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)



2022 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.

Yuan Rui, 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.

Contents

Section I	Important, Contents and Definitions	1
Section II	Company Profile and Key Financial Indicators	3
Section III	Management Discussion and Analysis	10
Section IV	Corporate Governance	33
Section V	Directors' Report	78
Section VI	Environmental and Social Responsibility	85
Section VII	Material Matters	90
Section VIII	Changes in Shares and Shareholders	100
Section IX	Relevant Information on Preferred Shares	110
Section X	Relevant Information on Bonds	111
Section XI	Financial Report	112
Section XII	Documents Available for Inspection	272

Section I. Important, Contents and Definitions

Definitions

Term	Definition
"Company", "parent company" and "Shandong Molong"	

Section II. Company Profile and Key Financial Indicators

I. Company Profile

Stock Name Abbreviation	Shandong Molong	Stock Code	002490, 00568
Stock abbreviation before change (if any)	Not applicable		
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	Yuan Rui		
Registered Address	No. 99 Xingshang Road, Gucheng Street, Shouguang City, Shandong Province		
Postal Code of Registered Address	262700		
Historical Changes in the Company's Registered Address	The company held the 2021 Annual General Meeting of Shareholders on May 19, 2022, where the Proposal on Changing the Company's Registered Address and Amending the Articles of Association was reviewed and approved. On June 16, 2022, the company's relevant industrial and commercial change procedures were completed. The company's registered address was changed from "No. 999 Wensheng Street, Shouguang City, Shandong Province" to "No. 99 Xingshang Road, Gucheng Street, Shouguang City, Shandong Province".		
Office Address	Floors 8-10, Building 19, Corporate Headquarters Complex, Shengcheng Street, Shouguang City, Shandong Province		
Postal Code of Office Address	262700		
Company Website	https://www.molonggroup.com		
Email Address	dsh@molonggroup.com		

Note: the Company held the fourth interim meeting of the seventh Board of Directors on 24 February 2023. The meeting elected Mr. Yuan Rui as the Chairperson of the seventh Board of Directors of the Company. The Articles of Association stipulated that the Chairperson of the Company was the legal representative. Up to now, the relevant industrial and commercial change registration procedures have not been completed.

II. Contact Persons and Contact Information

	Secretary to the Board
Name	Zhao Xiao Tong
Contact Address	Floors 8-10, Building 19, Corporate Headquarters Complex, Shengcheng 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	Shenzhen Stock Exchange (http://www.szse.cn); Stock Exchange of Hong Kong (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

Unified Social Credit Code	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 tubing, 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 the 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.

Section II. Company Profile and Key Financial Indicators

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	Wang Gongyong, 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

	2022	2021	Year-on-year increase/ decrease	2020
Operating revenue (RMB)	**2,765,645,281.40**	3,734,462,841.12	-25.94%	3,009,719,029.66
Net profit attributable to shareholders of listed company (RMB)	**(424,969,725.59)**	(368,017,768.12)	-15.48%	32,178,630.99
Net profit after extraordinary gains or losses attributable to shareholders of listed company (RMB)	**(361,001,956.50)**	(369,613,746.87)	2.33%	(266,995,839.08)
Net cash flows generated from operating activities (RMB)	**(11,509,782.41)**	35,792,357.33	-132.16%	206,901,178.06
Basic earnings per Share (RMB/share)	**(0.53)**	(0.46)	-15.22%	0.04
Diluted earnings per Share (RMB/share)	**(0.53)**	(0.46)	-15.22%	0.04
Weighted average rate of return on net assets	**-35.39%**	-23.05%	-12.34%	1.82%

	As at the end of 2022	As at the end of 2021	Year-on-year increase/ decrease	As at the end of 2020
Total assets (RMB)	**4,038,605,559.51**	4,457,611,299.31	-9.40%	5,175,635,815.38
Net assets attributable to shareholders of listed company (RMB)	**987,960,842.88**	1,413,238,861.87	-30.09%	1,780,737,084.59

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	2022	2021	Remark
Operating revenue (RMB)	**2,765,645,281.40**	3,734,462,841.12	Mainly comprised of revenue from sales of products and scraps.
Deduction amount from operating revenue (RMB)	**97,894,560.60**	105,726,328.01	Mainly comprised of revenue from sales of scraps.
Operating revenue after deduction amount (RMB)	**2,667,750,720.80**	3,628,736,513.11	Mainly product sales revenue.

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	560,910,297.59	1,010,031,644.06	649,955,788.55	544,747,551.20
Net profit attributable to shareholders of listed company	(67,308,447.89)	(105,409,267.83)	(93,230,844.47)	(159,021,165.40)
Net profit after extraordinary gains or losses attributable to shareholders of listed company	(70,441,437.90)	(110,924,115.61)	(94,212,390.25)	(85,424,012.74)
Net cash flows from operating activities	(79,690,821.17)	136,597,671.28	(31,478,273.71)	(36,938,358.81)

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	2022 Amount	2021 Amount	2020 Amount	Explanation
Gains or losses arising from the disposal of noncurrent assets (including the written-offs that have been provided for impairment of assets)	**(397,481.76)**	(3,178,219.53)	350,931,281.92	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)	**973,231.66**	2,335,726.68	17,770,915.00	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	**(9,800,000.00)**	(979,747.94)	(25,358,236.00)	Mainly comprised of the provision for compensations for claims related to litigation in the current period.
Except for effective hedging business related to the normal business operations, changes in gains and losses of fair value arising from traded financial assets, traded financial liabilities, investment income obtained from disposal of traded financial assets, traded financial liabilities and available-for-sale financial assets	—	—	202,596.63	—
Write-back of provision for receivables subject to individual impairment test	**6,941,179.49**	—	520,000.00	Mainly comprised of recovery of accounts receivable from certain customers during the current period for which impairment provisions have been made.
Non-operating income and expenses other than the above items	**5,668,870.20**	3,615,735.91	7,138,842.29	Mainly liquidated damages received in the current period and the recovery of assets written off in the previous period.
Other profit and loss items in line with the definition of non-recurring gains and losses	**(67,971,212.05)**	—	—	This is mainly due to the fact that according to the newly issued regulatory guidelines in the current period, the parent company accrued credit impairment losses for the creditor's rights of subsidiaries with excess losses receivable.
Less: Effect on income tax	**1,041,176.92**	63,812.14	51,780,307.55	—
Effect on minority interests (after tax)	**(1,658,820.29)**	133,704.23	250,622.22	—
Total	**(63,967,769.09)**	1,595,978.75	299,174,470.07	—

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

✓ Applicable ☐ Not applicable

According to the document "Guidelines for the Application of Regulatory Rules-Accounting Category No.3" issued by the CSRC on 3 February 2023, the Company accrued a credit impairment loss of RMB67.9712 million for the creditor's rights of Shouguang Baolong, a subsidiary with excess losses.

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.

Section III. Management Discussion and Analysis

I. Overview of the Company's industry during the Reporting Period

The Company belongs to the manufacturing and service industry of special equipment for oil, natural gas and other energy exploitation, and the development and prosperity of oil, natural gas and other energy exploitation business directly affects the development of the industry in which the Company is located. Oil and natural gas are the material basis for human production and life, and are the important pillars of national economic development. Data show that China's oil & gas consumption continues to grow, and its dependence on foreign countries is high. According to the World and China Energy Outlook 2060, the world's primary energy demand will continue to grow, and it is still very important to enhance the energy supply capacity. In the long run, the global economic growth rate, the price cycle and consumption demand of oil & gas, the global oil & gas exploration and development expenditure and exploitation scale, and the policies of "carbon neutrality and carbon peaking" in various countries around the world are the decisive factors affecting the prosperity of the industry in which the Company is located. During the Reporting Period, due to the weakness of the global economy and the influence of geopolitical friction, the global economic growth rate dropped significantly, and energy prices continued to fluctuate at a high level. Facing the complex and changeable external environment, domestic oil & gas production enterprises continue to strengthen exploration and development, vigorously promote the increase of reserves and production, solidly promote the construction of major projects, and enhance the self-sufficiency of oil & gas. Oil & gas exploitation activities are gradually active, and the prosperity of oil service industry is rising.

2022 is the year when the 20th National Congress of the Communist Party of China was successfully held, and it is also a crucial year for the implementation of the 14th Five-Year Plan. The National Energy Administration thoroughly implements the spirit of the 20th National Congress of the Communist Party of China and resolutely implements the decision-making arrangements of the CPC Central Committee and the State Council on increasing exploration and development of oil & gas resources and increasing reserves and production. Focusing on the hard and stable production of old oilfields, the rapid breakthrough of new oilfields and the rapid production of sea areas, we will vigorously enhance the exploration and development efforts and complete the important node goals of the Seven-Year Action Plan. By intensifying the exploration and development of new gas fields, we can stabilize the dominant position of conventional natural gas and promote the rapid production of unconventional gas. Deep engineering promotes new breakthroughs in ultra-deep oil & gas, and deep-sea oil & gas exploration and development promotes the construction of a maritime power; Shale oil has accelerated its development and become a new force for stable crude oil production, while shale gas has continued to produce rapidly and achieved leap-forward development. It is of great significance to strengthen the development and utilization of China's oil & gas resources in an all-round way to base itself on China and ensure national energy security. The rapid development of unconventional oil & gas resources in China will drive the demand for related equipment to continue to grow, and bring new development opportunities to the energy equipment manufacturing and technical service industries.

II. Principal businesses of the Company during the reporting period

During the reporting period, the Company was principally engaged in the design, research and development, processing and manufacturing, sales service and export trade of products for the energy equipment industry. The main products included oil drilling machinery equipment, petroleum and natural gas transportation equipment, oil and gas exploitation equipment, castings, etc. The products were mainly used in the manufacture of equipment for oil and gas energy drilling, machinery processing, urban pipeline network and wind power castings. During the reporting period, the principal business of the Company was the manufacturing and sales of special equipment. Deeply impacted by the domestic and foreign macroeconomic downturn, and some order market demands decreased, the industry and supply chains did not function smoothly, resulting in a decline in the revenue.

Section III. Management Discussion and Analysis

The Company's main products were pipe products, castings and forgings. The Company adopted a 『『sales-based production'' business model for production of pipe products, i.e. the Sales Department coordinated with the production system of the Group for orderly production, inspection and delivery based on the marketing patterns and customer order plans. The Company adopted a "production-based sales" business model for casting products, i.e., the Company determined the production indicators and compiled the sales plans based on the production indicators. The Company adopted a centralized procurement model under which all raw materials, moulds and equipment were centrally purchased by the procurement department, including signing of procurement contracts, procurement status follow-up, assistance in quality improvement of raw materials; the Procurement Department strictly controlled the selection of suppliers based on the comprehensive evaluation index system, fostered quality partners and developed long-term and stable strategic partnership. The Company has a relatively mature sales network and a professional team of sales and import and export which are respectively responsible for domestic and international market research and development, product sales and after-sales services.

As at the end of the Reporting Period, the Company had total assets of RMB4.039 billion, representing a decrease of 9.40% year-on-year. Net assets attributable to shareholders of the listed company were RMB988 million, representing a decrease of 30.09% year-on-year. During the Reporting Period, the Company realised an operating revenue of RMB2.766 billion, representing a year-on-year decrease of 25.94%. Net profit attributable to shareholders of the listed company was -RMB425 million. During the Reporting Period, due to insufficient orders for some products, product sales

2. 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 (CNAS) 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.

3. 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. the Company has completed the design of GC-2 casing and delivered for production and delivery; completed the design and development of direct interlocking; completed the redesign of threaded pipe end structure and put it into production to supply PetroChina Southwest Oil & Gas Field; developed 57/38 special feedback pump and 38 double sealed rod oil well pump and supply them to Northeast Oil & Gas Block; completed mass production of new high-grade line pipes; had cold-drawn oil cylinder tubing and engineering steel pipe product supplied in batches; completed the batch production of new specifications and heavy calibre hot-expanded steel pipes; completed the process development of quenching medium carbon alloy steel with clear water and batch delivery to meet the market demand for D-class and H-class sucker rod of medium carbon alloy steel; completed the technical treatment of SC special clearance coupling and the technical improvement of manufacturing supervision and inspection. 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.

4. 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 re-certification. 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.

5. 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 winwin 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. In 2022, nearly 10 new market territories and 20+ new customers will be developed overseas. 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.

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 income

Unit: RMB

	2022		2021		
	Amount	**Percentage of operating revenue**	Amount	Percentage of operating revenue	Year-on-year increase/ decrease
Total operating revenue	**2,765,645,281.40**	**100%**	3,734,462,841.12	100%	-25.94%
By industry					
Special equipment manufacturing	**2,765,645,281.40**	**100.00%**	3,734,462,841.12	100.00%	-25.94%
By product					
Pipe products	**1,612,040,161.32**	**58.29%**	2,047,507,945.84	54.83%	-21.27%
Castings and forgings	**982,447,617.23**	**35.52%**	710,405,198.10	19.02%	38.29%
Three kinds of pumping units	**34,259,710.39**	**1.24%**	25,281,830.99	0.68%	35.51%
Petroleum machinery parts	**22,586,988.18**	**0.82%**	8,885,631.54	0.24%	154.20%
Tube blanks	—	—	815,847,918.60	21.84%	-100.00%
Others	**114,310,804.28**	**4.13%**	126,534,316.05	3.39%	-9.66%
By region					
Within China	**2,359,717,382.90**	**85.32%**	3,536,780,288.98	94.71%	-33.28%
Outside China	**405,927,898.50**	**14.68%**	197,682,552.14	5.29%	105.34%
By sales model					
Self-marketing	**2,765,645,281.40**	**100.00%**	3,734,462,841.12	100.00%	-25.94%

(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	2,765,645,281.40	2,675,212,319.74	3.27%	-25.94%	-23.88%	-2.62%
By product						
Pipe products	1,612,040,161.32	1,510,962,173.16	6.27%	-21.27%	-18.50%	-3.19%
Castings and forgings	982,447,617.23	999,785,037.53	-1.76%	38.29%	33.28%	3.83%
By region						
Within China	2,359,717,382.90	2,357,961,120.61	0.07%	-33.28%	-29.18%	-5.78%
Outside China	405,927,898.50	317,251,199.13	21.85%	105.34%	71.68%	15.33%
By sales model						
Self-marketing	2,765,645,281.40	2,675,212,319.74	3.27%	-25.94%	-23.88%	-2.62%

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

(5) Composition of operating cost

Product Classification

Unit: RMB

Product Classification	Item	2022		2021		
		Amount	**Percentage of operating cost**	Amount	Percentage of operating cost	Year-on-year increase/ decrease
Pipe products	Materials	**1,159,697,276.31**	**76.75%**	1,438,018,938.75	77.57%	-19.35%
Pipe products	Depreciation	**68,541,486.24**	**4.54%**	86,017,891.91	4.64%	-20.32%
Pipe products	Labour cost	**65,518,876.98**	**4.34%**	96,955,511.79	5.23%	-32.42%
Pipe products	Expenses	**217,204,533.63**	**14.38%**	232,841,535.01	12.56%	-6.72%
Three kinds of pumping units	Materials	**22,620,464.12**	**72.20%**	19,383,975.12	71.98%	16.70%
Three kinds of pumping units	Depreciation	**926,629.75**	**2.96%**	1,605,008.22	5.96%	-42.27%
Three kinds of pumping units	Labour cost	**5,381,091.26**	**17.18%**	4,481,096.78	16.64%	20.08%
Three kinds of pumping units	Expenses	**2,401,241.76**	**7.66%**	1,459,588.01	5.42%	64.52%
Petroleum machinery parts	Materials	**15,132,773.45**	**69.46%**	8,135,850.30	70.99%	86.00%
Petroleum machinery parts	Depreciation	**2,005,688.97**	**9.21%**	1,053,225.30	9.19%	90.43%
Petroleum machinery parts	Labour cost	**2,929,030.79**	**13.44%**	1,290,458.86	11.26%	126.98%
Petroleum machinery parts	Expenses	**1,719,796.41**	**7.89%**	981,023.79	8.56%	75.31%
Tube blanks	Materials	—	—	669,706,032.20	88.63%	-100.00%
Tube blanks	Depreciation	—	—	14,130,094.55	1.87%	-100.00%
Tube blanks	Labour cost	—	—	16,774,764.66	2.22%	-100.00%
Tube blanks	Expenses	—	—	55,009,138.15	7.28%	-100.00%
Castings and forgings	Materials	**914,751,636.27**	**91.49%**	663,886,283.24	88.50%	37.79%
Castings and forgings	Depreciation	**26,261,592.91**	**2.63%**	31,131,390.68	4.15%	-15.64%
Castings and forgings	Labour cost	**14,830,537.84**	**1.48%**	9,977,048.10	1.33%	48.65%
Castings and forgings	Expenses	**43,941,270.51**	**4.40%**	45,159,270.34	6.02%	-2.70%
Others	Materials	**72,888,657.75**	**65.46%**	77,505,652.84	66.54%	-5.96%
Others	Depreciation	**11,424,345.08**	**10.26%**	13,884,391.07	11.92%	-17.72%
Others	Labour cost	**17,314,675.04**	**15.55%**	18,927,966.02	16.25%	-8.52%
Others	Expenses	**9,720,714.67**	**8.73%**	6,161,780.94	5.29%	57.76%

Explanation

The material 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 and tube blank.

(6) Whether consolidation scope changed during the Reporting Period

✓ Yes ☐ No

1. On 28 July 2022, the Company received the Notice of Approval for Cancellation of Registration issued by Shouguang Administrative Examination and Approval Service Bureau, and granted cancellation of Molong Energy. After deregistration, Molong Energy was no longer included in the consolidated financial statements of the Company.

2. According to the Company's development strategy and business needs, on 22 July 2022, the Company's manager's office meeting reviewed and approved the establishment of a wholly-owned subsidiary Molong Trading with its own capital of RMB10 million. On 18 August 2022, the Company obtained the Business License issued by Shouguang Administrative Examination and Approval Service Bureau, and Molong Commerce and Trade was included in 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)	1,100,670,421.14
Proportion of total sales of the top 5 customers over total sales for the year	39.80%
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)	273,107,845.52	9.88%
2	Shaanxi Yanchang Petroleum (Group) Co., Ltd. (陝西延長石油(集團)有限責任公司)	267,884,779.86	9.69%
3	Shandong Haomai Machinery Technology Co., Ltd. (山東豪邁機械科技股份有限公司)	218,726,337.44	7.91%
4	Shandong Guochuang Precision Machinery Co., Ltd. (山東國創精密機械有限公司)	183,504,240.13	6.64%
5	Ningbo Rixing Casting Co., Ltd. (寧波日星鑄業有限公司)	157,447,218.19	5.69%
Total	—	1,100,670,421.14	39.80%

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.

Major suppliers of the Company

Total purchases attributable to the top 5 suppliers (RMB)	700,292,076.40
Proportion of total purchases attributable to the top 5 suppliers over total purchases for the year	23.85%
Proportion of purchases of connected parties in the top 5 suppliers over total purchases for the year	0.00%

Top 5 Suppliers of the Company

No.	Name of the Vendor	Purchases amount (RMB)	Percentage of the annual total purchases amount
1	Jiangsu Xinhai International Logistics Co., Ltd. (江蘇欣海國際物流有限公司)	219,388,826.48	7.47%
2	Shandong Sheng Qiao Mineral Products Co., Ltd. (山東盛橋礦產品有限公司)	125,324,159.40	4.27%
3	Shouguang Xiangfu Economic and Trade Co., Ltd. (壽光祥富經貿有限公司)	124,252,502.29	4.23%
4	Shouguang Fangzhou Material Co., Ltd. (壽光市方宙物資有限公司)	116,825,935.36	3.98%
5	Shaanxi Yanchang Petroleum Material Group Co., Ltd. (陝西延長石油物資集團有限責任公司)	114,500,652.87	3.90%
Total	—	700,292,076.40	23.85%

Other descriptions of major suppliers

✓ Applicable ☐ Not applicable

the Company did not have any related relationship with the top 5 suppliers and the directors, supervisors, executive officers, 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

	2022	2021	Year-on-year increase/ decrease	Description of significant change
Selling expenses	**17,580,244.46**	13,402,249.30	31.17%	Mainly due to the increase of the Company's bid service fee and export agency fee in the current period.
Administrative expenses	**274,947,866.01**	278,990,958.47	-1.45%	—
Finance expenses	**105,822,746.34**	115,447,705.15	-8.34%	—
Research and development expenditures	**41,651,730.15**	57,076,465.12	-27.02%	Primarily attributable to decrease of investment in R&D for the current period.

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
Hydraulic cylinder tubing	To offer a low-cost, high-precision, processing-free sophisticated steel tubing products for hydraulic 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.
Seamless steel pipe for crane jib	To develop seamless steel pipe products for ultra-high strength crane boom based on material composition, heat treatment process and hot rolling process optimization.	Completed	To form seamless steel pipe products with high strength and high toughness, which can meet the needs of crane boom.	To enhance the Company's product competitiveness, and to expand the market share of the products.

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
OTTM Thread	To develop a new type of partial ladder threaded casing which conforms to GOST and has high connection strength, and meet the requirements of Russian and Central Asian oil companies for our product.	Completed	To design improved BCSG under GOST and improve the connection performance of threads.	To increase product categories, enhance the competitiveness of the Company's product, and expand the product market share, especially to meet the need of oil & gas exploration and development casing in Russia and Central Asian countries.
OTTG Premium Thread	To develop Premium threaded casing under GOST with high gas sealing performance to meet the demand of Russian and Central Asian oil companies.	Completed	To design a new metal-metal seal structure under GOST and improve the air seal performance of threads.	To increase product categories, enhance the competitiveness of the Company's product, and expand the product market share, especially to meet the need of oil & gas exploration and development casing in Russia and Central Asian countries.
ML 150V high-strength and high-toughness casing	To develop ultra-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 150KSI.	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.
P110 steel grade high-strength anti-deformation tubing	To improve the composition and heat treatment process of oil tubing to improve high strength, high toughness and anti-deformation of tubing body; optimize thread structure to ensure the anti-deformation capability of tubing under large torque and meet the requirement of tubing performance under special working conditions in Daqing and Liaohe oilfields.	Completed	The strength and deformation resistance of tubing body are 30% higher than the corresponding steel grade under API standard, so that the thread will not be glued once screwed on for 10 times and off for 9 times.	Increase product categories, enhance the competitiveness of the Company's product, and expand the product market share.

Profile of research and development personnel of the Company

	2022	2021	Percentage change
Number of individuals of research and development personnel	**229**	285	-19.65%
Proportion of research and development personnel	**9.16%**	11.18%	-2.02%
Distribution of research and development personnel by academic background			
Bachelor's degree	**48**	52	-7.69%
Master's degree	**22**	25	-12.00%
Others	**159**	208	-23.56%
Distribution of research and development personnel by age			
Below 30 years old	**20**	33	-39.39%
30 – 40 years old	**122**	144	-15.28%
Over 40 years old	**87**	108	-19.44%

Research and development expenditures of the Company

	2022	2021	Percentage change
Amount of research and development expenditures (RMB)	**33,412,376.94**	49,978,469.51	-33.15%
Percentage of research and development expenditures of operating revenue	**1.21%**	1.34%	-0.13%
Amount of capitalised research and development expenditures (RMB)	**0.00**	4,717,944.36	-100.00%
Percentage of capitalised research and development expenditures of research and development expenditures	**0.00%**	9.44%	-9.44%

Reasons for and impacts of significant changes in the composition of research and development personnel of the Company

☐ Applicable ✓ Not applicable

Reason for significant changes in the proportion of total research and development expenditures to operating revenue when compared with last year

☐ Applicable ✓ Not applicable

Reason and rationality explain for significant changes in capitalised research and development expenditures rate

✓ Applicable ☐ Not applicable

Compared with last year, the capitalization rate of R&D investment in the current period decreased, mainly due to the performance of our new product developed in the current period did not meet the technical requirement or the product sale fell short of market expectation.

5. Cash flows

Unit: RMB

Item	2022	2021	Year-on-year increase/decrease
Subtotal of cash inflows from operating activities	**2,534,043,352.91**	3,586,628,661.60	-29.35%
Subtotal of cash outflows from operating activities	**2,545,553,135.32**	3,550,836,304.27	-28.31%
Net cash flows from operating activities	**(11,509,782.41)**	35,792,357.33	-132.16%
Subtotal of cash inflows from investing activities	**1,123.89**	141,494,574.19	-100.00%
Subtotal of cash outflows from investing activities	**8,467,557.77**	51,969,039.99	-83.71%
Net cash flows generated from investing activities	**(8,466,433.88)**	89,525,534.20	-109.46%
Subtotal of cash inflows from financing activities	**3,516,764,976.72**	2,287,714,757.03	53.72%
Subtotal of cash outflows from financing activities	**3,558,033,048.62**	2,697,208,663.65	31.92%
Net cash flow generated from financing activities	**(41,268,071.90)**	(409,493,906.62)	89.92%
Net increase in cash and cash equivalents	**(55,536,954.09)**	(285,779,998.82)	80.57%

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

✓ Applicable ☐ Not applicable

(1) The net cash flow from operating activities decreased year on year, mainly due to shortage of orders for some product in the current period, resulting in the decrease in product sale and revenue.

(2) Net cash flows generated from investing activities decreased year-on-year, mainly attributable to the decrease in proceeds received from the disposal of assets during the current period.

(3) The net cash flow from financing activities increased year-on-year, mainly due to increase in cash received from financing in the current period.

(4) Net increase in cash and cash equivalents decreased year on 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

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	(287,370.63)	0.06%	Mainly comprised of loss of associates.	No
Impairment of assets	(16,980,412.51)	3.81%	Mainly comprised of provisions for impairment of inventories under ASBE.	No
Non-operating income	6,672,878.46	-1.50%	Mainly liquidated damages received in the current period and the recovery of assets written off in the previous period.	No
Non-operating expenses	11,202,613.91	-2.51%	Mainly comprised of the provision for compensations for claims related to litigation in the current period.	No
Credit loss impairment	(61,267,202.09)	13.74%	This is mainly due to the fact that according to the newly issued regulatory guidelines in the current period, the parent company accrued credit impairment losses for the creditor's rights of subsidiaries with excess losses receivable.	No
Other gains	973,231.66	-0.22%	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	1,123.89	0.00%	Mainly comprised of the gains on disposal of certain fixed assets during the current period.	No



	As at the end of 2022		At the beginning of 2022			
	Amount	**Percentage of total assets**	Amount	Percentage of total assets	Increase/ decrease in proportion	Description of significant change
Other current assets	**5,790,675.91**	**0.14%**	26,180,538.95	0.59%	-0.45%	Mainly attributable to decrease in tax allowance at the end of the current period.
Bills payable	**64,855,401.04**	**1.61%**	101,209,067.42	2.27%	-0.66%	Mainly attributable to decrease in payment by bank acceptance in the current period.
Taxes payable	**11,279,406.47**	**0.28%**	25,793,838.53	0.58%	-0.30%	Mainly attributable to decrease of VAT realized at the end of the current period.
Other payables	**36,765,356.32**	**0.91%**	64,231,003.43	1.44%	-0.53%	Mainly attributable to the decrease in accrued energy charges and rents as at the end of the current period.
Estimated liabilities	**77,771,212.05**	**1.93%**	558,467.38	0.01%	1.92%	This is mainly due to the fact that according to the newly issued regulatory guidelines in the current period, the parent company accrued credit impairment losses for the creditor's rights of subsidiaries with excess losses receivable.
Long-term payables	**65,461,963.55**	**1.62%**	37,742,329.02	0.85%	0.77%	Mainly attributable to the proceeds of financing funds for the sale-and-leaseback financing business commenced in the current period.

Higher proportion of overseas assets

☐ Applicable ✓ Not applicable

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	28,539,024.92	–	–	–	–	–	(23,167,169.21)	5,371,855.71
Total of the above	28,539,024.92	–	–	–	–	–	(23,167,169.21)	5,371,855.71
Financial liabilities	0.00	–	–	–	–	–	0.00	0.00

Content of 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	**240,673,517.72**	Security deposits
Monetary funds	**4,737,079.00**	Frozen for litigation
Accounts receivables	**75,609,917.72**	Factoring financing
Inventories	**51,450,000.00**	Seizure for litigation
Bills receivables	**82,064,472.11**	Bill pledge/factoring financing
Fixed assets	**433,468,641.62**	Charge for borrowings
Intangible assets	**207,508,319.68**	Charge for borrowings
Total	**1,095,511,947.85**	—

VII. Analysis of investments

1. General

☐ Applicable ✓ Not applicable

2. Significant equity investments acquired during the reporting period

☐ Applicable ✓ Not applicable

3. Significant non-equity investments in progress during the reporting period

☐ Applicable ✓ Not applicable

4. Investments in financial assets

(1) Securities investment

☐ Applicable ✓ Not applicable

The Company did not hold any investments in securities during the reporting period.

(2) Derivatives investment

☐ Applicable ✓ Not applicable

The Company did not hold any investments in derivatives during the reporting period.

5. Use of raised funds

☐ Applicable ✓ Not applicable

The Company did not have any use of raised funds during the reporting period.

VIII. Disposals of material assets and equity interests

1. Disposals of material assets

☐ Applicable ✓ Not applicable

The Company did not dispose of any material assets in the reporting period.

2. Disposals of material equity interests

☐ Applicable ✓ Not applicable

IX. Analysis of major controlled and invested companies

✓ Applicable ☐ Not applicable

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

Unit: RMB

Name of company	Type of company Principal	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	323,392,296.78	(252,779,952.37)	473,692,199.72	(89,492,309.21)	(95,157,997.10)
"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	1,220,808,593.07	30,691,772.61	1,082,504,059.36	(157,120,025.59)	(156,066,241.17)

Acquisitions and disposals of subsidiaries during the reporting period

✓ Applicable ☐ Not applicable

Name of company	Acquisitions and disposals of subsidiaries during the Reporting Period	Impact on overall production, operation and performance
Shandong Molong Commercial Trading Company	New incorporation	No significant impact on the overall operating performance of the Company.

Information on major controlled and invested companies

(1) Shouguang Baolong achieved operating income of RMB474 million in the current period, with a decrease of 79.00% year-on-year; the net profit was RMB -95.158 million, with profit earned by RMB23.5489 million year on year, mainly due to operation of production lines under their capacity during the Reporting Period and sharp decrease in sales revenue and net profit.

(2) Shouguang Maolong achieved operating income of RMB1.083 billion in the current period, with decrease of 20.22% year-on-year; loss in the current period was RMB156.0662 million, deficit by RMB161.6010 million year on year. The loss in the current period was mainly due to increase of raw material price inflation and insufficient demand for orders, resulting in increase in production cost and related expense.

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:

In the long run, the demand for oil and gas will continue to grow. Both Chinese and foreign economies are facing recovery demand, especially the domestic economic development trend is gradually improving, and the global energy demand will continue to grow. Oil prices will continue to run at a high level, which will help promote the increasing demand for oil & gas exploration and development, and further rebound the prosperity of the industry.

The report of the 20th National Congress of the Communist Party of China proposed to further promote the energy revolution, increase the exploration and development of oil & gas resources, increase reserves and increase production, and strengthen the construction of energy production, supply, storage and sales system to ensure energy security. Energy security is a strategic and systematic issue related to the overall situation of economic and social development, and it is the fundamental support for high-quality energy development. Driven by the national energy security strategy, the safe and stable supply of oil & gas and the green and low-carbon transformation, the irreplaceable traditional fossil energy and the irreversible energy transformation make energy security with oil & gas security as the core an important topic related to national economic and social development.

Under the 14th Five-Year Plan, it is proposed that the oil & gas exploration and development industry shall promote the increase of oil & gas reserves and production and shall maintain a high and steady yield of crude oil and national gas. Promoting oil & gas reserves and production is a strategic choice to ensure national energy security, and it is also the key to achieve the goal of "Carbon Neutralization and Carbon Emissions Peaking". From the perspective of resource conditions, there is still great potential for increasing oil & gas reserves and production in China in the future, and the output and economy of unconventional natural gas are expected to continue to improve. Under the influence of Russia-Ukraine Conflict, oil & gas supply has become the core concern of global energy security. The strategic significance of oil & gas resources and the long-standing gap between supply and demand in China urgently require China's oil industry to increase exploration and exploitation efforts and improve exploitation efficiency. Especially since the country proposed to promote the energy consumption revolution, supply revolution, technological revolution, energy system revolution and strengthen international cooperation, the government departments led by the National Energy Administration and the Ministry of Natural Resources have continuously issued and resolutely implemented the policies and guidance of increasing oil & gas exploration and development, and the state-owned oil enterprises represented by PetroChina, Sinopec and CNOOC have successively issued "seven-year action plans" to increase reserves and increase production, and continuously maintained high capital expenditure on exploration and development. The National Energy Administration stressed to continue to promote oil & gas production and supply, accelerate the rapid production of unconventional oil & gas, and promote major pipeline projects and oil & gas reserve capacity building in 2023.

Under the expectation that China's energy structure and oil & gas supply and demand will not change fundamentally in a long time, the oil service industry and its downstream oil & gas exploration and development industry are expected to be key policy support industries in a long time. In addition, with the continuous support of policies, the capital expenditure of domestic oil enterprises in China is relatively weakened by oil price fluctuations, which is helpful to effectively promote the development of domestic oil service industry.

(II) Business plans of the Company for 2023:

In 2023, Shandong Molong will focus on the strategic goal of "being determined to become an internationally renowned energy equipment manufacturing service provider", adhere to the general tone of striving for stability, take promoting the high-quality development of enterprises as the main line, seize opportunities, overcome difficulties, actively promote the development of primary business, conscientiously accomplish the key tasks of the Company, strive to improve the level of safe operation and standardized governance, keep optimizing the quality of enterprise management and operation, and strive to achieve steady development of enterprises.

1. Strengthen exchanges and cooperation to promote the application and popularization of HIsmelt

Go all out to do all preparatory works under the Company's technology promotion plan. Strengthen the communication and exchange with design institutes and user enterprises to ensure the accurate and timely implementation of various tasks; keep close contact with industry units, keep up with the forefront of technological development, and constantly improve work efficiency and service level. Continuously improve the technical popularity and competitiveness of the Company and HIsmelt in terms of scientific and technological innovation, technology research and development and engineering services to meet the need of technology promotion.

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, manage production process practically, raise the awareness of cost control, reduce cost in all fields, explore internal potential, exercise measures to reduce costs and increase efficiency, with an aim to improve her profitability.

3. Seize the market opportunity and optimize the sale strategy

Adjust the sale strategy in time according to the market conditions, and keep optimizing the product and customer structure, with marketing around key markets, focus on major customers and do a good job in bidding in major oilfield markets; give full play to the advantages of the industry, actively expand marketing channels, increase the order quantity and production capacity of high value-added products, promote the formation of diversified product structure, effectively increase market share, boost performance growth, and strive to improve operating conditions.

4. Strengthen financing management to ensure the safety of funds

Strengthen communication with banks, do a good job of contact and exchange with banks and other financial institutions, and strive to appropriately reduce financing cost and maintain or increase the scale

6. 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) Risk of raw material price fluctuation

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
14 April 2022	"Panorama • Global Roadshow" (http://rs.p5w.net)	Others	Others	Investors	Business performance of the Company for 2021	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.: 2022-001)
16 November 2022	Panorama "Interactive Platform for Investors Relations" (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 Log Sheet of Shandong Molong Petroleum Machinery Company Limited regarding Investors' Relation Events published on the website of cninfo (No.: 2022-002)

Section IV. Corporate Governance

I. General condition of corporate governance

In strict compliance with the Company Law, the Securities Law, the Code of Corporate Governance for Listed Company, the Rules Governing the Listing of Shares on Shenzhen Stock Exchange, the Guidance No.1 of Shenzhen Stock Exchange for Self-regulation of Listed Company – Standardized Operation of Listed Company on Main Board, the Rules Governing the Listing of Securities on the Stock Exchanges of Hong Kong Limited 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, the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules among others.

1. Shareholders and general meetings

In strict compliance with the Company Law, Rules for General Meetings of Listed Company 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 1 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 Molong Holdings and the actual controller is the State-owned Assets Supervision and Administration Commission of Shouguang City. During the Reporting Period, the controlling shareholder of the Company strictly complied with the Code of Corporate Governance for Listed Company, the Rules Governing the Listing of Shares on Shenzhen Stock Exchange, the Guidance No.1 of Shenzhen Stock Exchange for Self-regulation of Listed Company – Standardized Operation of Listed Company 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

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 Company – Standardized Operation of Listed Company 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 executive officers 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 Company – 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.

Section IV. Corporate Governance

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

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

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 Annual general meeting	Annual general meeting	34.59%	19 May 2022	20 May 2022	Announcement on resolutions adopted at the annual general meeting 2021 (2022-017); Legal opinions on the annual 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).
2022 First extraordinary general meeting	Extraordinary general meeting	29.98%	21 September 2022	22 September 2022	Announcement on resolutions adopted at the first extraordinary general meeting 2022 (2022-028); Legal opinions on the first extraordinary general meeting 2022. 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)	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	46	25 December 2020	24 February 2023	0	0	0	0	0	Not applicable
Yuan Rui	Vice chairman	Incumbent	Male	35	25 December 2020	25 November 2024	0	0	0	0	0	Not applicable
Li Zhi Xin	Executive director	Incumbent	Male	45	21 December 2018	25 November 2024	0	0	0	0	0	Not applicable
Li Zhi Xin	General manager	Incumbent	Male	45	26 November 2021	25 November 2024	0	0	0	0	0	Not applicable
Yao You Ling	Executive director, deputy general manager	Incumbent	Male	59	26 November 2021	25 November 2024	0	0	0	0	0	Not applicable
Wang Quan Hong	Non-executive director	Incumbent	Male	54	21 December 2018	25 November 2024	139,500	0	0	0	139,500	Not applicable
Liu Ji Lu	Non-executive director	Incumbent	Male	55	26 November 2021	25 November 2024	0	0	0	0	0	Not applicable
Tang Qing Bin	Independent director	Incumbent	Male	59	21 December 2018	25 November 2024	0	0	0	0	0	Not applicable
Song Zhi Wang	Independent director	Incumbent	Male	59	21 December 2018	25 November 2024	0	0	0	0	0	Not applicable
Cai Zhong Jie	Independent director	Incumbent	Male	60	21 December 2018	25 November 2024	0	0	0	0	0	Not applicable
Liu Shu Bao	Chairman of the supervisory board	Incumbent	Male	52	12 October 2021	11 October 2024	0	0	0	0	0	Not applicable
Liu Cheng An	Supervisor	Incumbent	Male	49	12 October 2021	11 October 2024	0	0	0	0	0	Not applicable
Li Jingwei	Supervisor	Incumbent	Male	40	21 September 2022	11 October 2024	0	0	0	0	0	Not applicable
Hao Yun Feng	Deputy general manager	Incumbent	Male	49	26 November 2021	25 November 2024	0	0	0	0	0	Not applicable
Hao Yun Feng	Financial controller	Incumbent	Male	49	13 August 2021	25 November 2024	0	0	0	0	0	Not applicable
Zhang Quan Jun	Deputy general manager	Incumbent	Male	52	26 November 2021	25 November 2024	0	0	0	0	0	Not applicable
Zhao Xiao Tong	Deputy general manager	Incumbent	Male	31	26 November 2021	25 November 2024	0	0	0	0	0	Not applicable
Zhao Xiao Tong	Secretary to the Board	Incumbent	Male	31	15 May 2020	25 November 2024	0	0	0	0	0	Not applicable
Lin Jun	Supervisor	Departure	Male	43	12 October 2021	21 September 2022	0	0	0	0	0	Not applicable
Total	–	–	–	–	–	–	139,500	0	0	0	139,500	–

Note: Mr. Yang Yunlong, Chairman of the Company, resigned on 24 February 2023. On the same day, the Company held the fourth interim meeting of the seventh Board of Directors and elected Mr. Yuan Rui as Chairman of the 7th Board of Directors of the Company.

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. Lin Jun, the former supervisor of the Company, resigned as a supervisor of the seventh Board of Supervisors of the Company due to personal work arrangements and other reasons.

The original term of office of Mr. Lin Jun for the above positions should expire on 11 October 2024.

Change of Directors, Supervisors and Senior Management

✓ Applicable ☐ Not applicable

Name	Position held	Type	Date	Reason
Lin Jun	Supervisor	Departure	21 September 2022	Resigned as supervisor due to personal work arrangement.
Li Jingwei	Supervisor	Election	21 September 2022	Election of General Meeting and board of supervisors.

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 Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"). There is no financial, business, family or other material/relevant relationship between the directors.

(1) Members of the Board

Executive Directors:

Mr. Yang Yun Long, male, Chinese, born in June 1976, is a holder of a bachelor's degree and a CPC Party member. once served as the CPC Branch Secretary of the State-owned Assets Supervision and Administration Bureau of Shouguang City and the Management Office Manager of Hou Town Marine Chemical Industrial Park of Shouguang Binhai (Yangkou) Economic Development Zone. Currently served as the Chairperson and manager of Shouguang Jinxin; Executive Director and General Manager of Shouguang Gold Investment Property Management Co., Ltd.; Executive Director and Manager of Shouguang Jintou Cultural Industry Development Co., Ltd.; Executive Director and General Manager of Shouguang Jintou Non-financing Guarantee Co., Ltd.; also a director of Kunpeng Asset Management Co., Ltd.; a director of Shouguang Zhangnongshang Village Bank Co., Ltd.; a director of Shouguang Jintou Agricultural Science and Technology Development Group Co., Ltd.; a director of Lushang Life Service Co., Ltd.; the Chairperson of Shouguang Industrial Investment Holding Group Co., Ltd.; the Chairperson and manager of Shouguang Molong Holding Co., Ltd. From November 2020 to February 2023, served as executive director and Chairperson of the Company.

Mr. Yuan Rui, male, Chinese, born in February 1987, is a holder of a bachelor's degree and a CCP party member. once served as the deputy chief and the chief of Shouguang Municipal People's Government Office; currently the Chairperson of Shouguang Financial Investment Group Co., Ltd.; concurrently a director of Shouguang Jinxin; a director of Shouguang Industrial Investment Holding Group Co., Ltd.; supervisor and director of Shandong Boyuan Pharmaceutical Chemical Co., Ltd.; the director and supervisor of Shandong Longxing Plastic Film Technology Co., Ltd.; serve as supervisor of Kunpeng Asset Management Co., Ltd.; Supervisor of Shandong Shouguang Rural Commercial Bank Co., Ltd.; a director of Shouguang Molong Holdings Co., Ltd.; from November 2020 to February 2023, served as director and vice Chairperson of the Company; since February 2023, served as director and Chairperson of the Company.

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 nonexecutive 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, a CPC member, master's degree in economics, currently serving as an associate professor of the accounting specialty of Weifang Vocational College, is a CPA, a Certified Public Valuer, 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 Stateowned 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 Director:

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. once served as 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). a deputy-director member of Shandong Insurance Industry Reform and Development Expert Advisory Committee, 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, a president of Shandong Insurance Intermediary Association, a vice president of Shandong Rural Vitalization Research Association and a vice president of Jinan Logistics and Supply Chain Society; once served as 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. 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 in Beijing, and serving as 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 education level. He joined the Company in 1990 and successively served as an accounting officer in the finance department of the Company, and a finance officer, head of the audit department of Weihai Baolong. He is currently the head of audit department and the chairman of the supervisory board of the Company.

Mr. Li Jingwei, male, Chinese nationality, Han nationality, CPC member, born in August 1982, bachelor's degree, graduated from Shandong University with a major in finance, and won honors such as Excellent Certified Public Accountant in Shandong Province, Excellent Party Worker in Certified Public Accountant Industry in Weifang City, and Excellent Young and Middle-aged Expert in Kuiwen District of Weifang City; currently a partner of Yongtuo Certified Public Accountants and has been a supervisor of the Company since September 2022.

Mr. Liu Cheng An, male, Chinese, Han ethnicity, born in March 1973, a CPC member and Doctor in Law, once served in positions such as the vice president of the Supreme People's Court of Shandong Province and third-level senior judge; currently a teacher at the School of Law in Shandong Jianzhu University, a council member of Shandong Association of Engineering Law and the vice Chairperson of Shandong Association of Insurance Law, and serving as a supervisor of the Company since October 2021.

(3) Senior Management

Mr. Zhang Quan Jun, male, Han ethnicity, born in August 1970. Joining Shandong Molong in 1992, he served as a deputy manager and manager at the central plain branch of the sales company, a manager at the central China branch of the sales company, a branch manager of the sales company, a manager at the technical services department of the sales company, and a deputy general manager of the sales company. He currently serves as a deputy general manager of the Company and the general manager of the sales company.

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), a deputy general manager and a financial controller of Shandong Borun Industrial Co., Ltd. (山東博潤實業有限公司). He is currently a deputy general manager and a financial controller of the Company.

Mr. Zhao Xiao Tong, male, Han ethnicity, born in August 1991, is a CCP party member and holds a bachelor's degree in economics. He worked with Shandong Chenming Paper Holdings Limited (山東晨鳴紙業集團股份有限公司) successively as a manager at the securities investment department and the representative of securities affairs, and served as the representative of securities affairs of Shandong Molong. He is currently a deputy general manager and the secretary to the Board of the Company.

Details of the Company's general manager, Mr. Li Zhi Xin, and deputy general manager, Mr. Yao You Ling, please refer to (1) Members of the Board in this section.

Employment with shareholder entities

✓ Applicable ☐ Not applicable

Name of employee	Name of shareholder entity	Positions held at shareholder entity	Term start date	Term end date	Entitlement to compensation and allowances from shareholder entity
Yang Yun Long	Shouguang Molong Holdings Co., Ltd.	Chairman of the board of directors and general manager	1 October 2020	—	No
Yuan Rui	Shouguang Molong Holdings Co., Ltd.	Director	1 October 2020	—	No
Explanation of details of employment with shareholder entities		Nil	—	—	—

Details of employment with other entities

✓ Applicable ☐ Not applicable

Name of employee	Name of Other Companies	Positions held in other companies	Term start date	Term end date	Entitlement to compensation and allowances from any 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	1 September 2017	29 August 2022	Yes
Yang Yun Long	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
Yang Yun Long	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

Name of employee	Name of Other Companies	Positions held in other companies	Term start date	Term end date	Entitlement to compensation and allowances from any other entity
Yang Yun Long	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
Yang Yun Long	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
Yang Yun Long	Kunpeng Asset Management Co., Ltd. (昆明資產管理股份有限公司)	Director	1 June 2020	—	No
Yang Yun Long	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
Yang Yun Long	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
Yang Yun Long	Shouguang Industry Investment Holding Group Co., Ltd. (壽光市產業投資控股集團有限公司)	Chairman	16 February 2022	—	No
Yang Yun Long	Lushang Life Service Co., Ltd. (魯商生活服務股份有限公司)	Director	27 September 2022	—	No
Yuan Rui	Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司)	Director	1 September 2017	29 August 2022	Yes
Yuan Rui	Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司)	Chairman	29 August 2022	—	Yes
Yuan Rui	Shandong Longxing Plastic Film Technology Co., Ltd. (山東龍興塑膜科技股份有限公司)	Chairperson of the Board of Supervisors	1 September 2018	—	No
Yuan Rui	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

Name of employee	Name of Other Companies	Positions held in other companies	Term start date	Term end date	Entitlement to compensation and allowances from any other entity
Yuan Rui	Shandong Boyuan Pharmaceutical & Chemical Co., Ltd. (山東博苑醫藥化學股份有限公司)	Director	1 March 2020	—	No
Yuan Rui	Kunpeng Asset Management Co., Ltd. (昆明資產管理股份有限公司)	Supervisor	1 June 2020	—	No
Yuan Rui	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
Yuan Rui	Shouguang Industry Investment Holding Group Co., Ltd. (壽光市產業投資控股集團有限公司)	Director	16 February 2022	—	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
Tang Qing Bin	Jinan Pulishian Enterprise Management Consulting Co., Ltd. (濟南普利施安企業管理諮詢有限公司)	Executive Director and General Manager	19 April 2017	—	No
Tang Qing Bin	Lucion Venture Capital Group Co., Ltd. (魯信創業投資集團股份有限公司)	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
Song Zhi Wang	Shandong Jiu'an Investment Management Co., Ltd. (山東九安投資管理有限公司)	Executive director	21 March 2014	—	No
Song Zhi Wang	Shandong Juan Siwei Risk Management Consulting Co., Ltd. (山東居安思危風險管理咨詢有限公司)	Executive director	21 March 2014	—	No

Name of employee	Name of Other Companies	Positions held in other companies	Term start date	Term end date	Entitlement to compensation and allowances from any other entity
Song Zhi Wang	Shandong Jiuan Juzheng Insurance Assessment Co., Ltd. (山東九安居正保險公估股份有限公司)	Chairman	21 June 2016	—	No
Song Zhi Wang	Shandong Qi'an Health Management Co., Ltd. (山東齊安健康管理有限公司)	Executive director and general manager	6 September 2016	—	No
Song Zhi Wang	Shanghai Anqi Artificial Intelligence Technology Co., Ltd. (上海安齊人工智能科技有限公司)	Executive director	27 September 2019	—	No
Song Zhi Wang	Guoyu Dehui Equity Investment Management (Shandong) Co., Ltd. (國鈺德慧股權投資管理(山東)有限公司)	Director	2 April 2020	—	No
Cai Zhong Jie	Beijing Jincheng Tongda (Jinan) Law Firm (北京金誠同達(濟南)律師事務所)	Senior partner	1 September 2014	—	Yes
Liu Cheng An	Shandong Jianzhu University (山東建築大學)	Teacher	1 July 2020	—	Yes
Li Jingwei	Yongtuo CPA Firm (永拓會計師事務所)	General Partner	25 January 2017	—	Yes
Details on employment with any other entity		Nil	—	—	—

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

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.

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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**2. Basis 0.7165 690. r 0 0 X/ringors, Reportingo0 1iod,ors,

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
1st extraordinary meeting of 7th session of the Board of Directors	30 March 2022	31 March 2022	Announcement on resolutions adopted on the first meeting of the seventh session of the Board of Directors (Announcement No.: 2022-004). 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).
2nd meeting of 7th session of the Board of Directors	28 April 2022	Not applicable	Review and adopt the First Quarterly Report of 2022.
2nd extraordinary meeting of 7th session of the Board of Directors	17 August 2022	18 August 2022	Announcement on resolutions adopted at the 2nd extraordinary meeting of the seventh session of the Board of Directors (Announcement No.: 2022-020). 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).
3rd meeting of 7th session of the Board of Directors	30 August 2022	31 August 2022	Announcement on resolutions adopted at the 3rd meeting of the seventh session of the Board of Directors (Announcement No.: 2022-022). 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).
4th meeting of 7th session of the Board of Directors	27 October 2022	28 October 2022	Announcement on resolutions adopted on the 4th meeting of the seventh session of the Board of Directors (Announcement No.: 2022-030). 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	5	5	0	0	0	No	2
Yuan Rui	5	5	0	0	0	No	2
Li Zhi Xin	5	5	0	0	0	No	2
Yao You Ling	5	5	0	0	0	No	2
Wang Quan Hong	5	0	5	0	0	No	2
Liu Ji Lu	5	0	5	0	0	No	2
Tang Qing Bin	5	0	5	0	0	No	2
Song Zhi Wang	5	0	5	0	0	No	2
Cai Zhong Jie	5	0	5	0	0	No	2

Information about failure to attend two consecutive board meetings in person

Not applicable

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	6	18 March 2022	To listen the report of audit work by the auditor.	Debriefing to the CPA on audit work.	–	–
			30 March 2022	To consider the Full Texts and Summary of the Annual Report 2021, the Self-assessment Report on Internal Control 2021, the Annual Profit Distribution Proposal 2021, and the Proposal for the Reappointment of Audit Firm for 2021.	Agreed to submit the relevant proposal to the board of directors for consideration.	–	–
			28 April 2022	To consider the Full Texts and Main Body of the First Quarterly Report 2022.	Agreed to submit the relevant proposal to the board of directors for consideration.	–	–
			30 August 2022	To consider the Full Texts and Summary of the Interim Report 2022.	Agreed to submit the relevant proposal to the board of directors for consideration.	–	–
			27 October 2022	To consider the Third Quarterly Report 2022.	Agreed to submit the relevant proposal to the board of directors for consideration.	–	–
			23 December 2022	To communicate with the auditor in respect of the year-end audit plan for 2022.	Agreed with the accountants on the year-end audit plan.	–	–
Remuneration and evaluation committee	Yang Yun Long, Tang Qing Bin, Song Zhi Wang, Cai Zhong Jie	1	30 March 2022	To consider the Remuneration Policy for Directors, Supervisors and Senior Management 2022.	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)	1,640
Number of employees serving the major subsidiaries as at the end of the reporting period (persons)	861
Total number of serving employees as at the end of the reporting period (persons)	2,501
Total number of paid employees in the current period (persons)	2,501
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 (persons)
Production personnel	2,168
Sales personnel	65
Technicians	34
Financial staff	31
Administrative staff	203
Total	2,501

Education level

Type of education level	Quantity (persons)
Master and above	34
Bachelor's degree	164
Junior college	510
Technical secondary school (high school) qualifications and below	1,793
Total	2,501

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) Based on the premise of stabilizing employees' income and encouraging them to work more and get more, and taking fairness and reasonableness as the principle, the Company should ensure the stable income of their basic salary, link their pay with performance level, fully mobilize their enthusiasm and sense of responsibility, and make their payroll in line with the pay scale of the industry and type of work in society, which is more attractive to the outside world and more stimulating to the inside;

(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 well as quality, safety, technique systems, the Company also continuously improves the internal training mechanism by establishing a team of internal trainers, organising internal staff training programmes, increasing training efforts, optimising training results, and making constant adjustments and update according to the training results;

(3) Depending on the actual circumstances and based on the requirements of specific posts, the Company organises and enrolls external professional training programmes on an irregular basis so as to improve staff achievements and job competence. The Company also engages external trainers on an irregular basis to provide collective training for management personnel of the Company, in order to continuously raise their management skill and professionalism and enhance competitiveness of the Company;

(4) To further improve the governance of corporate systems, the Company adopts various training approaches to promote staff development and help them plan reasonable career paths, enhance staff cohesiveness, create good learning-oriented corporate culture, and boost shared development of employees and the Company.

4. Labor outsourcing

☐ Applicable ✓ Not applicable

Section IV. Corporate Governance

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 dividends

☐ Applicable ✓ Not applicable

Distribution of cash dividends not proposed when the Company was profitable during the reporting period and the parent company had positive profits distributable to shareholders

☐ Applicable ✓ Not applicable

Profit distribution and conversion of capital reserves into share capital during the reporting period

☐ Applicable ✓ Not applicable

The Company has no plan to distribute cash bonus, no issuance of bonus share and no capital reserve capitalisation.

XI. Implementation of the stock incentive plan, employee shareholding plan or other employee incentive measure of the Company

☐ Applicable ✓ Not applicable

There was no stock incentive plan, employee shareholding plan or other employee incentive measure and its implementation during the reporting period.

XII. Establishment and implementation of internal control system during the reporting period

1. Establishment and implementation of internal control system

The board of directors of the Company has established a sound and effectively implemented internal control system, assesses its effectiveness and truthfully discloses the assessment report on internal control in accordance with the requirements of the Standardised Internal Control System for Companies. The supervisory board supervises the board of directors in the establishment and implementation of internal control. The management is responsible to organise and lead the daily operation of internal control.

The board of directors of Company has established an audit committee which shall be responsible to review the internal control of the Company, supervise its effective implementation and the self-assessment on internal control, and coordinate the audit of internal control and other relevant matters.

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
Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

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	1 April 2023
Reference of disclosure on the full texts of the assessment report on internal control	cninfo (http://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	98.50%
Proportion of operating revenue of entities included in the assessment to the operating revenue per consolidated financial statements of the Company	99.77%

Standards for deficiency identification

Category	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 or normative documents, making major decisions, lack of procedure is not scientific, lack of system can lead to systemic failure, significant or important defects can't get the rectification and other significant negative impact on the company. Other circumstances according to the influence degree were identified as important defects or defects in general.

	Standards for deficiency identification	
Category	**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 (0.2% 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 nonfinancial reporting		0
Number of material deficiencies in financial reporting		0
Number of material deficiencies in nonfinancial 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 2022 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	1 April 2023
Reference of disclosure of the full texts of the audit report on internal control	http://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 governance of listed companies

Not applicable

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 2022 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				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total Operating Income	**2,765,645**	3,734,463	3,009,719	4,388,904	4,452,015
Operating (loss)/profit	**(441,513)**	(361,115)	38,175	(189,049)	69,123
Total (loss)/profit	**(446,042)**	(362,057)	17,529	(215,227)	61,163
Net profit/(loss)	**(448,935)**	(368,420)	11,455	(224,908)	102,406
Minority interests	**(23,966)**	(403)	(20,723)	(28,599)	9,930
Net (loss)/profit attributable to shareholders of the parent company	**(424,970)**	(368,018)	32,179	(196,309)	92,476
Basic (loss)/earnings per share (RMB)	**(0.53)**	(0.46)	0.04	(0.25)	0.12

Assets and liabilities

	For the year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gross Assets	**4,038,606**	4,457,611	5,175,636	5,735,752	6,607,537
Total liabilities	**3,128,252**	3,097,863	3,374,066	3,946,792	4,593,377
Net Assets	**910,353**	1,359,748	1,801,570	1,788,960	2,014,160

3. Changes in share capital

For details of changes in the share capital of the Company for 2022, 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 in 2022 are set out in the sub-section headed "Undistributed Profits" under "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 2022 are set out in the section of financial report.

6. Capitalised Interests

During 2022, 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

In 2022, the Company had no connected transaction that must be disclosed under the Listing Rules and none of the related party transactions disclosed in the "Financial Report" section in this report constituted disclosable 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 2022, 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 (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 in the 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 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 2022, please refer to the sub-section headed "Remuneration of Key Management Personnel" under the section headed "Financial 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 2022.

13. Share Scheme

The Company does not operate any share 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.

Section IV. Corporate Governance

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 2022 or at the end of 2022, 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 2022.

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 77.46% (2021: approximately 69.50%) which is calculated based on the Group's total liabilities of approximately RMB3,128,252 thousand (2021: approximately RMB3,097,863 thousand) and total assets of approximately RMB4,038,606 thousand (2021: approximately RMB4,457,611 thousand).

22. Contingent liabilities

As at 31 December 2022, 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 2022, 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 2022 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.

Section IV. Corporate Governance

XVII. Corporate governance report

1. Compliance with the Code on Corporate Governance Practices

In 2022, the Board convened 5 meetings and the Directors shall meet more frequently as and when required. At least 14 days' notice of all regular Board meetings is given to all Directors, and all Directors are given the opportunity to include matters for discussion in the agenda. The individual attendance record of each Director at such Board meetings is shown as follows:

Board member	Position	Number of meetings attended/ Total number of meetings
Yang Yun Long	chairman, executive Director	5/5
Yuan Rui	vice chairman, executive Director	5/5
Li Zhi Xin	executive Director, general manager	5/5
Yao You Ling	executive Director	5/5
Wang Quan Hong	non-executive Director	5/5
Liu Ji Lu	non-executive Director	5/5
Tang Qing Bin	independent non-executive Director	5/5
Song Zhi Wang	independent non-executive Director	5/5
Cai Zhong Jie	independent non-executive Director	5/5

All the Directors have access to relevant information timely. They also have access to the advice and services of the company secretary or Board secretary of the Company, who is responsible for providing the Directors with Board papers and related materials. Where queries are raised by the Directors, prompt and full responses will be given as soon as possible.

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 resolution. Independent non-executive Directors with no conflict of interest will be present at meetings dealing with such conflict issues. Independent non-executive Directors are identified in all corporate communications containing the names of the Directors. An updated list of the Directors identifying the Independent non-executive Directors and the roles and functions of the Directors is maintained on the website of the Company and the website of the Stock Exchange.

4. Skills, Knowledge, Experience and Attributes of Directors

All Directors of the Board had served in office during the year. Every Director committed sufficient time and attention to the affairs of the Company. The Directors had also demonstrated their understanding and commission to high standards of corporate governance. Each executive Director had brought his perspective to the Board through his deep understanding of the Group's business. The non-executive Directors and the independent non-executive Directors had contributed their own skills and experience, understanding of local and global economies, and knowledge of capital markets as well as the business of the Group. The Company is responsible for arranging and funding suitable continuous professional development programmes for all Directors to develop and refresh their knowledge and skills.

5. Independence of the Board

In order to ensure independent views and input are available to the Board, the Board has developed the following mechanisms, including but not limited to:

(a) at least one-third of Board members are independent non-executive Directors;

(b) every independent non-executive Director is appointed for a specific term and subject to retirement by rotation at least once every three years;

(c) independent non-executive Directors possess professional knowledge and broad experience;

(d) no independent non-executive Director has served the Company for more than nine years;

(e) no independent non-executive Director holds more than six listed company directorships to make sure that each of independent non-executive Directors has sufficient time to make contributions to the Board;

(f) every independent non-executive Director has made an annual confirmation of his independence to the Company;

(g) no equity-based remuneration with performance-related elements will be granted to independent non-executive Directors; and

(h) the Board, each of its committees or every Director is able to seek professional advice in appropriate circumstances at the Company's expenses.

During the reporting period, all Directors had participated in appropriate continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

Name	Type of training (Note 1)	Training matters (Note 2)
Yang Yun Long *(Chairman)*	a, b	i, ii, iii, iv
Yuan Rui	a, b	i, ii, iii, iv
Li Zhi Xin	a, b	i, ii, iii, iv
Yao You Ling	a, b	i, ii, iii, iv
Wang Quan Hong	a, b	i, ii, iii, iv
Liu Ji Lu	a, b	i, ii, iii, iv
Tang Qing Bin	a, b	i, ii, iii, iv
Song Zhi Wang	a, b	i, ii, iii, iv
Cai Zhong Jie	a, b	i, ii, iii, iv

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.

7. 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 2022, 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 2022.

8. 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 C.2.1, the roles of Chairman and General Manager are separate and are not performed by the same individual.

(B) Audit Committee

The Audit Committee was established on 20 March 2004 and is currently comprised of 3 independent nonexecutive 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 2022:

① It communicated with the audit firm engaged by the Company in respect of the audit work for 2021 financial report before and during the auditing, and reviewed the audit report and financial report, proposal for annual profit distribution allocation for 2021 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 2022 first quarterly financial report of the Company for the period ended 31 March 2022, and submitted it to the Board for consideration and approval;

③ It reviewed the 2022 interim financial report of the Company for the period ended 30 June 2022, and submitted it to the Board for consideration and approval;

④ It reviewed the 2022 third quarterly financial report of the Company for the period ended 30 September 2022, 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 2022 financial report before the auditing.

(2) The audit work performed on the 2022 financial report of the Company was as follows:

① It reviewed the 2022 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 2022 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' 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 2022.

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	6/6
Song Zhi Wang	Independent non-executive director	6/6
Cai Zhong Jie	Independent non-executive director	6/6

(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.

As at the date of this report, all Directors were male. As at 31 December 2022, 76% of the employees (including senior management) of the Group were male and 24% were female. During the reporting period and as at the date of this report, the Board has not set any measurable objective, numerical target or timeline for achieving gender diversity on the Board, but will endeavour to diversify the Board by the appointment of at least one female Director by 31 December 2024 in accordance with Rule 13.92 of the Listing Rules. The Company recognizes the importance of diversity and is mindful of the objectives for the factors as set out in the diversity policy for assessing the candidacy of the Board members and will ensure that any successors to the Board shall follow the Board diversity policy. The Nomination Committee will discuss periodically and when necessary, set measurable objectives and plans for achieving diversity on the Board and recommend them to the Board for adoption.

(2) The following major tasks were performed during 2022:

It reviewed the structure, size, diversity policy and composition (including the skills, knowledge and experience, sex, age, cultural and education background) of the Board once and made recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

During the reporting period, the nomination committee held 1 discussion. 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 discussion
Song Zhi Wang	Chairman of the committee and independent non-executive director	1/1
Yang Yun Long	Chairman of the Board and executive director	1/1
Tang Qing Bin	Independent non-executive director	1/1
Cai Zhong Jie	Independent non-executive director	1/1

(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.

(D) Remuneration and evaluation committee

The remuneration and evaluation committee was established on 18 January 2005 and is currently comprised of 1 executive director, namely Mr. Yang Yun Long, and 3 independent non-executive directors, namely Mr. Cai Zhong Jie, Mr. Tang Qing Bin and Mr. Song Zhi Wang, and is chaired by Mr. Cai Zhong Jie. It is primarily responsible for formulating the remuneration and assessment for the Directors and the senior management of the Company and formulating and examining the remuneration package of the Directors and the senior management of the Company, reviewing and/or approving any matter relating to share schemes under Chapter 17 of the Listing Rules, and is accountable to the Board. The remuneration and assessment committee does not determine the remuneration for the Directors and the senior management directly, but

The following major tasks were performed during 2022:

It reviewed the remuneration policies for directors, supervisors and senior management for 2022, and submitted it to the board of directors for consideration and approval.

The remuneration and evaluation committee held 1 meeting in 2022. The attendance of each member of the committee is as follows:

Member of the remuneration and evaluation committee	Position	Number of meetings attended/ Total number of meetings
Cai Zhong Jie	Chairman of the committee and independent non-executive director	1/1
Yang Yun Long	Chairman of the Board and executive director	1/1
Tang Qing Bin	Independent non-executive director	1/1
Song Zhi Wang	Independent non-executive director	1/1

12. 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 at least once a year. The Board has reviewed the internal control system of the Group and is of the view that the system was effective as at 31 December 2022.

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 2022, 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;

16. 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.

17. 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. The Company has adopted a shareholder communication policy to maintain effective communication with shareholders and investors and ensure that the Group's information is communicated to shareholders and potential investors in a timely manner. Pursuant to the shareholder communication policy, the Company is required to maintain various channels of communication with shareholders and investors. During the reporting period, communication between the Company and its shareholders has been 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 shareholder. The Company has reviewed the implementation and effectiveness of the shareholders communication policy. In view of the Company's various communication channels with shareholders and investors during the 2022, the Company is of the view that the policy was effective and has been properly implemented.

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 2022, the Company held two general meetings (being the annual general meeting held on 19 May 2022 and the extraordinary general meetings held on 21 September 2022). 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	2/2
Mr. Yuan Rui	2/2
Mr. Li Zhi Xin	2/2
Mr. Yao You Ling	2/2
Mr. Wang Quan Hong	2/2
Mr. Liu Ji Lu	2/2
Mr. Tang Qing Bin	2/2
Mr. Song Zhi Wang	2/2
Mr. Cai Zhong Jie	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.

18. 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.

19. 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 2022, 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.

20. Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of the Company.

(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

(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	Registered Address in the PRC
	5/F, Kam Sang Building, 257 Des Voeux Road Central, Sheung Wan, Hong Kong	No. 99 Xingshang Road, Gucheng 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 businesses

The Company was principally engaged in the design, research and development, processing and manufacturing, sales service and export trade of products for the energy equipment industry. The main products included oil drilling machinery equipment, petroleum and natural gas transportation equipment, oil & gas exploitation equipment, castings, etc. The products were mainly used in the manufacture of equipment for oil & gas energy drilling, machinery processing, urban pipeline network and wind power castings. 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 2022 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 2022, 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

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Section V. Directors' Report

Financial Review

During the Reporting Period, the Company achieved operating income of about RMB2.766 billion, with decrease of 25.94% year-on-year; net profit attributable to shareholders of the listed company is about RMB -425 million; basic earnings per share was RMB -0.53 per share. A financial review of the Company for the year ended 31 December 2002 is set out in the "Financial Report" section of this Annual Report.

Property, Plant and Equipment

Details of changes in the property, plant and equipment of the Group for 2022 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 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.

Repurchase, 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 2022.

Reserves and Distributable Reserves

Details of changes in the reserves and distributable reserves of the Company for 2022 are set out in sub-section headed "Undistributed profit" under the "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 39.80% of the Group's total sales for the Year. Of which, sales to the largest customer accounted for approximately 9.88% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 23.85% of the Group's total purchases for the Year. Of which, purchases from the largest supplier accounted for approximately 7.47%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. For the environmental, social and governance reports required by the Listing Rules, the Company has separately published the environmental, social and governance report.

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 set up a difficult assistance fund to care for and support employees with

Section V. Directors' Report

Non-executive Directors:

Mr. Wang Quan Hong
Mr. Liu Ji Lu

Independent non-executive Directors:

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

Supervisors:

Mr. Liu Shu Bao
Mr. Liu Cheng An
Mr. Li Jingwei (appointed on 21 September 2022)
Mr. Lin Jun (resigned on 21 September 2022)

The biographical details of the Directors are set out in the sub-section headed "Professional backgrounds, major work experience and duties within the Company of the current Directors, Supervisors and Senior Managers of the Company" under the section headed "Corporate Governance" in this annual report.

The Company has received annual confirmations from each of the independent non-executive Directors as to their independence pursuant to Rule 3.13 of the Listing Rules, and considered all the independent non-executive Directors to be independent.

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. 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 2022, please refer to sub-section headed "Remuneration 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 2022 or at the end of 2022.

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 2022, 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 2022.

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 2022.

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

As at 31 December 2022, 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 (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 position in the share of the Company

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage in the 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 Group and to the Stock Exchange.

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 2022.

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

As at 31 December 2022, 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 position in the share of the Company

Substantial shareholder	Nature of interest	Number of shares	Percentage of issued A/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 share)	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 share)	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 share)	8.11%
	Beneficial interest	900,000 A shares	0.17% (A share)	0.11%
	Interest under Section 317 of the SFO [1]	85,974,800 H-shares	33.57% (H share)	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 share)	3.86%
	Interest under Section 317 of the SFO [1]	900,000 A shares	0.17% (A share)	0.11%
	Interest under Section 317 of the SFO [1]	119,914,800 H-shares	46.82% (H share)	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 share)	3.99%
	Interest under Section 317 of the SFO [1]	900,000 A shares	0.17% (A share)	0.11%
	Interest under Section 317 of the SFO [1]	118,914,800 H-shares	46.43% (H share)	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 share)	2.93%
	Interest under Section 317 of the SFO [1]	900,000 A shares	0.17% (A share)	0.11%
	Interest under Section 317 of the SFO [1]	127,340,000 H-shares	48.16% (H share)	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 2022.

Save as disclosed above, as at 31 December 2022, 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

In 2022, the Company had no connected transaction that must be disclosed under the Listing Rules and none of the related party transactions disclosed in the "Financial Report" section in this report constituted disclosable 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 maintained a sufficient public float for the whole year ended 31 December 2022. 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 16 May 2023 (Tuesday) to 19 May 2023 (Friday), (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, on Floor 17, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 15 May 2023 (Monday).

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
Yuan Rui
Chairman

31 March 2023 in Shandong, China

Section VI. Environmental and Social Responsibility

I. Major environmental issues

Whether the listed company and its subsidiaries are listed by the environmental authorities as a critical pollutant discharging entity

✓ Yes ☐ No

Policies and industrial standards related to environmental protection

The Company and its subsidiaries strictly abide by environmental protection-related policies and industrial standards such as Shandong Iron and Steel Industry Air Pollutant Emission Standard DB/37 990-2019, Shandong Thermal Power Plant Air Pollutant Emission Standard DB37/664-2019, and Regional Air Pollutant Comprehensive Emission Standard DB37/2376-2019.

Environmental Protection Administrative Licensing

The Company strictly complied with the requirements of the environmental laws and regulations to carry out environmental impact assessment of contraction project. The construction projects have all passed the environmental impact assessment procedures and been accepted by the relevant competent authorities, where filing procedures have been gone through.

Shandong Molong and its branches' Pollutant Discharge Permit numbered: 91370000734705456P001P, 91370783MA3CW9X53H001P, with the first application date of 27 October 2017 and the current validity period till 18 January 2027;

Shouguang Baolong's Pollutant Discharge Permit numbered: 913707836613984230001R, with the first application date of 23 July 2020 and the current validity period till 22 July 2023;

Shouguang Maolong's Pollutant Discharge Permit numbered: 91370783724814405U001V, with the first application date of 30 July 2020 and the current validity period till 17 January 2028;

Weihai Baolong's Pollutant Discharge Permit numbered: 91371081756387292D001P, with the first application date of 20 April 2020 and the current validity period till 19 April 2023.

Industrial discharge standards and specific conditions of pollutant discharge involved in production and business activities

The Company or name of subsidiary	Categories of major pollutant and specific pollutant	Name of major pollutant and specific pollutant	Method of discharge	Number of discharge outlets	Distribution of discharge outlets	Emission Concentration/ Intensity	Implemented standards for pollutant discharge	Total volume of discharge	Approved total volume of discharge	Excessive discharge
"Shouguang Maolong"	–	Sulfur dioxide	Organised	1	Production complex	20.5mg/m³	35mg/m³	11.2t	51.0125t	Nil
"Shouguang Maolong"	–	Nitrogen oxides	Organised	1	Production complex	7.47mg/m³	100mg/m³	4.01t	72.875t	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	0.937mg/m³	5mg/m³	0.511t	5.10125t	Nil
"Shouguang Maolong"	–	Sulfur dioxide	Organised	1	Production complex	17mg/m³	50mg/m³	0.675t	–	Nil
"Shouguang Maolong"	–	Nitrogen oxides	Organised	1	Production complex	42mg/m³	100mg/m³	1.653t	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.8mg/m³	10mg/m³	237.775kg	–	Nil
"Shouguang Maolong"	–	Sulfur dioxide	Organised	1	Production complex	29.5mg/m³	50mg/m³	2.352t	–	Nil
"Shouguang Maolong"	–	Nitrogen oxides	Organised	1	Production complex	38.5mg/m³	100mg/m³	3.068t	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.3mg/m³	10mg/m³	416.738kg	–	Nil
"Shouguang Maolong"	–	Sulfur dioxide	Organised	1	Production complex	28.5mg/m³	50mg/m³	1.595t	–	Nil
"Shouguang Maolong"	–	Nitrogen oxides	Organised	1	Production complex	38mg/m³	100mg/m³	2.126t	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.4mg/m³	10mg/m³	306.573kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	3.6mg/m³	10mg/m³	1.984t	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	3.5mg/m³	10mg/m³	4.899t	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	3.5mg/m³	10mg/m³	2.746t	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.67mg/m³	10mg/m³	629.395kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.49mg/m³	10mg/m³	480.457kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.65mg/m³	10mg/m³	318.166kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.65mg/m³	10mg/m³	28.922kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	6.6mg/m³	10mg/m³	37.661kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.11mg/m³	10mg/m³	27.631kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.79mg/m³	10mg/m³	15.009kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.87mg/m³	10mg/m³	167.766kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.75mg/m³	10mg/m³	23.041kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.46mg/m³	10mg/m³	135.11kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.55mg/m³	10mg/m³	58.277kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.87mg/m³	10mg/m³	79.885kg	–	Nil
"Shouguang Maolong"	–	VOCs	Organised	1	Production complex	3.56mg/m³	60mg/m³	48.448kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.46mg/m³	10mg/m³	67.25kg	–	Nil
"Shouguang Maolong"	–	Sulfur dioxide	Organised	1	Production complex	30mg/m³	50mg/m³	9.72kg	–	Nil
"Shouguang Maolong"	–	Nitrogen oxides	Organised	1	Production complex	67mg/m³	100mg/m³	21.6kg	–	Nil
"Shouguang Maolong"	–	Particulate matter	Organised	1	Production complex	5.6mg/m³	10mg/m³	1.8kg	–	Nil

Note: Shandong Molong and Shouguang Baolong are not the key pollutant discharge units announced by the Environmental Protection Department, and are no longer listed.

Treatment of pollutants

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; a new package of rainwater online monitoring facilities was installed in Park 180.

Exhaust treatment facilities: the Company has equipped production lines in all production complexes with the corresponding environmental facilities, including denitration and electrostatic/electric precipitator, fabric filter, acid mist treatment equipment, alkali desulfurization and volatile organic compounds treatment equipment, to ensure effective treatment and discharge of exhausts generated from the production process.

Environmental Self-monitoring Program

During the Reporting Period, the Company and its subsidiaries actively cooperated with the local environmental testing department to carry out regular supervisory testing, and the four sets of online waste gas monitoring equipment operated normally. Third-party testing units were entrusted to regularly monitor all emission data of the Company, and the monitoring results were regularly publicized on the national pollutant discharge permit management information platform to meet the industry standards and the requirements of local environmental protection departments. the Company makes statistics on relevant environmental protection data every month, supervises the stable operation of wastewater and waste gas treatment facilities, and effectively guarantees the discharge management of wastewater and waste gas within the Company.

Emergency plans for sudden environmental incidents

Each of the Company and its subsidiaries has engaged a qualified firm to prepare its emergency plans for sudden environmental incidents, which have been filed to environment authorities after reviewed by experts. The Company and its subsidiaries also organised trainings and drills on a regular basis to rectify the problems in the area of emergency management, so as to strengthen the control of environmental risks.

Investment in environmental governance and protection and payment of environmental protection tax

During the Reporting Period, investment in environmental governance and protection of the Company and all subsidiaries totaled RMB4.1555 million; the Company and all subsidiaries paid a total of RMB244.5 thousand in environmental protection tax.

Measures taken for carbon emissions reduction and their results during the reporting period

☐ Applicable

Administrative penalties arising from environmental issues during the reporting period

The Company or name of subsidiary	Reasons for punishment	Violations	Result of punishment	Impact on production and operation of Listed Company	Corrective measures taken by the Company
Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

Other discloseable environmental information

There was no other discloseable environmental information.

Other environmentally related information

There was no other environmentally related information.

3. Actively participating in social undertakings

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. In 2022, the Company actively cooperated with local governmental authorities in doing a good job in prevention and control, provided services of buses, commercial vehicles and the like free of charge for times in assisting the government in picking up and dropping off vaccinators and NAT inspectors, and actively participated in COVID-19 epidemic prevention activities organized by street governmental authorities to actively contribute to local work; the Company actively contacted the blood station in the center of Weifang, issued an initiative and organized three voluntary blood donation activities, actively participated in social welfare undertakings, and demonstrated our Corporate Social Responsibility.

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

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

Since 1 January 2022, the Company has implemented relevant provisions of Interpretation on the Accounting Standards for Business Enterprises No.15 (CK [2021] No. 35), such as "Accounting for Enterprises to Sell Products or by-products Produced before or during the Research and Development of Fixed Assets" and "Judgment on Loss Contracts". The implementation of this accounting policy has not had a significant impact on the Company and its financial statements.

Since 30 November 2022, the Company has implemented the provisions of "accounting for effect on income taxes from dividends related to financial instruments classified as equity instruments by issuer", and "accounting for cash-settled share-based payment modified by enterprises to equity-settled share-based payment", which are stipulated in Interpretation No. 16 of the Accounting Standards for Business Enterprises (CK [2022] No. 31). The Company's implementation of such accounting policies did not have a significant impact on the Company or its financial statements.

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

✓ Applicable ☐ Not applicable

1. On 28 July 2022, the Company received the Notice of Approval for Cancellation of Registration issued by Shouguang Administrative Examination and Approval Service Bureau, and granted cancellation of Molong Energy. After deregistration, Molong Energy was no longer included in the consolidated financial statements of the Company.

2. According to the Company's development strategy and business needs, on 22 July 2022, the Company's manager's office meeting reviewed and approved the establishment of a wholly-owned subsidiary Molong Trading with its own capital of RMB10 million. On 18 August 2022, the Company obtained the Business License issued by Shouguang Administrative Examination and Approval Service Bureau, and Molong Commerce and Trade was included in the consolidated financial statements of the Company.

VIII. Appointment and dismissal of accounting firm

The accounting firm currently appointed

Name of the domestic accounting firm	ShineWing Certified Public Accountants LLP
Compensation of the domestic accounting firm (Unit: RMB'0,000)	145
Continued term of service of the domestic accounting firm	10
Name of CPA of the domestic accounting firm	Wang Gongyong, Zhang Chao
Continued term of service of certified public accountants of the domestic accounting firm	1.3

Section VII. Material Matters

XI. Significant lawsuits and arbitrations

☐ Applicable ✓ Not applicable

During the Reporting Period, the Company had no major litigation or arbitration matters.

XII. Punishments and rectifications

☐ Applicable ✓ Not applicable

There was no punishment or rectification during the Reporting Period.

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

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

☐ Applicable ✓ Not applicable

During the Reporting Period, there were no Connected Transactions of asset or equity acquisition or sale.

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. Debts due 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(s) for Occurrence	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	Accept financial assistance provided by related parties free of charge	5,000	75,800	80,800	0.00%	0	0
Impact of the related debts on the operating results and financial position of the Company	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, Related Party, provided non-interest bearing borrowings of up to RMB500 million to the Company for a term of less than one year. It is beneficial for the Company to improve the efficiency of capital use and reduce financial expenses, and has not had a significant impact on the Company's financial status, operating results and independence. During the Reporting Period, the maximum balance of loans in a single day was RMB205 million, which was within the above limit.							

5. Amounts due from/to related financial companies

☐ Applicable ✓ Not applicable

The financial companies controlled by the Company did not have any deposit, loan, credit or other financial business 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) Trusteeship

☐ Applicable ✓ Not applicable

The Company had no entrustment during the reporting period.

(2) Contracting situation

☐ Applicable ✓ Not applicable

The Company had no contracting during the reporting period.

(3) Lease situation

✓ 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. 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. Due to change of relocation plan, the lease term of the Company was extended to 31 December 2022 through negotiation between the Parties to the lease. As at the end of the Reporting Period, the lease has been terminated.

(2) In order to further reduce production cost and the 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. ("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. During the Reporting Period, both parties agreed to terminate the above lease through negotiation. On 18 May 2022, Weihai Baolong and Weihai Senming signed the Termination Agreement of Asset Lease Contract and the lease was terminated.

(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. 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 term, 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 No. 2021-052).

(4) Upon deliberation at the 2nd extraordinary meeting of the 7th Board of Directors of the Company, in order to further expand the financing channels, the Company took some of her production equipment as the lease subject matter, and conducted the sale and leaseback financing business with Zhejiang Zhongda Yuantong Financial Leasing Co., Ltd., with the financing amount not exceeding RMB85 million and the term not exceeding 36 months. During the lease term, 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 No. 2022-021).

Leases with profit or loss contribution accounting for over 10% of the total profit of the Company during the reporting period

☐ Applicable ✓ Not applicable

There were no leases with profit or loss contribution accounting for over 10% of the total profit of the Company during the reporting period.

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	Collateral (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	Collateral (if any)	Counter-guarantee (if any)	Guarantee period	Fully performed or not	Related party guarantee or not
"Shouguang Maolong"	31 March 2022	30,000.00	not occurred yet	–	–	–	–	–	–	–
"Shouguang Maolong"	16 May 2020	14,510.78	30 June 2020	2,786.69	Mortgages	Certain properties and land use rights	–	3	No	No

Total line of guarantees granted to subsidiaries during the Reporting Period (B1)	30,000	–	Total actual amount of guarantees in favour of subsidiaries during the Reporting Period (B2)	2,786.69
Total line of guarantees granted to subsidiaries as at the end of the Reporting Period (B3)	44,510.78	–	Total actual amount of guarantees in favour of subsidiaries as at the end of the Reporting Period (B4)	2,786.69

Guarantees provided by 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	Collateral (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	777.57	Mortgages	Certain properties and land use rights	–	3	No	No
"Shouguang Maolong"	16 May 2020	1,440.27	30 June 2020	276.6	Mortgages	Certain properties and land use rights	–	3	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)	1,054.16
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)	1,054.16

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)	30,000	Total actual amount of guarantees during the Reporting Period (A2+B2+C2)	3,840.85
Total line of guarantees granted as at the end of the Reporting Period (A3+B3+C3)	50,000	Total actual amount of guarantees as at the end of the Reporting Period (A4+B4+C4)	3,840.85
Proportion of total actual guarantees (i.e. A4+B4+C4) to net assets of the Company			3.89%
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)			3,840.85
Amount of total guarantees in excess of 50% of net assets (F)			0
Total of the above three guarantee amounts (D+E+F)			3,840.85
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". 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 can be found in the Announcement on the Company's Providing Guarantee for Whole-owned Subsidiaries (Announcement: 2020-030).

3. Entrust others to manage cash assets

(1) Commissioned financial management

☐ Applicable ✓ Not applicable

The Company had no commissioned financial management during the Reporting Period.

(2) Entrusted loans

☐ Applicable ✓ Not applicable

The Company had no entrusted loan during the Reporting Period.

4. Other major contracts

☐ Applicable ✓ Not applicable

There are no other major contracts during the Reporting Period.

XVI. Descriptions of other significant events

✓ Applicable ☐ Not applicable

1. Change the registered address of the Company

The Company convened the 1st meeting of the 7th session of the Board of Directors on 30 March 2022 and the first general meeting for 2021 on 19 May 2022, which considered and approved the Resolution on the Change of the Registered Address of the Company and the Amendment to the Articles of Association. See http://www.cninfo.com.cn for detailed information of Announcement on the Change of the Registered Address of the Company and the Amendment to the Articles of Association (Announcement No.: 2022-012) Announcement on Resolutions Adopted on the Annual General Meeting 2021 (Announcement No.: 2022-017) On 14 June 2022, the Company completed the industrial and commercial registration for the change, and received the replaced business licence from Weifang Municipal Administration for March Regulation.

2. Progress of material disposal of assets

The Company held the sixth extraordinary meeting of the sixth Board of Directors on 18 November 2020, considered and approved the Proposal on Asset Sale, which was reviewed and approved at the second extraordinary general meeting of the Company in 2020. Details are set out in the Announcement in relation to Disposal of Assets (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). As of the end of this Reporting Period, the Company has recovered all the money as agreed in the Agreement.

3. Change the office address of the Company

On 30 December 2022, the Company moved to her new office, and the office address was changed from "No.999 Wen Sheng Street, Shouguang City, Shandong Province" to "F8~10, Building 19, Enterprise Headquarters Group, Shengcheng Street, Shouguang City, Shandong Province". Details can be found in the Announcement on Change of the Company's Office Address (Announcement No.: 2022-034) on http://www.cninfo.com.cn.

XVII. Significant events of subsidiaries of the Company

☐ Applicable ✓ Not applicable

Section VIII. Changes in Shares and Shareholders

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	
		Qty.	Percentage	Issue of new shares	Bonus issue	Transfer of reserves to share capital	Others	Sub-total	Qty.	Percentage
I.	**Shares subject to lock-up**	106,500	0.01%	–	–	–	(1,875)	(1,875)	104,625	0.01%
1.	State-owned shares	–	–	–	–	–	–	–	–	–
2.	State-owned legal person shares	–	–	–	–	–	–	–	–	–
3.	Other domestic shares	106,500	0.01%	–	–	–	(1,875)	(1,875)	104,625	0.01%
	Including: Domestic legal person shares	–	–	–	–	–	–	–	–	–
	Domestic natural person shares	106,500	0.01%	–	–	–	(1,875)	(1,875)	104,625	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%	–	–	–	1,875	1,875	797,743,775	99.99%
1.	RMB ordinary shares	541,615,500	67.88%	–	–	–	1,875	1,875	541,617,375	67.88%
2.	Domestically-listed foreign shares	–	–	–	–	–	–	–	–	–
3.	Foreign shares listed overseas	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

According to the Rules for Management of Shares of the Company Held by its Directors, Supervisors and officers of Listed Company and Their Changes, during the Reporting Period, some RMB-denominated ordinary shares (A) held by outgoing officer Liu Yunlong were changed into shares with unlimited conditions, with the number of shares being 1,875.

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 contents that the Company deems necessary or required to be disclosed by the securities regulatory authority

☐ Applicable ✓ Not applicable

2. Changes in locked-up shares

✓ Applicable ☐ Not applicable

Unit: share

Name of Shareholders	Number of restricted shares at the beginning of the period	Increase the number of restricted shares in the current period	Number of restricted shares released in the current period	Number of restricted shares at the end of the period	Reasons for restricted sales	Date of lifting sales restriction
Liu Yun Long	1,875	0	1,875	0	executive officers lock-in stock	20 June 2022
Total	1,875	0	1,875	0	—	—

Section VIII. Changes in Shares and Shareholders

II. Issuance and Listing of Securities

Section VIII. Changes in Shares and Shareholders

Shareholding of shareholders holding more than 5% or the top 10 shareholders

Name of Shareholders	Nature of Shareholders	Shareholding Percentage	Number of shares held at the end of the Reporting Period	Increase or decrease during the Reporting Period	Number of Held Shares with Restriction on Sale	Number of Held Shares with no Restriction on Sale	Pledge, marking or freezing Share Status	Qty.
Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司)	State-owned legal person	29.53%	235,617,000	0	0	235,617,000	–	–
Hong Kong Central Clearing Agent Limited	Overseas Legal Person	13.19%	105,215,330	12,400	0	105,215,330	–	–
Shandong Zhimeng Holdings Co., Ltd. (山東智夢控股有限公司)	Domestic non-state-owned legal person	8.23%	65,640,000	(7,754,911)	0	65,640,000	–	–
Shouguang Hongsen Logistics Co., Ltd. (壽光市鴻森物流有限公司)	Domestic non-state-owned legal person	3.99%	31,800,000	0	0	31,800,000	–	–
Shouguang Panjin Property Co., Ltd. (壽光市磐金置業有限公司)	Domestic non-state-owned legal person	3.86%	30,800,000	(200,000)	0	30,800,000	–	–
Shouguang Ruisen New Building Materials Co., Ltd. (壽光市瑞森新型建材有限公司)	Domestic non-state-owned legal person	2.93%	23,374,800	0	0	23,374,800	–	–
Zhang Yunsan	Natural Person in China	2.90%	23,108,000	0	0	23,108,000	–	–
Ma Like	Natural Person in China	0.84%	6,674,070	1,225,148	0	6,674,070	–	–
Fan Xisheng	Natural Person in China	0.69%	5,538,200	2,338,200	0	5,538,200	–	–
Hu Hanqiao	Natural Person in China	0.29%	2,333,500	2,333,500	0	2,333,500	–	–

Strategic investors or general legal persons become the top 10 shareholders due to placing new shares (if any)	Not applicable
Description of the above-mentioned shareholders' association or concerted action	Among the above shareholders, Shandong Zhimeng Holding Co., Ltd., Shouguang Hongsen Logistics Co., Ltd., Shouguang Panjin Real Estate Co., Ltd. and Shouguang Ruisen New Building Materials Co., Ltd. reached a concerted action relationship by signing a concerted action agreement, without controlling each other. In addition to the above circumstances, the Company does not know whether there is any relationship or concerted action between other shareholders.
Explanation of the above shareholders' involvement in entrusted/entrusted voting rights and waiver of voting rights	Not applicable
Special description of the existence of repurchase accounts among the top 10 shareholders (if any)	Not applicable

Shareholding of Top 10 shareholders with no restriction on sale			
Name of Shareholders	Number of Held Shares with no Restriction on Sale by the end of the Reporting Period	Categories of Shares Categories of Shares	Qty.
Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司)	235,617,000	RMB-denominated ordinary shares	235,617,000
Hong Kong Central Clearing Agent Limited	105,215,330	Overseas listed foreign shares	105,215,330
Shandong Zhimeng Holdings Co., Ltd. (山東智夢控股有限公司)	65,640,000	RMB-denominated ordinary shares	900,000
		Overseas listed foreign shares	64,740,000
Shouguang Hongsen Logistics Co., Ltd. (壽光市鴻森物流有限公司)	31,800,000	Overseas listed foreign shares	31,800,000
Shouguang Panjin Property Co., Ltd. (壽光市磐金置業有限公司)	30,800,000	Overseas listed foreign shares	30,800,000
Shouguang Ruisen New Building Materials Co., Ltd. (壽光市瑞森新型建材有限公司)	23,374,800	Overseas listed foreign shares	23,374,800
Zhang Yunsan	23,108,000	RMB-denominated ordinary shares	23,108,000
Ma Like	6,674,070	RMB-denominated ordinary shares	6,674,070

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2. The Company and the controlling shareholder

Nature of controlling shareholder: local state-owned holding
Type of controlling shareholder: legal person

Name of controlling shareholder	Legal representative/ principal	Date of Incorporation	Organisation No.	Primary Business
Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司)	Yang Yun Long	29 October 2020	91370783MA3U9BR6XE	General activities: engage in investment activities with self-owned funds; corporate headquarters management; property management; housing lease; land remediation services; convention and exhibition services; enterprise management; financial consultation (except for business activities that must be approved by operation of law, the Company shall launch activities on his own by law based on his business license)
Shares of other domestic and overseas Listed Company controlled and participated by controlling shareholders during the Reporting Period				Nil

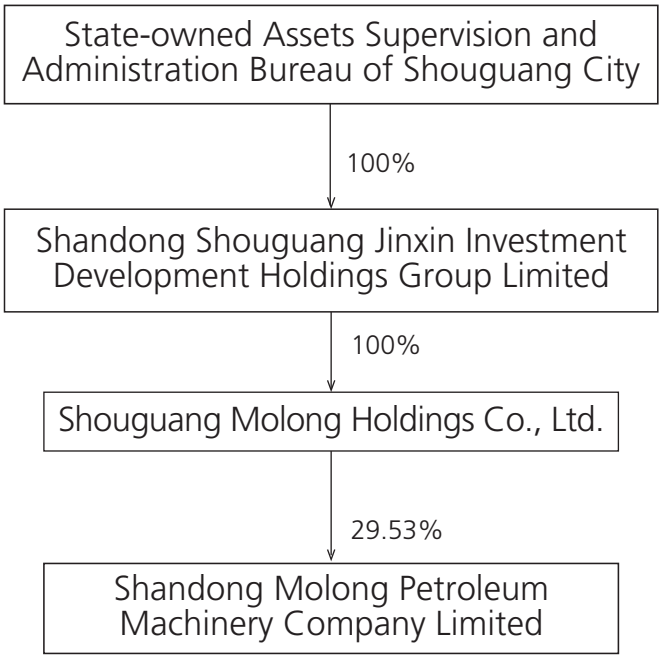
Changes of controlling shareholders during the Reporting Period

☐ Applicable ✓ Not applicable

The controlling shareholder of the Company has not changed during the Reporting Period.



Block diagram of property right and control relationship between company and actual controller



The actual controller controls the Company through trust or other asset management methods

☐ Applicable ✓ Not applicable

4. The cumulative number of pledged shares of the controlling shareholder or the largest shareholder of the Company and its concerted actions accounts for 80% of the number of shares held by the Company

☐ Applicable ✓ Not applicable

5. Other corporate shareholders holding more than 10% of shares

✓ Applicable ☐ Not applicable

Name of corporate shareholder	Legal representative/ principal	Date of Incorporation	Registered capital	Mainly engaged in business or management activities
Shandong Zhimeng Holdings Co., Ltd. (山東智夢控股有限公司)	Xue Mingliang	23 March 2020	RMB300 million	Equity investment; enterprise management consulting; business information consultation; import and export of goods; technology import and export (without the approval of financial regulatory authority, the Company should not engage in deposit taking, financing guarantee, personal financial planning and other financial business). (Those activities that must be approved by law should not be conducted without the approval of competent authorities.)
Shouguang Hongsen Logistics Co., Ltd. (壽光市鴻森物流有限公司)	Song Yongqi	25 January 2017	RMB11 million	General activities: domestic freight forwarding agency; loading and unloading; ordinary goods warehousing services (excluding hazardous chemicals and the like subject to permission and approval); parking services; motor vehicle repair and maintenance; sale of metal materials; Sales of non-metallic minerals and products (except for activities subject to approval according to law, business activities are independently conducted according to law with business licenses) Licensed activities: road cargo transportation (excluding dangerous goods) (those activities that must be approved by law should not be conducted without the approval of competent authorities and the specific business activities shall be subject to the approval or permit of competent authorities)
Shouguang Panjin Property Co., Ltd. (壽光市磐金置業有限公司)	Song Longjiang	12 December 2017	RMB180 million	Real estate development and sale (those activities that must be approved by law should not be conducted without the approval of competent authorities.)

Name of corporate shareholder	Legal representative/ principal	Date of Incorporation	Registered capital	Mainly engaged in business or management activities
Shouguang Ruisen New Building Materials Co., Ltd. (壽光市瑞森新型建材有限公司)	Xue Yumin	8 February 2017	RMB50 million	Permitted activities: all engineering construction activities; construction professional operation; interior decoration of residence. (those business activities that must be approved according to law should not be conducted without the approval of competent authorities and the specific business activities shall be subject to the approval or permit of competent authorities) general activities: cement products manufacturing; manufacture of concrete structural members; Building block manufacturing; metal structure manufacturing; timber sales; Sales of metal materials; sale of building materials; sale of cement products; sale of concrete structural components; sale of building blocks; sale of metal structures; earthwork construction. (except for business activities that must be approved by operation of law, the Company shall launch activities on his own by law based on his business license)

Note: Shandong Zhimeng Holding Co., Ltd., Shouguang Hongsen Logistics Co., Ltd., Shouguang Panjin Real Estate Co., Ltd. and Shouguang Ruisen New Building Materials Co., Ltd. reached a concerted action relationship by signing a concerted action agreement, which holds a total of 151,614,800 shares of the Company, accounting for 19.003% of the total share capital of the Company

6. Restricted reduction of shares of controlling shareholders, actual controllers, reorganizers and other committed entities

☐ Applicable ✓ Not applicable

IV. Specific implementation of share repurchase during the Reporting Period

Implementation progress of share repurchase

☐ Applicable ✓ Not applicable

Implementation progress of reducing repurchased shares by centralized bidding transaction

☐ Applicable ✓ Not applicable

Section IX. Relevant Information on Preferred Shares

☐ Applicable ✓ Not applicable

There are no preferred shares in the Company during the Reporting Period.

Section X. Relevant Information on Bonds

☐ Applicable ✓ Not applicable

Section XI. Financial Report
Audit Report

Type of audit opinion	Standard unqualified opinions
Date of signing of the auditor's report	31 March 2023
Name of auditors	Shinewing Certified Public Accountants LLP
Auditor's report file number	XYZH/2023JNAA3B0022
Names of the CPAs	Wang Gongyong, Zhang Chao

Main text of the auditor's report

To the shareholders of Shandong Molong Petroleum Machinery Company Limited:

I. Opinion

We have audited the financial statements of Shandong Molong Petroleum Machinery Company Limited (hereinafter referred to as "Shandong Molong"), which comprise the consolidated and parent company's balance sheet as at 31 December 2022, the consolidated and parent company's income statement, the consolidated and parent company's cash flow statement and the consolidated and parent company's statement of changes in shareholders' equity for 2022, as well as notes to the financial statements.

In our opinion, the accompanying financial statements comply with the requirements of the Accounting Standards for Business Enterprises in all material respects, and fairly present the consolidated and parent company's financial position of Shandong Molong as at 31 December 2022, as well as the consolidated and parent company's results of operations and cash flows for 2022.

II. Basis for Audit Opinion

We have performed the audit in accordance with the Chinese CPA Standards on Auditing. The "Responsibility of CPA to Audit the Financial Statements" of the auditor's report further explains our responsibilities under these Standards. According to the Code of Ethics for Certified Public Accountants of China, we are independent from Shandong Molong and have fulfilled other responsibilities in terms of professional ethics. We are convinced that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

III. Key Audit Matters

The key audit matters are the most important to audit the financial statements of the current period according to our professional judgment. These matters should be subject to an audit of the overall financial statements and form an audit opinion as the background, and we do not express an opinion on them.

1. Depreciation of inventories

Key Audit Matter

As mentioned in Notes V.15, VII.7 and VII.48 to the consolidated financial statements of Shandong Molong, as at 31 December 2022, Shandong Molong had a balance of inventories of RMB698.4250 million and a balance of provision for impairment of inventories of RMB28.2072 million.

Shandong Molong regularly estimates the net realizable value of inventory, and confirms the inventory depreciation reserve for the difference between inventory cost and net realizable value. Because the impairment test process is complicated, the management of Shandong Molong needs to make more judgments and assumptions in the forecast. Therefore, we make provision for impairment of inventory 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 inventory impairment;
- To perform inventory monitoring procedures for inventory, check inventory quantity and condition, etc.;
- To obtain the list of end-of-year inventory of Shandong Molong, and conduct an analytical review of inventory with a longer history;
- To check the previous year's impairment of inventory and the changes of the impairment in the current year;
- To inquire about the changes in raw material prices during the year and understand the trend of raw material prices in 2022. Check whether the Management considers these factors to have an impact on the impairment of Shandong Molong's inventory;
- To obtain information such as subsidiary ledger of inventory impairment, perform inventory impairment testing procedures, check and analyze the reasonableness of the net realizable value of inventories, and assess the correctness of accrual of inventory impairment;
- To check and evaluate the appropriateness of the accounting of provision for impairment of inventories by management of Shandong Molong and the presentation of and disclosures in the financial statements.

2. Impairment of fixed assets

Key Audit Matter

As mentioned in Notes V.20, VII.11 and VII.48 to the consolidated financial statements of Shandong Molong, as at 31 December 2022, Shandong Molong had the net value of fixed assets amounted to RMB2.1657415 billion and a balance of provision for impairment of fixed assets amounted to RMB161.8705 million.

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 regard impairment of fixed assets as a key audit item.

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

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3. Revenue recognition

Key Audit Matter

As mentioned in Notes V.32 and VII.39 to the consolidated financial statements of Shandong Molong, as at 31 December 2022, Shandong Molong had an operating revenue of RMB2.7656453 billion for 2022. 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 other information. Other information shall include data covered in 2022's financial report of Shandong Molong, but not include the financial statements and our 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.

Based on the work we have performed, we should report the fact if identified any significant error in other information. In this regard, we have no need to report any matter.

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 objective is to obtain reasonable assurance that the overall financial statements have no significant error caused by fraud or mistake, and issue an audit report containing auditors' opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. The misstatement may be caused by fraud or error. If it is reasonably expected that misstatement can affect the economic decision made by the user of financial statements according to the financial statements, then such misstatement is generally considered significant.

In the process of performing our audit in accordance with the audit criteria, we exercised our professional judgment and maintain our occupational suspicion. In addition, we also perform the following duties:

Identify and evaluate the risk of significant error reporting in the financial statements caused by fraud or mistake, design and take the audit procedures against such risk, and obtain sufficient and appropriate audit evidence as the basis for giving our audit opinion. Since the fraud may involve collusion, forgery, intentional omission, false statement or overriding internal control, the risk of failure to identify any major misstatement due to fraud is higher than that of failure to identify any major misstatement caused by mistake.

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

Evaluate the appropriateness of accounting policies selected and reasonableness of accounting estimates made by the Management.

Conclude the appropriateness of the Management's use of going-concern assumption. In addition, according to the obtained audit evidence, there may be significant uncertainty in the matters or circumstances that may lead to significant doubt on going-concern capacity of Shandong Molong. If we conclude that there is material uncertainty, the audit criteria require us to remind the users of paying attention to the relevant disclosure in the financial statements in the audit report; if the disclosure is insufficient, we shall issue a non-qualified opinion. Our conclusions are based on the information available as at the date of audit report. However, the future events or circumstances may lead to failure of going concern of Shandong Molong.

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.

Obtain sufficient and appropriate audit evidence for the financial information of entities or business activities in Your Company so as to give audit opinions on the consolidated financial statements. We are responsible for guiding, supervising and executing Group audit and bearing the sole 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 any matters communicated with the Governance Body, we determined which are the most important for the audit of the financial statements for the current period and therefore constitute the key audit matter. We described them in the audit report, unless laws and regulations prohibit their public disclosure, or in any rare cases, if it is reasonably expected that the negative consequences of a particular matter in the audit report exceed their benefit in terms of public interest, we decided not to communicate them in the audit report.

Shinewing Certified Public Accountants LLP

PRC certified public accountants: (Project Partner)

PRC certified public accountants:

Beijing, China

31 March 2023

Consolidated balance sheet

Prepared by: Shandong Molong Petroleum Machinery Company Limited

Unit: RMB

Item	31 December 2022	1 January 2022
Current assets:		
Monetary funds	**459,657,822.57**	475,191,176.69
Settlement deposits	—	—
Lending funds	—	—
Financial assets held for trading	—	—
Derivative financial assets	—	—
Bills receivables	**171,547,752.98**	235,005,278.71
Accounts receivables	**294,399,562.75**	299,530,976.41
Financing receivables	**5,371,855.71**	28,539,024.92
Advances	**35,450,700.83**	49,598,390.41
Insurance receivables	—	—
Reinsurance receivables	—	—
Reinsurance contract reserves receivable	—	—
Other receivables	**5,626,830.61**	17,440,781.64
Including: Interests receivable	—	—
Dividends receivable	—	—
Purchases of sell-back financial assets	—	—
Inventories	**670,217,844.40**	715,282,787.11
Contract assets	—	—
Assets held for sale	—	—
Non-current assets due within one year	—	—
Other current assets	**5,790,675.91**	26,180,538.95
Total current assets	**1,648,063,045.76**	1,846,768,954.84

Consolidated balance sheet

Unit: RMB

Item	31 December 2022	1 January 2022
Non-current assets:		
Granted loans and advances	—	—
Debt investments	—	—
Other debt investments	—	—
Long-term receivables	—	—
Long-term equity investments	**1,857,463.06**	2,144,833.69
Investments ini7586i/T1 1 Tf-52.3ind advances		
Non-aMTj/T157yf-47.801 -3.059 Td(Non-current assets:)Tj/03.059 Td(Nfinansik/on-cur Tf-52.3ind advances)Tj/C01ti1 -3.059 Td(Non-aMTj/T157y		
	—	—

Consolidated balance sheet

Unit: RMB

Item	31 December 2022	1 January 2022
Current liabilities:		
Short-term borrowings	**1,962,936,789.90**	1,916,706,214.72
Borrowings from the central bank	—	—
Borrowing funds	—	—
Financial liabilities held for trading	—	—
Derivative financial liabilities	—	—
Bills payable	**64,855,401.04**	101,209,067.42
Accounts payable	**611,264,285.51**	599,514,345.81
Receipts in advance	—	—
Contract liabilities	**107,582,152.10**	70,368,931.26
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	**42,790,646.48**	57,833,087.83
Taxes payable	**11,279,406.47**	25,793,838.53
Other payables	**36,765,356.32**	64,231,003.43
Including: Interests payable	—	—
Dividends payable	—	—
Brokerage and commission payables	—	—
Reinsurance payables	—	—
Liabilities held for sale	—	—
Non-current liabilities due within one year	**87,329,367.25**	107,001,393.82
Other current assets	**48,192,008.81**	67,434,388.00
Total current liabilities	**2,972,995,413.88**	3,010,092,270.82

Consolidated balance sheet

Unit: RMB

Item	31 December 2022	1 January 2022
Non-current liabilities:		
Insurance contract reserves	—	—
Long-term borrowings	—	37,141,617.50
Bonds payable	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Lease liabilities	—	—
Long-term payables	**65,461,963.55**	37,742,329.02
Long-term salaries payable	—	—
Estimated liabilities	**77,771,212.05**	558,467.38
Deferred revenue	**6,756,829.50**	6,966,655.18
Deferred income tax liabilities	**5,266,932.29**	5,362,198.02
Other non-current liabilities	—	—
Total non-current liabilities	**155,256,937.39**	87,771,267.10
Total Liabilities	**3,128,252,351.27**	3,097,863,537.92
Owners' equity:		
Share capital	**797,848,400.00**	797,848,400.00
Other equity instruments	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Capital reserve	**864,405,329.26**	863,356,311.20
Less: Treasury shares	—	—
Other comprehensive income	**(3,029,259.75)**	(1,671,948.29)
Special reserve	—	—
Surplus reserve	**187,753,923.88**	187,753,923.88
General risk reserve	—	—
Undistributed profits	**(859,017,550.51)**	(434,047,824.92)
Total equity attributable to owners of the parent company	**987,960,842.88**	1,413,238,861.87
of which minority interests	**(77,607,634.64)**	(53,491,100.48)
Total owners' equity	**910,353,208.24**	1,359,747,761.39
Total liabilities and owners' equity	**4,038,605,559.51**	4,457,611,299.31

Legal Representative: Yuan Rui

Responsible Person in Charge of Accounting: Hao Yunfeng

Head of Accounting Organization: Zhu Lin

Balance sheet of the parent company

Unit: RMB

Item	31 December 2022	1 January 2022
Current assets:		
Monetary funds	**437,728,168.67**	436,544,593.46
Financial assets held for trading	—	—
Derivative financial assets	—	—
Bills receivables	**171,547,752.98**	235,005,278.71
Accounts receivables	**560,320,816.34**	479,545,005.49
Financing receivables	**3,888,898.40**	19,659,349.46
Advances	**406,342,471.90**	426,201,478.54
Other receivables	**734,091,673.64**	796,550,952.25
Including: Interests receivable	—	—
Dividends receivable	—	—
Inventories	**525,035,413.03**	436,663,347.98
Contract assets	—	—
Assets held for sale	—	—
Non-current assets due within one year	—	—
Other current assets	**2,995,798.48**	2,043,097.81
Total current assets	**2,841,950,993.44**	2,832,213,103.70

Balance sheet of the parent company

Unit: RMB

Item	31 December 2022	1 January 2022
Non-current assets:		
Debt investments	—	—
Other debt investments	—	—
Long-term receivables	—	—
Long-term equity investments	**1,154,019,921.73**	1,144,019,921.73
Investments in other equity instruments	—	—
Other non-current financial assets	—	—
Investment properties	—	—
Fixed assets	**701,355,376.51**	784,931,166.70
Construction-in-progress	—	—
Productive biological assets	—	—
Oil and gas assets	—	—
Right-of-use assets	—	1,530,636.81
Intangible assets	**72,482,198.98**	82,472,382.44
Development expenditures	—	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	**24,300,320.35**	27,076,567.03
Other non-current assets	**378,107.60**	378,107.60
Total non-current assets	**1,952,535,925.17**	2,040,408,782.31
Total Assets	**4,794,486,918.61**	4,872,621,886.01

Balance sheet of the parent company

Unit: RMB

Item	31 December 2022	1 January 2022
Current liabilities:		
Short-term borrowings	**1,396,236,789.90**	1,418,106,214.72
Financial liabilities held for trading	—	—
Derivative financial liabilities	—	—
Bills payable	**645,113,301.29**	609,535,150.42
Accounts payable	**265,933,229.03**	223,914,737.78
Receipts in advance	—	—
Contract liabilities	**100,598,968.48**	42,114,515.40
Salaries payable	**28,977,905.19**	37,321,606.89
Taxes payable	**7,878,113.91**	20,493,658.49
Other payables	**27,785,537.73**	36,511,456.64
Including: Interests payable	—	—
Dividends payable	—	—
Liabilities held for sale	—	—
Non-current liabilities due within one year	**48,991,857.12**	29,335,550.92
Other current assets	**47,882,854.13**	63,768,573.13
Total current liabilities	**2,569,398,556.78**	2,481,101,464.39
Non-current liabilities:		
Long-term borrowings	—	—
Bonds payable	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Lease liabilities	—	—
Long-term payables	**65,461,963.55**	37,742,329.02
Long-term salaries payable	—	—
Estimated liabilities	—	558,467.38
Deferred revenue	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
Total non-current liabilities	**65,461,963.55**	38,300,796.40
Total Liabilities	**2,634,860,520.33**	2,519,402,260.79

Balance sheet of the parent company

Unit: RMB

Item	31 December 2022	1 January 2022
Owners' equity:		
Share capital	**797,848,400.00**	797,848,400.00
Other equity instruments	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Capital reserve	**864,386,661.76**	863,337,643.70
Less: Treasury shares	—	—
Other comprehensive income	—	—
Special reserve	—	—
Surplus reserve	**187,753,923.88**	187,753,923.88
Undistributed profits	**309,637,412.64**	504,279,657.64
Total owners' equity	**2,159,626,398.28**	2,353,219,625.22
Total liabilities and owners' equity	**4,794,486,918.61**	4,872,621,886.01

Consolidated income statement

Unit: RMB

Item		2022	2021
I.	**Total Operating Income**	**2,765,645,281.40**	3,734,462,841.12
	Including: Operating revenue	**2,765,645,281.40**	3,734,462,841.12
	Interest income	—	—
	Insurance premium earned	—	—
	Brokerage and commission income	—	—
II.	**Total operating cost**	**3,129,597,158.90**	3,999,888,750.28
	Including: Operating costs	**2,675,212,319.74**	3,514,477,916.63
	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	**14,382,252.20**	20,493,455.61
	Selling expenses	**17,580,244.46**	13,402,249.30
	Administrative expenses	**274,947,866.01**	278,990,958.47
	Research and development expenditures	**41,651,730.15**	57,076,465.12
	Finance expenses	**105,822,746.34**	115,447,705.15
	Including: Interest expenses	**117,884,825.33**	114,302,110.50
	Interest income	**8,379,526.72**	4,907,692.93
	Add: Other gains	**973,231.66**	2,335,726.68
	Return on investment (loss to be indicated with "-")	**(287,370.63)**	(169,863.60)074t expenses

Consolidated income statement

Unit: RMB

Item	2022	2021

Profit statement of parent company

Unit: RMB

Item		2022	2021
I.	**Operating Income**	**1,804,176,882.02**	2,176,702,888.51
	Less: Operating Cost	**1,696,682,871.98**	2,084,142,246.19
	Tax and surcharges	**7,293,650.11**	10,763,552.73
	Selling expenses	**15,878,838.29**	12,340,740.09
	Administrative expenses	**87,350,991.58**	93,471,758.49
	Research and development expenditures	**41,651,730.15**	57,076,465.12
	Finance expenses	**77,172,915.08**	84,132,168.54
	Including: Interest expenses	**89,024,160.00**	81,009,405.40
	Interest income	**7,150,382.00**	3,568,165.65
	Add: Other gains	**452,741.13**	1,550,089.89
	Return on investment (loss to be indicated with "-")	—	—
	Including: Gains on investment in associates and joint ventures	—	—
	Derecognition income of financial assets measured at amortized cost (loss to be indicated with "-")	—	—
	Profit/loss on net exposure hedging (loss to be indicated with "-")	—	—
	Gain on change of fair value (loss to be indicated with "-")	—	—
	Credit impairment loss (loss to be indicated with "-")	**(61,383,208.08)**	12,504,812.59
	Asset impairment loss (loss to be indicated with "-")	**(9,724,413.42)**	(20,739,210.42)
	Return on asset disposition (loss to be indicated with "-")	**1,123.89**	389,458.60
II.	**Operating profit (the loss is to be indicated with "-")**	**(192,507,871.65)**	(171,518,891.99)
	Add: Non-operating income	**1,108,095.90**	620,398.42
	Less: Non-operating expenses	**466,222.57**	5,756,059.48
III.	**Gross Profit (loss to be indicated with "-")**	**(191,865,998.32)**	(176,654,553.05)
	Less: Income tax expenses	**2,776,246.68**	5,971,947.17
IV.	**Net profit (net loss is to be indicated with "-")**	**(194,642,245.00)**	(182,626,500.22)
	(i) Net profit of continuous operation (net loss to be indicated with "-")	**(194,642,245.00)**	(182,626,500.22)
	(ii) Net profit of terminated operation (net loss to be indicated with "-")	—	—

Profit statement of parent company

Unit: RMB

Item			2022	2021
V.	**Net after-tax amount of other consolidated income**		—	—
	(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. Credit-impaired provision for other debt investments	—	—
		5. Cash flow hedge reserve	—	—
		6. Exchange differences on translation of foreign financial statements	—	—
		7. Others	—	—
VI.	**Total comprehensive income**		**(194,642,245.00)**	(182,626,500.22)
VII.	**Earnings per Share**		—	—
	(i)	Basic earnings per share	—	—
	(ii)	Diluted earnings per share	—	—

Consolidated cash flow statement

Unit: RMB

Item		2022	2021
I.	**Cash flow from operating activities:**		
	Cash received from sales of goods and rendering of services	**2,435,005,536.69**	3,542,841,808.43
	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 inter-bank borrowings	—	—
	Net increase in repurchase business capital	—	—
	Net cash proceeds from securities brokerage	—	—
	Receipts of tax refunds	**67,289,707.82**	10,541,216.58
	Other cash received relating to operating activities	**31,748,108.40**	33,245,636.59
	Subtotal of cash inflows from operating activities	**2,534,043,352.91**	3,586,628,661.60
	Cash paid for purchasing goods and receiving services	**2,060,832,157.45**	3,066,616,588.89
	Net increase in loans and advances to customers	—	(3,180,579.00)
	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	**267,695,345.91**	237,173,190.04
	Cash paid for taxes	**101,119,907.49**	87,793,221.20
	Other cash paid relating to operating activities	**115,905,724.47**	162,433,883.14
	Subtotal of cash outflows from operating activities	**2,545,553,135.32**	3,550,836,304.27
	Net cash flows from operating activities	**(11,509,782.41)**	35,792,357.33

Consolidated cash flow statement

Unit: RMB

Item		2022	2021
II.	**Cash Flow from Investment 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	**1,123.89**	141,494,574.19
	Net cash received from disposal of subsidiaries and other business units	—	—
	Other cash received relating to investing activities	—	—
	Subtotal of cash inflows from investing activities	**1,123.89**	141,494,574.19
	Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets	**8,467,557.77**	51,969,039.99
	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	—	—
	Subtotal of cash outflows from investing activities	**8,467,557.77**	51,969,039.99
	Net cash flows generated from investing activities	**(8,466,433.88)**	89,525,534.20

Consolidated cash flow statement

Unit: RMB

Item		2022	2021
III.	**Cash Flow from Financing Activities:**		
	Cash received from capital contributions	—	—
	Including: Cash received from minority shareholder investment by subsidiary	—	—
	Borrowings received	**3,516,764,976.72**	2,287,714,757.03
	Other cash received relating to financing activities	—	—
	Subtotal of cash inflows from financing activities	**3,516,764,976.72**	2,287,714,757.03
	Cash repayments of amounts borrowed	**3,395,070,911.66**	2,501,463,050.37
	Cash paid for dividend and profit distribution or interest payment	**120,913,636.96**	105,049,340.61
	Including: Dividend and profit paid to minority shareholders by subsidiary	—	—
	Other cash paid relating to financing activities	**42,048,500.00**	90,696,272.67
	Subtotal of cash outflows from financing activities	**3,558,033,048.62**	2,697,208,663.65
	Net cash flow generated from financing activities	**(41,268,071.90)**	(409,493,906.62)
IV.	**Effect of Foreign Exchange Rate Change on Cash and Cash Equivalents**	**5,707,334.10**	(1,603,983.73)
V.	**Net Accrual of Cash and Cash Equivalents**	**(55,536,954.09)**	(285,779,998.82)
	Add: Balance of cash and cash equivalents at the beginning of the period	**414,209,197.66**	699,989,196.48
VI.	**Closing Balance of Cash and Cash Equivalents**	**358,672,243.57**	414,209,197.66

Cash Flow Statement of the Parent Company

Unit: RMB

Item		2022	2021
I.	**Cash flow from operating activities:**		
	Cash received from sales of goods and rendering of services	**1,576,765,426.15**	1,895,258,103.49
	Receipts of tax refunds	**36,137,988.72**	10,541,216.58
	Other cash received relating to operating activities	**79,185,027.23**	48,127,509.74
	Subtotal of cash inflows from operating activities	**1,692,088,442.10**	1,953,926,829.81
	Cash paid for purchasing goods and receiving services	**1,332,541,282.78**	1,682,099,387.51
	Cash paid to and on behalf of employees	**183,594,808.42**	151,058,474.39
	Cash paid for taxes	**78,740,822.69**	48,366,631.74
	Other cash paid relating to operating activities	**162,701,328.47**	281,534,264.15
	Subtotal of cash outflows from operating activities	**1,757,578,242.36**	2,163,058,757.79
	Net cash flows from operating activities	**(65,489,800.26)**	(209,131,927.98)
II.	**Cash Flow from Investment 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	**1,123.89**	141,329,450.24
	Net cash received from disposal of subsidiaries and other business units	—	—
	Other cash received relating to investing activities	—	—
	Subtotal of cash inflows from investing activities	**1,123.89**	141,329,450.24
	Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets	**2,151,320.81**	16,639,557.79
	Cash paid for acquisition of investments	—	—
	Net cash paid for acquisition of subsidiaries and other business units	—	—
	Other cash paid relating to investing activities	—	—
	Subtotal of cash outflows from investing activities	**2,151,320.81**	16,639,557.79
	Net cash flows generated from investing activities	**(2,150,196.92)**	124,689,892.45

Cash Flow Statement of the Parent Company

Unit: RMB

Item		2022	2021
III.	**Cash Flow from Financing Activities:**		
	Cash received from capital contributions	—	—
	Borrowings received	**2,452,064,976.72**	1,789,114,757.03
	Other cash received relating to financing activities	—	—
	Subtotal of cash inflows from financing activities	**2,452,064,976.72**	1,789,114,757.03
	Cash repayments of amounts borrowed	**2,321,470,911.66**	1,914,029,559.57
	Cash paid for dividend and profit distribution or interest payment	**93,497,888.62**	77,914,081.82
	Other cash paid relating to financing activities	—	—
	Subtotal of cash outflows from financing activities	**2,414,968,800.28**	1,991,943,641.39
	Net cash flow generated from financing activities	**37,096,176.44**	(202,828,884.36)
IV.	**Effect of Foreign Exchange Rate Change on Cash and Cash Equivalents**	**5,378,934.22**	(1,551,251.07)
V.	**Net Accrual of Cash and Cash Equivalents**	**(25,164,886.52)**	(288,822,170.96)
	Add: Balance of cash and cash equivalents at the beginning of the period	**375,994,555.19**	664,816,726.15
VI.	**Closing Balance of Cash and Cash Equivalents**	**350,829,668.67**	375,994,555.19

Amounts for the current period

Unit: RMB

Item	2022														
	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 reserve	Undistributed profits	Others	Sub-total	of which: minority interests	Total owners' equity

Amounts for the prior period

Unit: RMB

Item	2021														
	Equity attributable to owners of the parent company														
		Other equity instruments				Less:	Other								
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Treasury shares	comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits	Others	Sub-total	of which 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 polices	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
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. This year's increase or reduction ("reduction" to be presented by "-"mark)	–	–	–	–	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' contributed capital and reduced capital	–	–	–	–	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. General reserve against risk	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Distribution to the owners (or shareholders)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
(iv) Internal carryover of owner's 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. Withdrawal in current period	–	–	–	–	–	–	–	24,468,609.59	–	–	–	–	24,468,609.59	–	24,468,609.59
2. Use in the current 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 current period

Unit: RMB

		2022											
			Other equity instruments										
Item		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	—	—	—	863,337,643.70	—	—	—	187,753,923.88	504,279,657.64	—	2,353,219,625.22
	Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
	Correction of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—
	Others	—	—	—	—	—	—	—	—	—	—	—	—
II.	**Balance at the beginning of the current year**	797,848,400.00	—	—	—	863,337,643.70	—	—	—	187,753,923.88	504,279,657.64	—	2,353,219,625.22
III.	**This year's increase or reduction ("reduction" to be presented by "-" mark)**	—	—	—	—	1,049,018.06	—	—	—	—	(194,642,245.00)	—	(193,593,226.94)
	(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	(194,642,245.00)	—	(194,642,245.00)
	(ii) Owners' contributed capital and reduced capital	—	—	—	—	1,049,018.06	—	—	—	—	—	—	1,049,018.06
	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	—	—	—	—	1,049,018.06	—	—	—	—	—	—	1,049,018.06
	(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—
	1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—
	2. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—
	3. Others	—	—	—	—	—	—	—	—	—	—	—	—
	(iv) Internal carryover of owner's 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. Withdrawal in current period	—	—	—	—	—	—	—	4,786,702.89	—	—	—	4,786,702.89
	2. Use in the current period	—	—	—	—	—	—	—	4,786,702.89	—	—	—	4,786,702.89
	(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—
IV.	**Balance at the end of the current period**	797,848,400.00	—	—	—	864,386,661.76	—	—	—	187,753,923.88	309,637,412.64	—	2,159,626,398.28

Amounts for the prior 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. This year's increase or reduction ("reduction" to be presented by "-"mark)	–	–	–	–	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' contributed capital and reduced capital	–	–	–	–	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) Internal carryover of owner's 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. Withdrawal in current period	–	–	–	–	–	–	–	11,471,893.58	–	–	–	11,471,893.58
2. Use in the current period	–	–	–	–	–	–	–	11,471,893.58	–	–	–	11,471,893.58
(vi) Others	–	–	–	–	–	–	–	–	–	–	–	–
IV. Balance at the end of the current period	797,848,400.00	–	–	–	863,337,643.70	–	–	–	187,753,923.88	504,279,657.64	–	2,353,219,625.22

1 January 2022 to 31 December 2022
(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 and Gansu Industrial University Alloy Materials Factory on 27 December 2001 with the approval from Office for Restructuring the Economic System of Shandong Province with the letter LTGHZ [2001] No. 53.

Upon the approval by China Securities Regulatory Commission with CSRCIC Zi [2003] No. 50 on 15 April 2004, the Company issued 134,998,000 additional overseas listed foreign shares (H Shares) at the issuing price of HKD 0.70 per share with a nominal value of RMB 0.10 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 CSRCIC Zi [2005] No. 13 on 12 May 2005, the Company issued 108,000,000 additional overseas listed overseas shares (H) at the issuing price of HKD 0.92 per share with a nominal value of RMB 0.10 each.

Upon the approval by CSRCIC Zi [2007] No. 2 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 overseas shares (H) in the Growth Enterprise Market of the Stock Exchange of Hong Kong has been canceled 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 CSRC Permit [2010] No. 1285 on 11 October 2010, the Company offered 70,000,000 RMB 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 RMB 398,924,200.00, and the total number of shares has changed to 398,924,200 shares. The registered capital of the Company was changed to RMB398,924,200.00 and the total number of shares was changed to 398,924,200 shares.

According to the resolution of the 2011 Annual General Meeting held on 25 May 25 2012, the Company was converted from the capital reserve to the share capital based on the total 398,924,200 shares as at 31 December 2011, at the ratio of 1 share for each share, with a total of 398,924,200 shares converted on 19 July 2012. Upon the conversion, the Company's registered capital has changed to RMB 797,848,400.00, and the total number of shares has changed to 797,848,400 shares.

Mr. Zhang Enrong, the former controlling shareholder and actual controller of the Company, and Shouguang Molong Holdings Co., Ltd. (hereinafter referred to as "Molong Holdings") signed the Share Transfer Agreement on 23 February 2021. 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 2022, the Company had a registered capital of 797,848,400.00, divided into a total of 797,848,400 shares.

The registered address of the Company is No.99 Xingshang Road, Gucheng Street, Shouguang City, Shandong Province, and the office address is F8~10, Building 19, Enterprise Headquarters Group, Shengcheng Street, Shouguang City, Shandong Province.

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 conducted with the approval of the relevant department, and the validity is subject to the licence) (those activities that must be approved by law should not be conducted without the approval of competent authorities and the validity period shall be subject to the license).

The controlling shareholder of the Company is Molong Holdings and the actual controller is the State-owned Assets Supervision and Administration Commission of Shouguang City.

The Group's consolidated financial statements covers eight companies including Shouguang Baolong Petroleum Equipment Co., Ltd., Shouguang Maolong New Materials Technology Development Co., Ltd. and Weihai Baolong Special Petroleum Materials Co., Ltd. Compared with the previous year, the scope of this year's consolidated financial statements was cancelled to reduce Molong Energy and newly established to increase Molong Commerce and Trade.

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

The Company has suffered losses for two consecutive years. The net losses attributable to the parent company in 2021 and 2022 were 368,017,800 yuan and 424,969,700 yuan respectively, and the current liabilities in the consolidated financial statements on 31 December 2021 and 31 December 2022 were higher than the current assets of RMB1,163,323,300 and 1,324,932,400 respectively.

In view of the above, the Company has taken into account the future liquidity of the Company and its available funding sources when assessing whether the Group has sufficient financial resources to continue operations.

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

2. Going concern *(continued)*

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) Shouguang Jinxin, a related party of the Company, provides financial support. On 10 February 2023, after the consideration and approval at the 3rd extraordinary meeting of the seventh session of the Board of Directors of the Company, Shouguang Jinxin, provided non-interest bearing borrowings of up to RMB500 million to the Company for a term of less than one year, which can be recycled within the loan amount and validity period. This financial assistance does not require the Company to provide any form of guarantee such as guarantee, mortgage and pledge. As of the reporting date of the financial report, a total of 100 million yuan of support funds have been received, and Shouguang Jinxin can provide timely assistance according to the Company's capital needs within its support quota. In addition, Shouguang Jinxin will actively assist the Group in expanding its financing methods and business scope, and support the Group to become better and stronger.

2) Fully develop new financing channels. At present, the Group is actively contacting relevant financial institutions to seek new cooperation modes with powerful financial institutions through financial leasing and material trade integration on the basis of maintaining existing financing channels and quotas, and expand other financing channels to support future sustainable operations.

3) As of the reporting date of the financial report, all due bank loans were repaid on time. The Group will maintain active communication with the lending bank to complete the renewal of the loan by effective means after its maturity.

4) Focus on the development of the main business, increase the production and sales of non-API standard and high value-added oil casing products; give full play to the Group's machining technology and capabilities to expand the processing business with higher gross profit; strengthen internal management, deepen internal tapping potential, intensify technical transformation, and adopt various measures to reduce costs and increase efficiency, so as to enhance the profitability of the Company.

5) The Group is taking measures to actively seek new investment and business opportunities to achieve profit and ample working capital, such as increasing the promotion of melting reduction technology and project landing, and striving to become a new profit growth point of the Company.

6) At present, the Company has sufficient orders, and the oil casing developed by the Company has been well received and popularized by users in the oil & gas market. The Company will continuously consolidate its reputation and position in the oilfield market, expand the performance of high-grade oil special pipes, optimize the product structure, and provide high-quality products for oilfield users.

7) The Company will alleviate the funding problem through various measures to reduce expenditure and increase income, such as setting posts and personnel, fine management of expenses, and revitalizing inefficient assets in stock.

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

2. Going concern *(continued)*

As at the date of this financial report, the Group had unutilised credit facilities from financial institutions of RMB403 million, as there was a large number of orders unfulfilled. The Company has launched her newly-developed product 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 Company 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 ASBE, which gives a true and complete view of the financial position, trading results, cash flows 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 Company shall use RMB as the bookkeeping base currency.

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 shares of owners' equity in subsidiaries not attributable to the parent company and the net loss or profit for the current period, other comprehensive income and total comprehensive income attributable to minority interests shall be presented in the consolidated financial statements as "minority interests, profit or loss attributable to minority interests, other comprehensive income attributable to minority interests and total comprehensive income attributable to minority interests", respectively.

The operating results and cash flows of a subsidiary acquired from business combination under common control shall be included in the consolidated financial statements from the beginning of the current period of the combination. When preparing the comparative consolidated financial statements, relevant items in the financial statements of the previous year will be adjusted as if the reporting entity formed after the combination had been in existence since the ultimate controlling party gains control.

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 related items under owners' equities in the comparative statements. To avoid double counting the value of the net assets of the combined party, long-term equity investments before the combination, as well as the relevant recognised profit or loss, other comprehensive income and other changes in net assets from the day of acquiring the original equity interest or the day when the Group and the combined party are under the same ultimate control, whichever is later, to the combination date shall be offset against the retained earnings at the beginning of the period and the profit or loss for the current period in the comparative statements, respectively.

The operating results and cash flows of a subsidiary acquired from a business combination not under common control unit shall be included in the consolidated financial statements since the Group gains control. When preparing the consolidated financial statements, the financial statements of the subsidiary shall be adjusted based on the fair value of the identifiable assets, liabilities and contingent liabilities determined on the acquisition date.

For equity interests in an investee not under common control acquired by two or more transactions, which finally achieves the business combination, when the Group prepares the consolidated statements, equity interests in the investee before the acquisition date shall be re-measured at fair value on the acquisition date and the balance between the fair value and the book value shall be included in the investment gains for the current period. Except for other comprehensive income arising from changes as a result of remeasurement of net liabilities or net assets of the defined benefit plan of the investee, other comprehensive income under the equity method involving the equity interests in the investee held before the acquisition date and other changes in equity except net profit or loss, other comprehensive income and profit distribution shall be converted into investment gains or loss in the period in which the acquisition date falls.

The difference between disposal consideration of long-term equity investment in subsidiaries partially disposed by the Group without losing controls and the share of net assets calculated from the date of acquisition or combination date shall be adjusted to capital premium or share premium in the consolidated financial statements. Adjustments shall be made to retained earnings in the event that capital reserves are not sufficient.

When the Group loses the controls over the investee due to partially disposal of equity investment and other reasons, the remaining equity shall be re-measured in accordance with the fair value on the date of losing control upon preparation of the consolidated financial statements. The amount of the sum of the consideration obtained from equity disposal and the fair value of remaining equity deducting the difference between shared net asset of original subsidiaries that were started to be calculated on the acquisition date or merging date, shall be recorded as investment gain or loss in the period of losing control, and a written down to goodwill shall be made at the same time. Other comprehensive income related to former equity investment in subsidiaries shall be recognised as current investment income upon losing of controls.

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

The term "cash" in the cash flow statement refers to cash of the Company on hand and deposits that are 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.

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

10. Financial instruments

One financial asset or financial liability shall be recognized when the Company has become a party to any contract on 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; 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. 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 Company recognizes interest income according to the effective interest rate method. Interest income is calculated and determined according to the book balance of financial assets multiplied by the effective interest rate, except for the following circumstances: ① For the purchased or originated financial assets with credit impairment, the interest income is calculated and determined according to the amortized cost of the financial assets and the effective interest rate adjusted by credit from the initial recognition. ② For the purchased or source financial assets that have not suffered credit impairment but have suffered credit impairment in the subsequent period, the interest income shall be calculated and determined according to the amortized cost and actual interest rate of the financial assets in the subsequent period.

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

10. Financial instruments *(continued)*

(1) Financial assets *(continued)*

1) Classification, recognition and measurement of financial 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 Connected 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. In case of derecognition, the accumulated gains or losses previously included in other comprehensive income shall be transferred out of other comprehensive income and included in current profits and losses. At present, the Company does not have equity instrument investment designated as measured at fair value and its changes are included in other comprehensive income.

Financial assets other than those classified as measured at amortized cost and those classified as measured at fair value and whose changes are included in other comprehensive income. the Company classifies them as financial assets measured at fair value and whose changes are included in current profits and losses. 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) Recognition basis and measurement method of financial assets transfer

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.

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

10. Financial instruments *(continued)*

(1) Financial assets *(continued)*

2) Recognition basis and measurement method of financial assets transfer (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 are solely payments of interest on the principal amount) and the carrying amount of the entire financial asset above-mentioned for allocation is included in profit or loss for the current period.

(2) Financial liabilities

1) Classification, recognition and measurement of financial liabilities

Except for the following, the Group classifies financial liabilities as financial liabilities at amortised cost using the effective interest method and are subsequently measured at amortised cost:

① Financial liabilities at fair value through profit or loss for the current period (including derivatives that are financial liabilities) include trading financial liabilities and financial liabilities held-for-trading and those designated as fair value through profit or loss on initial recognition. These financial liabilities are subsequently measured at fair value. The net gain or loss arising from changes in fair value; dividends and Interest expenditure related to such financial liabilities are recorded in profit or loss for the period in which they are incurred.

② Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Financial liabilities of this kind are measured by the Group according to the standard for transferring financial assets.

③ Financial guarantee contracts that do not fall into ① or ② above, and commitments to provide a loan at a below-market interest rate that do not fall into ① above. the Company, as an issuer of the financial liabilities of this kind, will measure subsequent to initial recognition at the higher of the amount of provision for losses as determined according to standard for impairment on financial instruments and the surplus after accumulative amortisation as determined according to the standard for revenue.

For financial liabilities arising from contingent consideration recognised by the Group as an acquirer in a business combination not under the common control, they shall be measured at fair value with changes recognised in profit or loss for the current period.

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

10. Financial instruments *(continued)*

(2) Financial liabilities *(continued)*

2) Conditions for derecognition of financial 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 those of the existing financial liabilities, the existing financial liabilities are derecognised while the new financial liabilities are recognised. Where the Group substantively revises, in whole or in part, the contractual terms of existing financial liabilities, such existing financial liabilities are derecognised in whole or in part, while those financial liabilities with their terms revised are recognised as new financial liabilities. The difference between the carrying amount of the derecognised part and the consideration paid is included in the profit or loss for the current period.

(3) Methods for determining the fair value of financial assets and financial liabilities

Fair values of financial assets and financial liabilities of the Group are measured at the prices in principal market. In case there is no principal market, fair values of financial assets and financial liabilities are calculated using the price which is the most beneficial to the market, and using valuation technology which is the most appropriate at that time and with sufficient available data and other information. The inputs which are used to measure the fair value have been divided into 3 levels by the Group: Level 1-inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities. Level 2-inputs are quoted prices for the asset or liability (other than those included in Level 1) that are either directly or indirectly observable. Level 3-inputs are unobservable inputs to the related assets or liabilities. The Level 1 inputs are the first priority to use by the Group, and level 3 inputs will be the last one to use. The level of fair value measurement is determined by the lowest level of inputs which are significant to the measurement of fair value as a whole.

the Company's investment in equity instruments is measured at fair value. However, in limited circumstances, if recent information on determining fair value is insufficient, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range, the cost may be an appropriate estimate of fair value with that range.

(4) Offset of financial assets and financial liabilities

The financial assets and financial liabilities should be presented in the balance sheet respectively, without offsetting to each other. However, when all of the following conditions are met, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet: ① the Group has a legal right that is currently enforceable to set off the recognised amount, and ② the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

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

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 confirmation. The Company determines whether the credit risk of financial instruments has increased significantly by comparing the default probability within the expected duration determined by the initial recognition of financial instruments with the default probability within the expected duration determined by the balance sheet date. However, if the Company determines that the financial instrument only has 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 the initial recognition. If it is overdue for more than 30 days, the Company will determine that the credit risk of the financial instrument has increased significantly. Unless the Company can obtain reasonable and well-founded information without unnecessary extra cost or effort to prove that even if it is overdue for more than 30 days, the credit risk has not increased significantly since the initial recognition. In determining whether the credit risk has increased significantly since the initial recognition, the Company will consider reasonable and well-founded information, including forward-looking information, accessible without unnecessary additional costs or efforts. The information considered by the Company shall include:

- 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.

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

12. Accounts receivable *(continued)*

The Company adopts the expected credit loss method to make provision 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.

Portfolio-based assessment: 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. According to aging as a common risk characteristic, bills receivable and accounts receivable are grouped and whether credit risk increases significantly is considered on the basis of combination.

Measurement of expected credit loss. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss means difference between all contract cash flows receivable under the contract and all cash flows expected to be received, which is discounted by the Company with the original effective interest rate, 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 written-off amount is greater e0.5 as25 (f)0.5 vable.6 ()0.5t-u vn66.5.6 (o)0.5 (dj0.034l)0.6 (a)0.5 srer.5.6 (o)0.5 (s0.5t)0.j0.

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 asset s 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 the time of initial recognition, fair value is usually the transaction price, and changes in fair value are included in 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 Company 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 Company 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 Company measures the loss allowance at an amount equal to the lifetime expected credit losses.

Portfolio-based assessment: 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 Company 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 written-off amount is greater than the accrued loss reserve, debit "credit impairment loss" according to the difference.

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

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.

16. Contract assets

(1) Method and standard for regconition 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.

(2) Recognition and accounting methods for expected credit loss on other receivables

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 written-off amount is greater than the accrued loss reserve, the difference on schedule shall be debited to "asset impairment loss".

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

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.

(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.

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

18. 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 the transaction does not belong to a package of transactions, the initial investment cost of the long-term equity investment shall be based on the share of the net assets of the merged party in the book value of the consolidated financial statements of the final controlling party after the merger. Adjust the capital stock premium based on the difference between the initial investment cost of long-term equity investment on the consolidation date and the sum of long-term equity investment book value before consolidation date and the book value of paid consideration for newly gained shares at the consolidation date. If the capital stock premium is insufficient to offset, offset the retained income.

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 package of transactions, the accounting method for which each transaction applies will treat as one transaction not under the same control. if they are not package transactions, in the individual financial statements, the carrying amount of equity investments originally held is extended by the addition of new investment costs as the initial investment cost and accounted for by cost method instead; For shareholding which it holds before the date of acquisition which uses equity method, other related comprehensive income which use equity method for accounting shall not be adjusted, such investment shall use the same accounting basis as the invested company when it directly disposes related assets or liabilities upon disposal. For shareholding which it holds before acquisition and designated as equity instruments not held for trading at fair value through other comprehensive income, the accumulated change in fair value which is originally included in other comprehensive income shall not be transferred to profit or loss for the current period.

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

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

Apart from the long-term equity investments acquired through business merger, long-term equity investments acquired by cash will be used as investment cost according to the actual payment of the purchase price; long-term equity investments acquired through issuance of equity securities will be used as investment cost according to the fair value of the equity securities issued; long-term equity investments from investors will be used as investment cost according to the investment contracts or agreement value.

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 investee which it entitles, fair value of each identifiable assets of the investee 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 investee.

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.

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

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

When the Company ceases to have common control or significant influence on the investee due to the reasons such as disposal of part of its equity investment, if ASBE 22 – Recognition and Measurement of Financial Asset (CK [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 recognised 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 investee due to partly disposed long-term equity investment, the remaining shareholding which can apply common control or impose significant influence to the investee 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 (CK [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.

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.

19. Investment Properties

Measurement model for investment properties

Cost method

Method for depreciation or amortisation

The Company depreciates investment properties using straight line method. The expected useful life, net residual value rate and annual depreciation (amortisation) rate are as follows:

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

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

20. Fixed assets

(1) Criteria for recognition

Fixed assets are tangible assets with significant value and useful life 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 Company and their costs can be measured reliably. The Company's fixed assets include buildings, machinery, electronic equipment, vehicles and other equipment, etc.

(2) Depreciation method

Type	Depreciation method	Depreciation period	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 Company reviews the expected useful life, 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.

21. 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.

22. 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.

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

22. Borrowing costs *(continued)*

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.

23. Right-of-use assets

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

(1) Initial measurement

At the commencement of a lease term, the Company initially measures a right-of-use asset at cost, which comprises the following four elements: ① the amount of lease liability initially measured; ② the lease payment made on or before the commencement date of lease term, net of any incentives received; ③ any initial expenses directly incurred, that is the incremental cost incurred to obtain the lease; ④ the costs expected to be incurred in dismantling and removing the leased asset, restoring the site on which it is located or restoring the leased asset to the condition required by the terms and conditions of the lease, unless it is incurred from the production of inventories.

(2) Subsequent measurement

After the commencement date of lease term, the Company subsequently measures the right-of-use asset on a cost basis, that is to measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment losses. The Company remeasures lease liabilities according to the requirements under the standard of leases and makes corresponding adjustment to the carrying amount of right-of-use assets.

(3) Depreciation of right-of-use assets

A right-of-use asset is depreciated from the commencement date of lease term. Generally, depreciation of a right-of-use asset starts from the month when the lease commences. The depreciation amount is charged to the cost of the right-of-use asset or profit or loss according to the use of the underlying asset.

When determining the depreciation method of a right-of-use asset, the Company considers the expected consumption of economic benefits in respect of the right-of-use asset and depreciates the asset on a straight-line basis.

In determining the useful life of a right-of-use assets, the Company follows the principles below: if it can reasonably be certain that the ownership right will be obtained upon expiry of the lease term, the right-of- use asset is depreciated over the remaining useful life; if it cannot reasonably be certain that the ownership right will be obtained upon expiry of the lease term, the right-of-use asset is depreciated over the shorter of the lease term and the remaining useful life of the right-of-use asset.

(4) Impairment of right-of-use assets

If the right-of-use asset is impaired, depreciation is made at the carrying amount of the right-of-use asset after deduction the impairment losses.

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

24. Intangible assets

(1) Measurement method, useful life and impairment test

The Company's intangible assets mainly include land use right, maritime use right, patented technology, non- patented technology and software, etc. Intangible assets are measured at the actual costs at acquisition. For purchased intangible assets, actual paid cost and other relevant expenses are used as the actual cost. For intangible assets invested by investors, the actual cost is determined according to the values specified in the investment contract or agreement, while for the unfair agreed value in contract or agreement, the actual cost is determined at the fair value. The intangible asset, which is owned by the acquiree in a combination under different control but is not confirmed in the financial statement, shall be confirmed as intangible asset at its fair value upon the initial recognition on the acquiree's assets.

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

24. Intangible assets *(continued)*

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

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 Company 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 on 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.

25. 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 on each balance sheet date, and 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.

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

25. Impairment of long-term assets *(continued)*

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.

26. Long-term deferred expenses

The Company'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.

27. Contract liabilities

Contract liabilities represent the obligation of the Company 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 Company has obtained the unconditional right to receive the contract consideration before the Company 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.

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

28. Employee compensations

(1) Accounting for short-term employee compensations

The Company'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, shortterm 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 Company has currently no defined benefit plan.

(3) Accounting for termination benefits

The Company has currently no termination benefits.

(4) Accounting for other long-term compensations

The Company has currently no other long-term compensations.

29. Lease liabilities

(1) Initial measurement

The Company 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 Company 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 Company will exercise the option to terminate the lease; ⑤ the amount payable based on the residual value of the guarantee provided by the Company.

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

29. Lease liabilities *(continued)*

(1) Initial measurement *(continued)*

2) Discount rate

In calculating the present value of a lease payment, the Company 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 Company 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 Company for initial measurement of the lease liability, or the revised discount rate used by the Company 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 Company 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 Company charges 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).

30. 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 Company; 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.

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

30. 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.

31. Work Safety Fund

The Company 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 (Cai Qi [2022] No. 136) and Notice of the Ministry of Finance on Issuing Interpretation No. 3 of the Accounting Standards for Business Enterprises (CK [2009] No. 8).

As a machinery production enterprise, the Company's provision for work safety fund 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 the enterprise or projects.

(1) Operating income of RMB 10 million and below, accrued in accordance with 2.35%;

(2) Operating income of RMB 10 million to RMB 100 million (inclusive), accrued in accordance with 1.25%;

(3) Operating income of RMB 100 million to RMB 1,000 million (inclusive), accrued in accordance with 0.25%;

(4) Operating income of RMB 1,000 million to RMB 5,000 million (inclusive), accrued in accordance with 0.1%;

(5) Operating income above RMB 5,000 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 work safety fund 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 work safety fund, the amount will be debited from the "special reserve" if the fund is expenses nature. When using the reserve for maintaining work safety fund 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 work safety fund will be recognised in profit and loss for the current period.

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

32. Revenue

Accounting policy adopted for the recognition and measurement of revenue

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

(1) Principles of revenue recognition

Revenue is recognised when the Company 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 Company 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 Company 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 Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Company 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 Company 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 Company 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 Company 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 Company 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 Company's performance as the Company performs.

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

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

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

32. Revenue *(continued)*

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

For performance obligation satisfied over time, the Company 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 Company expects to recover the costs incurred in satisfying the performance obligation, the Company recognises revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

For performance obligation satisfied at a point in time, the Company 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 Company considers the following indicators:

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

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

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

4) The Company 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 Company's right to consideration in exchange for goods or services that it has transferred to a customer is stated as contract asset. The Company recognises allowances for impairment loss for expected credit loss on contract assets. Receivable is the Company's unconditional right to consideration to be received from a customer. A contract liability is the Company's obligation to transfer goods or services to a customer for which the consideration is received or receivable by the Company 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 Company and its customers usually include only the performance obligations in respect of the transfer of goods. In general, the Company 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.

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

32. Revenue *(continued)*

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



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

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

(2) The Company as a lessee

1) *Lease recognition*

The Company 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 "23. Right-of-use assets" and "29. 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 Company 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)*

35. Leases *(continued)*

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

2) Modifications 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 Company 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 Company 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 Company uses lessee's incremental borrowing rate at the effective date of the modification of the lease as the discount rate. The Company 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 assets

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 Company has elected not to recognise right-of-use asset and lease liability. The Company 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 Company as a lessor

On the basis of determining the contract is or contains a lease as mentioned in "V. 35.(1)", the Company, 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 Company 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 Company 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.

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

35. Leases *(continued)*

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

1) Accounting for finance leases

Initial measurement

At the commencement date of the lease, the Company 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 rse inonrigy certainh5 T a leased awilllex DoiseS0 A0op ion;S1 gsC01 1 Tf10 1FD Company recogni4anc(t leaamleas

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

35. Leases *(continued)*

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

2) Accounting for operating leases

Treatment for rents

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

Incentive measures provided

For rent-free period, the Company 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 Company 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 Company 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 Company 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 Company 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.

36. Assets held for sale

(1) The Company classifies non-current assets or disposal Company 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 Companys 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 Company first classifies a non- current asset or disposal Company as held for sale, the book value of the non-current asset or each asset and liability in the disposal Company 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 Company 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.

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

36. Assets held for sale *(continued)*

(2) Non-current assets or disposal Companys which the Company 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 Companys acquired in a business combination, the difference arising from recognising the fair value less cost of disposal of non-current assets or disposal Companys as initial measurement is recognised in profit and loss in the period.

(3) Where the Company has lost control of a subsidiary due to reasons such as disposal of investment in the subsidiary, regardless of the Company 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.

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

36. Assets held for sale *(continued)*

(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.

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.

(2) Segment information

The Company'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 Company that satisfies the following criteria simultaneously: the component can generate revenue and expenses in business activities; the management of the Company can assess the operating performance of the component in order to allocate resources and assess performance; and the Company 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 Company 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.

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

38. Changes in significant accounting policies and accounting estimates

(1) Change to major accounting policies

✓ Applicable ☐ Not applicable

Contents and reasons for the changes of accounting policies	Approval procedures	Remarks
The Interpretation to Accounting Standards for Business Enterprises (No. 15) enacted by the Ministry of Finance on 30 December 2021 has provided the contents on "Accounting for Enterprises to Sell Products or by-products Produced before or during the Research and Development of Fixed Assets" and "Judgment on Loss Contracts" which have been implemented since 1 January 2022; the content on "Relevant Presentation of Centralized Management of Capital which have been implemented as from the date of promulgation. Therefore, the Company made corresponding changes to relevant accounting policies according to the above requirements.	The changes to relevant accounting policies have been approved at the 5th Session of the 7th Board of Directors of the Company.	The implementation of such policies has no impact on the financial statements of the Group and the Company.
The Interpretation to Accounting Standards for Business Enterprises (No. 16) enacted by the Ministry of Finance on 30 November 2022 has provided the content of "accounting of deferred income tax related to assets and liabilities arising from individual transactions not applicable to initial recognition exemption" which have been implemented from 1 January 2023; the content of Accounting on Income Tax Impact of Dividends related to Financial Instruments classified as Equity Instruments by Issuers" and "Accounting on Enterprises Changing Cash-settled Share-based Payments to Equity-settled Share-based Payment" which has been implemented as from the date of promulgation. Therefore, the Company made corresponding changes to relevant accounting policies according to the above requirements.	The changes to relevant accounting policies have been approved at the 5th Session of the 7th Board of Directors of the Company.	The implementation of such policies has no impact on the financial statements of the Group and the Company.

(2) Changes in significant accounting estimates

☐ Applicable ✓ Not applicable

VI. Taxation

1. Main tax types and tax rates

Tax 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%
"Molong Logistic"	25%
"MPM"	16.5%
"Shouguang Baolong"	25%
"Shouguang Maolong"	25%
"Molong Electro-mechanical"	25%
"Weihai Baolong"	25%
"Molong I&E"	20%
Molong Commercial	20%

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 Company Office of National Hightech 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%. Molong I & E and Molong Commercial, the subsidiaries of the Company, met the criteria and thus enjoy the preferential income tax rate of 20% as a small low-profit enterprise.

1 January 2022 to 31 December 2022
(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	**40,394.74**	58,440.85
Cash at banks	**217,265,724.34**	230,349,439.42
Other monetary funds	**242,351,703.49**	244,783,296.42
Total	**459,657,822.57**	475,191,176.69
Including: total deposits overseas	**2,450,457.39**	2,258,360.54
Total funds restricted for use as security, pledge or freeze	**245,410,596.72**	244,433,969.19

Other descriptions:

(1) The Company'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 RMB 239,976,846.00 (as at the beginning of the year: RMB 242,574,290.00), USD-denominated margins of RMB 696,671.72 (as at the beginning of the year: RMB 637,575.16), and deposits in other financing institutions of RMB 1,678,185.77 (as at the beginning of the year: RMB 1,571,431.26).

(3) As at the balance sheet date, the Company had security deposits for bank acceptance bills with maturity date over 3 months of RMB 96,248,500.00 (as at the beginning of the year: RMB 59,759,875.00).

(4) Monetary funds restricted for use

Unit: RMB

Item	Balance at the end of the year	Balance at the beginning of the year
Cash at banks	**4,737,079.00**	1,222,104.03
Other monetary funds	**240,673,517.72**	243,211,865.16
Total	**245,410,596.72**	244,433,969.19

As at the balance sheet date, the Company had funds of RMB 4,737,079.00 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	**171,547,752.98**	235,005,278.71
Total	**171,547,752.98**	235,005,278.71

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 value	Amount	Percentage	Amount	Provision rate	Book value
Including:										
Bills receivable provided for bad debts on a collective basis	**173,280,558.57**	**100.00%**	**1,732,805.59**	**1.00%**	**171,547,752.98**	237,379,069.40	100.00%	2,373,790.69	1.00%	235,005,278.71
Including:										
Bills receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	**173,280,558.57**	**100.00%**	**1,732,805.59**	**1.00%**	**171,547,752.98**	237,379,069.40	100.00%	2,373,790.69	1.00%	235,005,278.71
Total	**173,280,558.57**	—	**1,732,805.59**	–	**171,547,752.98**	237,379,069.40	–	2,373,790.69	–	235,005,278.71

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	Provision for bad debts	Provision rate
Within 1 year	173,280,558.57	1,732,805.59	1.00%
Total	173,280,558.57	1,732,805.59	—

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 Company 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

Type	Balance at the beginning of the period	Movement during the current period				Balance at the end of the period
		Provision	Recovery or Recovery or	Write-off	Others	
Provision for bad debts of bills receivable	2,373,790.69	(640,985.10)	–	–	–	1,732,805.59
Total	2,373,790.69	(640,985.10)	–	–	–	1,732,805.59

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	82,064,472.11
Total	82,064,472.11

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

2. Bills receivable *(continued)*

(4) Bills receivable already endorsed or discounted by the Company at the end of the period and undue on the balance sheet date

Unit: RMB

Item	**Amount derecognised at the end of the period**	Amount not derecognised at the end of the period
Trade acceptance bills	—	35,073,434.98
Total	—	35,073,434.98

(5) Bills that the Company transferred to accounts receivable due to the issuers' failure to perform the contracts

Other descriptions:

Bills that the Company transferred to accounts receivable due to the issuers' failure to perform the contracts at the end of the year.

(6) Bills receivable actually written off in the current period

Write-off of bills receivables:

There were no bills receivable actually written off in the year.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

3. Accounts receivable

1. Disclosure of accounts receivable by type

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 value	Amount	Percentage	Amount	Provision rate	Book value
Accounts receivable provided for bad debts on an individual basis	–	–	–	–	–	17,352,948.73	4.27%	6,941,179.49	40.00%	10,411,769.24
Including:										
Accounts receivable provided for bad debts on an individual basis due to significantly different credit risks	–	–	–	–	–	17,352,948.73	4.27%	6,941,179.49	40.00%	10,411,769.24
Accounts receivable provided for bad debts on a collective basis	**397,062,652.41**	**100.00%**	**102,663,089.66**	**25.86%**	**294,399,562.75**	389,487,711.35	95.73%	100,368,504.18	25.77%	289,119,207.17
Including:										
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	**397,062,652.41**	**100.00%**	**102,663,089.66**	**25.86%**	**294,399,562.75**	389,487,711.35	95.73%	100,368,504.18	25.77%	289,119,207.17
Total	**397,062,652.41**	–	**102,663,089.66**	–	**294,399,562.75**	406,840,660.08	–	107,309,683.67	–	299,530,976.41

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	294,779,413.05	2,947,794.13	1.00%
1~2 years	4,537,041.54	2,268,520.77	50.00%
2~3 years	823.90	617.93	75.00%
3~4 years	1,826,075.57	1,552,164.23	85.00%
4~5 years	168,705.00	143,399.25	85.00%
Over 5 years	95,750,593.35	95,750,593.35	100.00%
Total	397,062,652.41	102,663,089.66	—

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

3. Accounts receivable *(continued)*

1. Disclosure of accounts receivable by type *(continued)*

Basis for determining the group:

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

Disclosure by age

Unit: RMB

Age	Book balance
Within 1 year (inclusive)	294,779,413.05
1–2 years	4,537,041.54
2–3 years	823.90
Over 3 years	97,745,373.92
3–4 years	1,826,075.57
4–5 years	168,705.00
Over 5 years	95,750,593.35
Total	397,062,652.41

(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 Recovery or	Write-off	Others	
Provision for bad debts of accounts receivable	107,309,683.67	3,979,346.03	8,625,940.04	–	–	102,663,089.66
Total	107,309,683.67	3,979,346.03	8,625,940.04	–	–	102,663,089.66

Notes to the Financial Statements

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

3. Accounts receivable *(continued)*

(4) Accounts receivable with top five balances at the end of the period grouped by debtor

Unit: RMB

Name of entity	Balance of accounts receivable at the end of the period	Proportion to the total balance of accounts receivable at the end of the period	Balance of provision for bad debts at the end of the period
Entity 1	95,322,816.86	24.01%	953,228.17
Entity 2	80,798,580.25	20.35%	807,985.80
Entity 3	55,302,999.76	13.93%	553,030.00
Entity 4	48,756,515.82	12.28%	48,756,515.82
Entity 5	31,983,772.70	8.06%	319,837.73
Total	312,164,685.39	78.63%	—

Note: The Company did not have any related relationship with the top 5 entities 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.

(5) Amount of assets and liabilities arising from transfer of accounts receivable and continuing involvement of such transferred accounts

As of 31 December 2022, the Company had no assets and liabilities arising from transfer of accounts receivable and continuing involvement of such transferred accounts.

(6) Accounts receivable derecognised due to transfer of financial assets

As of 31 December 2022, the Company had no accounts receivable derecognised due to transfer of financial assets.

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	**5,371,855.71**	28,539,024.92
Total	**5,371,855.71**	28,539,024.92

Changes in increase and decrease of financing receivables and fair value changes in the current period

✓ Applicable ☐ Not applicable

No provision for asset impairment had been made as the acceptors of the bank acceptance bills held by the Company are all financial institutions with good credit status.

The book value is taken as the fair value because the remaining terms of the Company's bank acceptance bills are short, and the book balances are close to the fair values.

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 was no financing receivables used for pledge at the end of the year.

(2) Financing receivables already endorsed or discounted at the end of the year and undue on the balance sheet date

Unit: RMB

Item	**Amount derecognised at the end of the year**	Amount not derecognised at the end of the year
Bank acceptance bills	**684,774,405.85**	—
Total	**684,774,405.85**	—

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

5. Prepayments

(1) Presentation of prepayments by age

Unit: RMB

	Balance at the end of the period		Balance at the beginning of the period	
Age	**Amount**	**Percentage**	Amount	Percentage
Within 1 year	**34,768,204.32**	**98.07%**	48,617,999.52	98.02%
1–2 years	**5,599.62**	**0.02%**	799,233.62	1.61%
2–3 years	**607,826.62**	**1.71%**	—	—
Over 3 years	**69,070.27**	**0.20%**	181,157.27	0.37%
Total	**35,450,700.83**	—	49,598,390.41	—

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

6. Other receivables

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Other receivables	**5,626,830.61**	17,440,781.64
Total	**5,626,830.61**	17,440,781.64

(1) Other receivables

1) Classification of other receivables by nature

Unit: RMB

Nature	**Book balance at the end of the period**	Book balance at the beginning of the period
Employee working capital	**699,000.00**	871,000.00
Deposits/Security deposits	**3,029,305.84**	3,543,428.90
Accounts due from/to administrative institutions	**1,369,800.00**	1,390,351.30
Receivable export tax rebate	**237,314.85**	0.00
Accounts due from/to other entities	**1,773,537.72**	14,534,560.09
Less: Provision for bad debts of other receivables	**(1,482,127.80)**	(2,898,558.65)
Total	**5,626,830.61**	17,440,781.64

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

6. Other receivables *(continued)*

(1) Other receivables *(continued)*

2) Provision for bad debts

Unit: RMB

Provision for bad debts	Phase 1 Expected credit losses in the next 12 months	Phase 2 Lifetime expected credit losses (no credit impairment occurred)	Phase 3 Lifetime expected credit losses (credit impairment occurred)	Total
Balance on 1 January 2022	1,714,676.93	1,183,881.72	—	2,898,558.65
Balance on 1 January 2022 in the current period	—	—	—	—
Provision for the current period	—	127,296.91	—	127,296.91
Reversal for the current period	1,543,727.76	—	—	1,543,727.76
Balance on 31 December 2022	170,949.17	1,311,178.63	—	1,482,127.80

Significant changes in the book balance of loss allowance in the current period

☐ Applicable ✓ Not applicable

Disclosure by age

Unit: RMB

Age	Book balance
Within 1 year (inclusive)	5,064,740.84
1–2 years	122,467.42
2–3 years	987.63
Over 3 years	1,920,762.52
3–4 years	69,800.00
Over 5 years	1,850,962.52
Total	7,108,958.41

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

6. Other receivables *(continued)*

(1) 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 Recovery or	Write-off	Others	
Provision for bad debts of other receivables	2,898,558.65	127,296.91	1,543,727.76	–	–	1,482,127.80
Total	2,898,558.65	127,296.91	1,543,727.76	–	–	1,482,127.80

4) Other receivables actually written off in the current period

The Company had no other receivables actually written off in the current period.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

6. Other receivables *(continued)*

(1) Other receivables *(continued)*

5) Other receivables with top five balances at the end of the period grouped by debtor

Unit: RMB

Name of entity	Nature	Balance at the end of the period	Age	Proportion to the total balance of other receivables at the end of the period	Balance of provision for bad debts at the end of the period
People's Government of Gaocun Town, Wendeng City (文登市高村鎮人民政府)	Accounts due from/ to administrative institutions	1,300,000.00	Over 5 years	18.29%	702,000.00
CNPC Chuanqing Drilling Engineering Company Limited (中國石油集團川慶鑽探工程有限公司)	Security deposits	1,164,196.00	Within 1 year	16.38%	–
Shouguang Social Insurance Management Center (壽光市社會保險事業管理中心) (Work Injury)	Insurance	994,765.15	Within 1 year	13.99%	149,214.77
Shouguang Social Insurance Management Center (壽光市社會保險事業管理中心) (Work Injury)	Insurance	81,926.42	1–2 years	1.15%	45,059.53
Nanjing Tendering Center of Sinopec International Co., Ltd. (中國石化國際事業有限公司南京招標中心)	Security deposits	530,864.00	Within 1 year	7.47%	–
Nanjing Tendering Center of Sinopec International Co., Ltd. (中國石化國際事業有限公司南京招標中心)	Security deposits	30,541.00	1–2 years	0.43%	–
China Petroleum Materials Company Limited (中國石油物資有限公司)	Security deposits	540,204.84	Within 1 year	7.60%	–
Total	–	4,642,497.41	–	65.31%	896,274.30

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

6. Other receivables *(continued)*

(1) Other receivables *(continued)*

6) Accounts receivable involving government grants

Nil

7) Other receivables derecognised due to transfer of financial assets

As of 31 December 2022, the Company had no other receivables derecognised due to transfer of financial assets.

8) Amount of assets and liabilities arising from transfer of other receivables and continuing involvement of such transferred receivables

As of 31 December 2022, the Company had no assets and liabilities arising from transfer of other receivables and continuing involvement of such transferred receivables.

Other descriptions:

As of 31 December 2022, the Company had no other receivables used for pledge.

Borrowings receivable from employees

Name of borrower	Li Jiapeng	Li Songming	Wang Yanliang	Zhang Qingzhi	Other employees
Use of borrowing	Business turnover	Business turnover	Business turnover	Business turnover	Business turnover
Amount of borrowing					
— Current year (RMB)	120,000.00	80,000.00	100,000.00	100,000.00	299,000.00
— Previous year (RMB)	100,000.00	100,000.00	80,000.00	100,000.00	491,000.00
Amount of provision for bad debts (RMB)	—	—	—	—	—

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

7. Inventories

Whether the Company needs to comply with the disclosure requirements of the real estate industry or not

No

1) Classification 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 contract performance costs	Book value	Book balance	Provision for impairment of inventories or contract performance costs	Book value
Raw material	**233,469,363.70**	**10,573,928.43**	**222,895,435.27**	324,678,268.84	9,534,159.35	315,144,109.49
Work-in-progress	**161,281,609.27**	**3,717,644.81**	**157,563,964.46**	87,623,375.56	2,519,968.24	85,103,407.32
Goods-in-stock	**294,813,356.36**	**13,816,538.11**	**280,996,818.25**	313,040,362.71	11,692,151.69	301,348,211.02
Entrusted processed materials	**8,860,690.86**	**99,064.44**	**8,761,626.42**	15,714,830.09	2,027,770.81	13,687,059.28
Total	**698,425,020.19**	**28,207,175.79**	**670,217,844.40**	741,056,837.20	25,774,050.09	715,282,787.11

(2) Provision for impairment of inventories or contract performance costs

Unit: RMB

Item	Balance at the beginning of the period	Amount of increase in the current period		Amounts of decrease in the current period		Balance at the end of the period
		Provision	Others	Reversal or written-off	Others	
Raw material	9,534,159.35	6,642,146.61	—	5,602,377.53	—	10,573,928.43
Work-in-progress	2,519,968.24	3,335,224.79	—	2,137,548.22	—	3,717,644.81
Goods-in-stock	11,692,151.69	10,545,130.69	—	8,420,744.27	—	13,816,538.11
Entrusted processed materials	2,027,770.81	99,064.49	—	2,027,770.86	—	99,064.44
Total	25,774,050.09	20,621,566.58	—	18,188,440.88	—	28,207,175.79

Note: The reversed amount of the Company's provision for impairment of inventories for the current period is RMB3,641,154.07 and the written-off amount is RMB14,547,286.81.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

7. Inventories *(continued)*

(2) Provision for impairment of inventories or contract performance costs *(continued)*

Provision for impairment of inventories

Item	Basis for determining net realizable value	Reasons for reversal or written-off in the current year
Raw material	Sales price of a product determined by the production of the materials and semi-finished products less further processing costs and related sales expenses and taxes	Production usage and price changes
Work-in-progress		Production usage and price changes
Entrusted processed materials		Production usage and price changes
Finished product	Sales price less sales expenses and taxes	Sales and price changes

As of 31 December 2022, the right to use the Company's inventories is restricted due to freezing. See "VII. 56" in this note.

(3) Balance of inventories including the amount of capitalised borrowing expenses at the end of the period

Nil

(4) Amortization amount of contract performance cost in the current period

Nil

8. Other current assets

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Input tax to be deducted	**2,031,673.75**	23,399,318.58
Prepayment of other taxes	**763,203.68**	738,122.56
Interests receivable for acceptance margins	**2,995,798.48**	2,043,097.81
Total	**5,790,675.91**	26,180,538.95

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

9. Long-term equity investments

Unit: RMB

		Changes in the current period									
Investee	Balance at the beginning of the period (Book value)	Added investment	Reduced investment	Investment gains and losses recognised under the equity method	Adjustments to other comprehensive income	Other equity changes	Cash dividend or profit declaring to be paid	Provision for impairment	Others	Balance at the end of the period (Book value)	Balance of provision for impairment at the end of the period
1. Joint venture											
2. Associate											
Karamay Yalong Petroleum Machinery Co., Ltd. (克拉瑪依亞龍石油機械有限公司)	2,144,833.69	–	–	(287,370.63)	–	–	–	–	–	1,857,463.06	–
Sub-total	2,144,833.69	–	–	(287,370.63)	–	–	–	–	–	1,857,463.06	–
Total	2,144,833.69	–	–	(287,370.63)	–	–	–	–	–	1,857,463.06	–

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

10. Investment Properties

(1) Investment properties measured at cost

✓ Applicable ☐ Not applicable

Unit: RMB

Item	Buildings	Land use rights	Construction-in-progress	Total
1. Original book value				
1. Balance at the beginning of the period	29,316,909.77	—	—	29,316,909.77
2. Increased amount in this period				
(1) Outsourcing	—	—	—	—
(2) Transfer to inventories\fixed assets\ construction-in-progress	—	—	—	—
(3) Increase from business combination	—	—	—	—
3. Decreased amount in this period	29,316,909.77	—	—	29,316,909.77
(1) Disposal	—	—	—	—
(2) Other transfer-out	29,316,909.77	—	—	29,316,909.77
4. Balance at the end of the period	—	—	—	—
2. Accumulative depreciation and amortization				
1. Balance at the beginning of the period	14,771,329.91	—	—	14,771,329.91
2. Increased amount in this period	1,399,642.08	—	—	1,399,642.08
(1) Provision or amortization	1,399,642.08	—	—	1,399,642.08
3. Decreased amount in this period	16,170,971.99	—	—	16,170,971.99
(1) Disposal	—	—	—	—
(2) Other transfer-out	16,170,971.99	—	—	16,170,971.99
4. Balance at the end of the period	—	—	—	—
3. Provision for impairment				
1. Balance at the beginning of the period	4,616,478.28	—	—	4,616,478.28
2. Increased amount in this period	—	—	—	—
(1) Provision	—	—	—	—
3. Decreased amount in this period	4,616,478.28	—	—	4,616,478.28
(1) Disposal	—	—	—	—
(2) Other transfer-out	4,616,478.28	—	—	4,616,478.28
4. Balance at the end of the period	—	—	—	—
4. Book value				
1. Book value at the end of the period	—	—	—	—
2. Book value at the beginning of the period	9,929,101.58	—	—	9,929,101.58

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

10. Investment Properties *(continued)*

(2) Investment properties measured at fair value

☐ Applicable ✓ Not applicable

(3) Investment properties without title certificates

Nil

11. Fixed assets

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Fixed assets	**2,003,871,030.19**	2,181,361,123.66
Total	**2,003,871,030.19**	2,181,361,123.66

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

11. Fixed assets *(continued)*

(1) Fixed assets

Unit: RMB

Item	Buildings	Machinery	Electronics and others	Vehicles	Total
1. Original book value:					
1. Balance at the beginning 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
2. Increased amount in this period	32,323,554.68	13,197,016.73	405,888.40	1,306,324.22	47,232,784.03
(1) Purchase	–	1,657,549.90	405,888.40	922,123.90	2,985,562.2
(2) Transfer to construction-in-progress	3,006,644.91	11,539,466.83	–	384,200.32	14,930,312.06
(3) Increase from business combination	–	–	–	–	–
(4) Reversal of investment Properties	29,316,909.77	–	–	–	29,316,909.77
(5) Other increases	–	–	–	–	–
3. Decreased amount in this period	100,000.00	24,179,023.64	923,022.57	465,200.00	25,667,246.21
(1) Disposal or retirement	100,000.00	4,160,398.66	923,022.57	465,200.00	5,648,621.23
(2) Transfer to construction-in-progress	–	20,018,624.98	–	–	20,018,624.98
3. Other decreases	–	–	–	–	–
4. Balance at the end of the period	955,098,433.28	3,289,376,152.99	115,619,226.02	15,097,423.29	4,375,191,235.58
2. Accumulative depreciation					
1. Balance at the beginning 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
2. Increased amount in this period	59,035,365.00	148,427,207.64	4,226,786.32	2,257,339.16	213,946,698.12
(1) Provision	42,864,393.01	148,427,207.64	4,226,786.32	2,257,339.16	197,775,726.13
(2) Reversal of investment Properties	16,170,971.99	–	–	–	16,170,971.99
3. Decreased amount in this period	72,832.72	18,435,972.38	850,058.51	148,681.50	19,507,545.11
(1) Disposal or retirement	72,832.72	2,725,352.87	850,058.51	148,681.50	3,796,925.60
(2) Transfer to construction-in-progress	–	15,710,619.51	–	–	15,710,619.51
4. Balance at the end of the period	368,447,316.91	1,732,830,192.45	97,329,331.33	10,842,900.31	2,209,449,741.00
3. Provision for impairment					
1. Balance at the beginning of the period	1,275,320.54	155,977,815.57	850.00	–	157,253,986.11
2. Increased amount in this period	4,616,478.28	–	–	–	4,616,478.28
(1) Provision	–	–	–	–	–
(2) Reversal of investment Properties	4,616,478.28	–	–	–	4,616,478.28
3. Decreased amount in this period	–	–	–	–	–
(1) Disposal or retirement	–	–	–	–	–
(2) Transfer to investment properties	–	–	–	–	–
4. Balance at the end of the period	5,891,798.82	155,977,815.57	850.00	–	161,870,464.39
4. Book value					
1. Book value at the end of the period	580,759,317.55	1,400,568,144.97	18,289,044.69	4,254,522.98	2,003,871,030.19
2. Book value at the beginning 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

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

11. Fixed assets *(continued)*

(2) Temporarily idle fixed assets

Unit: RMB

Item	Original book value	Accumulative depreciation	Provision for impairment	Book value	Remark
Buildings	245,619,333.89	120,577,394.21	5,521,798.82	119,520,140.86	—
Machinery	825,990,621.42	521,520,754.31	155,977,815.57	148,492,051.54	—
Vehicles	1,104,853.89	758,678.83	0.00	346,175.06	—

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

12. Construction-in-progress

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Construction-in-progress	**298,971.19**	10,029,521.56
Total	**298,971.19**	10,029,521.56

(1) 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
Sporadic projects	**298,971.19**	—	**298,971.19**	10,029,521.56	—	10,029,521.56
Total	**298,971.19**	—	**298,971.19**	10,029,521.56	—	10,029,521.56

(2) Provision for impairment of construction-in-progress in the current period

No impairment of the Company's construction-in-progress occurred at the end of the year, therefore no provision for impairment of construction-in-progress has been made.

As for the Company's construction-in-progress at the end of the year, there is no restriction on ownership or use right due to mortgage, guarantee or other reasons.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

13. Right-of-use assets

Unit: RMB

Item		Buildings and related land use rights	Total
1.	**Original book value**		
	1. Balance at the beginning of the period	**4,591,910.73**	4,591,910.73
	2. Increased amount in this period	—	—
	(1) Lease from	—	—
	(2) Increase from business combination	—	—
	3. Decreased amount in this period	**4,591,910.73**	4,591,910.73
	(1) Disposal	—	—
	(2) Termination of the lease upon expiration	**4,591,910.73**	4,591,910.73
	4. Balance at the end of the period	**0.00**	0.00
2.	**Accumulative depreciation**		
	1. Balance at the beginning of the period	**3,061,273.92**	3,061,273.92
	2. Increased amount in this period	**1,530,636.81**	1,530,636.81
	(1) Provision	**1,530,636.81**	1,530,636.81
	3. Decreased amount in this period	**4,591,910.73**	4,591,910.73
	(1) Disposal	—	—
	(2) Termination of the lease upon expiration	**4,591,910.73**	4,591,910.73
	4. Balance at the end of the period	**0.00**	0.00
3.	**Provision for impairment**		
	1. Balance at the beginning of the period	—	—
	2. Increased amount in this period	—	—
	(1) Provision	—	—
	3. Decreased amount in this period	—	—
	(1) Disposal	—	—
	4. Balance at the end of the period	—	—
4.	**Book value**		
	1. Book value at the end of the period	—	—
	2. Book value at the beginning of the period	**1,530,636.81**	1,530,636.81

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

14. Intangible assets

(1) Intangible assets

Unit: RMB

Item	Land use rights	Patent	Unpatented technology	Software	Total
1. Original book value					
1. Balance at the beginning of the period	446,183,759.48	2,886,248.19	411,438,307.29	770,036.72	861,278,351.68
2. Increased amount in this period	–	–	–	–	–
(1) Purchase	–	–	–	–	–
(2) Internal research and development	–	–	–	–	–
(3) Increase from business combination	–	–	–	–	–
3. Decreased amount in this period	–	–	–	–	–
(1) Disposal	–	–	–	–	–
2. Other decreases	–	–	–	–	–
4. Balance at the end of the period	446,183,759.48	2,886,248.19	411,438,307.29	770,036.72	861,278,351.68
2. Accumulative amortization					
1. Balance at the beginning of the period	87,519,092.07	2,846,874.62	360,120,069.94	770,036.72	451,256,073.35
2. Increased amount in this period	10,500,039.69	36,467.40	8,239,353.22	–	18,775,860.31
(1) Provision	10,500,039.69	36,467.40	8,239,353.22	–	18,775,860.31
(2) Other increases	–	–	–	–	–
3. Decreased amount in this period	–	–	–	–	–
(1) Disposal	–	–	–	–	–
2. Other decreases	–	–	–	–	–
4. Balance at the end of the period	98,019,131.76	2,883,342.02	368,359,423.16	770,036.72	470,031,933.66
3. Provision for impairment					
1. Balance at the beginning of the period	–	–	33,968,375.45	–	33,968,375.45
2. Increased amount in this period	–	–	–	–	–
(1) Provision	–	–	–	–	–
3. Decreased amount in this period	–	–	–	–	–
(1) Disposal	–	–	–	–	–
4. Balance at the end of the period	–	–	33,968,375.45	–	33,968,375.45
4. Book value					
1. Book value at the end of the period	348,164,627.72	2,906.17	9,110,508.68	–	357,278,042.57
2. Book value at the beginning of the period	358,664,667.41	39,373.57	17,349,861.90	–	376,053,902.88

At the end of the period, the intangible assets arising from the Company's internal research and development accounted for 2.55% of the balance of intangible assets.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

15. Development expenditures

Unit: RMB

Item	Balance at the beginning of the period	Amount of increase in the current period		Amounts of decrease in the current period		Balance at the end of the period
		Internal development expenditures	Others	Recognised as intangible assets	Transfer to profit and loss in the current period	
Project 1	—	5,958,345.07	—	—	5,958,345.07	—
Project 2	—	2,591,455.48	—	—	2,591,455.48	—
Project 3	—	4,075,095.95	—	—	4,075,095.95	—
Project 4	—	5,118,794.70	—	—	5,118,794.70	—
Project 5	—	3,387,793.82	—	—	3,387,793.82	—
Project 6	—	1,908,299.54	—	—	1,908,299.54	—
Total	—	23,039,784.56	—	—	23,039,784.56	—

Other descriptions:

For the division of the research phase and development phase for the Company's development expenditures, and the time and basis for capitalisation of the development phase, please refer to "V. 24" of this note for details.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

16. Deferred income tax assets/deferred income tax liabilities *(continued)*

(3) Deferred tax assets or liabilities shown on a net offset basis

Unit: RMB

Item	**Deferred income tax assets and liabilities offset at the end of the period**	**Ending balance of deferred income tax assets or liabilities after offset**	Deferred income tax assets and liabilities offset at the begin of the period	Initial balance of deferred income tax assets or liabilities after offset
Deferred income tax assets	—	**26,108,899.14**	—	29,065,116.69
Deferred income tax liabilities	—	**5,266,932.29**	—	5,362,198.02

(4) Unconfirmed deferred income tax assets details

Unit: RMB

Item	**Balance at the end of the period**

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

16. Deferred income tax assets/deferred income tax liabilities *(continued)*

(5) The deductible loss of unconfirmed deferred income tax assets will expire in the next year.

Unit: RMB

Year	Ending amount	Initial amount	Remark
2022	—	175,248,363.36	—
2023	**52,476,863.76**	52,476,863.76	—
2024	**218,933,559.95**	219,261,742.73	—
2025	**159,477,912.85**	163,165,974.67	—
2026	**305,316,162.29**	295,336,582.84	—
2027	**243,894,908.95**	—	—
2029	**73,995,869.67**	72,537,498.48	—
2031	**273,110,646.67**	271,158,660.87	—
2032	**201,019,368.42**	—	—
Total	**1,528,225,292.56**	1,249,185,686.71	—

17. 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 business facilities	**750,000.00**	—	**750,000.00**	350,000.00	—	350,000.00
Advances on construction	**378,107.60**	—	**378,107.60**	378,107.60	—	378,107.60
Total	**1,128,107.60**	—	**1,128,107.60**	728,107.60	—	728,107.60

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

18. 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
Secured borrowings	**136,876,184.90**	—
Guaranteed loan	**973,906,030.00**	—
Charge for borrowings	**285,454,575.00**	1,024,227,167.50
Loan in credit	—	353,379,047.22
Bills discounted and loan on letter of credit	**566,700,000.00**	539,100,000.00
Total	**1,962,936,789.90**	1,916,706,214.72

Explanation of category of short-term borrowings:

Interest rate details: The Company's weighted average annual interest rate of 2022 short-term loan was 4.80% (4.69% in 2021).

(2) Details of overdue unpaid short-term loans

There is no overdue unpaid short-term loan at the year end in the company.

19. Bills payable

Unit: RMB

Type	**Balance at the end of the period**	Balance at the beginning of the period
Bank acceptance bills	**64,855,401.04**	101,209,067.42
Total	**64,855,401.04**	101,209,067.42

The ending overdue unpaid bills payable are RMB 0.00.

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

20. Accounts payable

(1) List of accounts payable

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Payments due to suppliers	**611,264,285.51**	599,514,345.81
Total	**611,264,285.51**	599,514,345.81

(2) Significant accounts payable with more than 1-year aging

Unit: RMB

Item	**Balance at the end of the period**	Reasons for unrepayment or non carry-over
Entity 1	**10,874,952.63**	Open
Entity 2	**8,246,115.50**	Open
Entity 3	**7,658,992.43**	Open
Entity 4	**5,333,245.98**	Open
Entity 5	**3,906,684.00**	Open
Total	**36,019,990.54**	—

Other descriptions:

Accounts payable listed on the aging basis

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

20. Accounts payable *(continued)*

(2) Significant accounts payable with more than 1-year aging *(continued)*

Aging analysis of accounts payable on the basis of trade date (including accounts payable of affiliated party) is shown as follows:

Unit: RMB

Item	Year-end amount	Year-beginning amount
Within 2 months	**111,870,951.63**	229,215,757.87
2-3 months	**19,643,615.92**	33,827,947.46
3-4 months	**16,649,553.90**	33,924,584.31
4 months-1 year	**258,176,963.71**	136,448,161.09
1~2 years	**86,956,033.94**	60,116,780.67
2~3 years	**30,406,379.94**	36,152,773.49
Over 3 years	**87,560,786.47**	69,828,340.92
Total	**611,264,285.51**	599,514,345.81

21. Contract liabilities

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Advances on sales	**107,582,152.10**	70,368,931.26
Total	**107,582,152.10**	70,368,931.26

Amount and reasons for significant changes of book value within report period

The large increase of year-end amount compared with year-beginning amount of contractual liabilities is mainly caused by the increase of advances on sales from customers.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

22. Employee pay payable

(1) List of employee pay payable

Unit: RMB

Item	Balance at the beginning of the period	Increase in the current period	Decrease in the current period	Balance at the end of the period
I. Short-term pay	57,833,087.83	223,333,990.68	238,376,432.03	42,790,646.48
II. Post-employment benefits-defined contribution plans	—	30,322,658.83	30,322,658.83	—
Total	57,833,087.83	253,656,649.51	268,699,090.86	42,790,646.48

(2) List of short-term pay

Unit: RMB

Item	Balance at the beginning of the period	Increase in the current period	Decrease in the current period	Balance at the end of the period
1. Salaries, bonuses, allowances and subsidies	40,569,610.17	190,690,033.19	209,817,826.27	21,441,817.09
2. Employee services and benefits	—	5,856,149.96	5,856,149.96	—
3. Social insurance charges	—	16,983,979.45	16,983,979.45	—
Including: medical insurance premiums	—	14,985,027.74	14,985,027.74	—
Industrial injury insurance premium	—	1,998,951.71	1,998,951.71	—
4. Housing provident funds	—	4,443,588.68	4,443,588.68	—
5. Labor union expenditures and employee education funds	17,263,477.66	5,360,239.40	1,274,887.67	21,348,829.39
Total	57,833,087.83	223,333,990.68	238,376,432.03	42,790,646.48

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

22. Employee pay payable *(continued)*

(3) List of defined contribution plans

Unit: RMB

Item	Balance at the beginning of the period	Increase in the current period	Decrease in the current period	Balance at the end of the period
1. Basic endowment insurance	—	29,051,620.05	29,051,620.05	—
2. Unemployment insurance expense	—	1,271,038.78	1,271,038.78	—
Total	—	30,322,658.83	30,322,658.83	—

Other descriptions:

The company has paid social insurance set up by government body. The company has deposited expenses according to local government's regulations as planned. In addition to above deposits, the company will pay no costs anymore. It has no right to dispose the above expenses after payment. Expenditures at the research phase is recognized in profit or loss of the period in which it is incurred.

The company's year-end employee pay payable contains RMB 21,441,817.09 (the withdrawal unpaid salaries, bonuses and subsidies) which is estimated to be paid in the first half of 2023.

The endowment insurance and unemployment insurance planned to be paid by the company on 31 December 2022 have been completely paid.

There is no forfeiture of contribution (that belong to employees who leave the plan before contribution on behalf of the employer) under defined contribution plan for the two financial years ended 31 December 2021 and 2022 that is used or is available for deducting the current contribution level.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

23. Tax payable

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Value-added tax	**1,595,898.99**	14,640,926.26
Enterprise income tax	**6,217,753.70**	6,222,288.30
Individual income tax	**1,041,814.46**	99,319.08
Urban maintenance and construction tax	**89,107.82**	1,283,658.93
House property tax	**935,600.32**	936,701.23
Land use tax	**869,314.20**	869,314.20
Education surcharge	**63,648.45**	916,899.23
Stamp tax	**434,100.56**	673,404.96
Others	**32,167.97**	151,326.34
Total	**11,279,406.47**	25,793,838.53

24. Other payables

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Other payables	**36,765,356.32**	64,231,003.43
Total	**36,765,356.32**	64,231,003.43

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

24. Other payables *(continued)*

(1) Other payables

1) List other payables by nature of payment

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Withdrawing power costs	**17,118,272.96**	38,246,747.14
Deposit in security	**10,462,118.48**	11,346,486.34
Charter money	**7,874,614.22**	10,191,315.95
Others	**1,310,350.66**	4,446,454.00
Total	**36,765,356.32**	64,231,003.43

2) Significant other payables with more than 1-year aging

The company has no significant other payables with more than 1-year aging by the year end.

25. 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	**38,337,510.13**	77,665,842.90
Long-term payables due within one year	**48,991,857.12**	23,753,396.36
Lease liabilities due within one year	—	5,582,154.56
Total	**87,329,367.25**	107,001,393.82

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

26. Other current liabilities

Unit: RMB

Item	**Balance at the end of the period**	Balance at the beginning of the period
Endorsed trade acceptance not due	**35,073,434.98**	58,359,800.00
Stay-recognition tax	**13,118,573.83**	9,074,588.00
Total	**48,192,008.81**	67,434,388.00

27. 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
Charge for borrowings	**38,337,510.13**	114,807,460.40
Minus: amount due within one year	**(38,337,510.13)**	(77,665,842.90)
Total	—	37,141,617.50

Explanation of category of long-term borrowings:

The company has only one long-term borrowing with 6.70% interest rate in 2022.

Other explanations, including interest rate range:

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

27. Long-term borrowings *(continued)*

(1) Category of long-term borrowings *(continued)*

Maturity date of long-term borrowings is analyzed as follows:

Unit: RMB

Item	Year-end amount	Year-beginning amount
Charge for borrowings	**38,337,510.13**	114,807,460.40
Secured borrowings	—	—
Total	**38,337,510.13**	114,807,460.40
Book value of above borrowings shall be lower than the following repayment in time:		
Within one year	**38,337,510.13**	77,665,842.90
More than one year since balance sheet date, but less than two years	—	37,141,617.50
Minus: amounts due within one year listed under current liabilities	**38,337,510.13**	77,665,842.90
Amounts under non-current liabilities	—	37,141,617.50

28. Lease liabilities

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Lease liabilities	—	5,582,154.56
Minus: amount due within one year	—	(5,582,154.56)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

29. Long-term payables

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Long-term payables	**65,461,963.55**	37,742,329.02
Total	**65,461,963.55**	37,742,329.02

(1) List long-term payables by nature of payment

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Sale-leaseback financing	**65,461,963.55**	37,742,329.02
Total	**65,461,963.55**	37,742,329.02

Other descriptions:

Details of interest rate: the actual interest rate of the company's long-term payables in 2022 is 8.05% (9.66% in 2021).

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

29. Long-term payables *(continued)*

(1) List long-term payables by nature of payment *(continued)*

Maturity date analysis of long-term payables

Unit: RMB

Item	Year-end amount	Year-beginning amount
Sale-leaseback financing	**114,453,820.67**	61,495,725.38
Total	**114,453,820.67**	61,495,725.38
Book value of above borrowings shall be lower than the following repayment in time:		
Within one year	**48,991,857.12**	23,753,396.36
More than one year since balance sheet date, but less than two years	**45,607,380.20**	19,674,948.82
More than two years since balance sheet date, but less than five years	**19,854,583.35**	18,067,380.20
Minus: amounts due within one year listed under current liabilities	**48,991,857.12**	23,753,396.36
Amounts under non-current liabilities	**65,461,963.55**	37,742,329.02

30. Provisions

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period	Reason(s) for Occurrence
Pending action	9,800,000.00	558,467.38	See Annotation XIV, 2
Others	67,971,212.05	0.00	Estimated loss on claims of subsidiaries with excess losses
Total	77,771,212.05	558,467.38	—

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

31. Deferred revenue

Unit: RMB

Item	Balance at the beginning of the period	Increase in the current period	Decrease in the current period	Balance at the end of the period	Reason(s) for Occurrence
Government grants	6,966,655.18	—	209,825.68	6,756,829.50	Government grants related to assets
Total	6,966,655.18	—	209,825.68	6,756,829.50	—

Projects involving government grants:

Unit: RMB

Liability projects	Balance at the beginning of the period	Additional subsidiary amounts for the current period	Amount of non-operating income recorded in the current period	Amount recorded in other incomes in the current period	Amount of write-down of costs and expenses in the current period	Other changes	Balance at the end of the period	Relate to assets/incomes
Infrastructure subsidies	6,607,112.24	—	—	173,871.38	—	—	6,433,240.86	Relate to assets
Air defense basement construction subsidy funds	359,542.94	—	—	35,954.30	—	—	323,588.64	Relate to assets
Total	6,966,655.18	—	—	209,825.68	—	—	6,756,829.50	—

Other descriptions:

Note 1: According to the Notice of Investing Infrastructure Subsidies in Shouguang Molong Logistics Co., Ltd. (SZF[2016] No. 3) printed and issued by Shangkou Town People's Government, the company received RMB 6,954,855.00 as infrastructure subsidies on 24 February 2016 and confirmed this amount as assets-related government subsidies. It is recorded in the current profit and loss of CNY 173,871.38 according to depreciation calculation of related assets this year.

Note 2: According to the Ask for Instructions about Returning Preferential Policy Enjoyed by Phase II Project of Weihai Baolong Special Petroleum Materials Co., Ltd. (GZQZ[2018] No. 42), the company's subsidiary Weihai Baolong received RMB 719,085.90 as Air defense basement construction subsidy funds on 25 February 2019 and confirmed this amount as assets-related government subsidies. It is recorded in the current profit and loss of RMB 35,954.30 according to depreciation calculation of related assets this year.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

32. Share capital

Unit: RMB

		Increase/decrease as a result of the change (+, -)					
	Balance at the beginning of the period	Issue of new shares	Bonus issue	Transfer of reserves to share capital	Others	Sub-total	Balance at the end of the period
III. The sum of shares	797,848,400.00	—	—	—	—	—	797,848,400.00

33. Capital reserve

Unit: RMB

Item	Balance at the beginning of the period	Increase in the current period	Decrease in the current period	Balance at the end of the period
Capital premium (stock premium)	849,481,990.92	—	—	849,481,990.92
Other capital reserves	13,874,320.28	1,049,018.06	—	14,923,338.34
Total	863,356,311.20	1,049,018.06	—	864,405,329.26

Other explanations, including current increase/decrease as a result of the change and reasons for changes:

Capital reserves increased this year are financial subsidies provided by the company's controlling shareholders for free. According to related regulations, the borrowing interests are confirmed as capital reserves.

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

34. Other comprehensive incomes

Unit: RMB

Item	Current amount							
	Balance at the beginning of the period	Current amount before income tax	Minus: Pre-booked other comprehensive incomes transferred to profit or loss	Minus: Pre-booked other comprehensive incomes transferred to retained income	Less: Income tax expenses	Equity attributable to owners of the parent company after tax	Equity attributable to minority shareholders after tax	Balance at the end of the period
II. Other comprehensive incomes that will be reclassified to profit or loss	(1,671,948.29)	(1,508,123.84)	–	–	–	(1,357,311.46)	(150,812.38)	(3,029,259.75)
Exchange differences on translation of foreign financial statements	(1,671,948.29)	(1,508,123.84)	–	–	–	(1,357,311.46)	(150,812.38)	(3,029,259.75)
Total of other comprehensive incomes	(1,671,948.29)	(1,508,123.84)	–	–	–	(1,357,311.46)	(150,812.38)	(3,029,259.75)

35. Special reserve

Unit: RMB

Item	Balance at the beginning of the period	Increase in the current period	Decrease in the current period	Balance at the end of the period
Safety production costs	—	20,412,158.71	20,412,158.71	—
Total	—	20,412,158.71	20,412,158.71	—

Other explanations, including current increase/decrease as a result of the change and reasons for changes:

Note: The company provides and uses the safety production costs according to the Management Method of Providing and Using the Enterprise Safety Production Costs (FQ[2022] No. 136) 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)*

36. Surplus reserve

Unit: RMB

Item	Balance at the beginning of the period	Increase in the current period	Decrease in the current period	Balance at the end of the period
Legal surplus reserve	187,753,923.88	—	—	187,753,923.88
Total	187,753,923.88	—	—	187,753,923.88

37. Undistributed profits

Unit: RMB

Item	Amounts for the current period	Amounts for the prior period
Undistributed profits at the end of the previous period before adjustment	**(434,047,824.92)**	(66,030,056.80)
Initial undistributed profits after adjustment	**(434,047,824.92)**	(66,030,056.80)
Plus: current net profit attributable to the shareholders of the parent company	**(424,969,725.59)**	(368,017,768.12)
Ending undistributed profits	**(859,017,550.51)**	(434,047,824.92)

Details of undistributed profits at the beginning of adjustment period:

1) Due to retroactive adjustment stipulated by the Accounting Standards for Business Enterprises and other latest regulations, RMB 0.00 as initial undistributed profit is affected.

2) Due to changes in accounting policy, RMB 0.00 as initial undistributed profit is affected.

3) Due to correction of material accounting errors, RMB 0.00 as initial undistributed profit is affected.

4) Due to changes in scope of consolidation arising from uniform control, RMB 0.00 as initial undistributed profit is affected.

5) Due to other adjustments in total, RMB 0.00 as initial undistributed profit is affected.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

38. Minority equity

Minority equity attributable to minority shareholders of subsidies

Unit: RMB

Name of subsidiary	Minority shareholding ratio (%)	Balance at the end of the year	Balance at the beginning of the year
"Shouguang Baolong"	30.00	(77,363,803.78)	(53,415,263.28)
MPM Corporation	10.00	(243,830.86)	(75,837.20)
Total	—	(77,607,634.64)	(53,491,100.48)

39. Operating revenue and operating costs

Unit: RMB

Item	Current amount		Amount of the previous period	
	Revenue	Costs	Revenue	Costs
Primary business	**2,673,300,386.43**	**2,585,801,222.02**	3,628,736,513.11	3,419,126,424.09
Other businesses	**92,344,894.97**	**89,411,097.72**	105,726,328.01	95,351,492.54
Total	**2,765,645,281.40**	**2,675,212,319.74**	3,734,462,841.12	3,514,477,916.63

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

39. Operating revenue and operating costs

Whether net profits by deducting nonrecurring gains and loss after audit is low and whether it is negative.

✓ Yes ☐ No

Unit: RMB

Item	This year	Specific deduction	Last year	Specific deduction
Amount of operating revenue	**2,765,645,281.40**	Mainly comprised of revenue from sales of products and scraps.	3,734,462,841.12	Mainly comprised of revenue from sales of products and scraps.
Deduction amount from operating revenue (CNY)	**97,894,560.60**	Mainly comprised of revenue from sales of scraps.	105,726,328.01	Mainly comprised of revenue from sales of scraps.
Proportion of deduction amount from operating revenue in operating revenue	**3.54%**	—	2.83%	–
I. Business revenue unrelated to primary business				
1. Other business revenues except for normal operation Such as, lease of fixed assets, intangible assets and packaging materials, material sales, non-monetary assets exchange based on materials, operating revenues of entrusted management business, as well as incomes in addition to normal operation of public company but recorded in primary business incomes.	**90,366,847.38**	Scrap selling incomes unrelated to primary business	104,266,398.19	Scrap selling incomes unrelated to primary business
3. Incomes of new trade business in this and last accounting year	**7,527,713.22**	Trade incomes	1,459,929.82	Trade incomes
Business incomes in total unrelated to primary business	**97,894,560.60**	Scrap selling incomes	105,726,328.01	Scrap selling incomes
II. Incomes independent of business				
Incomes in total independent of business	**0.00**	Nil	0.00	Nil
Amount after business income deduction	**2,667,750,720.80**	Mainly product sales revenue.	3,628,736,513.11	Mainly product sales revenue.

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

39. Operating revenue and operating costs *(continued)*

Income information:

Unit: RMB

Contract category	Pipe products	Three kinds of pumping units	Petroleum machinery parts	Tube blanks	Castings and forgings	Others	Total
Product type							
Including:							
Pipe products	1,612,040,161.32	–	–	–	–	–	1,612,040,161.32
Three kinds of pumping units	–	34,259,710.39	–	–	–	–	34,259,710.39
Petroleum machinery parts	–	–	22,586,988.18	–	–	–	22,586,988.18
Tube blanks	–	–	–	–	–	–	–
Castings and forgings	–	–	–	–	982,447,617.23	–	982,447,617.23
Others	–	–	–	–	–	114,310,804.28	114,310,804.28
Classify based on operating area							
Including:							
At home	1,239,946,491.76	21,590,251.37	1,539,341.58	0.00	982,447,617.23	114,193,680.96	2,359,717,382.90
At abroad	372,093,669.56	12,669,459.02	21,047,646.60	–	–	117,123.32	405,927,898.50
Contract type							
Including:							
Income confirmation at some point	1,612,040,161.32	34259710.39	22,586,988.18	–	982,447,617.23	114,310,804.28	2,765,645,281.40
Total	1,612,040,161.32	34259710.39	22,586,988.18	–	982,447,617.23	114,310,804.28	2,765,645,281.40

Information related to performance obligation:

The company will fulfil its duty to supply goods as primary responsible person according to contract requirements and customers' category, standards and time. Different customers and products face different payment conditions. For ordinary customers at home, the company puts collection first before delivery, and oil casing customers in China will be collected within 3-6 months after billing and settlement. As for exports, cash collection is preferred. For most oil casing customers, prepayment will be made and the balance payment shall be settled before delivery or seeing the copy of bill of lading. Credit period of petroleum machinery parts generally lasts for two months.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

39. Operating revenue and operating costs *(continued)*

Information related to trade price apportioned to residual performance obligations:

The incomes of unfulfilled or partially-fulfilled performance obligation that has signed in contract at the end of report period are RMB 0.753 billion. The amount is estimated to be confirmed as incomes in 2023.

40. Tax and surcharges

Unit: RMB

Item	Current amount	Amount of the previous period
Urban maintenance and construction tax	**2,343,174.18**	6,078,083.82
Education surcharge	**1,004,179.00**	4,340,325.39
House property tax	**3,739,098.52**	3,740,773.23
Land use tax	**3,477,256.80**	3,477,256.79
Other taxes	**3,818,543.70**	2,857,016.38
Total	**14,382,252.20**	20,493,455.61

41. Selling expenses

Unit: RMB

Item	Current amount	Amount of the previous period
Employee compensations	**8,432,097.79**	6,862,459.45
Agency fees	**1,767,803.01**	314,464.92
Depreciation costs	**232,936.93**	238,677.67
Travel charges	**484,943.83**	546,340.84
Business entertainment	**2,687,940.52**	2,560,398.88
Transport expenses	**194,964.52**	217,865.52
Office allowance	**291,625.15**	278,491.32
Others	**3,487,932.71**	2,383,550.70
Total	**17,580,244.46**	13,402,249.30

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

43. R&D expenditures

Unit: RMB

Item	Current amount	Amount of the previous period
New product R&D of current year	**33,412,376.93**	45,260,525.15
Amortization of non-patented technology of current year	**8,239,353.22**	11,815,939.97
Total	**41,651,730.15**	57,076,465.12

Other descriptions:

Note: As for the usage of new product R&D of current year, please see Annotation VII, 15.

44. Financial costs

Unit: RMB

Item	Current amount	Amount of the previous period
Interest expenses	**117,884,825.33**	114,302,110.50
Minus: interest income	**(8,379,526.72)**	(4,907,692.93)
Plus: exchange loss	**(7,676,880.94)**	1,550,959.54
Other expenses	**3,994,328.67**	4,502,328.04
Total	**105,822,746.34**	115,447,705.15

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

45. Other incomes

Unit: RMB

Source of other incomes	Current amount	Amount of the previous period
Job stabilization and social insurance subsidies	**714,277.31**	1,402,091.88
Air defense basement construction subsidy funds	**35,954.30**	35,954.30
Rewards for scientific and technological innovation patents and international brand takeover	—	106,000.00
Others	**223,000.05**	791,680.50
Total	**973,231.66**	2,335,726.68

46. Investment incomes

Unit: RMB

Item	Current amount	Amount of the previous period
Income from long-term equity investments calculated by equity method	**(287,370.63)**	(169,863.60)
Total	**(287,370.63)**	(169,863.60)

47. Loss on credit impairment

Unit: RMB

Item	Current amount	Amount of the previous period
Loss on other bad accounts receivable	**1,416,430.85**	(633,778.05)
Loss on doubtful notes receivable	**640,985.10**	(707,677.86)
Loss on doubtful accounts receivable	**4,646,594.01**	13,897,008.65
Estimated loss on claims of subsidiaries with excess losses	**(67,971,212.05)**	—
Loss on loan impairment	—	2,091,573.70
Total	**(61,267,202.09)**	14,647,126.44

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

48. Loss on assets impairment

Unit: RMB

Item	Current amount	Amount of the previous period
II. Loss on inventory valuation and loss on contract performance costs impairment	**(16,980,412.51)**	(17,739,032.81)
V. Loss on fixed assets impairment	—	(95,162,618.61)
Total	**(16,980,412.51)**	(112,901,651.42)

49. Incomes from disposal of assets

Unit: RMB

Income source from disposal of assets	Current amount	Amount of the previous period
Incomes from disposal of non-current assets	**1,123.89**	399,239.27
Therein: incomes from disposal of non-current assets classified as held-for-sale	—	—
Therein: incomes from disposal of fixed assets	—	—
Incomes from disposal of intangible assets	—	—
Incomes from disposal of non-current assets unclassified as held-for-sale	**1,123.89**	399,239.27
Therein: incomes from disposal of fixed assets	**1,123.89**	399,239.27
Incomes from disposal of intangible assets	—	—
Total	**1,123.89**	399,239.27

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

50. Non-operating income

Unit: RMB

Item	Current amount	Amount of the previous period	Amount recorded in non-recurring profit and loss of current period
Profits from non-current assets damage and scrap	34,923.34	58,988.81	34,923.34
Others	6,637,955.12	5,213,367.25	6,637,955.12
Total	6,672,878.46	5,272,356.06	6,672,878.46

51. Non-operating expenses

Unit: RMB

Item	Current amount	Amount of the previous period	Amount recorded in non-recurring profit and loss of current period
External donation	7,000.00	245,000.00	7,000.00
Loss on non-current assets damage and scrap	433,528.99	3,636,447.61	433,528.99
Estimated liabilities	9,800,000.00	979,747.94	9,800,000.00
Others	962,084.92	1,352,631.34	962,084.92
Total	11,202,613.91	6,213,826.89	11,202,613.91

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

52. Income tax expense

(1) Table of income tax expense

Unit: RMB

Item	Current amount	Amount of the previous period
Income tax expense of current period	**32,252.92**	410,225.62
Deferred income tax expense	**2,860,951.82**	5,953,467.19
Total	**2,893,204.74**	6,363,692.81

(2) The adjustment process of accounting profits and income tax

Unit: RMB

Item	Current amount
Total profit	(446,042,242.63)
Income tax calculated at legal or applicable tax rate	(66,906,336.39)
Influence from application of different tax rate to subsidiaries	(28,017,639.91)
Influence from non-taxable income	7,687.00
Influence from cost, expense and loss that cannot be deducted	9,065,723.91
Influence from using the deductible losses of unrecognized deferred income tax assets	(15,620.63)
Influence from deductible temporary difference or deductible losses of unrecognized deferred tax assets	96,980,952.19
Influence from research and development cost addition and deduction	(8,221,561.43)
Income tax expenses	2,893,204.74

53. Other comprehensive incomes

See Note VII. 34 Other comprehensive income for details.

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

54. Items in cash flow statement

(1) Other cash receipts concerning operating activities

Unit: RMB

Item	Current amount	Amount of the previous period
Government grants	**763,405.98**	2,125,901.00
Interest income	**8,379,526.72**	4,907,692.93
Reduction of margin	**5,559,875.00**	15,744,127.52
Others	**17,045,300.70**	10,467,915.14
Total	**31,748,108.40**	33,245,636.59

(2) Other cash paid relating to operating activities

Unit: RMB

Item	Current amount	Amount of the previous period
New product development fee	**15,534,445.71**	28,429,826.67
Material consumption	**15,481,460.12**	20,207,380.36
Agency fees	**5,632,966.78**	4,659,059.63
Travel charges	**641,780.86**	813,832.97
Repair charges	**21,213,040.20**	24,925,676.09
Utility bills	**8,616,967.83**	12,385,660.45
Business entertainment	**6,309,313.69**	6,174,098.23
Compensation for shareholder's action	**3,667,304.14**	16,380,729.75
Handling fee charged by financial institutions	**3,362,840.01**	4,501,924.14
Others	**35,445,605.13**	43,955,694.85
Total	**115,905,724.47**	162,433,883.14

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

54. Items in cash flow statement *(continued)*

(3) Other cash paid relating to financing activities

Unit: RMB

Item	Current amount	Amount of the previous period
Payment of capital contribution of minority shareholders through liquidation of subsidiaries	—	73,960,772.67
Increase in margin for discounted bills	**42,048,500.00**	16,735,500.00
Total	**42,048,500.00**	90,696,272.67

55. Additional information about cash flow statement

(1) Additional information about cash flow statement

Unit: RMB

Supplementary information	Amounts for the current period	Amounts for the prior period
1. Adjustment of net profits into cash flow from operating activities:		
Net Profit	**(448,935,447.37)**	(368,420,495.43)
Add: assets depreciation provision	**78,247,614.60**	98,254,524.98
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	**199,175,368.21**	223,973,971.67
Depreciation of right-of-use assets	**1,530,636.81**	3,061,273.92
Amortization of intangible assets	**18,775,860.31**	22,352,887.18
Amortization of long-term deferred expenses	—	—
Losses from disposal of fixed assets, intangible assets and other long-term assets ("-" means gains)	**(1,123.89)**	(399,239.27)
Losses from discard of fixed assets ("-" means gains)	**398,605.65**	3,577,458.80
Losses from fair value changes ("-" means gains)	—	—
Financial expense ("-" means gains)	**112,386,429.74**	115,853,070.04
Investment losses ("-" means gains)	**287,370.63**	169,863.60
Decrease of deferred income tax assets ("-" means gains)	**2,956,217.55**	6,151,918.04
Increase of deferred income tax liabilities ("-" means gains)	**(95,265.73)**	(198,450.85)

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

55. Additional information about cash flow statement *(continued)*

(1) Additional information about cash flow statement *(continued)*

Supplementary information	Amounts for the current period	Amounts for the prior period
Decrease of inventories ("-" means gains)	**28,084,530.20**	54,355,794.86
Decrease of operating receivables ("-" means gains)	**33,865,176.61**	(55,643,095.93)
Increase of operating payable ("-" means gains)	**(38,185,755.73)**	(67,297,124.28)
Others	—	—
Net cash flows from operating activities	**(11,509,782.41)**	35,792,357.33
2. Significant investing and financing activities that do not involve cash receipts and payments:		
Conversion of Debt into Capital	—	—
Convertible debenture due within 1 year	—	—
Fixed assets under finance lease	—	—
3. Variation on cash and cash equivalents:		
Closing balance of cash	**358,672,243.57**	414,209,197.66
Less: Cash beginning balance	**414,209,197.66**	699,989,196.48
Plus: Ending balance of cash equivalents	—	—
Less: Beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	**(55,536,954.09)**	(285,779,998.82)

(2) Composition of cash and cash equivalents

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
I. Cash	**358,672,243.57**	414,209,197.66
Including: Cash on hand	**40,394.74**	58,440.85
Deposit in bank available for payment at any time	**212,528,645.34**	229,127,335.39
Other currency funds available for payment at any time	**146,103,203.49**	185,023,421.42
III. Closing balance of cash and cash equivalent	**358,672,243.57**	414,209,197.66

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

55. Additional information about cash flow statement *(continued)*

(2) Composition of cash and cash equivalents *(continued)*

Other descriptions:

The Company's margin for bank acceptance drafts with a maturity of more than 3 months at the end of the year is RMB96,248,500.00.

As of 31 December 2022, the balance of the Company's monetary funds was RMB459,657,822.57, and the cash balance at the end of the period as shown in the cash flow statement was RMB358,672,243.57, with the difference being RMB96,248,500.00 for the bank acceptance draft security with the maturity date exceeding three months. The bank deposit of RMB4,737,079.00 frozen due to the lawsuit is not regarded as cash or cash equivalent because of the restriction on its use.

56. Monetary funds restricted for use

Unit: RMB

Item	Ending book balance	Reason(s) for the restriction
Monetary funds	**245,410,596.72**	Security deposit and litigation freeze
Bills receivables	**82,064,472.11**	Bill pledge/factoring financing
Inventories	**51,450,000.00**	Seizure for litigation
Fixed assets	**433,468,641.62**	Charge for borrowings
Intangible assets	**207,508,319.68**	Charge for borrowings
Accounts receivables	**75,609,917.72**	Factoring financing
Total	**1,095,511,947.85**	—

Other descriptions:

Note 1: Due to factoring financing with accounts receivable, as of 31 December 2022, the unpaid amount in the Company's order was RMB25,815,795.26.

Note 2: Details of inventory restrictions are as follows:

Company	Case number	Amount
"Shouguang Baolong"	(2022) L0783ZB No.2255	22,450,000.00
"Shouguang Maolong"	(2022) L0783MC No. 3723	29,000,000.00
Total		51,450,000.00

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

57. Foreign currency monetary item

(1) Foreign currency monetary item

Unit: RMB

Item	Ending balance of foreign currency	Rate of translation	Computed ending

VII. Explanatory Notes to the Consolidated Financial Statements Line Items *(continued)*

58. Government grants

(1) Basic information of government grants

Unit: RMB

Type	Amount	Item presented	Amount included into profit or loss for the period
Job stabilization and social insurance subsidies	714,277.31	Other gains	714,277.31
Air defense basement construction subsidy funds	323,588.64	Deferred revenue	35,954.30
Infrastructure subsidies	6,433,240.86	Deferred revenue	173,871.38
Others	49,128.67	Other gains	49,128.67
Total	7,520,235.48	—	973,231.66

(2) Return of government grants

☐ Applicable ✓ Not applicable

Other descriptions:

The Company has no government subsidy returned this year.

VIII. Change of consolidation scope

1. Change of merger scope due to other reasons

Explain the changes in the scope of merger caused by other reasons (such as newly established subsidiaries, liquidated subsidiaries, etc.) and related information:

1. On 28 July 2022, the Company received the Notice of Approval for Deregistration issued by Shouguang Administrative Examination and Approval Service Bureau, and granted cancellation of Molong Energy. After deregistration, Molong Energy was no longer included in the consolidated financial statements of the Company.

2. According to the Company's development strategy and business operation need, on 22 July 2022, the Company's manager's office meeting reviewed and approved the establishment of a wholly-owned subsidiary Molong Trading with its own capital of RMB10 million. On 18 August 2022, the Company obtained the Business License issued by Shouguang Administrative Examination and Approval Service Bureau, and Molong Commerce and Trade was included in the consolidated financial statements of the Company.

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

IX. Rights and interests in other entities

1. Equity in the subsidiaries

(1) Composition of enterprise group

Name of subsidiary	Prime business place	Registration place	Business nature	Registered capital	Type of enterprise	Shareholding Percentage Direct	Shareholding Percentage Indirect	Type of legal person	Mode of acquisition
MPM Corporation	Hong Kong, China	Hong Kong, China	Trade industry	$1 million	Limited company	90.00%	0.00%	Profit-making legal person	Business combination not involving enterprises under common control
"Shouguang Maolong"	Shouguang, China	Shouguang, China	Manufacturing	71,238 ten thousand	Limited company	100.00%	0.00%	Profit-making legal person	Business combination not involving enterprises under common control
"Molong Electro-mechanical"	Shouguang, China	Shouguang, China	Manufacturing	$1 million	Limited company	0.00%	100.00%	Profit-making legal person	Business combination not involving enterprises under common control
"Shouguang Baolong"	Shouguang, China	Shouguang, China	Manufacturing	15,000 ten thousand	Limited company	70.00%	0.00%	Profit-making legal person	Establishment through investment
"Weihai Baolong"	Weihai, China	Weihai, China	Manufacturing	2,600 ten thousand	Limited company	61.54%	38.46%	Profit-making legal person	Business combination not involving enterprises under common control
"Molong Logistic"	Shouguang, China	Shouguang, China	Service industry	300 ten thousand	Limited company	100.00%	0.00%	Profit-making legal person	Establishment through investment
"Molong I&E"	Shouguang, China	Shouguang, China	Imports and exports	1,000 ten thousand	Limited company	100.00%	0.00%	Profit-making legal person	Establishment through investment
Molong Commercial	Shouguang, China	Shouguang, China	Trade industry	1,000 ten thousand	Limited company	100.00%	0.00%	Profit-making legal person	Establishment through investment

(2) Important non-wholly-owned subsidiary

Unit: RMB

Name of subsidiary	Minority shareholders' shareholding percentage	Profits and losses attributable to minority shareholders in the current period	Dividends Distributed to Minority Shareholders in the Current Period	Closing Balance of Minority Interest
"Shouguang Baolong"	30.00%	(23,948,540.50)	—	(77,363,803.78)
Total	—	(23,948,540.50)	—	(77,363,803.78)

IX. Rights and interests in other entities *(continued)*

1. Equity in the subsidiaries *(continued)*

(3) Main financial information of important 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"	**36,252,807.87**	**287,139,488.91**	**323,392,296.78**	**566,372,249.15**	**9,800,000.00**	**576,172,249.15**	155,974,302.80	315,579,583.39	471,553,886.19	629,175,841.46	–	629,175,841.46

Unit: RMB

	Current amount				Amount of the previous 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"	**473,692,199.72**	**(95,157,997.10)**	**(95,157,997.10)**	**(1,473,916.90)**	2,255,270,055.61	23,548,867.48	23,548,867.48	115,274,907.51

(4) Significant restriction on using assets of the enterprise group and paying off debtors of the enterprise group

The Company has no significant restrictions on using assets of the enterprise group and paying off debtors of the enterprise group.

(5) Financial support or other supports provided to structural entities included into the scope of consolidated financial statement

The Company does not provide financial support or other supports provided to structural entities included into the scope of consolidated financial statement.

(6) Other descriptions:

As at 31 December 2022, none of the Company's subsidiaries issued any share capital or debt securities.

2. Transaction where the equity share of the owner in subsidiary changes but it still controls the subsidiary

(1) Explanation of change of shares in owners' equity for subsidiaries

Nil

IX. Rights and interests in other entities *(continued)*

3. Interest in a joint venture arrangement or joint venture

(1) Joint venture or associated companies

Unit: RMB

Name of joint venture	Principal place of business	Registration place	Businesses nature	Shareholding ratio (%) Direct	Indirect	Accounting treatment method of joint venture or associated enterprise
Karamay Yalong Petroleum Machinery Co., Ltd. (克拉瑪依亞龍石油機械有限公司)	Karamay	Karamay	Manufacturing	0.00	30.00	Equity Law

(2) Summarized financial information of insignificant joint venture and associated enterprise

Unit: RMB

	Balance in the current period/ amount incurred in the current period	Opening balance/ amount incurred in the previous period
Joint Venture:		
Total of the followings calculated at the proportion of shareholding	—	—
Associated Enterprise:		
Total Book Value for Investment	**1,857,463.06**	2,144,833.69
Total of the followings calculated at the proportion of shareholding		
— Net profit	**(287,370.63)**	(169,863.60)
— Total comprehensive income	**(287,370.63)**	(169,863.60)

(2) Explanations on significant restriction on capability of transferring funds from joint ventures or associates to the Company

There are no significant restrictions on the ability of associates to transfer funds to the Company.

IX. Rights and interests in other entities *(continued)*

3. Interest in a joint venture arrangement or joint venture *(continued)*

(3) Excessive loss of joint ventures or associates

There is no excess loss in the joint venture.

(4) Unconfirmed commitment related to investment to joint venture

The Company has no unconfirmed commitments relating to associates.

(5) Contingent liabilities related to investments in joint ventures or joint ventures

the Company does not have contingent liabilities related to the investment of associated enterprises.

4. Interest in structured entity not recognized in the consolidated financial statements

Description of structured entities not included in the scope of consolidated financial statements:

There is no structured entity in the Company that is not included in the scope of consolidated financial statements.

X. Risks related to financial instruments

The Company's main financial instruments include loans, receivables, payables, etc. See Note VI for details of various financial instruments. The risks in connection to the financial instruments and the risk management policies adopted by the Group for reducing those risks are as follows. The management group in the Group manages and monitors the risk exposures to ensure to keep the risk above within limited scope.

1. Various risk management objectives and policies

The Company manages its risks with the objectives of balancing risks and return, minimizing the adverse effect of risks on the Company's operating results, and maximizing the benefits to shareholders and other equity owners. Based on the risk management objective, the basic strategy of the Group's risk management is to determine and analyze various risks faced by the Group, establish appropriate risk to bear the bottom line and carry out risk management, and supervise the various risks in a timely and reliable manner, and control the risk within the limits.

X. Risks related to financial instruments *(continued)*

1. Various risk management objectives and policies *(continued)*

(1) Market risk

1) Exchange rate risk

It means risk of loss due to foreign exchange fluctuation. The exchange rate risk of the Company is mainly related to USD, Hong Kong dollars and Euros. Except for MPM, the parent company and subsidiary of the Company, which purchases and sells in USD, Euros and Hong Kong dollars, other major business activities of the Company are denominated and settled in RMB. As at 31 December 2022, the assets and liabilities of the Company are RMB balances, except for the US dollar balance and sporadic Euro and Hong Kong dollar balances mentioned in the following table. The exchange rate risks arising from the assets and liabilities of these US dollar balances may have an impact on the Company's operating results.

Unit: RMB

Item	31 December 2022	31 December 2021
Monetary funds-USD	**151,706,785.93**	35,030,460.36
Monetary fund-Euro	**16,321,897.63**	620,528.52
Monetary funds-HKD	**8.96**	0.02
Accounts receivable-USD	**79,476,262.12**	114,736,549.46
Accounts receivable-Euro	**998,067.10**	1,010,561.26
Accounts payable-USD	**18,283,104.23**	15,066,905.75
Contract liabilities-USD	**24,954,961.61**	9,281,633.63
Contract liabilities-Euro	**1,915,108.20**	—

the Company paid close attention to the impact of exchange rate fluctuation on the foreign exchange risk of the Group.

the Company attached great importance to the research on exchange rate risk management policies and strategies, maintains close cooperation with financial institutions operating foreign exchange business, and reduces exchange rate risk by arranging favorable settlement clauses in contracts. And with the increasing share of the international market, if there are uncontrollable risks such as RMB appreciation, the Company will adjust its sales policy to reduce the risks.

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 interest rate risk of a company arises from interest-bearing debts such as loans from financial institutions. The financial liabilities of floating interest rate make the Company exposed to the risk of cash flow interest rate and the financial liabilities of fixed interest rate make the Company exposed the risk of fair value interest rate. the Company will determine the relative proportion between the fixed interest rate and floating interest rate contracts based on the prevailing market environment. As at 31 December 2022, the Company's interest-bearing debts were mainly RMB-denominated floating rate loan contracts with an amount of RMB196,600,000.00 (31 December 2021: RMB496,800,000.00) and RMB and USD-denominated fixed rate loan contracts with an amount of RMB1,918,722,351.80 (31 December 2021: RMB1,591,509,067.97).

X. Risks related to financial instruments *(continued)*

1. Various risk management objectives and policies *(continued)*

(1) Market risk *(continued)*

2) Interest rate risk (continued)

The risk of changes in the fair value of financial instruments caused by changes in interest rates is mainly related to fixed-rate bank loans. For fixed-rate borrowing, the Company's goal is to keep its floating interest rate.

The risk of cash flow changes of financial instruments caused by interest rate changes is mainly related to floating rate bank loans. the Company's policy is to maintain a floating interest rate on these borrowings to eliminate the fair value risk of interest rate changes.

By establishing a good relationship between banks and enterprises, the Company rationally designed the credit line, credit variety and credit period to ensure sufficient credit line of banks and meet various short-term financing needs of the Company; and by shortening the term of a single loan and specially agreeing on the prepayment clause, the risk of interest rate fluctuation can be reasonably reduced.

3) Price risk

the Company sells steel products at market prices, so it is affected by these price fluctuations.

(2) Credit risk

On 31 December 2022, the maximum credit risk exposure of the Group's financial loss may be caused by the failure of the other party to perform its obligations, resulting in loss of the Group's financial assets, including:

The carrying amount of financial assets recognised in the consolidated balance sheet. For financial instruments measured by fair value, the book value reflects the risk exposure, but not the biggest exposure, and the maximum exposure will change with the change of fair value in the future.

To reduce credit risk, the Company approves the customer's credit limit and implements other monitoring procedures to ensure that necessary measures are taken to recover overdue claims. In addition, the Company reviews the recycle of each single account payable on each balance sheet date, so as to ensure sufficient

X. Risks related to financial instruments *(continued)*

1. Various risk management objectives and policies *(continued)*

(3) Liquidity risk

Liquidity risk means the risk that a company cannot fulfill its financial obligations on the maturity date. The way companies manage liquidity risk is to ensure that there is sufficient liquidity to meet debts due without causing unacceptable losses or damage to corporate reputation. The Company regularly analyzes the debt structure and maturity to ensure sufficient funds. The management of the Company monitors the use of bank borrowings and ensures compliance with loan agreements; and conducts financing consultation with financial institutions to maintain a certain credit line and reduce liquidity risk.

The Company takes loans from financial institutions as its main source of funds. On 31 December 2022, the unused credit line of financial institutions of the Company was RMB438,000,000.00 (31 December 2021: RMB 350,000,000.00), of which the unused short-term loan line of the Company was RMB402,000,000.00 (31 December 2021: RMB 402,000,000.00) The financial assets and financial liabilities held by the Company are analyzed according to the maturity period of undiscounted remaining contractual obligations as follows:

Amount as at 31 December 2022:

Unit: RMB

Item	Within 1 year	One~two years	Two~five years	Over 5 years	Total
Financial assets					
Monetary funds	459,657,822.57	–	–	–	459,657,822.57
Bills receivables	171,547,752.98	–	–	–	171,547,752.98
Accounts receivables	294,399,562.75	–	–	–	294,399,562.75
Financing receivables	5,371,855.71	–	–	–	5,371,855.71
Other receivables	5,626,830.61	–	–	–	5,626,830.61
Financial liabilities					
Short-term borrowings	1,962,936,789.90	–	–	–	1,962,936,789.90
Bills payable	64,855,401.04	–	–	–	64,855,401.04
Accounts payable	611,264,285.51	–	–	–	611,264,285.51
Other payables	36,765,356.32	–	–	–	36,765,356.32
Non-current liabilities due within one year	87,329,367.25	–	–	–	87,329,367.25
Other current assets	48,192,008.81	–	–	–	48,192,008.81
Long-term payables	–	45,607,380.20	19,854,583.35	–	65,461,963.55

X. Risks related to financial instruments *(continued)*

2. Sensitivity Analysis

The Company adopts sensitivity analysis technology to analyze the possible impact of reasonable and possible changes of risk variables on current profits and losses or shareholders' equity. Since any risk variable rarely changes in isolation, and the correlation between variables will have a significant effect on the final impact amount of the change of a certain risk variable, the following contents are made on the assumption that the change of each variable is independent.

(1) Foreign exchange risk sensitivity analysis

The FX Risk Sensitivity Analysis assumes that all net investment hedges and cash flow hedges for offshore operations are highly efficient.

On the basis of the above assumptions, under the condition that other variables remain unchanged, the after-tax impact of possible reasonable changes in exchange rate on current profits and losses and equity is as follows:

Unit: RMB

		2022		2021	
Item	**Depreciation**	**Impact on net profit**	**Impact on owner's equity**	Impact on net profit	Impact on owner's equity
All foreign currencies	Appreciation by 5% against RMB	**6,895,808.83**	**6,895,808.83**	5,398,191.68	5,398,191.68
All foreign currencies	Depreciation by 5% against RMB	**(6,895,808.83)**	**(6,895,808.83)**	(5,398,191.68)	(5,398,191.68)

(2) Sensitivity analysis of interest rate risk

The interest rate risk sensitivity analysis is based on the following assumptions:

Changes in market interest rates affect the interest income or expenses of variable interest rate financial instruments;

For fixed-rate financial instruments measured at fair value, the change of market interest rate only affects their interest income or expenses;

The changes in fair value of derivative financial instruments and other financial assets and liabilities are calculated by using the discounted cash flow method based on the market interest rate on the balance sheet date.

X. Risks related to financial instruments *(continued)*

2. Sensitivity Analysis *(continued)*

(2) Sensitivity analysis of interest rate risk *(continued)*

On the basis of the above assumptions, under the condition that other variables remain unchanged, the after-tax impact of possible reasonable changes in interest rate on current profits and losses and equity is as follows:

Unit: RMB

		2022		2021	
Item	**Interest rate change**	**Impact on net profit**	**Impact on owner's equity**	Impact on net profit	Impact on owner's equity
Floating rate borrowing	increased by 1%	**(1,066,537.50)**	**(1,066,537.50)**	(2,816,171.38)	(2,816,171.38)
Floating rate borrowing	decreased by 1%	**1,066,537.50**	**1,066,537.50**	2,816,171.38	2,816,171.38

XI. Disclosure of Fair Value

1. Others

On 31 December 2022, the Company's receivables financing was measured at fair value, which had a short maturity date and little difference between fair value and book value.

The Company's financial assets and liabilities not measured at fair value mainly include: receivables, short-term loans, payable and long-term loans, etc. The book value of financial assets and liabilities that are not measured at fair value differs very little from their fair value.

XII. Related Parties and Related Transactions

1. The parent company

Explanation of the parent company of the enterprise

The ultimate controlling party of the enterprise is Shouguang State-owned Assets Supervision and Administration Bureau.

Other descriptions:

The controlling shareholder of the Company is Molong Holdings, holding 235,617,000 A shares of the Company, accounting for 29.53% of the total share capital of the Company. The actual controller of the Company is Shouguang State-owned Assets Bureau.

XII. Related Parties and Related Transactions *(continued)*

2. The situation of subsidiaries

See Notes IX-1 for details of subsidiaries of this enterprise.

3. Joint Ventures

See Note IX-3 for details of important joint ventures.

Other joint ventures who enter into connected transactions with the Company for the current period or with the Company's related parties resulting in balance are listed as follows:

Name	Relationship with the enterprise
Karamay Yalong Petroleum Machinery Co., Ltd. (克拉瑪依亞龍石油機械有限公司)	Associates of the Company

4. Other related parties

Name of other related parties	Relationship between other related parties and the enterprise
Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司)	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 Thermal Power Co., Ltd. (濰坊華源熱力有限公司)	Subsidiary of Shouguang Jinxin
Shouguang Xinjing Tourism Development Co., Ltd. (壽光市鑫景旅遊發展有限公司)	Subsidiary of Shouguang Jinxin
Shouguang Rongyuan Agricultural Technology Co., Ltd. (壽光市融源農業科技有限公司)	Subsidiary of Shouguang Jinxin
Shouguang Jintou Medical Service Co., Ltd. (壽光市金投醫療服務有限公司)	Subsidiary of Shouguang Jinxin
Shouguang jindun motor vehicle driver training Co., Ltd. (壽光市金盾機動車駕駛員培訓有限責任公司)	Subsidiary of Shouguang Jinxin
Shouguang High-tech Zone Investment Development Group Co., Ltd. (壽光高新區投資開發集團有限公司)	Subsidiary of Shouguang Jinxin
Shouguang Jinsheng investment Co., Ltd. (壽光金盛投資有限公司)	Subsidiary of Shouguang Jinxin
Shouguang Fenghui Agricultural Technology Co., Ltd. (壽光市豐匯農業科技有限公司)	Subsidiary of Shouguang Jinxin
Shouguang Construction Engineering Quality Inspection Co., Ltd. (壽光市建設工程質量檢測有限公司)	Subsidiary of Shouguang Jinxin
Shouguang Xingyun Port and Shipping Investment Management Center (Limited Partnership) (壽光市星雲港航投資管理中心(有限合夥))	Subsidiary of Shouguang Jinxin
Shouguang High-tech Zone Infrastructure Development Co., Ltd. (壽光市高新區基礎設施開發有限公司)	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)	Subsidiary of Shouguang Jinxin
Shouguang Kefa Investment Co., Ltd. (壽光科發投資有限公司)	Subsidiary of Shouguang Jinxin
Shandong Global Software Co., Ltd. (山東環球軟件股份有限公司)	Subsidiary of Shouguang Jinxin
Shouguang fruit and vegetable variety right trading center Co., Ltd. (壽光果菜品種權交易中心有限公司)	Subsidiary of Shouguang Jinxin
Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司)	Companies where the Directors hold an office

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

XII. Related Parties and Related Transactions *(continued)*

4. Other related parties *(continued)*

Name of other related parties	Relationship between other related parties and the enterprise
Shouguang Jintou Asset Management Co., Ltd. (壽光市金投資產管理有限公司)	Companies where the Directors hold an office
Shouguang Jintou Culture Industry Development Co., Ltd. (壽光市金投文化產業發展有限公司)	Companies where the Directors hold an office
Shouguang Jintou Non Financing Guarantee Co., Ltd. (壽光市金投非融資性擔保有限公司)	Companies where the Directors hold an office
Weifang Jinxuan Equity Investment Fund Management Co., Ltd. (濰坊金萱股權投資基金管理有限公司)	Companies where the Directors hold an office
Kunpeng Qinghai Asset Management Co., Ltd. (昆朋青海資產管理股份有限公司)	Companies where the Directors hold an office
Shouguang ZRCB Country Bank Co., Ltd. (壽光張農商村鎮銀行股份有限公司)	Companies where the Directors hold an office
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	Companies where the Directors hold an office
Shouguang Industry Investment Holding Group Co., Ltd. (壽光市產業投資控股集團有限公司)	Companies where the Directors hold an office
Shandong Jiuan Insurance Broker Co., Ltd. (山東九安保險經紀股份有限公司)	Companies where the Directors hold an office
Shouguang Xinhui Real Estate Co., Ltd. (壽光市鑫惠置業有限公司)	Companies with associated natural persons
Shouguang jinzheng financing guarantee Co., Ltd. (壽光市金政融資擔保有限公司)	Companies with associated natural persons
Shouguang Changxu Thermal Power Co., Ltd. (壽光昶旭熱力有限公司)	Companies with associated natural persons
Shouguang Jindu Engineering Management Co., Ltd. (壽光市金都工程管理有限公司)	Companies with associated natural persons
Shouguang Chengsai Agricultural Technology Co., Ltd. (壽光市誠賽農業科技有限公司)	Companies with associated natural persons
Shouguang Xiangrun Industry Co., Ltd. (壽光祥潤實業有限公司)	Companies with associated natural persons
Kunpeng (Shandong) Asset Management Co., Ltd. (昆朋(山東)資產管理有限公司)	Companies with associated natural persons
Qingdao Jinxin Huijin Finance Leasing Co., Ltd (青島金鑫匯金融資租賃有限公司)	Companies with associated natural persons
Shandong Cangsheng agricultural science and technology Co., Ltd. (山東倉聖農業科技有限公司)	Companies with associated natural persons
Shandong Zhimeng Holdings Co., Ltd. (山東智夢控股有限公司)	Legal person or parties acting in concert holding more than 5% shares of the Company
Shouguang Panjin Property Co., Ltd. (壽光市磐金置業有限公司)	Legal person or parties acting in concert holding more than 5% shares of the Company
Shouguang Hongsen Logistics Co., Ltd. (壽光市鴻森物流有限公司)	Legal person or parties acting in concert holding more than 5% shares of the Company
Shouguang Ruisen New Building Materials Co., Ltd. (壽光市瑞森新型建材有限公司)	Legal person or parties acting in concert holding more than 5% shares of the Company
TATA Health International Holdings Limited (TATA 健康國際控股有限公司)	Companies where supervisors have held offices in the past 12 months

XII. Related Parties and Related Transactions *(continued)*

5. Connected Transactions

(1) Connected Transactions of purchasing and selling goods, providing and receiving labor services

Statement on Sales of Goods and Provision of Services

Unit: RMB

Related Party	Information on connected transactions	Current amount	Amount of the previous period
Karamay Yalong Petroleum Machinery Co., Ltd. (克拉瑪依亞龍石油機械有限公司)	Oil well pump and fittings, etc	974,653.21	4,695,191.41

(2) Connected Guarantee

Our company acts as the guarantor

Unit: RMB

Secured party	Amount of Security	Starting Date of Guarantee	Due date	Whether the guarantee has been performed or not
"Shouguang Maolong" (壽光懋隆)	38,408,495.33	30 June 2020	30 June 2023	No

The Company as the Guaranteed Party

Unit: RMB

Guarantor	Amount of Security	Starting Date of Guarantee	Due date	Whether the guarantee has been performed or not
Zhang Enrong	38,408,495.33	30 June 2020	30 June 2023	No

XII. Related Parties and Related Transactions *(continued)*

5. Connected Transactions *(continued)*

(2) Connected Guarantee *(continued)*

Description of related guarantee

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". 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 can be found in the Announcement (2020-030) on http://www.cninfo.com.cn.

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". 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, and Mr. Zhang Enrong, the former controlling shareholder and actual controller of the Company, provides joint and several liability guarantee for Shouguang Maolong to carry out the above-mentioned business.

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. ("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.

XII. Related Parties and Related Transactions *(continued)*

5. Connected Transactions *(continued)*

(3) Funding from related parties

Unit: RMB

Related Party	Amount of borrowing	Initial Date	Expiry Date	Explanation
Borrowing				
"Shouguang Jinxin"	50,000,000.00	17 June 2021	21 March 2022	—
"Shouguang Jinxin"	150,000,000.00	4 January 2022	10 January 2022	—
"Shouguang Jinxin"	155,000,000.00	7 February 2022	21 February 2022	—
"Shouguang Jinxin"	145,000,000.00	24 February 2022	4 March 2022	—
"Shouguang Jinxin"	100,000,000.00	7 March 2022	10 March 2022	—
"Shouguang Jinxin"	40,000,000.00	11 March 2022	18 March 2022	—
"Shouguang Jinxin"	70,000,000.00	16 March 2022	18 March 2022	—
"Shouguang Jinxin"	10,000,000.00	26 May 2022	13 June 2022	—
"Shouguang Jinxin"	20,000,000.00	30 May 2022	18 November 2022	—
"Shouguang Jinxin"	60,000,000.00	4 July 2022	6 July 2022	—
"Shouguang Jinxin"	3,000,000.00	25 November 2022	30 December 2022	—
"Shouguang Jinxin"	5,000,000.00	29 November 2022	30 December 2022	—
Lending	—	—	—	—

(4) Remuneration of key management personnel

Unit: RMB

Item	Current amount	Amount of the previous period
Total remuneration	**3,116,715.64**	2,872,402.89

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

XII. Related Parties and Related Transactions *(continued)*

5. Connected Transactions *(continued)*

(4) Remuneration of key management personnel *(continued)*

① In 2022, the remuneration details of the directors, supervisors and executive officers of the Company are as follows:

Unit: RMB

Name	Fees (or allowance)	Salary	Contribution to pension plan	Subsidies and benefits	Total
Executive director					
Yang Yun Long	0	0	0	0	0
Yuan Rui	0	0	0	0	0
Li Zhi Xin	0	627,496.67	65,426.03	21,184.77	714,107.47
Yao You Ling	0	335,773.76	0	2,750.23	338,523.99
Sub-total	0	963,270.43	65,426.03	23,935.00	1,052,631.46
Non-executive director					
Wang Quan Hong	0	0	0	0	0.00
Liu Ji Lu	80,000.00	0	0	0	80,000.00
Sub-total	80,000.00	0	0	0	80,000.00
Independent non-executive director					
Tang Qing Bin	120,000.00	0	0	0	120,000.00
Song Zhi Wang	120,000.00	0	0	0	120,000.00
Cai Zhong Jie	120,000.00	0	0	0	120,000.00
Sub-total	360,000.00	0	0	0	360,000.00
Supervisor					
Liu Shu Bao	0	139,957.63	42,947.94	12,589.69	195,495.26
Lin Jun (Resigned)	57,460.35	0	0	0	57,460.35
Li Jingwei	22,481.24	0	0	0	22,481.24
Liu Cheng An	80,000.00	0	0	0	80,000.00
Sub-total	159,941.59	139,957.63	42,947.94	12,589.69	355,436.85
Other officers					
Hao Yun Feng	0	338,536.36	50,171.50	2,156.37	390,864.23
Zhang Quan Jun	0	391,804.67	62,967.95	13,593.24	468,365.86
Zhao Xiao Tong	0	339,609.68	65,426.03	4,381.54	409,417.25
Sub-total	0	1,069,950.71	178,565.47	20,131.15	1,268,647.33
Total	599,941.59	2,173,178.77	286,939.44	56,655.84	3,116,715.64

XII. Related Parties and Related Transactions *(continued)*

5. Connected Transactions *(continued)*

(4) Remuneration of key management personnel *(continued)*

② In 2021, the remuneration details of the directors, supervisors and executive officers of the Company are as follows:

Unit: RMB

Name	Fees (or allowance)	Salary	Contribution to pension plan	Subsidies and benefits	Total
Executive director					
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 director					
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 director					
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
Supervisor					
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 Zhaoqiang (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 officers					
Hao Yun Feng	0.00	121,579.22	9,115.96	0.00	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

Note: Subsidies and benefits mainly include seniority allowance and meal allowance provided by the Company for employees.

XII. Related Parties and Related Transactions *(continued)*

5. Connected Transactions *(continued)*

(4) Remuneration of key management personnel *(continued)*

③ This year, the five highest paid persons of the Company include one director (last year: one) and four other personnel (last year: four), and the salary range of the four other personnel is RMB 0 – 900,000.

The salaries of the highest paid persons are as follows:

Unit: RMB

Item	This Year's Amount	The Previous Amount
Fees (or allowance)	**0**	0
Salary	**2,182,931.66**	2,689,824.34
Contribution to pension plan	**324,672.06**	134,281.32
Subsidies and benefits	**59,805.56**	128,241.85
Total	**2,567,409.28**	2,952,347.51

The number of the highest paid persons by pay group is as follows (by number):

Annual remuneration range	Number of persons in this year	Number of people in the previous year
RMB 0 to 900,000 (equivalent to about HKD 0 to 1 million)	**5**	5
Total	**5**	5

4. For the financial year ended 31 December 2022, no other bonuses have been paid or should be received by the five highest paid persons as appropriate or calculated on the basis of the performance of the Company, the Company or any of its member companies, and the Company has not paid any salary to any directors, supervisors and the top five highest paid persons to attract them to join the Company, or paid salaries as incentives after they joined the Company, or paid compensation after they lost their posts. During the year, none of the Directors waived or agreed to waive any remuneration.

(5) Other related party transactions

No other related party transactions or continuing related party transactions have occurred in the Company.

XII. Related Parties and Related Transactions *(continued)*

6. Receivables and payable incurred with related parties

(1) Receivables

Unit: RMB

		Balance at the end of the period		Balance at the beginning of the period	
Project Name	**Related Party**	**Book balance**	**Provision for bad debts**	Book balance	Provision for bad debts
Accounts receivables	Karamay Yalong Petroleum Machinery Co., Ltd. (克拉瑪依亞龍石油機械有限公司)	**5,297,572.74**	**2,093,527.58**	5,478,146.04	139,345.53

7. Commitment of related parties

The Company continues to receive financial support from Shouguang Jinxin, the controlling shareholder of the controlling shareholder. On 10 February 2023, after the consideration and approval at the 3rd extraordinary meeting of the seventh session of the Board of Directors of the Company, Shouguang Jinxin, provided non-interest bearing borrowings of up to RMB500 million to the Company for a term of less than one year, which can be recycled within the loan amount and validity period. This financial assistance does not require the Company to provide any form of guarantee such as guarantee, mortgage and pledge. As of the reporting date of the financial report, a total of 100 million yuan of support funds have been received, and Shouguang Jinxin can provide timely assistance according to the Company's capital needs within its support quota. In addition, Shouguang Jinxin will actively assist the Group in expanding its financing methods and business scope, and support the Group to become better and stronger.

XIII. Share-based payment

1. General situation of share-based payment

☐ Applicable ✓ Not applicable

2. Share-based payment settled by equity

☐ Applicable ✓ Not applicable

3. Share-based payment settled in cash

☐ Applicable ✓ Not applicable

4. Modification and termination of share-based payment

Nil

5. Others

There is no share-based payment in the Company this year.

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

XIV. Commitment and/or Contingencies

1. Important Commitments

Important commitments existing on the balance sheet date

Nil

2. Contingencies

(1) Important contingencies on the balance sheet date

As the litigation matters involving Shouguang Baolong, a subsidiary, have not yet been decided, the Company evaluated the possible compensation liabilities in the future after consulting legal opinions, and based on the principle of prudence, accrued an estimated liability of RMB 9.8 million for the litigation matters.

(2) If the Company has no material contingencies that need to be disclosed, it should also explain them the Company has no important contingencies which should be disclosed.

3. Others

Apart from the above matters, the Company has no other major contingencies.

XV. Events after the Balance Sheet Date

1. Profit distribution

Unit: RMB

Profits or dividends to be distributed	0.00
Profits or dividends declared after consideration and approval	0.00

2. Sales return

As of the financial reporting date, there has been no sales return of the Company.

3. Description of other events after the balance sheet date

Except for the above-mentioned disclosure of post-balance sheet events, the Company has no other material post-balance sheet events.

XVI. Other important matters

1. Segment information

(1) The basis for determining reporting segments and accounting policies

(1) The basis for determining the reporting segment

According to the Company's internal organizational structure, management requirements and internal reporting system, the Company's business is divided into six reporting divisions, which are determined for the basis of internal organizational structure, management requirements and internal reporting system. The management of the Company regularly evaluates the operating results of these reporting segments to determine the allocation of resources to them and evaluate their performance. The main products provided by each reporting segment of the Company include oil casing, triple pumping equipment, petroleum machinery parts, pipe billets, castings and forgings, and others.

(2) Accounting Policies for Reporting Segments

Segment reporting information is disclosed in accordance with the accounting policies and measurement standards used by each segment in reporting to management on a basis consistent with the accounting and measurement basis used in the preparation of the financial statements.

(2) Financial Information of Reporting Segments

Unit: RMB

Item	Pipe products	Three kinds of pumping units	Petroleum machinery parts	Tube blanks	Castings and forgings	Others	Unassigned items	Inter-segment offset	Total
Operating revenue									
Income from foreign transactions	1,612,040,161.32	34,259,710.39	22,586,988.18	–	982,447,617.23	114,310,804.28	–	–	2,765,645,281.40
Revenue from inter-segment transactions									
Total operating income of segments	1,612,040,161.32	34,259,710.39	22,586,988.18	–	982,447,617.23	114,310,804.28	–	–	2,765,645,281.40
Total operating income of statement	1,612,040,161.32	34,259,710.39	22,586,988.18	–	982,447,617.23	114,310,804.28	–	–	2,765,645,281.40
Segment expense	1,554,523,315.06	31,894,330.98	22,159,723.65	–	1,002,344,610.06	113,233,249.16	61,267,202.09	–	2,785,422,431.00
Segment operating profit	57,516,846.26	2,365,379.41	427,264.53	–	(19,896,992.83)	1,077,555.12	(61,267,202.09)	–	(19,777,149.60)
Reconciliation items:									
Administrative expenses	–	–	–	–	–	–	274,947,866.01	–	274,947,866.01
Research and development expenditures	–	–	–	–	–	–	41,651,730.15	–	41,651,730.15
Finance expenses	–	–	–	–	–	–	105,822,746.34	–	105,822,746.34
Investment income	–	–	–	–	–	–	(287,370.63)	–	(287,370.63)
Gain on disposal of assets	–	–	–	–	–	–	1,123.89	–	1,123.89
Other gains	–	–	–	–	–	–	973,231.66	–	973,231.66
Statement operating profit	57,516,846.26	2,365,379.41	427,264.53	–	(19,896,992.83)	1,077,555.12	(483,002,559.67)	–	(441,512,507.18)
Non-operating income	–	–	–	–	–	–	6,672,878.46	–	6,672,878.46
Non-operating expenses	–	–	–	–	–	–	11,202,613.91	–	11,202,613.91
Total profit	57,516,846.26	2,365,379.41	427,264.53	–	(19,896,992.83)	1,077,555.12	(487,532,295.12)	–	(446,042,242.63)
Income tax	–	–	–	–	–	–	2,893,204.74	–	2,893,204.74
Net Profit	57,516,846.26	2,365,379.41	427,264.53	–	(19,896,992.83)	1,077,555.12	(490,425,499.86)	–	(448,935,447.37)
Total segment assets	2,437,943,105.49	86,426,227.49	44,267,577.33	312,178,273.71	477,427,227.97	285,827,813.09	394,535,334.43	–	4,038,605,559.51
Total segment liabilities	529,420,290.06	23,304,919.19	20,778,466.19	493,664,298.21	450,658,293.38	45,498,404.53	1,564,927,679.71	–	3,128,252,351.27

XVI. Other important matters *(continued)*

2. Other important transactions and matters that have an impact on investors' decision-making

In 2022 and 2021, all the Company's foreign transaction income came from China and overseas respectively. Since all assets are located in China, the foreign transaction income divided into income sources is disclosed as follows:

Unit: RMB

Income from foreign transactions	**Amount incurred of current year**	Amount incurred of last year
Within China (except Hong Kong)	**2,359,717,382.90**	3,536,780,288.98
Hong Kong	—	—
Other overseas regions	**405,927,898.50**	197,682,552.14
Total	**2,765,645,281.40**	3,734,462,841.12

XVII. Key notes to items in parent company's financial statements

1. Accounts receivable

1. Disclosure of accounts receivable by type

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 value	Amount	Percentage	Amount	Provision rate	Book value
Accounts receivable provided for bad debts on an individual basis	–	–	–	–	–	17,352,948.73	2.96%	6,941,179.49	40.00%	10,411,769.24
Including:										
Accounts receivable provided for bad debts on a collective basis	**662,770,579.31**	**100%**	**102,449,762.97**	**15.46%**	**560,320,816.34**	569,090,457.29	97.04%	99,957,221.04	17.56%	469,133,236.25
Including:										
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	**394,050,802.27**	**59.46%**	**102,449,762.97**	**26.00%**	**291,601,039.30**	355,931,314.21	60.69%	99,957,221.04	28.08%	255,974,093.17
Accounts receivable for which provision for bad debts is made according to the expected credit loss combination of related parties within the scope of consolidation	**268,719,777.04**	**40.54%**	–	–	**268,719,777.04**	213,159,143.08	36.35%	–	–	213,159,143.08
Total	**662,770,579.31**	–	**102,449,762.97**	–	**560,320,816.34**	586,443,406.02	–	106,898,400.53	–	479,545,005.49

XVII. Key notes to items in parent company's financial statements *(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

XVII. Key notes to items in parent company's financial statements *(continued)*

1. Accounts receivable *(continued)*

1. Disclosure of accounts receivable by type *(continued)*

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

Disclosure by age

Unit: RMB

Age	Book balance
Within 1 year (inclusive)	540,554,051.35
1–2 years	4,164,391.54
Over 3 years	118,052,136.42
3–4 years	1,826,075.57
4–5 years	20,475,467.50
Over 5 years	95,750,593.35
Total	662,770,579.31

(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 Recovery or	Write-off	Others	
Provision for bad debts of accounts receivable	106,898,400.53	4,177,302.48	8,625,940.04	—	—	102,449,762.97
Total	106,898,400.53	4,177,302.48	8,625,940.04	—	—	102,449,762.97

XVII. Key notes to items in parent company's financial statements *(continued)*

1. Accounts receivable *(continued)*

(2) Provision, recovery or reversal of provision for bad debts for the current period *(continued)*

Including any significant recovery or reversal of provision for bad debts for the period:

Unit: RMB

Name of entity	Amount recovered or reversed	Recovery method
Hebei Zhongtai Steel Pipe Manufacturing Co., Ltd. (河北中泰鋼管製造有限公司)	**6,941,179.49**	Currency refund
Cangzhou Xinxiangtai Steel Pipes Co., Ltd. (滄州鑫祥泰鋼管有限公司)	**1,684,760.55**	Currency refund
Total	**8,625,940.04**	—

Note: According to the settlement agreement signed between the Company and the Executed Person (Hebei Zhongtai Steel Pipe Manufacturing Co., Ltd., Cangzhou Xinxiangtai Steel Pipe Co., Ltd. and Wu Guoliang) on 28 May 2022, the Executed Person will repay all the payment and compensation of RMB21,035,256.83 to the Company before 25 May 2022, and the Company will recover the payment on 25 May 2022.

(3) Accounts receivable actually written off in the current period

There were no accounts receivable actually written off in the year.

(4) Accounts receivable with top five balances at the end of the period grouped by debtor

Unit: RMB

Name of entity	Balance of accounts receivable at the end of the period	Proportion to the total balance of accounts receivable at the end of the period	Balance of provision for bad debts at the end of the period
Entity 1	241,946,679.37	36.51%	—
Entity 2	95,322,816.86	14.38%	953,228.17
Entity 3	80,798,580.25	12.19%	807,985.80
Entity 4	55,302,999.76	8.34%	553,030.00
Entity 5	48,756,515.82	7.36%	48,756,515.82
Total	522,127,592.06	78.78%	—

Note: The Company did not have any related relationship with the top 5 entities 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.

XVII. Key notes to items in parent company's financial statements *(continued)*

1. Accounts receivable *(continued)*

(5) Amount of assets and liabilities arising from transfer of accounts receivable and continuing involvement of such transferred accounts

As of 31 December 2022, the Company had no assets or liabilities arising from the transfer of accounts receivable and continued involvement.

(6) Accounts receivable derecognised due to transfer of financial assets

As at 31 December 2022, the Company had no accounts receivable derecognized due to the transfer of financial assets.

2. Other receivables

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Other receivables	**734,091,673.64**	796,550,952.25
Total	**734,091,673.64**	796,550,952.25

(1) Other receivables

1) Classification of other receivables by nature

Unit: RMB

Nature	Book balance at the end of the period	Book balance at the beginning of the period
Employee working capital	**684,000.00**	816,000.00
Deposits/Security deposits	**3,029,305.84**	3,543,428.90
Accounts due from/to other entities	**1,214,849.14**	13,984,457.50
Related parties within the scope of merger	**729,388,042.10**	779,929,970.60
Less: Provision for bad debts of other receivables	**(224,523.44)**	(1,722,904.75)
Total	**734,091,673.64**	796,550,952.25

XVII. Key notes to items in parent company's financial statements *(continued)*

2. Other receivables *(continued)*

(1) Other receivables *(continued)*

2) Provision for bad debts

Unit: RMB

Provision for bad debts	Phase 1 Expected credit losses in the next 12 months	Phase 2 Lifetime expected credit losses (no credit impairment occurred)	Phase 3 Lifetime expected credit losses (credit impairment occurred)	Total 合計
Balance on 1 January 2022	1,711,677.94	11,226.81	—	1,722,904.75
Balance on 1 January 2022 in the current period	—	—	—	—
Provision for the current period	—	45,108.91	—	45,108.91
Reversal for the current period	1,543,490.22	—	—	1,543,490.22
Balance on 31 December 2022	168,187.72	56,335.72	—	224,523.44

Significant changes in the book balance of loss allowance in the current period

☐ Applicable ✓ Not applicable

Disclosure by age

Unit: RMB

Age	Book balance
Within 1 year (inclusive)	640,549,124.50
1–2 years	3,076,464.82
2–3 years	1,370,310.76
Over 3 years	89,320,297.00
3–4 years	1,323,341.28
4–5 years	866,257.76
Over 5 years	87,130,697.96
Total	734,316,197.08

XVII. Key notes to items in parent company's financial statements *(continued)*KeyTn72 689.ts

XVII. Key notes to items in parent company's financial statements *(continued)*

2. Other receivables *(continued)*

(1) Other receivables *(continued)*

5) Other receivables with top five balances at the end of the period grouped by debtor

Unit: RMB

Name of entity	Nature	Balance at the end of the period	Age	Proportion to the total balance of other receivables at the end of the period	Balance of provision for bad debts at the end of the period
"Shouguang Maolong"	Unit current account	633,094,331.21	Within 1 year	86.22%	–
"Molong Logistic"	Unit current account	9,173,696.54	Within 5 years	1.25%	–
"Molong Logistic"	Unit current account	87,120,014.35	Over 5 years	11.86%	–
CNPC Chuanqing Drilling Engineering Company Limited (中國石油集團川慶鑽探工程有限公司)	Security deposits	1,164,196.00	Within 1 year	0.16%	–
Shouguang Social Insurance Administration Center (壽光市社會保險事業管理中心) (Work-related Injury)	Insurance	976,355.48	Within 1 year	0.13%	146,453.32
Shouguang Social Insurance Administration Center (壽光市社會保險事業管理中心) (Work-related Injury)	Insurance	81,926.42	1–2 years	0.01%	45,059.53
Nanjing Tendering Center of Sinopec International Co., Ltd. (中國石化國際事業有限公司南京招標中心)	Security deposits	530,864.00	Within 1 year	0.07%	–
Nanjing Tendering Center of Sinopec International Co., Ltd. (中國石化國際事業有限公司南京招標中心)	Security deposits	30,541.00	1–2 years	0.01%	–
Total	–	732,171,925.00	–	99.71%	191,512.85

6) Accounts receivable involving government grants

Nil

7) Other receivables derecognised due to transfer of financial assets

As at 31 December 2022, the Company had no other receivables derecognized due to the transfer of financial assets.

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

XVII. Key notes to items in parent company's financial statements *(continued)*

2. Other receivables *(continued)*

(1) Other receivables *(continued)*

8) Amount of assets and liabilities arising from transfer of other receivables and continuing involvement of such transferred receivables

As at 31 December 2022, the Company had no assets or liabilities arising from the transfer of other receivables and their continued involvement.

Other descriptions:

As at 31 December 2022, the Company had no other receivables for pledge.

3. Long-term equity investments

Unit: RMB

Item	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	**Provision for impairment**	**Book value**	Book balance	Provision for impairment	Book value
Investment on controlled companies	**1,362,019,921.73**	**208,000,000.00**	**1,154,019,921.73**	1,352,019,921.73	208,000,000.00	1,144,019,921.73
Total	**1,362,019,921.73**	**208,000,000.00**	**1,154,019,921.73**	1,352,019,921.73	208,000,000.00	1,144,019,921.73

(1) Investment in subsidiaries

Unit: RMB

Investee	Balance at the beginning of the period (Book value)	Changes in the current period				Balance at the end of the period (Book value)	Balance of provision for impairment at the end of the period
		Added investment	Reduced investment	Provision for impairment	Others		
"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 Corporation	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	–
Molong Commercial	–	10,000,000.00	–	–	–	10,000,000.00	–
Total	1,144,019,921.73	10,000,000.00	–	–	–	1,154,019,921.73	208,000,000.00

XVII. Key notes to items in parent company's financial statements *(continued)*

4. Operating revenue and operating costs

Unit: RMB

	Current amount		Amount of the previous period	
Item	**Revenue**	**Costs**	Revenue	Costs
Primary business	**1,657,995,439.25**	**1,555,089,776.39**	2,054,453,429.49	1,966,870,923.40
Other businesses	**146,181,442.77**	**141,593,095.59**	122,249,459.02	117,271,322.79
Total	**1,804,176,882.02**	**1,696,682,871.98**	2,176,702,888.51	2,084,142,246.19

Income information:

Unit: RMB

Contract category	**Pipe products**	**Three kinds of pumping units**	**Petroleum machinery parts**	**Others**	**Total**
Product type					
Including:					
Pipe products	1,605,222,541.01	—	—	—	1,605,222,541.01
Three kinds of pumping units	—	31,609,353.70	—	—	31,609,353.70
Petroleum machinery parts	—	—	21,047,646.60	—	21,047,646.60
Others	—	—	—	146,297,340.71	146,297,340.71
Classify based on operating area					
Including:					
At home	1,238,523,683.57	21,590,251.37	—	146,181,442.77	1,406,295,377.71
At abroad	366,698,857.44	10,019,102.33	21,047,646.60	115,897.94	397,881,504.31
Contract type					
Including:					
Income confirmation at some point	1,605,222,541.01	31,609,353.70	21,047,646.60	146,297,340.71	1,804,176,882.02
Total	1,605,222,541.01	31,609,353.70	21,047,646.60	146,297,340.71	1,804,176,882.02

XVII. Key notes to items in parent company's financial statements *(continued)*

4. Operating revenue and operating costs *(continued)*

Information related to performance obligation:

According to the contract, the Company, as the main responsible person, shall fulfill the supply obligations in time according to the categories, standards and time required by customers. Different customers and products face different payment conditions. For ordinary customers at home, the company puts collection first before delivery, and oil casing customers in China will be collected within 3-6 months after billing and settlement. As for exports, cash collection is preferred. For most oil casing customers, prepayment will be made and the balance payment shall be settled before delivery or seeing the copy of bill of lading. Credit period of petroleum machinery parts generally lasts for two months.

Information related to trade price apportioned to residual performance obligations:

The incomes of unfulfilled or partially-fulfilled performance obligation that has signed in contract at the end of report period are RMB 0.753 billion. The amount is estimated to be confirmed as incomes in 2023

XVIII. Supplementary information

1 January 2022 to 31 December 2022
(Unless otherwise indicated, all figures are stated in RMB)

XVIII. Supplementary information *(continued)*

1. Detailed statement of current non-recurring gains and losses *(continued)*

According to the document of Guidelines for the Application of Regulatory Rules – Accounting Category No.3 issued by the CSRC on 3 February 2023, the Company accrued a credit impairment loss of RMB 67.9712 million for the claims of Shouguang Baolong, a subsidiary with excess losses.

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

2. Return on net assets and earnings per share

		Earnings per share	
Profits during Report Period	**Weighted average rate of return on net assets**	**Basic earnings per Share (RMB/share)**	**Diluted earnings per Share (RMB/share)**
Net profits attributable to common corporate shareholders	-35.39%	(0.53)	(0.53)
Net profits attributable to common corporate shareholders after the deduction of the non-recurring profit and loss	-30.06%	(0.45)	(0.45)

According to Article 4 of Accounting Standards for Business Enterprises No.34-Earnings Per Share, "an enterprise shall calculate the basic earnings per share based on the current net profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares issued".

3. Explanation of reasons for 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

(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

(3) An explanation of the reasons for the discrepancy in accounting data under domestic and overseas accounting standards. If the discrepancy adjustment is made for the data audited by an overseas audit institution, the name of the overseas institution shall be indicated

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 original of 2022's Audit Report affixed with the official stamp of the accounting firm and the signature/seal of CPA.

(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.