounting RMB414,209,197.66. The difference was the security deposits for bank acceptance bills due over 3 months of RMB59,759,875.00 and the frozen bank deposits of RMB1,222,104.03 due to litigations. As it is restricted for use, it was not accounted for as cash and cash equivalents.

58. Assets with ownership or right to use restrictions

Unit: RMB

Item	Book value at the end of the period	Reason for restriction
Monetary funds	**244,433,969.19**	Security deposits and frozen for litigation
Bills receivable	**57,940,860.42**	Pledge of bills
Fixed assets	**455,850,196.68**	Charge for borrowings
Intangible assets	**154,256,277.50**	Charge for borrowings
Investment properties	**4,439,391.74**	Charge for borrowings
Total	**916,920,695.53**	—

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VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

59. Foreign currency monetary items

(1) Foreign currency monetary items

Unit: RMB

Item	Balance in foreign currency at the end of the period	Exchange rate	Balance translated to RMB at the end of the period
Monetary funds			

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

60. Government grants

(1) General information of government grants

Unit: RMB

Type	Amount	Presented as	Amount included in profit or loss for the current period
Stability subsidies and social insurance subsidies	1,402,091.88	Other income	1,402,091.88
Grants for defense basement construction	359,542.94	Deferred income	35,954.30
Reward for technological innovation patents and acquisition of international brands	106,000.00	Other income	106,000.00
Grants for ancillary infrastructure	6,607,112.24	Deferred income	173,871.38
Others	617,809.12	Other income	617,809.12
Total	9,092,556.18	—	2,335,726.68

(2)

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(Unless otherwise indicated, all figures are stated in RMB)

VIII. Changes in scope of consolidation

1. Changes in scope of consolidation due to other reasons

Specify the changes in scope of consolidation due to other reasons (e.g. establishment of new subsidiaries, liquidation of subsidiaries) and its details:

Shouguang Baolong Management and Consultancy Co., Ltd. (壽光市寶隆管理諮詢有限公司), a subsidiary of the Company completed the deregistration procedures in December 2021. As such, it is no longer to be included in the scope of consolidation of the Company.

IX. Interests in other entities

1. Interests in subsidiaries

(1) Structure of the business group

Name of subsidiary	Principal place of operation	Place of registration	Business nature	Registered capital	Form of business	Percentage of shareholding		Type of legal entity	Method of acquisition
						Direct	Indirect		
MPM	Hong Kong, China	Hong Kong, China	Trading	USD100 ten thousand	Limited company	90.00%	0.00%	For-profit corporation	Business combination under uncommon control
Shouguang Maolong	Shouguang, China	Shouguang, China	Manufacturing	RMB71,238 ten thousand	Limited company	100.00%	0.00%	For-profit corporation	Business combination under uncommon control
Molong Electro-mechanical	Shouguang, China	Shouguang, China	Manufacturing	USD100 ten thousand	Limited company	0.00%	100.00%	For-profit corporation	Business combination under uncommon control
Shouguang Baolong	Shouguang, China	Shouguang, China	Manufacturing	RMB15,000 ten thousand	Limited company	70.00%	0.00%	For-profit corporation	Establishment by investment
Weihai Baolong	Weihai, China	Weihai, China	Manufacturing	RMB2,600 ten thousand	Limited company	61.54%	38.46%	For-profit corporation	Business combination under uncommon control
Molong Logistic	Shouguang, China	Shouguang, China	Services	RMB300 ten thousand	Limited company	100.00%	0.00%	For-profit corporation	Establishment by investment
Molong I&E	Shouguang, China	Shouguang, China	Import and export	RMB1,000 ten thousand	Limited company	100.00%	0.00%	For-profit corporation	Establishment by investment
Molong Energy	Shouguang, China	Shouguang, China	Services	RMB1,000 ten thousand	Limited company	51.00%	0.00%	For-profit corporation	Establishment by investment

Other descriptions:

Save as disclosed above, as at 31 December 2021, none of the subsidiaries of the Company has issued any share capital or debt securities.

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

IX. Interests in other entities *(continued)*

1. Interests in subsidiaries *(continued)*

(2) Significant non-wholly owned subsidiary

Unit: RMB

Name of subsidiary	Percentage of shareholding of minority shareholders	Profit and loss attributable to minority shareholders for the current period	Dividends declared to minority shareholders for the current period	Balance of minority interests at the end of the period
Shouguang Baolong	30.00%	(2,573,287.87)	—	(53,415,263.28)

(3) Key financial information of significant non-wholly owned subsidiary

Unit: RMB

	Balance at the end of the period						Balance at the beginning of the period					
Name of subsidiary	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Shouguang Baolong	155,974,302.80	315,579,583.39	471,553,886.19	629,175,841.46	—	629,175,841.46	358,593,909.81	433,636,788.16	792,230,697.97	899,430,924.37	—	899,430,924.37

Unit: RMB

	Amount for the current period				Amount for the last period			
Name of subsidiary	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Shouguang Baolong	2,255,270,055.61	23,548,867.48	23,548,867.48	115,274,907.51	1,686,441,547.74	(66,556,791.93)	(66,556,791.93)	190,040,654.33

(4) Major restrictions on the use of assets and settlement of debts of the business group

Nil

(5) Provision of financial or other support for structured entity that is consolidated into the consolidated financial statements

Nil

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IX. Interests in other entities *(continued)*

2. Transactions with changes in share of owners' equity but retain control over subsidiaries

(1) Details of the change in owners' equities of subsidiaries

Nil

3. Interests in joint arrangements or associates

(1) Joint ventures or associates

Unit: RMB

Name of associate	Principal place of operation	Place of registration	Business nature	Percentage of shareholding (%) Direct	Indirect	Accounting treatment for investment in joint venture or associates
Karamay Yalong Petroleum Machinery Co., Ltd.	Karamay	Karamay	Manufacturing	0.00	30.00	Equity method

(2) Summarised financial information of insignificant joint ventures or associates

Unit: RMB

	Balance at the end of the period/ Amount for the current period	Balance at the beginning of the period/ Amount for the last period
Joint ventures:	—	—
Total amount of the following items based on percentage of shareholdings	—	—
Associates:	—	—
Gross carrying amount of investments	**2,144,833.69**	2,314,697.29
Total amount of the following items based on percentage of shareholdings	—	—
— Net profit	**(169,863.60)**	(242,363.72)
— Total comprehensive income	**(169,863.60)**	(242,363.72)

(3) Significant restrictions on the ability of joint ventures or associates to transfer funds to the Company

There were no significant restrictions on the ability of associates to transfer funds to the Company.

IX. Interests in other entities *(continued)*

3. Interests in joint arrangements or associates *(continued)*

(4) Excessive losses incurred by joint ventures or associates

None of the associates incurred any excessive losses.

(5) Unrecognised commitments associated with investment in joint ventures

The Group had no unrecognised commitments associated with investment in joint ventures.

(6) Contingent liabilities associated with investment in joint ventures or associates

The Group had no contingent liabilities associated with investment in joint ventures.

4. Interest in structured entities not consolidated in the consolidated financial Statements

The Group had no structured entities not consolidated in the consolidated financial statements.

X. Risks associated with financial instruments

The Group's major financial instruments include borrowings, accounts receivable, accounts payable and others. Detailed information about these financial instruments are set out in this note VII. The risks associated with these financial instruments and the risk management policies adopted by the Group to mitigate such risks are described below. Management of the Group manages and monitors these risk exposures to ensure such risks are contained within a prescribed scope.

1. Objectives and policies of risk management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and revenue, where the negative effects of risks against the Group's operating results are minimised, with a view to maximise the benefits of shareholders and other stakeholders. Based on such objective of risk management, the underlying strategy of the Group's risk management is to ascertain and analyse all types of risks exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

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X. Risks associated with financial instruments *(continued)*

1. Objectives and policies of risk management *(continued)*

(1) Market risks

1) Foreign exchange risk

Foreign exchange risk represents risks of loss incurred as a result of changes in exchange rate. The Group is mainly exposed to foreign exchange risks in connection with USD, HKD and EUR, except for the parent company and its subsidiaries MPM of the Group which entered purchases and sales in USD, EUR and HKD, other principal operating activities of the Group are settled in RMB. As at 31 December 2021, except for the USD balances in assets and liabilities, odd monies in EUR and HKD balances as set out below, all balances of assets and liabilities of the Group were denominated in RMB. The foreign exchange risk arising from these assets and liabilities in USD balances may affect the operating results of the Group.

Unit: RMB

Item	31 December 2021	31 December 2020
Monetary funds — USD	**35,030,460.36**	197,995,723.66
Monetary funds — EUR	**620,528.52**	2.97
Monetary funds — HKD	**0.02**	0.03
Accounts receivable — USD	**114,736,549.46**	112,740,075.21
Accounts receivable — EUR	**1,010,561.26**	1,179,465.07
Short-term borrowings — USD	**—**	32,624,500.00
Accounts payable — USD	**15,066,905.75**	20,019,063.18
Contract liabilities — USD	**9,281,633.63**	27,324,814.53

The Group closely monitors the effect of changes in foreign exchange rates on the Group.

The Group has always placed its concern on the research of foreign exchange risk management policies and strategies. It maintains close co-operation with financial institutions engaging in foreign exchange business, and arranges favourable settlement terms in contracts to reduce foreign exchange risk. Meanwhile, with the continuous increase in the proportion of international market, if risks beyond the control of the Group, such as the appreciation of RMB, the Group will mitigate such risk via suitable adjustment of sales strategies.

2) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the changes in market interest rate. The Group's interest rate risk arises from interest-bearing liabilities, such as borrowings from financial institutions. Financial liabilities issued at floating rate expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2021, the Group's interest-bearing liabilities were mainly floating-rate loan contracts denominated in RMB amounting to RMB496,800,000.00 (31 December 2020: RMB573,800,000.00) and fixed-rate loan contracts denominated in RMB and USD amounting to RMB1,591,509,067.97 (31 December 2020: RMB1,728,667,136.33).

X. Risks associated with financial instruments *(continued)*

1. Objectives and policies of risk management *(continued)*

(1) Market risks *(continued)*

2) Interest rate risk (continued)

The Group's risk of changes in fair value of financial instruments resulted from the changes in interest rates was mainly associated with fixed-rate bank loans. The Group aims at maintaining these fixed-rate bank loans at floating rates.

The Group's risk of changes in cash flow of financial instruments resulted from the changes in interest rates was mainly associated with floating-rate bank loans. The Group's policy is to maintain these loans at floating rates, so as to eliminate fair value risks arising from changes in interest rate.

The Company designs rationally credit lines, various credit types and the term of credit lines through

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X. Risks associated with financial instruments *(continued)*

1. Objectives and policies of risk management *(continued)*

(3) Liquidity risk

Liquidity risk is the Group's impossibility to perform its financial obligations after the maturity date. In the management of the liquidity risk, the Group monitors and maintains a level of working capital deemed adequate by the management to perform the Group's obligations, thus will not cause loss or damage to the reputation of the Group. Moreover, the Group analyses its debt structure and deadline regularly and maintains sufficient fund. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. Meanwhile, the management keeps in touch with financial institutions and makes consultations on financing issues, to maintain enough credit limits and mitigate liquidity risk.

The Group considers borrowings from financial institutions as a main source of funds. As at 31 December 2021, the Group had unutilised credit facilities provided by financial institutions of RMB350,000,000.00 (31 December 2020: RMB567,336,700.00), of which the unutilised short-term borrowings of the Group amounted to RMB350,000,000.00 (31 December 2020: RMB567,336,700.00).

Analysis of the financial assets and financial liabilities held by the Group based on the maturity of undiscounted remaining contractual obligations is as follows:

Amount at 31 December 2021:

Unit: RMB

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Monetary funds	475,191,176.69	—	—	—	475,191,176.69
Bills receivable	235,005,278.71	—	—	—	235,005,278.71
Accounts receivable	299,530,976.41	—	—	—	299,530,976.41
Financing receivables	28,539,024.92	—	—	—	28,539,024.92
Other receivables	17,440,781.64	—	—	—	17,440,781.64
Financial liabilities					
Short-term borrowings	1,916,706,214.72	—	—	—	1,916,706,214.72
Bills payable	101,209,067.42	—	—	—	101,209,067.42
Accounts payable	599,514,345.81	—	—	—	599,514,345.81
Other payables	64,231,003.43	—	—	—	64,231,003.43
Non-current liabilities due within one year	107,001,393.82	—	—	—	107,001,393.82
Other current liabilities	67,434,388.00	—	—	—	67,434,388.00
Long-term borrowings	—	37,141,617.50	—	—	37,141,617.50
Long-term payables	—	19,674,948.82	18,067,380.20	—	37,742,329.02

2. Sensitivity analysis

The Group applies sensitivity to analyse the rationality of technical risk variables and the effects of possible changes on profit and loss or shareholders' equity. As any risk variable seldom varies, and correlation among variables will play a major role in the ultimate amount of a special risk variable. Therefore, the followings are carrying out on the assumed condition that each variable change independently.

X. Risks associated with financial instruments *(continued)*

2. Sensitivity analysis *(continued)*

(1) Sensitivity analysis of foreign exchange

The assumption for analysing sensitivity to foreign exchange risk: all hedges of net investment in foreign operations and cash flow hedges are highly effective.

Based on the above assumption, with all other variables held constant, the post-tax effects of possible reasonable changes in exchange rates on profit and loss and equity for the current period are set out below:

Unit: RMB

		2021		2020	
Item	**Movement in exchange rate**	**Impact on net profit**	**Impact on owners' equity**	Impact on net profit	Impact on owners' equity
All foreign currencies	5% appreciation against RMB	**5,398,191.68**	**5,398,191.68**	9,870,299.53	9,870,299.53
All foreign currencies	5% depreciation against RMB	**(5,398,191.68)**	**(5,398,191.68)**	(9,870,299.53)	(9,870,299.53)

(2) Sensitivity analysis of interest rate risk

Sensitivity analysis of interest rate risk is based on the following assumptions:

Changes in market interest rate affect the interest income or expense of financial instruments at variable interest rate;

For fixed rate financial instruments measured at fair value, the changes in market interest rates only affect its interest income or expenses;

The changes in fair value of derivative financial instrument and other financial assets and liabilities were calculated by the discounted cash flow method with the market interest rate at the balance sheet date.

Based on the above assumptions, on the basis that all other variables are held constant, the effect of reasonable changes in interest rate that may arise on the profit and loss and equity for the period after tax are set out below:

Unit: RMB

		2021		2020	
Item	**Movement in interest rate**	**Impact on net profit**	**Impact on owners' equity**	Impact on net profit	Impact on owners' equity
Variable-rate borrowings	1% increase	**(2,816,171.38)**	**(2,816,171.38)**	(2,707,292.50)	(2,707,292.50)
Variable-rate borrowings	1% decrease	**2,816,171.38**	**2,816,171.38**	2,707,292.50	2,707,292.50

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XI. Fair value disclosures

1. Others

As at 31 December 2021, the Group's financing receivables were measured at fair value. As the related bank acceptance bills had short maturities, the difference between their fair value and carrying amount was minimal.

The Group's financial assets and liabilities not measured at fair value mainly included: accounts receivable, short-term borrowings, accounts payable and long-term borrowings. The difference between the book value and fair value of financial assets and liabilities not measured at fair value was immaterial.

XII. Related parties and related party transactions

1. Parent company of the Company

Not applicable

The ultimate controller of the Company is State-owned Assets Supervision and Administration Bureau of Shouguang City.

Other descriptions:

The controlling shareholder of the Company is Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司) who holds 235,617,000 A shares of the Company, representing 29.53% of the total share capital of the Company. The actual controller of the Company is the State-owned Assets Supervision and Administration Bureau of Shouguang City.

2. Subsidiaries of the Company

Particulars of subsidiaries of the Company are set out in note IX.1.

3. Joint ventures and associates of the Company

Details of the significant joint ventures or associates of the Company are set out in this note.

The following joint ventures or associates entered into related party transactions with the Company during the current period or had balances of related party transactions with the Company from the prior period :

Name of joint venture or associate	Relationship with the Company
Karamay Yalong Petroleum Machinery Co., Ltd.	Associate of the Company

XII. Related parties and related party transactions *(continued)*

4. Other related parties

Name of other related party	Relationship between the other related party and the Company
Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司)	The controlling shareholder of the Company
Shandong Shouguang Jinxin Investment Development Holdings Group Limited (山東壽光金鑫投資發展控股集團有限公司)	The controlling shareholder of the controlling shareholder of the Company
Weifang Huayuan Heat Co., Ltd. (濰坊華源熱力有限公司)	A subsidiary of Shouguang Jinxin
Shouguang Xinjing Tourism Development Co., Ltd. (壽光市鑫景旅遊發展有限公司)	A subsidiary of Shouguang Jinxin
Shouguang Rongyuan Agricultural Technology Co., Ltd. (壽光市融源農業科技有限公司)	A subsidiary of Shouguang Jinxin
Shouguang Jintou Medical Services Co., Ltd. (壽光市金投醫療服務有限公司)	A subsidiary of Shouguang Jinxin
Shouguang Jindun Motorist Training Co., Ltd. (壽光市金盾機動車駕駛員培訓有限責任公司)	A subsidiary of Shouguang Jinxin
Shouguang Hi-tech Zone Investment and Development Group Co., Ltd. (壽光高新區投資開發集團有限公司)	A subsidiary of Shouguang Jinxin
Shouguang Jinsheng Investment Co., Ltd. (壽光金盛投資有限公司)	A subsidiary of Shouguang Jinxin
Shouguang Fenghui Agricultural Technology Co., Ltd. (壽光市豐匯農業科技有限公司)	A subsidiary of Shouguang Jinxin
Shouguang Construction Engineering Quality Testing Co., Ltd. (壽光市建設工程質量檢測有限公司)	A subsidiary of Shouguang Jinxin
Shouguang Xingyunganghang Investment Management Center (Limited Partnership) (壽光市星雲港航投資管理中心(有限合夥))	A subsidiary of Shouguang Jinxin
Shouguang Gaoxin District Infrastructure Development Co., Ltd. (壽光市高新區基礎設施開發有限公司)	A subsidiary of Shouguang Jinxin
Shandong Longxing Plastic Film Technology Co., Ltd. (山東龍興塑膜科技股份有限公司)	A subsidiary of Shouguang Jinxin
Shouguang Kefa Investment Co.,Ltd. (壽光科發投資有限公司)	A subsidiary of Shouguang Jinxin
Shandong Global Software Co., Ltd. (山東環球軟件股份有限公司)	A subsidiary of Shouguang Jinxin
Shouguang Fruit and Vegetable Variety Right Transaction Center Co., Ltd. (壽光果菜品種權交易中心有限公司)	A subsidiary of Shouguang Jinxin
Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司)	A company in which a director of the Company holds a position
Shouguang Jintou Asset Management Co., Ltd. (壽光市金投資產管理有限公司)	A company in which a director of the Company holds a position
Shouguang Jintou Culture Industry Development Co., Ltd. (壽光市金投文化產業發展有限公司)	A company in which a director of the Company holds a position
Shouguang Jintou Non Financing Guarantee Co., Ltd. (壽光市金投非融資性擔保有限公司)	A company in which a director of the Company holds a position
Weifang Jinxuan Equity Investment Fund Management Co., Ltd. (濰坊金萱股權投資基金管理有限公司)	A company in which a director of the Company holds a position
Kunpeng Qinghai Asset Management Co., Ltd. (昆朋青海資產管理股份有限公司)	A company in which a director of the Company holds a position
Shouguang ZRCB Country Bank Co., Ltd. (壽光張農商村鎮銀行股份有限公司)	A company in which a director of the Company holds a position
Shouguang Jintou Agricultural Technology Development Group Co., Ltd. (壽光市金投農業科技發展集團有限公司)	A company in which a director of the Company holds a position
Shandong Jiuan Insurance Broker Co., Ltd. (山東九安保險經紀股份有限公司)	A company in which a director of the Company holds a position
TATA Health International Holdings Limited (TATA健康國際控股有限公司)	A company in which a supervisor of the Company holds a position
Shandong Zhimeng Holdings Co., Ltd. (山東智夢控股有限公司)	A legal person who holds more than 5% of the shares together with its parties in concert
Shouguang Panjin Property Co., Ltd. (壽光市磐金置業有限公司)	A legal person who holds more than 5% of the shares together with its parties in concert
Shouguang Hongsen Logistics Co., Ltd. (壽光市鴻森物流有限公司)	A legal person who holds more than 5% of the shares together with its parties in concert
Shouguang Ruisen New Building Materials Co., Ltd. (壽光市瑞森新型建材有限公司)	A legal person who holds more than 5% of the shares together with its parties in concert

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(Unless otherwise indicated, all figures are stated in RMB)

XII. Related parties and related party transactions *(continued)*

5. Related party transactions

(1) Related party transactions regarding purchase and sale of goods and rendering and receipt of services

List of sale of goods/rendering of services

Unit: RMB

Related party	Subject matter of the related party transaction	Amount for the current period	Amount for the last period
Karamay Yalong Petroleum Machinery Co., Ltd.	Oil pumps and accessories	4,695,191.41	1,930,952.50

(2) Related guarantees

The Company as a guarantor

Unit: RMB

Guaranteed party	Guarantee amount	Commencement date of the guarantee	Expiry date of the guarantee	Has the guarantee been fulfilled
Shouguang Maolong	115,408,495.33	30 June 2020	30 June 2023	No

On 15 May 2020, the third special meeting of the sixth session of the board of directors of the Company considered and passed the "Proposal for the provision of guarantee for Shouguang Maolong" (《關於為壽光懋隆提供擔保的議案》). It was agreed that Shouguang Maolong (a wholly-owned subsidiary) should commence the provision of comprehensive financial services with China Great Wall Asset Management Co., Ltd. Shandong Branch with a total amount of not exceeding RMB20,000 ten thousand for a period of no longer than 36 months, and that the Company, Shouguang Baolong and Weihai Baolong should provide certain of their real properties and land use rights, respectively, as security of guarantee in respect of the commencement of the above business by Shouguang Maolong. Such guarantee has been considered and approved at the annual general meeting 2019 of the Company. Details are available on the website of cninfo (http://www.cninfo.com.cn) in the announcement numbered 2020-030.

The Company as a guaranteed party

Unit: RMB

Guarantor	Guarantee amount	Commencement date of the guarantee	Expiry date of the guarantee	Has the guarantee been fulfilled
Zhang En Rong	115,408,495.33	30 June 2020	30 June 2023	No

XII. Related parties and related party transactions *(continued)*

5. Related party transactions *(continued)*

(2) Related guarantees *(continued)*

Descriptions of related guarantees:

On 15 May 2020, the Proposal for the Provision of Guarantee for Shouguang Maolong was considered and approved at the third extraordinary meeting of the sixth session of the Board of the Company. It was agreed that Shouguang Maolong (a wholly-owned subsidiary) should commence the provision of comprehensive financial services with China Great Wall Asset Management Co., Ltd. Shandong Branch with a total amount of not exceeding RMB20,000 ten thousand. Mr. Zhang En Rong, the original controlling shareholder and actual controller of the Company, provided a joint and several guarantee for the above business to be commenced by Shouguang Maolong.

(3) Borrowings from/lending to related parties

Unit: RMB

Related party	Amount of borrowings and lending	Commencement date	Expiry date	Descriptions
Borrowings				
Shouguang Jinxin	50,000,000.00	2 December 2020	7 February 2021	—
Shouguang Jinxin	50,000,000.00	2 December 2020	16 April 2021	—
Shouguang Jinxin	100,000,000.00	8 February 2021	18 March 2021	—
Shouguang Jinxin	100,000,000.00	1 April 2021	6 April 2021	—
Shouguang Jinxin	80,000,000.00	11 May 2021	13 May 2021	—
Shouguang Jinxin	9,000,000.00	17 June 2021	24 June 2021	—
Shouguang Jinxin	50,000,000.00	17 June 2021	—	—

1. On 13 November 2020, after the consideration and approval at the fifth special meeting of the sixth session of the board of directors and the 2020 first extraordinary general meeting of the Company held on 25 November 2020, Shouguang Jinxin, the original controlling shareholder of the Company, provided a financial assistance of up to RMB350 million to the Company for a term of less than one year, bearing interest at market rate.

2. On 26 November 2021, after the consideration and approval at the first special meeting of the seventh session of the board of directors of the Company, Shouguang Jinxin, the original controlling shareholder of the Company, provided non-interest bearing borrowings of up to RMB500 million to the Company for a term of less than one year commencing from 26 November 2021.

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(Unless otherwise indicated, all figures are stated in RMB)

XII. Related parties and related party transactions *(continued)*

5. Related party transactions *(continued)*

(4) Compensation of key management personnel

① Details of the remuneration of the directors, supervisors and senior management of the Company in 2021 are set out below:

Name	Fees (or allowances)	Wages	Retirement scheme contributions	Subsidies and benefits	Total
Executive directors					
Yang Yun Long	0.00	0.00	0.00	0.00	0.00
Yuan Rui	0.00	0.00	0.00	0.00	0.00
Li Zhi Xin	0.00	527,584.00	27,347.88	39,051.33	593,983.21
Yao You Ling	0.00	100,763.08	0.00	0.00	100,763.08
Liu Min (resigned)	0.00	282,155.65	16,988.83	2,414.55	301,559.03
Sub-total	0.00	910,502.73	44,336.71	41,465.88	996,305.32
Non-executive directors					
Wang Quan Hong	0.00	0.00	0.00	0.00	0.00
Liu Ji Lu	5,952.38	0.00	0.00	0.00	5,952.38
Sub-total	5,952.38	0.00	0.00	0.00	5,952.38
Independent non-executive directors					
Tang Qing Bin	122,058.82	0.00	0.00	0.00	122,058.82
Song Zhi Wang	122,058.82	0.00	0.00	0.00	122,058.82
Cai Zhong Jie	122,058.82	0.00	0.00	0.00	122,058.82
Sub-total	366,176.46	0.00	0.00	0.00	366,176.46
Supervisors					
Liu Shu Bao	0.00	34,344.35	4,366.70	2,952.65	41,663.70
Lin Jun	7,872.62	0.00	0.00	0.00	7,872.62
Liu Cheng An	7,872.62	0.00	0.00	0.00	7,872.62
Wei Zhao Qiang (resigned)	0.00	131,529.65	16,729.90	13,733.22	161,992.77
Wang Ming Hua (resigned)	26,973.68	0.00	0.00	0.00	26,973.68
Liu Bo (resigned)	26,973.68	0.00	0.00	0.00	26,973.68
Sub-total	69,692.60	165,874.00	21,096.60	16,685.87	273,349.07
Other senior management					
Hao Yun Feng	0.00	121,579.22	9,115.96	—	130,695.18
Zhang Quan Jun	0.00	43,385.73	2,587.75	1,254.38	47,227.86
Zhao Xiao Tong	0.00	330,469.77	19,050.24	3,520.00	353,040.01
Liu Yun Long (resigned)	0.00	655,895.30	22,532.81	21,228.49	699,656.60
Sub-total	0.00	1,151,330.02	53,286.76	26,002.87	1,230,619.65
Total	441,821.44	2,227,706.76	118,720.07	84,154.62	2,872,402.89

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

XII. Related parties and related party transactions *(continued)*

5. Related party transactions *(continued)*

(4) Compensation of key management personnel *(continued)*

② Details of the remuneration of the directors, supervisors and senior management of the Company in 2020 are set out below:

Unit: RMB

Name	Fees (or allowances)	Wages	Retirement scheme contributions	Subsidies and benefits	Total
Executive directors					
Yang Yun Long	0.00	0.00	0.00	0.00	0.00
Yuan Rui	0.00	0.00	0.00	0.00	0.00
Liu Min	0.00	341,054.02	22,366.83	3,320.00	366,740.85
Li Zhi Xin	0.00	394,727.17	10,266.30	15,106.46	420,099.93
Sub-total	0.00	735,781.19	32,633.13	18,426.46	786,840.78
Non-executive directors					
Yao You Ling	73,684.22	0.00	0.00	0.00	73,684.22
Wang Quan Hong	0.00	0.00	0.00	0.00	0.00
Sub-total	73,684.22	0.00	0.00	0.00	73,684.22
Independent non-executive directors					
Tang Qing Bin	113,157.90	0.00	0.00	0.00	113,157.90
Song Zhi Wang	113,157.90	0.00	0.00	0.00	113,157.90
Cai Zhong Jie	113,157.90	0.00	0.00	0.00	113,157.90
Sub-total	339,473.70	0.00	0.00	0.00	339,473.70
Supervisors					
Wei Zhao Qiang	0.00	143,809.98	17,892.86	14,141.12	175,843.96
Wang Ming Hua	35,714.28	0.00	0.00	0.00	35,714.28
Liu Bo	35,714.28	0.00	0.00	0.00	35,714.28
Sub-total	71,428.56	143,809.98	17,892.86	14,141.12	247,272.52
Other senior management					
Liu Yun Long	0.00	554,749.75	22,366.83	13,283.24	590,399.82
Zhao Xiao Tong	0.00	164,699.19	15,238.03	2,880.00	182,817.22
Zhang Yu Zhi (resigned)	0.00	321,117.63	0.00	9,051.88	330,169.51
Sub-total	0.00	1,040,566.57	37,604.86	25,215.12	1,103,386.55
Total	484,586.48	1,920,157.74	88,130.85	57,782.70	2,550,657.77

Note: Subsidies and benefits included wage subsides and meal subsides to employees of the Company.

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(Unless otherwise indicated, all figures are stated in RMB)

XII. Related parties and related party transactions *(continued)*

5. Related party transactions *(continued)*

(4) Compensation of key management personnel *(continued)*

③ During the year, the five highest paid individuals of the Company included one (last year: two) director and four (last year: three) other personnel. The remuneration of the four other personnel ranged from RMB0 to RMB90 ten thousand.

Remuneration of the highest paid individuals is as follows:

Unit: RMB

Item	**Amount for the current year**	Amount for the last year
Fees (or allowances)	**0.00**	0.00
Wages	**2,689,824.34**	2,075,726.34
Retirement scheme contributions	**134,281.32**	99,733.62
Subsidies and benefits	**128,241.85**	51,530.94
Total	**2,952,347.51**	2,226,990.90

The remunerations of the highest paid individuals were within the following bands (by number of individuals):

Band of annual remuneration	**Number of individuals of the current year**	Number of individuals of the last year
RMB0–RMB90 ten thousand (equivalent to HKD0–HKD100 ten thousand)	**5**	5
Total	**5**	5

④ For the financial year ended 31 December 2021, no other bonuses, which are discretionary or are based on the results of the Company, the Group or any member of the Group, were paid to or receivable by the five highest paid individuals, and no remuneration were paid by the Company to any director, supervisor or the five highest paid individuals as inducement to join or as incentive upon joining the Company or as compensation for loss of office. During the year, none of the directors waived or agreed to waive any remuneration.

XII. Related parties and related party transactions *(continued)*

5. Related party transactions *(continued)*

(5) Other connected transactions

The Group did not conduct any other connected transactions or continuing connected transactions.

6. Amounts due from and due to related parties

(1) Receivables

Unit: RMB

		Balance at the end of the period		Balance at the beginning of the period	
Item	**Related party**	**Book balance**	**Provision of bad debts**	Book balance	Provision of bad debts
Accounts receivable	Karamay Yalong Petroleum Machinery Co., Ltd.	**5,478,146.04**	**139,345.53**	4,406,682.29	1,134,172.74

7. Undertakings by related parties

Nil

XIII. Share-based payments

1. Share-based payments

☐ Applicable Not applicable

2. Equity-settled share-based payments

☐ Applicable Not applicable

3. Cash-settled share-based payments

☐ Applicable Not applicable

4. Revision and termination of share-based payments

Nil

5. Others

The Group had no share-based payments during the year.

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

XIV. Commitments and contingencies

1. Significant commitments

Significant commitments at the balance sheet date

The Group did not have any capital commitments as at the end of the year. The Group has initiated the related work for factory relocation, and has received the Filing Proof for Construction Project in Shandong. The procedures for capability assessment, safety assessment and environmental assessment are being processed. The Group is also in the process of architectural design of new plant area. The actual amount of expenses is yet to be ascertained.

2. Contingencies

(1) Material contingencies at balance sheet date

As at the date of these financial statements, the proceedings against the Company by investors regarding false statements about securities have been entertained by the Intermediate People's Court of Jinan, and the aggregate sum involved was RMB123,757,110.17. Currently, the total amount involved in cases that have been judged or closed through mediation was RMB123,100,089.73, with settlement amount of RMB72,439,251.03. For closed proceedings, the Company is performing its obligations according to the judgment results. For other unclosed proceedings, an estimated liabilities of RMB558,467.38 were provided at a rate of 85% with reference to the proceedings already closed. The total amount of estimated liabilities provided for this matter by the Company was RMB72,997,718.41.

(2) To state that the company has no material contingency that needs to be disclosed

The Company had no material contingency that needs to be disclosed.

3. Others

Save as disclosed above, the Group has no other significant contingencies.

XV. Events subsequent to balance sheet date

1. Profit Distribution

Unit: RMB

Proposed profit distribution and dividend	0.00
Profits or dividends declared upon consideration and approval	0.00

2. Sales Return

As of the date of these financial statements, the Group had no sales return.

3. Descriptions of other subsequent events

Other than the subsequent event as disclosed above, the Group had no other material subsequent events.

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

XVI. Other significant events

1. Segment information

(1) Basis for determining reportable segments and accounting policies

1) Basis for determining reportable segments

According to the internal organisational structure, management requirements and internal reporting system of the Group, the Group's operating segments are divided into 6 reportable segments. The Group identifies the operating segments according to the internal organisational structure, management requirements and internal reporting system. The Group's management regularly evaluates the operating results of these reportable segments to determine the resources to be allocated and its results to be evaluated. The main products provided by each of the Group's reportable segments includes tubing and casing, three kinds of pumping units, petroleum machinery parts, tube blanks, high-end castings and forgings and others.

(2) Accounting policies of reportable segments

Segment reporting information is disclosed in accordance with the accounting policies and measurement standards adopted for reporting to the management by each segment, which are consistent with the accounting policies and measurement basis for preparing financial statements.

(2) Financial information of reportable segments

Unit: RMB

Item	Pipe products	Three kinds of pumping units	Petroleum machinery parts	Tube blanks	High-end castings and forgings	Others	Unallocated	Intersegment elimination	Total
Operating revenue									
Revenue from external sales	2,047,507,945.84	25,281,830.99	8,885,631.54	815,847,918.60	710,405,198.10	126,534,316.05	—	—	3,734,462,841.12
Revenue from inter-segment sales	—	—	—	—	—	—	—	—	—
Total segment operating revenue	2,047,507,945.84	25,281,830.99	8,885,631.54	815,847,918.60	710,405,198.10	126,534,316.05	—	—	3,734,462,841.12
Total operating revenue as reported	2,047,507,945.84	25,281,830.99	8,885,631.54	815,847,918.60	710,405,198.10	126,534,316.05	—	—	3,734,462,841.12
Segment expenses	1,979,934,816.66	27,271,693.42	11,580,767.52	758,670,198.97	750,979,059.40	118,191,610.55	—	—	3,646,628,146.52
Segment operating profit	67,573,129.18	(1,989,862.43)	(2,695,135.98)	57,177,719.63	(40,573,861.30)	8,342,705.50	—	—	87,834,694.60
Adjusted for:									
Administrative expenses	—	—	—	—	—	—	278,990,958.47	—	278,990,958.47
Research and development expenses	—	—	—	—	—	—	57,076,465.12	—	57,076,465.12
Finance costs	—	—	—	—	—	—	115,447,705.15	—	115,447,705.15
Investment income	—	—	—	—	—	—	(169,863.60)	—	(169,863.60)
Gains on disposal of assets	—	—	—	—	—	—	399,239.27	—	399,239.27
Other income	—	—	—	—	—	—	2,335,726.68	—	2,335,726.68
Operating profit as reported	67,573,129.18	(1,989,862.43)	(2,695,135.98)	57,177,719.63	(40,573,861.30)	8,342,705.50	(448,950,026.39)	—	(361,115,331.79)
Non-operating income	—	—	—	—	—	—	5,272,356.06	—	5,272,356.06
Non-operating expenses	—	—	—	—	—	—	6,213,826.89	—	6,213,826.89
Total profit	67,573,129.18	(1,989,862.43)	(2,695,135.98)	57,177,719.63	(40,573,861.30)	8,342,705.50	(449,891,497.22)	—	(362,056,802.62)
Income tax	—	—	—	—	—	—	6,363,692.81	—	6,363,692.81
Net profit	67,573,129.18	(1,989,862.43)	(2,695,135.98)	57,177,719.63	(40,573,861.30)	8,342,705.50	(456,255,190.03)	—	(368,420,495.43)
Total segment assets	3,141,797,055.40	64,490,238.06	20,572,976.89	180,209,159.71	387,517,228.74	267,715,952.25	395,308,688.26	—	4,457,611,299.31
Total segment liabilities	986,167,467.81	12,439,302.38	10,815,112.02	227,342,205.34	335,342,170.30	39,748,547.64	1,486,008,732.43	—	3,097,863,537.92

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all amounts are stated in RMB)

XVI. Other significant events *(continued)*

2. Other significant transactions and items affecting decision-making of investors

XVII. Notes to principal line items in the financial statements of the parent company *(continued)*

1. Accounts receivable *(continued)*

(1) Disclosure of accounts receivable by type *(continued)*

Unit: RMB

	Balance at the end of the period			
Name	Book balance	Provision for bad debts	Provision rate	Reason for provision
Hebei Zhongtai Steel Pipes Manufacturing Company Limited	17,352,948.73	6,941,179.49	40.00%	Provision was made based on the amount of expected credit loss of the customer
Total	17,352,948.73	6,941,179.49	—	—

Provision for bad debts on a collective basis: Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics

Unit: RMB

	Balance at the end of the period		
Name	Book balance	Provision for bad debts	Provision rate
Within 1 year	252,986,748.85	2,529,867.49	1.00%
1–2 years	9,563,966.14	4,781,983.07	50.00%
2–3 years	2,252,928.65	1,689,696.49	75.00%
3–4 years	168,705.00	143,399.25	85.00%
4–5 years	977,938.85	831,248.02	85.00%
Over 5 years	89,981,026.72	89,981,026.72	100.00%
Total	355,931,314.21	99,957,221.04	—

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

XVII. Notes to principal line items in the financial statements of the parent company *(continued)*

1. Accounts receivable *(continued)*

(1) Disclosure of accounts receivable by type *(continued)*

Provision for bad debts on a collective basis: Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on associates under consolidation

Unit: RMB

	Balance at the end of the period		
Name	Book balance	Provision for bad debts	Provision rate
Shouguang Maolong New Materials Technology Development Co., Ltd.	194,569,442.93	—	—
MPM INTERNATIONAL LIMITED	18,589,700.15	—	—
Total	213,159,143.08	—	—

If provision for bad debts of accounts receivables was made using the general approach of expected credit loss, please disclose the information on provision for bad debts with reference to the disclosures of other receivables:

☐ Applicable Not applicable

Disclosure by age

Unit: RMB

Age	Book balance
Within 1 year (inclusive)	300,778,612.63
1 to 2 years	156,341,545.29
2 to 3 years	2,252,928.65
Over 3 years	127,070,319.45
3 to 4 years	14,387,615.16
4 to 5 years	5,348,728.84
Over 5 years	107,333,975.45
Total	586,443,406.02

XVII. Notes to principal line items in the financial statements of the parent company *(continued)*

1. Accounts receivable *(continued)*

(2) Provision, recovery or reversal of provision for bad debts for the current period

Provisions for bad debts for the current period:

Unit: RMB

Type	Balance at the beginning of the period	Movement during the current period				Balance at the end of the period
		Provision	Recovery or reversal	Write-off	Other	
Provision for bad debts of accounts receivable	123,240,340.22	2,464,995.23	16,594,741.67	2,212,193.25	—	106,898,400.53
Total	123,240,340.22	2,464,995.23	16,594,741.67	2,212,193.25	—	106,898,400.53

Including material recovery or reversal of provision for bad debts for the current period:

Unit: RMB

Name of entity	Amount of recovery or reversal	Method of recovery
Fairmont international Oil Corporation	**15,649,487.13**	Monetary payments
Samasu International Oil Corporation	**945,254.54**	Monetary payments
Total	**16,594,741.67**	—

(3) Accounts receivables actually charged off during the current period

Unit: RMB

Item	Amount charged
Samasu International Oil Corporation	2,212,193.25

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

XVII. Notes to principal line items in the financial statements of the parent company *(continued)*

1. Accounts receivable *(continued)*

(3) Accounts receivables actually charged off during the current period *(continued)*

Including material charge-off of accounts receivables:

Unit: RMB

Name of entity	Nature of accounts receivable	Amount charge- off	Reason for the charge-off	Procedures for the charge-off	Whether it is arising from connected transaction
Samasu International Oil Corporation	Payment	2,212,193.25	Both parties entered into a settlement agreement	Entering into of a settlement agreement	No
Total	—	2,212,193.25	—	—	—

Descriptions of charge-off of accounts receivable:

Note: According to the settlement agreement entered into between the Company with Fairmont International Oil Corporation and Samasu International Oil Corporation on 10 June 2021, Fairmont International Oil Corporation and Samasu International Oil Corporation made payments to the Company in the amount of USD2,398,425.59 and USD145,172.24, respectively, on 17 June 2021. The Company gave up the recourse of other debts after receiving the payments. After being paid, the Company charged off USD338,735.22 of the accounts receivable from Samasu International Oil Corporation.

(4) Balance of five largest accounts receivable as at the end of the period by debtors

Unit: RMB

Name of entity	Balance of accounts receivable at the end of the period	Percentage of the total balance of accounts receivable at the end of the period	Balance of bad debt provisions at the end of the period
Entity I	194,569,442.93	33.18%	—
Entity II	73,951,944.87	12.61%	739,519.45
Entity III	66,918,716.83	11.41%	3,821,211.84
Entity IV	54,689,548.95	9.32%	546,895.49
Entity V	46,429,189.80	7.92%	464,291.90
Total	436,558,843.38	74.44%	—

XVII. Notes to principal line items in the financial statements of the parent company *(continued)*

1. Accounts receivable *(continued)*

(5) Amount of assets or liabilities arising from transfer of accounts receivable with continuous involvement

As at 31 December 2021, the Company had no assets or liabilities arising from transfer of accounts receivable with continuous involvement.

(6) Account receivables derecognised on transfer of financial assets

As at 31 December 2021, the Company had no accounts receivable derecognised on the transfer of financial assets.

(7) Other descriptions

As at 31 December 2021, the Company had no accounts receivable restricted for use.

2. Other receivables

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

XVII. Notes to principal line items in the financial statements of the parent company *(continued)*

2. Other receivables *(continued)*

(2) Provision for bad debts

Unit: RMB

Provision for bad debts	Stage 1 Next 12-month expected credit loss	Stage 2 Lifetime expected credit loss (without credit impairment)	Stage 3 Lifetime expected credit loss (with credit impairment)	Total
Balance at 1 January 2021	785,817.55	19,831.21	—	805,648.76
Balance at 1 January 2021 for the current period	—	—	—	—
Provided during the period	925,860.39	—	—	925,860.39
Reversed during the period	—	8,604.40	—	8,604.40
Balance at 31 December 2021	1,711,677.94	11,226.81	—	1,722,904.75

Movements of book balance of significant changes in loss allowance for the current period

☐ Applicable Not applicable

Disclosure by age

Unit: RMB

Age	Balance at the end of the period
Within 1 year (inclusive)	690,801,362.46
1 to 2 years	14,934,780.36
2 to 3 years	1,323,341.28
Over 3 years	91,214,372.90
3 to 4 years	866,257.76
4 to 5 years	87,576,960.75
Over 5 years	2,771,154.39
Total	798,273,857.00

XVII. Notes to principal line items in the financial statements of the parent company *(continued)*

2. Other receivables *(continued)*

(3) Provision, recovery or reversal of provision for bad debts for the current period

Provision for bad debts for the current period:

Unit: RMB

Type	Balance at the beginning of the period	Movement during the current period				Balance at the end of the period
		Provision	Recovery or reversal	Write-off	Others	
Provisions for bad debts of other receivables	805,648.76	925,860.39	8,604.40	—	—	1,722,904.75
Total	805,648.76	925,860.39	8,604.40	—	—	1,722,904.75

(4) Other receivables actually written off during the current period

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all gures are stated in RMB)

XVII. Notes to principal line items in the financial statements of the parent company *(continued)*

2. Other receivables *(continued)*

(7) Other receivables derecognised on transfer of financial assets

As at 31 December 2021, the Group had no other receivables derecognised on transfer of financial assets.

(8) Amount of assets or liabilities arising from transfer of other receivables with continuous involvement

As at 31 December 2021, there were no assets or liabilities arising from transfer of other receivables with continuous involvement.

Other descriptions:

As at 31 December 2021, the Group did not have any pledged other receivables.

3. Long-term equity investments

Unit: RMB

	Balance at the end of the period			Balance at the beginning of the period		
Item	**Book balance**	**Provision for impairment**	**Book value**	Book balance	Provision for impairment	Book value
Investment in subsidiaries	**1,352,019,921.73**	**208,000,000.00**	**1,144,019,921.73**	1,352,019,921.73	208,000,000.00	1,144,019,921.73
Total	**1,352,019,921.73**	**208,000,000.00**	**1,144,019,921.73**	1,352,019,921.73	208,000,000.00	1,144,019,921.73

(1) Investment in subsidiaries

Unit: RMB

		Movements during the current period					
Investee	**Balance at the beginning of the period (Book value)**	**Increase in investment**	**Decrease in investment**	**Provision for impairment**	**Others**	**Balance at the end of the period (Book value)**	**Balance of impairment provision at the end of the period**
Shouguang Maolong	1,006,743,691.73	—	—	—	—	1,006,743,691.73	—
Weihai Baolong	117,000,000.00	—	—	—	—	117,000,000.00	103,000,000.00
MPM	7,276,230.00	—	—	—	—	7,276,230.00	—
Shouguang Baolong	0.00	—	—	—	—	0.00	105,000,000.00
Molong Logistic	3,000,000.00	—	—	—	—	3,000,000.00	—
Molong I&E	10,000,000.00	—	—	—	—	10,000,000.00	—
Total	1,144,019,921.73	—	—	—	—	1,144,019,921.73	208,000,000.00

XVII. Notes to principal line items in the financial statements of the parent company *(continued)*

4. Operating revenue and operating costs

Unit: RMB

	Amount for the current period		Amount for the last period	
Item	**Revenue**	**Costs**	Revenue	Costs
Principal operations	**2,054,453,429.49**	**1,966,870,923.40**	2,414,149,170.68	2,309,477,590.16
Other operations	**122,249,459.02**	**117,271,322.79**	130,473,717.29	124,989,256.24
Total	**2,176,702,888.51**	**2,084,142,246.19**	2,544,622,887.97	2,434,466,846.40

Information related to revenue:

Unit: RMB

Contract category	**Pipe products**	**Three kinds of pumping units**	**Petroleum machinery parts**	**Others**	**Total**
Type of goods					
Including:					
Pipe products	2,023,423,881.88	—	—	—	2,023,423,881.88
Three kinds of pumping units	—	25,281,830.99	—	—	25,281,830.99
Petroleum machinery parts	—	—	5,727,786.87	—	5,727,786.87
Others	—	—	—	122,269,388.77	122,269,388.77
By business location					
Including:					
China	1,831,684,067.43	25,083,031.17	—	122,253,237.77	1,979,020,336.37
Outside China	191,739,814.45	198,799.82	5,727,786.87	16,151.00	197,682,552.14
Type of contracts					
Including:					
Revenue recognised at a point in time	2,023,423,881.88	25,281,830.99	5,727,786.87	122,269,388.77	2,176,702,888.51
Total	2,023,423,881.88	25,281,830.99	5,727,786.87	122,269,388.77	2,176,702,888.51

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

XVII. Notes to principal line items in the financial statements of the parent company *(continued)*

4. Operating revenue and operating costs *(continued)*

Information on performance obligations:

The Company as primary obligor satisfy its obligations of supplying products customers in a timely manner by reference to the category, standard and time requested by the customer in accordance with the provisions of the contracts. There are different payments terms for different customers and different products: domestic customers of tubes are normally subject to payment in advance of distribution, and domestic customers of oil casing is normally subject to payment terms of 3-6 months after bill settlement. As to export business, payment terms are mainly payment upfront. As to oil casing products, most of the customers are subject to payment in advance, under which customers are to make final payment before distribution of products. As to petroleum machinery parts, the credit term is normally 2 months.

Information on transaction price allocated to remaining performance obligations:

The revenue corresponding to the contracts entered into with obligations not performed or not yet fully performed as at the end of the current reporting period amounted to RMB492 million, which are expected to be recognised as revenue in 2022.

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all gures are stated in RMB)

XVIII. Supplementary information

1. Breakdown of extraordinary profits or losses for the current period

Applicable ☐ Not applicable

Unit: RMB

Item	Amount	Descriptions
Gains or losses arising from disposal of non-current assets	**(3,178,219.53)**	Mainly comprised of the losses on disposal and retirement of certain assets of the Company.
Government grant recognised in current profit and loss (excluding those grants that are closely related to the Company's normal business operation, that met the requirements of national policy, and that were continuously granted in accordance with the certain standard amount or volume prescribed by the State)	**2,335,726.68**	Mainly comprised of the amortisation of deferred revenue associated with assets and the receipts of stability subsidies, social security allowances and other grants during the current period.
Profit or loss arising from contingencies unrelated to the normal operation of the Company	**(979,747.94)**	Mainly comprised of the provision for compensations for claims related to investors' litigation in the current period.
Non-operating income and expenses other than the above items	**3,615,735.91**	Mainly comprised of the break fee income received during the current period.
Less: Effect on income tax	**63,812.14**	—
Effect on minority interests	**133,704.23**	—
Total	**1,595,978.75**	—

Particulars of other gains or loss that meet the definition of extraordinary gain or loss:

☐ Applicable Not applicable

The Company did not have any other gain or loss that meets the definition of extraordinary gain or loss.

Explanation for defining any non-extraordinary gain or loss as listed in the Interpretation No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — Extraordinary Gains and Losses) as an extraordinary gain and loss

☐ Applicable Not applicable

1 January 2021 to 31 December 2021
(Unless otherwise indicated, all figures are stated in RMB)

XVIII. Supplementary information *(continued)*

2. Return on net assets and earnings per share

Profit for the reporting period	Weighted average return on net assets	Earnings per share: Basic earnings per share (RMB/share)	Earnings per share: Diluted earnings per share (RMB/share)
Net profit attributable to ordinary shareholders of the Company	(23.05%)	(0.46)	(0.46)
Net profit after extraordinary gains or losses attributable to ordinary shareholders of the Company	(23.15%)	(0.46)	(0.46)

It was calculated based on Article 4 "Companies should calculate basic earnings per share by dividing net profit for the period attributable to ordinary shareholders by weighted average number of ordinary shares in issue" under ASBE 34 "earnings per share".

3. Differences in accounting data under domestic and overseas accounting standards

(1) Differences in net profit and net assets in the financial report as disclosed in accordance with IASs and PRC GAAP

☐ Applicable Not applicable

(2) Differences in net profit and net assets in the financial report as disclosed under the overseas accounting standards and PRC GAAP

☐ Applicable Not applicable

(3) Reason(s) for accounting difference between domestic and international accounting standards; if adjustment has been made to data audited by overseas audit firm, specify the name of the overseas audit firm

Nil

Section XII. Documents Available for Inspection

(1) The financial statements which were signed and sealed by the responsible person, chief accountant and head of accounting department (person in charge of accounting matters) of the Company.

(2) The master copy of the 2021 annual report affixed with company seal and signature of the legal representative of the Company.

(3) All of the originals of documents and master copies of announcements of the Company publicly disclosed on the websites as designated by CSRC during the reporting period.

(4) Place for inspecting the above documents: Office of the board of directors of the Company.

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