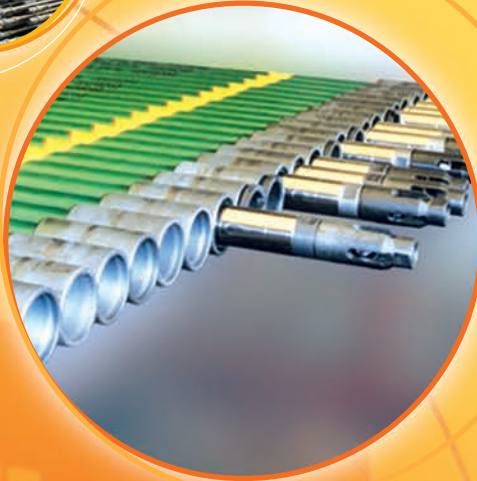




山東墨龍石油機械股份有限公司

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)



2017
Annual
Report

I. Important, Contents and Definitions



The board of directors, the supervisory committee 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 this report, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents.

Zhang En Rong, the legal representative of the Company, Liu Min, the person in charge of accounting department and Ding Zhi Shui, the head of the accounting department, declare that they guarantee the truthfulness, accuracy and completeness of the financial statements in the Annual Report.

Except for the following Directors, all Directors attended the Board meeting for considering this report.

Name of the Absentee	Title	Reason for the Absence	Name of Representative
Yang Jin	Director	Illness	No

The future development plans, business goals, and other forward-looking statements in the annual report of the Company have certain uncertainties, which will be realized depending on a number of factors including changes in market conditions. Such statements are not representative of the Company's profit forecast in 2018, nor constitute a firm commitment to the broad masses of investors. Investors are asked to beware investment risks.

The risk factors faced by the Company are detailed in the report. Please refer to "Prospect of the Company's Future Development" in Section IV "Discussion on and Analysis of Operations". China Securities Journal, Securities Times and Juchao Website (<http://www.cninfo.com.cn/>) are designated media for the Company's information disclosure. Only information of the Company published in the aforesaid media should be relied upon. Investors are asked to beware investment risks.

The Company plans not to dispatch cash dividends nor bonus shares and not to increase share capital with provident fund.

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I. Important, Contents and Definitions

Definitions

Definition Items

“Company”, “parent company”, “the Company”, and “Shandong Molong”
“the Group”

“SZSE”

“SEHK”

“Listing Rules of Shenzhen Stock Exchange”

“Listing Rules of SEHK”

Definition content

Shandong Molong Petroleum Machinery Company Limited

Collectively, the Company and its subsidiaries

The Shenzhen Stock Exchange

The Stock Exchange of Hong Kong Limited

The Rules governing the listing of securities on the Shenzhen Stock Exchange

The Rules governing the listing of securities on the Stock Exchange of Hong Kong Limited.

II. Company Profile and Major Financial Indicators



I. Company Information

Stock Name Abbreviation	*ST墨龍
Stock Code	002490
Abbreviation of the changed stocks (if any)	Not applicable
Stock Exchange of Listed Securities	Shenzhen Stock Exchange
Legal Chinese Name of the Company	山東墨龍石油機械股份有限公司
Abbreviation of the Chinese Name	*ST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	Zhang En Rong
Registered Address of the Company	No. 999 Wen Sheng Street, Shouguang City, Shandong Province
Postal Code of Registered Address	262700
Office Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province
Postal Code of Office Address	262700
Website of the Company	https://www.molonggroup.com
Email Address	dsh@molonggroup.com

II. Contact Information

	The Secretary of the Board	Securities Affairs Representative
Name	Zhao Hong Feng	Wang Jian Lei
Office Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province	No. 999 Wen Sheng Street, Shouguang City, Shandong Province
Telephone	(86)-0536-5100890	(86)-0536-5789083
Facsimile	(86)-0536-5100888	(86)-0536-5100888
Email Address	zhf@molonggroup.com	dsh@molonggroup.com

* For identification purpose only



II. Company Profile and Major Financial Indicators

III. Information Disclosure and Places for Inspection

Designated Newspapers for Information Disclosure	China Securities Journal and Securities Times
Designated Domestic Website for the Publication of the Annual Report as approved by China Securities Regulatory Commission	http://www.cninfo.com.cn
Places for Inspection of the Company's Annual Report	Board of Directors Office of the Company

IV. Registry Changes

Organization No.	91370000734705456P
Changes in principal operations (if any) since the Company's listing	No change
All changes in controlling shareholders (if any)	No change

V. Other Relevant Information of the Company

Accounting firm retained by the Company

Name of the accounting firm	Shinewing Certified Public Accountants Ltd. (Special General Partner)
Office address of the accounting firm	9th Floor, Fuhua building A, No. 8 Chaoyangmen north Street, Dongcheng District, Beijing
Name of the signing certified public accountants	Kan Jing Ping, Zhang Xiu Qin

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

Applicable Not Applicable

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

Applicable Not Applicable

II. Company Profile and Major Financial Indicators



VI. Major Accounting Data and Financial Indicators

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

Yes No

	2017	2016	Increase/Decrease in this year as compared with last year	2015
Operating Revenue (RMB)	2,965,216,722.37	1,531,118,375.18	93.66%	1,613,917,735.08
Net profit attributable to shareholders of listed company (RMB)	38,038,484.18	(612,476,376.18)	106.21%	(259,565,004.32)
Net profit after deduction of extraordinary gains or losses attributable to shareholders of listed company (RMB)	(178,210,786.99)	(621,542,167.29)	71.33%	(281,474,328.22)
Net cash flows from operating activities (RMB)	32,500,954.17	104,417,132.72	-68.87%	20,632,788.47
Basic earnings per Share (RMB)	0.05	(0.77)	106.49%	(0.33)
Diluted earnings per Share (RMB)	0.05	(0.77)	106.49%	(0.33)
Weighted average rate of return on net assets (%)	2.07%	-28.80%	30.87%	-10.12%

	31 December 2017	31 December 2016	Increase/Decrease in this year-end as compared with last year-end	31 December 2015
Total assets (RMB)	6,222,802,967.54	5,772,042,841.06	7.81%	5,851,180,723.61
Net assets attributable to shareholders of listed Company (RMB)	1,869,595,561.71	1,819,068,091.94	2.78%	2,433,157,226.21



II. Company Profile and Major Financial Indicators

VII. Difference in accounting data under PRC GAAP and IFRs

1. Differences in net profits and net assets in the financial statements under IFRs and PRC GAAP

Applicable Not Applicable

There is no difference in net profits and net assets in the financial statements under IFRs and PRC GAAP.

2. Differences in net profits and net assets in financial statements under foreign accounting standards and PRC GAAP

Applicable Not Applicable

There is no difference in net profits and net assets in financial statements under foreign accounting standards and PRC GAAP.

VIII. Main financial indicators by quarter

Unit: RMB

	The first quarter	The second quarter	The third quarter	The fourth quarter
Operation revenue	471,784,269.19	751,044,376.46	837,175,384.41	905,212,692.31
Net profit attributable to shareholders of listed company	(54,788,681.90)	61,809,405.55	3,145,895.79	27,871,864.74
Net profit after deduction of extraordinary gains or losses attributable to shareholders of listed company	(106,454,092.42)	(59,941,883.12)	965,364.35	(12,780,175.80)
Net cash flows from operating activities	38,746,115.52	2,647,656.04	(127,286,831.56)	118,394,014.17

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.

Applicable Not Applicable

II. Company Profile and Major Financial Indicators



IX. Extraordinary Gains or Losses Items and amounts

Applicable Not Applicable

Unit: RMB

Items	2017	2016	2015	Note
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	61,798,374.25	182,163.01	(86,303.29)	—
Tax rebate or tax concessions from unauthorised approval or non-official approved documents	5,640,168.00	—	—	—
Government grant recognised in current profit and loss (excluding those grants that are closely related to the Company's business and that were granted in accordance with the standard amount or volume prescribed by the State)	150,635,684.23	4,188,016.16	24,592,306.17	—
Gains arising from investment costs for acquisition of subsidiaries, associates, and joint-ventures are less than its share of fair value of identifiable net assets of the investee on acquisition	—	—	398,730.63	—
Profit or loss arising from contingent items unrelated to the normal course of business of the Company	(8,000,000.00)	—	—	—
Write-back of provision for receivables subject to individual impairment test	10,718,760.00	3,284,636.96	—	—
Non-operating gain and loss other than the above items	(2,810,442.28)	1,951,878.38	400,766.42	—
Other profit or loss items which fall within the definition of extraordinary profit or loss	—	126,955.22	—	—
Less: Affected income tax amount	1,407,291.50	30,984.97	3,320,969.18	—
Affected minority interests amount (after tax)	325,981.53	636,873.65	75,206.85	—
Total	216,249,271.17	9,065,791.11	21,909,323.90	—

Reasons should be given if the Company has classified any extraordinary profit or loss items (as defined and listed in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public—Extraordinary Profit and Loss) as recurring gain and loss items.

Applicable Not Applicable

The Company did not classify any extraordinary profit and loss items (as defined and listed in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public—Extraordinary Profit and Loss) as recurring gain and loss items during the reporting period.



III. Summary of the Company Business

I. Company primary service in reporting period

Whether the Company needs to comply with the disclosure requirements for special industry.

No

During the reporting period, the Company is mainly engaged in energy equipment industry for product research and development, production and sales. The main products include tube for oil and gas exploitation, fluid and structural tube, pumping unit, oil well pump, sucker rod, cylinder sleeve for drilling machine, valve parts and components, heavy casting and forging. These products are mainly used on drilling and production of oil, natural gas, coalbed methane and shale gas, machining and city pipe network. The sales of pipe products is the main source of income and profit, exceed 80% of sales revenue. The Company's main business structure has not changed significantly during the reporting period.

The Company's business model is making production plan in accordance with customer's requirement. The Company's products; especially pipe products, are divided into API standard product and non-standard product which is special product with individual needs. Generally, the customer determines the product standard, model and quantity according to their own needs, the Company's production system organizes production and delivers the goods according to customer's order.

The Company's energy equipment industry covers oil, natural gas, shale gas, coal and coalbed methane. In the long run, the demand for oil and coal reach to peak and the demand for natural gas will also have greater growth, so the industry market space is relatively large. The industry is more obviously affected by changes in the economic development cycle, changes in market demand for consumption, cycle changes in crude oil price and cycle changes in raw material price. In 2017, due to the increase in crude oil prices and changes in the economic situation, the market for pipe products has improved. Especially since the second half of the year, compared to the first half of the year, the demand for major oil products and the price of these products have increased to different extent. The Company improved the sale of oil well pipe with operating results increased significantly.

III. Summary of the Company Business



II. Significant changes in primary assets

1. Significant changes in primary assets

Primary assets	Description of significant change
Equity assets	No significant change
Fixed assets	No significant change
Intangible assets	No significant change
Construction in process	Increased by 441.12% from the beginning of the year, mainly due to investment in the second phase of 90t electric arc furnace and in the relocation of Molong Machinery.
Assets classified as held-for-sale	Decreased by 100% from the beginning of the year, mainly due to the disposal of assets classified as held -for-sale.

2. Primary overseas assets condition

Applicable Not Applicable

III. Analysis of core competitiveness

Whether the Company needs to comply with the disclosure requirements for special industry.

No

In the domestic market, the main customers of the Company during the reporting period for oil well pipe products are still CNPC, Sinopec, CNOOC and Yanchang Petroleum; Customers for fluid and structure tube used in a wide range covering mechanical processing, ship manufacturing, high pressure boiler, gas cylinders and pipes used in cars. The Company has been expanding its market scope of business. In addition, sulfur-resistant pipes with special fasteners, gas casings with special fasteners and extended or thickened pipes were supplied to our customers in batches, and the promotion use range was expanded, which was conducive to the popularization and application of non-API products of the Company.

In terms of overseas market, during the reporting period, the Company continued to consolidate the developed markets and customers, and to increase efforts to expand the South America, Middle East, North Africa and other regions and kept developing new customers and mainly sold oil casing pipe, line pipe, sucker rod and the castings and forgings and other products.

In terms of new product developments, the Company has successfully developed and sold various new products with self-owned intellectual property rights during the reporting period, including 80S/110S sulfur-resistant Molong special oil casings, X65QS acid line pipes, J55 casings of high toughness, anticorrosive feedback oil-well pump, hanging oil-well pumps and sand-control hanging oil-well pumps, series of inclined well pumps, sand-setting sand-control oil-well pumps with long plungers, and anti-gas sand-setting oil-well pumps. Meanwhile, the Company continued to focus on the application of provincial-level technical innovation projects and the protection of intellectual property rights. During the reporting period, the Company had four products listed in the technical innovation projects in Shandong, 13 newly-applied patents, and 13 authorized patents.

The Company will continue to implement the established business strategy, deepen the internal tapping, increase internal technical reformation and further optimize and improve the internal control system so as to continuously enhance the core competitiveness of the Company.



IV. Discussion and Analysis of Operations

I. Overview

In 2017, due to the increase in crude oil prices and changes in the economic situation, the market for pipe products has improved. Especially since the second half of the year, compared to the first half of the year, the demand for major oil products and the price of these products have increased to different extent. The Company improved the sale of oil well pipe with operating results increased significantly.

During the reporting period, the Company achieved operating income of RMB2.965 billion, increased by 93.66% as compared to the same period of last year; net profit attributable to shareholders of listed companies was RMB38.0385 million, increased by 106.21% as compared to the same period of last year; basic earnings per share was RMB0.05, increased by 106.49% as compared to the same period of last year.

II. Analysis of main business

1. Overview

Please refer to "I. Overview" in the "Discussion and Analysis of Operations".

2. Income and cost

(1) Composition of operation income

Unit: RMB

	2017		2016		Year-on-year Increase/ Decrease
	Amount	Percentage of operating income	Amount	Percentage of operating income	
Total operating revenue	2,965,216,722.37	100%	1,531,118,375.18	100%	93.66%
By industry					
Special equipment manufacturing	2,965,216,722.37	100.00%	1,531,118,375.18	100.00%	93.66%
By product					
Pipe products	2,832,615,688.73	95.53%	1,376,899,726.43	89.93%	105.72%
Three kinds of pumping units	33,364,743.00	1.13%	27,228,938.56	1.78%	22.53%
Petroleum Machinery parts	45,504,510.14	1.53%	20,432,578.68	1.33%	122.71%
Others	53,731,780.50	1.81%	106,557,131.51	6.96%	-49.57%
By region					
PRC	2,629,703,696.31	88.69%	1,198,770,210.20	78.29%	119.37%
Abroad	335,513,026.06	11.31%	332,348,164.98	21.71%	0.95%

IV. Discussion and Analysis of Operations



(2) Industry, products or regions account for more than 10% of the Company's operation income or operation profits

Applicable Not Applicable

Whether the Company needs to comply with the disclosure requirements for special industry.

No

Unit: RMB

	Operation income	Operation cost	Gross profit margin	Year-on-year increase/decrease in operation income	Year-on-year increase/decrease in operation cost	Year-on-year increase/decrease in gross profit margin
By industry						
Special equipment manufacturing	2,832,615,688.73	2,625,878,653.69	7.30%	105.72%	73.26%	17.37%
By product						
Pipe products	2,832,615,688.73	2,625,878,653.69	7.30%	105.72%	73.26%	17.37%
By region						
PRC	2,545,307,740.63	2,409,937,696.22	5.32%	138.73%	96.81%	20.17%
Abroad	287,307,948.10	215,940,957.48	24.84%	-7.54%	-25.81%	18.51%

On condition that major business data statistical caliber was adjusted in the report period, the latest one year's major business data adjusted based on the statistical caliber at the end of report

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

By industry	Items	Unit	2017	2016	Year-on-year Increase/Decrease
Special equipment manufacturing	Sales volume	10,000 tonnes	67.02	48.93	37.44%
	Production volume	10,000 tonnes	64.15	46.98	36.55%
	Stock volume	10,000 tonnes	7.49	10.36	-29.92%

Reasons for the movement of more than 30% of relevant data as compared to the same period of last year

Applicable Not Applicable



IV. Discussion and Analysis of Operations

Sales increase is mainly due to that, in the domestic market, the Company's customer of the oil well pipe products, fluid and structural tube during the reporting period cover various fields such as mechanical processing, ship manufacturing, high pressure boiler, gas cylinders and pipes used in cars, the market is expanding increasingly with sales volume increased significantly.

(4) Performance of the contracted material sales contract of the Company at the end of the reporting period

Applicable Not Applicable

(5) Composition of operation cost

By product

Unit: RMB

By product	Items	2017		2016		Year-on-year Increase/Decrease
		Amount	Percentage of operation costs	Amount	Percentage of operation costs	
Pipe products	Materials	1,847,545,949.77	70.36%	1,082,695,062.18	71.44%	-1.08%
Pipe products	Depreciation	206,559,175.02	7.87%	155,411,057.29	10.25%	-2.38%
Pipe products	Labour cost	203,632,183.18	7.75%	70,517,030.30	4.65%	3.10%
Pipe products	Expenses	368,141,345.73	14.02%	206,946,487.22	13.65%	0.37%
Three kinds of pumping units	Materials	19,537,012.32	65.22%	17,241,060.16	64.30%	0.92%
Three kinds of pumping units	Depreciation	2,666,201.92	8.90%	2,747,125.28	10.25%	-1.35%
Three kinds of pumping units	Labour cost	5,598,571.52	18.69%	4,347,670.99	16.21%	2.48%
Three kinds of pumping units	Expenses	2,155,539.14	7.20%	2,478,445.97	9.24%	-2.04%
Petroleum Machinery parts	Materials	24,605,015.06	71.26%	12,658,341.17	73.85%	-2.59%
Petroleum Machinery parts	Depreciation	3,276,046.71	9.49%	1,757,669.65	10.25%	-0.76%
Petroleum Machinery parts	Labour cost	4,398,460.90	12.74%	1,659,964.20	9.68%	3.06%
Petroleum Machinery parts	Expenses	2,048,794.27	5.93%	1,065,332.25	6.22%	-0.29%
Others	Materials	4,581,520.25	69.74%	53,853,410.74	70.00%	-0.26%
Others	Depreciation	695,091.53	10.58%	8,691,863.88	11.00%	-0.42%
Others	Labour cost	928,828.23	14.14%	10,236,534.91	13.00%	1.14%
Others	Expenses	364,423.26	5.55%	4,451,741.90	6.00%	-0.45%

Note

Raw materials accounted for the most significant part of the Company's cost of product, and the major raw material of the Company are pipe billet and castings.

IV. Discussion and Analysis of Operations



(6) Whether consolidation scope changed during the reporting period

Yes No

(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)	889,413,135.01
Proportion of total sales of the top 5 customers over total sales for the year	30.00%
Proportion of sales of connected parties in the top 5 customers over total sales for the year	0.00%

Information on top 5 customers

Serial number	Name of customer	Sales amount (RMB)	Percentage over the annual total amount of sales
1	Unit A	325,186,840.68	10.97%
2	Unit B	172,574,823.44	5.82%
3	Unit C	136,788,945.42	4.61%
4	Unit D	132,217,304.01	4.46%
5	Unit E	122,645,221.46	4.14%
Total		889,413,135.01	30.00%

Explanation for major customers' other information

Applicable Not Applicable

None of the Directors, supervisors or their respective associates (ie, to the best knowledge of the Directors, persons who own more than 5% of the Company's issued share capital) had any interest in any of the five largest customers of the Group.



IV. Discussion and Analysis of Operations

Information on the major suppliers of the Company

Total purchase attributable to the top 5 suppliers (RMB)	809,924,878.30
Proportion of total purchases attributable to the top 5 suppliers over total purchases for the year	34.29%
Proportion of purchases of connected parties in the top 5 suppliers over total purchases for the year	0.00%

Information on the Company's top 5 suppliers

Serial number	Name of the suppliers	Purchases (RMB)	Percentage over the annual total purchase
1	Unit A	276,194,227.77	11.69%
2	Unit B	232,446,918.20	9.84%
3	Unit C	173,396,984.52	7.34%
4	Unit D	71,038,421.18	3.01%
5	Unit E	56,848,326.63	2.41%
Total		809,924,878.30	34.29%

Explanation for major suppliers' other information

Applicable Not Applicable

None of the Directors, supervisors or their respective associates (ie, to the best knowledge of the Directors, persons who own more than 5% of the Company's issued share capital) had any interest in any of the five largest suppliers of the Group.

IV. Discussion and Analysis of Operations



3. Expenses

Unit: RMB

	2017	2016	Year-on-year Increase/ Decrease	Description of significant change
Selling expenses	65,682,352.59	50,980,617.53	28.84%	Mainly due to the increase in freight caused by the significant increase in product sales at the current period.
Management expenses	162,091,883.83	157,120,673.19	3.16%	—
Finance expenses	131,241,514.49	52,507,807.22	149.95%	Mainly due to part of the interests on loans including financial expenses could not be capitalized and the increase in financing cost upon the completion of the Company's construction in progress.
Tax and surcharge	23,421,675.66	17,949,257.54	30.49%	Mainly due to the amounts of property tax, land use tax and stamp duty presented in "management cost" project from January to April in the last year was all presented in "taxes and additional" project this year.
Assets Impairment loss	19,275,488.65	216,617,900.36	-91.10%	Mainly due to: 1. the Company increased the delivery intensity in the current period which make the final inventory dropped sharply, and loss on inventory valuation decreased with the rise in product price; 2. there were no provision for impairment as there were no signs of impairment through the comprehensive assessment of the current fixed assets and goodwill by the appraisal institution; 3. efforts were increased on recovery of receivables, and the provision for bad-debt provisions of receivables was decreased.

4. R&D expenditures

Applicable Not Applicable

With reference to the nature of expenditures and whether the ultimate formation of intangible asset is with great uncertainty expenditure on research and development of the Group is divided into expenditure on the research phase and expenditure on the development phase.

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



IV. Discussion and Analysis of Operations

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 finalized.

Expenditure on the research phase is recognized in profits or losses in the current period in which it is incurred. Expenditure on the development phase is recognized as an intangible asset when all of the following conditions are satisfied:

- (1) It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (2) The management's intention to complete, use or sell the intangible asset;
- (3) The Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- (4) The availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;
- (5) Expenditure belongs to intangible assets development stage can be measured reliably.

Expenditure on the development phase which does not meet the above conditions is included in the profit or loss in the current period in which it is incurred. Expenditure in the development phase which has been included in the profit or loss in the prior period will not be recognized as asset in subsequent period. The capitalized expenditures in development phase are presented as development expenditure in balance sheet and it is carried down into the intangible asset since the date when the asset reaches the status of available for use.

Company R&D expenses

	2017	2016	Change
Number of R&D personnel	170	171	-0.58%
Proportion of R&D personnel	10.81%	10.16%	0.65%
R&D expenses (RMB)	41,473,476.41	43,092,392.39	-3.76%
R&D expenses accounts for operation revenue	1.40%	2.81%	-1.41%
R&D expenses capitalized amount (RMB)	12,208,128.22	10,393,822.25	17.46%
Capitalized R&D expenses accounts for R&D expenses	29.44%	24.12%	5.32%

IV. Discussion and Analysis of Operations



Reason for significant changes in the proportion of R&D expenses accounts for operation revenue as compared with last year

Applicable Not Applicable

Reason and rationality explain for significant changes in capitalized R&D expenses rate

Applicable Not Applicable

5. Cash flow

Unit: RMB

Items	2017	2016	Year-on-year Increase/Decrease
Cash inflow subtotals from operating activities	2,730,238,766.93	1,587,318,021.13	72.00%
Cash outflow subtotals from operating activities	2,697,737,812.76	1,482,900,888.41	81.92%
Net cash flows from operating activities	32,500,954.17	104,417,132.72	-68.87%
Cash inflow subtotals from investment activities	73,600,056.84	10,211,311.43	620.77%
Cash outflow subtotals from investment activities	293,984,014.58	309,830,900.37	-5.11%
Net cash flow from investment activities	(220,383,957.74)	(299,619,588.94)	26.45%
Cash inflow subtotals from financing activities	4,134,161,407.70	3,200,207,277.24	29.18%
Cash outflow subtotals from financing activities	3,782,628,659.13	2,732,539,846.25	38.43%
Net cash flow from financing activities	351,532,748.57	467,667,430.99	-24.83%
Net increase in cash and cash equivalent	152,897,347.26	290,189,730.40	-47.31%

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

Applicable Not Applicable

1. Cash inflow from operating activities has increased by 72.00% compared with the same period of last year, mainly due to the increase in operation income for the year.
2. Cash outflow from operating activities has increased by 81.92% compared with the same period of last year, mainly due to the increase in outflow from operating activities caused by the increase in operation income for the year.
3. Net cash flow from operating activities has decreased by 68.87% compared with the same period of last year, mainly due to the increase in prepayments for procurement materials and payment of accounts payable in the current period.



IV. Discussion and Analysis of Operations

4. Cash inflow from investment activities has increased by 620.77% compared with the same period of last year, mainly due to the disposal of idle land upon the relocation from the urban area to industrial zones in the current period.
5. Cash outflow from financing activities has increased 38.43% compared with the same period of last year, mainly due to the increase in cash used for repayment of debt in the current period.

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

III. Analysis of non-principal business

Applicable Not Applicable

Unit: RMB

	Amount	Percentage of the total profit	Explanation	Sustainability
Income from investment	447,550.68	1.30%	Mainly due to Bank financing income.	No
Impairment of asset	19,275,488.65	55.89%	Mainly due to the impairment on provision of assets including inventories and receivables subject to ASBE.	No
Non-operating income	5,781,343.10	16.76%	Mainly due to in current year company receive penalty income.	No
Non-operating expenses	16,881,710.08	48.95%	Mainly due to the loss caused by disposal of creditor's rights in May of this year, which was transferred from receivables as Petroamazonas EP had its bonds issued by Citibank through the Ministry of Finance of Ecuador.	No
Gains on disposal of assets	62,088,298.95	180.03%	Mainly due to the disposal of idle land upon the relocation from the urban area to industrial zones in the current period.	No
Other revenue	156,275,852.23	453.14%	Mainly due to company received government grants.	No

IV. Discussion and Analysis of Operations



IV. Analysis of Assets and liabilities condition

1. Significant changes in assets

Unit: RMB

	31 December 2017		31 December 2016		Percentage change	Explanation on the major changes
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Monetary fund	879,371,103.17	14.13%	679,448,755.91	11.77%	2.36%	Mainly due to the increase in loans not recovered in the current period.
Amounts receivables	378,729,615.88	6.09%	304,148,614.98	5.27%	0.82%	Mainly due to the increase in revenue in the current period.
Inventory	925,772,719.28	14.88%	768,734,172.36	13.32%	1.56%	Mainly due to the increase of raw materials reserved in the current period.
Long-term equity investment	2,639,321.48	0.04%	2,707,572.57	0.05%	-0.01%	—
Fixed assets	2,891,875,882.19	46.47%	3,066,573,497.65	53.13%	-6.66%	Mainly due to the amortization and depreciation of fixed assets.
Construction in process	170,880,899.68	2.75%	31,579,353.99	0.55%	2.20%	Mainly due to investment in the second phase of 90t electric arc furnace and the relocation of Molong Machinery.
Short-term loan	2,141,086,600.02	34.41%	2,436,842,117.30	42.22%	-7.81%	—
Long-term loan	737,259,900.98	11.85%	145,000,000.00	2.51%	9.34%	Due to the Company added liquidity.

2. Assets and liabilities measured at fair value

Applicable Not Applicable



IV. Discussion and Analysis of Operations

3. Assets right limitation status as at the end of the reporting period

Unit: RMB

Items	Book value at the end of the year	Reason
Monetary fund	217,975,000.00	Cash deposit and judicial freezing
Bill receivable	54,374,481.00	Pledge bill
Fixed assets	134,948,064.38	Mortgage loans
Intangible assets	209,315,714.42	Pledge/Mortgage borrowings

V. Analysis of investment situation

1. Overall condition

Applicable Not Applicable

2. Significant equity investment obtained during the reporting period.

Applicable Not Applicable

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

Applicable Not Applicable

4. Financial assets measured at fair value

Applicable Not Applicable

5. Utilization of raise funds

Applicable Not Applicable

IV. Discussion and Analysis of Operations



VI. Disposal of significant assets and stock rights

1. Disposal of significant assets

Applicable Not Applicable

Counterparty(ies)	Asset disposed of	Disposal Date	Transaction consideration (RMB'0,000)	Net profit contribution to the Company from the beginning of the period up to the disposal date (RMB'0,000)	Effect of disposal on the Company (Note 3)	Ratio of the net profit contribution to the Company of disposal of assets over total net profit (%)	Pricing basis of asset disposal	Related party transaction or not	Relationship with counterparty (ies) (applicable to related party transaction)	Relevant asset title fully transferred or not	Relevant liability fully transferred or not	Carried out on schedule or not, if not, the reasons and measures taken by the Company	Disclosure date	Disclosure index
Shouguang Land Reserve Centre	Land	25 January 2017	7,000	5,881.34	None	154.62%	Market price	No	None	Yes	Yes	Yes	—	—

2. Disposal of significant stock rights

Applicable Not Applicable

VII. Analysis of main subsidiaries, invested company

Applicable Not Applicable

Main subsidiary and invested company with impact on the Company's net profit by more than 10%

Unit: RMB

Name	Type	Primary service	Registered			Operation		Net Profit
			capital	Total assets	Net assets	revenue	Operating Profit	
Shouguang Baolong Petroleum Material Company Limited	subsidiary	Production and sales of oil equipment	150 million	1,532,586,552.95	(39,539,761.24)	1,360,213,759.24	24,211,385.22	25,251,127.33
Weihai Baolong Special Petroleum Materials Co., Ltd	subsidiary	Oil special metal materials manufacturing and sales	26 million	273,668,383.60	170,524,586.80	450,518,460.04	17,024,069.29	17,377,760.65
Shouguang Maolong New Materials Company Limited	subsidiary	Research of the new materials for energy equipment; the production and sales of metal casting and forging; sea water desalination; waste heat and gas power generation.	712.38 million	1,622,220,423.69	573,965,849.86	479,843,869.37	(177,847,161.93)	(177,533,525.15)

Acquisition and disposal of subsidiaries during the Reporting Period

Applicable Not Applicable

Explanation on main subsidiary and invested company



IV. Discussion and Analysis of Operations

VIII. Structured entities controlled by the Company

Applicable Not Applicable

IX. Prospects for future development of the company

1. The development trend of the industry in which the Company operates in and the strategic plans for the Company's future development

According to the "World Energy Outlook 2014" published by the International Energy Agency, the prospects for the global energy to the year of 2040 are as follows: the global demand for primary energy will increase by 37%. Although global population and economy maintain sustained growth, it focuses on development towards lower energy intensity compared with the past. In the structure of world's energy supply, the proportion of oil, natural gas, coal and low carbon energy (nuclear power and renewable energy) will have equal shares in the structure of world's energy supply. The global demand for coal and oil will reach the peak. The global demand for natural gas will increase by more than 50%, and will be the fastest growing in the fossil fuel. In the long run, the proportion of wind power, nuclear power, and photovoltaic industry in the overall energy structure will gradually increase. In this outlook period, although the growth rate oil is the slowest among fuel, the total daily global demand for fuel will reach 109 million barrels in 2035. Therefore, from a long-term analysis, the scale of special oil drilling equipment industry will continue to expand with wide market.

The Group considers that with the global economy still be depressed, but petroleum quantity demanded almost is steady. And the oil industry as one of the pillar industries of PRC, with the government of PRC also expressly encouraging the investment in petroleum industry in its "13th Five-Year Plan", the petroleum industry will keep a solid growth under these policies, and the petroleum machinery industry in which the Company operates in will definitely benefit from these policies. The Group will continue to input more resources into new projects and research and development of the technology of high end products and the production technology so as to guarantee product quality, reserve high-quality technology and enhance accessory production capacity. Subject to ensuring the continuing growth in the domestic market, the Group will continue to consolidate the overseas markets.

2. In line with its strategic targets, the work of the Company will focus on the following areas in 2018:

- (1) In respect of research and development of products, the Company plans to put further efforts on the research and development of high value-added products and exclusive production rights owned non-API products. In 2018, the Group will put further efforts on the new products development, such as integral joint tubing, double steel expansion drive pipe, connecting pipe, large diameter thick wall tube with a pile of legs to be used in marine drilling platform, large diameter tube with high tenacity to be used in ocean earing, cold drawn seamless tube with high tenacity to be used in cylinder, structural tube to be used in low temperature with European standard and etc., to meet all kinds of domestic and foreign customer's special demands for oil, natural gas, shale gas, coalbed methane development.
- (2) In respect of new products development, the Group plans to actively research on suitable high-level products based on the market demand and trend of natural gas, shale gas, coalbed methane, wind power and nuclear power. The Group will develop suitable customized, low-cost products based on existing supply capacity in order to enhance its competitive edge in the market.

IV. Discussion and Analysis of Operations



- (3) In respect of domestic market, the Group plans to further strengthen the good cooperation relationship with CNPC Group, Sinopec Group, CNOOC, and Yanchang Petroleum and to expand the markets of shale gas and coalbed methane equipment. At the same time, making great effort to explore coal mining industry safety device and tube for high pressure boiler, mechanical processing, urban pipe network construction and other markets.
- (4) In respect of foreign market, the Group's plans have thoroughly considered the trading policies of various oil producing countries and the development demand of overseas regional markets, in order to further develop our products markets in each and every main market to increase supply and to diversify its overseas markets concentration. Meanwhile, long-term co-operation with foreign oil supplier with market resources, service advantages and good reputations will also be reinforced, with a view to increase our existing market share.

3. Major risk factor for development strategy and business goals of the Company

- (1) The audited net profit of the Company attributed to the shareholders of the Company for two consecutive financial years of 2015 and 2016 were negative. In accordance with rule 13.2.1 of the Stock Listing Rules of the Shenzhen Stock Exchange, the Company had received a delisting risk warning on 7 April 2017. The audited net profit of the Company attributed to the shareholders of the Company for the year of 2017 was positive and there are no other circumstances that would give rise to delisting risk warning or other risk warning of the Company under the Stock Listing Rules of the Shenzhen Stock Exchange. The Company, while disclosing in this report, has made an application to the Shenzhen Stock Exchange for revoking the delisting risk warning, which is pending review and approval by the Shenzhen Stock Exchange.
- (2) The industry of future energy equipment will continue to develop. Under current circumstances, fluctuations in industry investment and product demand will directly lead to fluctuations in product prices; we will adjust our product structure and market deployment in accordance with changes in market on a timely basis.
- (3) Extraordinary fluctuation in raw material prices will directly affect production cost and result in direct impact on the price of our products. We will monitor the fluctuation in raw material prices and control the manufacturing costs of the products by locking the raw material prices and other ways. We will adjust our product price and product structure on a timely basis in accordance with such circumstances.
- (4) The changes in exchange rate of RMB will affect export business of the Company's production, and we will pay close attention to changes in exchange rates and take different measures to circumvent the risks caused by changes in the exchange rate of the RMB.

X. Meeting with researchers, communication and interview activities

1. Activity registration form for meeting with researchers, communication and interview during the reporting period

Applicable Not Applicable

There is no activity of meeting with researchers, communication and interview for the Company during the reporting period.



IV. Discussion and Analysis of Operations

XI. Disclosures in accordance with the Listing Rules of SEHK

1. Results

The Group's profit for the current year and the state of financial affairs of the Group and the Company at that date are set out in the consolidated financial statements on pages 95 to 113 of the annual 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

	2017 RMB'000	For the year ended 31 December			
		2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Total revenue from operation	2,965,217	1,531,118	1,613,918	2,522,102	2,272,034
(Loss)/profit from operations	45,588	(605,808)	(323,778)	15,594	(217,502)
Total (loss)/profit	34,488	(599,486)	(298,473)	21,489	(203,717)
Net (loss)/profit	35,081	(650,706)	(286,499)	14,257	(177,608)
Minority interests	(2,957)	(38,229)	(26,934)	(5,977)	(1,886)
Net (loss)/profit attributable to shareholders of the parent Company	38,038	(612,476)	(259,565)	20,233	(175,722)
Basic (loss)/earnings per share (RMB)	0.05	(0.77)	(0.33)	0.03	(0.22)

Assets and Liabilities

	2017 RMB'000	For the year ended 31 December			
		2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Total assets	6,222,803	5,772,043	5,851,181	6,044,501	5,793,466
Total liabilities	4,291,470	3,886,376	3,313,096	3,294,253	3,057,345
Net assets	1,931,333	1,885,667	2,538,085	2,750,247	2,736,121

3. Changes in Share Capital

Details of changes in the share capital of the Company for 2017 are set out in note V to the financial statements.

4. Reserves and Distributable Reserves

Details of changes in the reserves and distributable reserves of the Group for 2017 are set out in note V to financial statements.

5. Property, Plant and Equipment

Details of changes in the property, plant and equipment of the Group for 2017 are set out in note V to the financial statements.

IV. Discussion and Analysis of Operations



6. Capitalised Interest

For 2017, the Group had nil capitalised interest.

7. 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 have 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 Committee

Details of the Nomination Committee, the Audit Committee and Remuneration Committee held under the Board are set out in "10. The Board Committees of the Company" in the Chapter 6 section X of this annual report.

9. Continuing Connected Transactions

For all connected transactions set out in note X to the financial statements. They didn't consist the "Connected Transactions" under Charter 14A of Listing Rules from the Stock Exchange.

10. Directors', Supervisors' and Chief Executive's Interests in Securities under the Securities and Futures Ordinance in Hong Kong

As at 31 December 2017, interests of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Company and to the Stock Exchange, were as follows:

Long positions in the Shares of the Company

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total registered share capital
Zhang En Rong	Beneficial interest	235,617,000	43.49%	29.53%
Zhang Yun San	Beneficial interest	23,108,000	4.27%	2.90%

Name	Type of interest	Number of H shares	Percentage of H shares	Percentage of total registered share capital
Zhang Yun San	Beneficial interest	9,060,400	3.54%	1.14%



IV. Discussion and Analysis of Operations

Except 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 Salary of the Directors, Supervisors and Senior Management

As for the situation of salary of the Directors, Supervisor and Senior Management got from the Company in 2017, please refer to section VIII of this annual report.

12. Directors' and Supervisors' Rights to Acquire Shares or Debentures

None of the Directors or Supervisors or their respective associates (as defined under the Rule 1.01 of the Listing Rules of the SEHK) was granted by the Company or its subsidiaries any rights or options to acquire any shares in or debentures of the Company or had exercised any such rights in 2017.

13. Share Option Scheme

The Company does not have any share option scheme.

14. Substantial Shareholders

The details are set out section VI of this annual report.

15. Directors' and Supervisors' Interests in Contracts

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted at the end of 2017 or at any time in 2017.

16. Material Contracts

None of the Company (or any of its subsidiaries) or the controlling Shareholders of the Company (or any of its subsidiaries) has entered into any material contracts between themselves, and none of the controlling Shareholders of the Company (or any of its subsidiaries) has provided any material service contract to the Company (or any of its subsidiaries).

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 in 2017.

18. Pre-emptive Rights

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

IV. Discussion and Analysis of Operations



19. Corporate Governance

The principal Code on Corporate Governance adopted by the Company is set out in section X of this annual report.

20. Sufficiency of Public Float

According to information of the Company available to the public and to the knowledge of the Directors, the Directors confirm 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 68.96% (2016: approximately 67.33%) which is calculated based on the Group's total liabilities of approximately RMB4,291.47 million (2016: approximately RMB3,886.38 million) and total assets of approximately RMB6,222.8 million (2016: approximately RMB5,772.04 million).

22. Business Review

Key financial and business performance indicators

The key financial and business performance indicators comprise profitability growth, return on equity and gearing ratio. Details of relevant analyses are shown in "Discussion and analyzation of management" section of this annual report.

Risk Management

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

Sustainability initiatives

The Group is 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.

The Group has 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.



V. Directors' Report

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

Principal Activities

The Company was mainly engaged in the research and development, production and sales of the products needed by the energy equipment industry. The main products include petroleum extraction tubes, fluid and structural pipes, oil well machineries, oil well pumps, sucker rods, valve parts and large castings and so on. The principal activities of subsidiaries detailed in note VII to the financial statements. During the reporting period, the Company's main business composition did not have any significant changes.

Results Analysis and Dividends

The Group's principal activities for the year ended 31 December 2017 is set out in the "Management Discussion and Analysis" section of this annual report.

The Directors of the Company do not recommend the payment of any dividends in respect of the Year.

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 "Management Discussion and Analysis" section of this annual report.

Risk Management

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

Sustainability Initiatives

The Group has been committed to contributing to the sustainability of the environment and maintaining a high standard of corporate 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.



Financial Review

During the reporting period, the Company recorded operating income of RMB2.965 billion, representing a year-on-year increase of 93.66%; net profit attributable to shareholders of the listed company of RMB38.0385 million, representing a year-on-year increase of 106.21%; basic earnings per Share of RMB0.05, representing a year-on-year increase of 106.49%. The Group's financial review for the year ended 31 December 2017 is set out in "Management Discussion and Analysis" section of this annual report.

Property, Plant and Equipment

Details of changes in the property, plant and equipment of the Group for 2017 are set out in note 13 to the consolidated financial statements under note V to the financial statements.

Long-term equity Investments and Fixed Assets

Details of long-term investments and fixed assets of the Company are set out in note 12 and note 13 to the consolidated financial statements under note V to the financial statements of this annual report, respectively.

Share Capital and Share Options

The movements in the Company's authorised and issued share during the Year are set out in "Changes in Share Capital and Shareholders" section of this annual report and note 32 to the consolidated financial statements under note V to the financial statements.

During the Year, the Company did not implement share option scheme.

Pre-emptive Rights

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

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 Group in 2017.

Reserves and Distributable Reserves

Details of changes in the reserves and distributable reserves of the Group for 2016 are set out in note 35 to the consolidated financial statements under note V to the financial statements.



V. Directors' Report

Major Customers and Suppliers

During the Year under review, sales to the Group's five largest customers accounted for approximately 30.00% of the Group's total sales for the Year and sales to the largest customer included therein accounted for approximately 10.97% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 34.29% of the Group's total purchases for the Year and purchases from the largest supplier included therein accounted for approximately 11.69% of the Group's total purchases.

To the knowledge of the Directors, none of the Directors or any of their close associates, or any existing shareholders (which own more than 5% of the Company's issued share capital), had any interest in the Group's five largest customers or suppliers.

Environmental Protection

The environmental protection policy adopted by the Group is set out in the section head "Environmental, Social and Governance Report" of this annual report.

Employees

Details of employees and remuneration policy of the Group is set out in the sections head "Directors, Supervisors, Senior Management and Employees" and "Environmental, Social and Governance Report" of this annual report.

Donations

The Company paid great attention to the creation of social value and placed our focus of fulfilling social responsibility on actively participating in social services. We have spared no effort to join social services and charity activities and organize numerous donations with a view to rewarding the society within our capacity. The expenses for charitable donations and assisting staff with difficulties during the Year are more than RMB70,000.

Directors

The Directors who held office during the Year and up to the date of this annual report were:

Executive Directors:

Mr. Zhang En Rong
Mr. Guo Huan Ran
Mr. Yang Jin

V. Directors' Report



Non-executive Directors:

Ms. Wang Chun Hua

Mr. Guo Hong Li

Independent non-executive Directors:

Mr. Qin Xue Chang

Mr. Ji Yan Song

Ms. Quan Yu Hua

Supervisors:

Mr. Hao Liang

Mr. Zhang Jiu Li

Mr. Zheng Jian Guo

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

Directors' and Supervisors' Service Contracts or Letters of Appointment

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

Remuneration of the Directors and Supervisors and Five Highest Paid Individuals

The remuneration of the Directors, Supervisors and Senior Management is set out in the section head "Directors, Supervisors, Senior Management and Employees" of this annual report. The details of the remuneration of the Directors and five highest paid individuals are as follows:

Name	Remuneration (RMB)
Guo Huan Ran	529,335.80
Zhang En Rong	520,000.00
Yang Jin	440,678.28
Li Zhi Xin	374,457.62
Liu Zeng Xiang	374,935.30



V. Directors' Report

Directors' and Supervisors' Interests in Contracts

There were no contracts which were significant to the Group's business and in which any of the Directors or Supervisors had a material interest, whether directly or indirectly, subsisted at the end of 2017 or at any time in 2017.

Directors' and Officers' Liability Insurance and Indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors and officers. Throughout 2017, no claim had been made against the Directors and the officers of the Company.

Directors', Supervisors' and Chief Executive's Interests in Securities under the Securities and Futures Ordinance in Hong Kong

As at 31 December 2017, interests of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Company and to the Stock Exchange, were as follows:

Long positions in the Shares of the Company

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total registered capital
Zhang En Rong	Beneficial Interest	235,617,000	43.49%	29.53%
Zhang Yun San	Beneficial Interest	23,108,000	4.27%	2.90%

Name	Type of interest	Number of H shares	Percentage of H shares	Percentage of total registered capital
Zhang Yun San	Beneficial Interest	9,060,400	3.54%	1.14%

Note: Zhang En Rong is the controlling shareholder of the Company. He is father of Zhang Yun San. The Company is not aware of any relationship between the other shareholders of the Company or whether such shareholders are parties to any concerted action.

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

V. Directors' Report



Directors' and Supervisors' Rights to Acquire Shares or Debentures

None of the Directors or Supervisors or their respective associates (as defined under the Rule 1.01 of the Listing Rules) was granted by the Company or its subsidiaries any rights to acquire any shares in or debentures of the Company or had exercised any such rights in 2017.

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

As at 31 December 2017, to the best knowledge of the Directors, Supervisors and chief executive, as indicated on the register of interests and/or short positions required to be maintained pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of SFO, the substantial shareholders and other persons had the following interests and/or short positions in the Shares or underlying Shares of the Company as follows:

Long positions in the Shares of the Company

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total registered capital
Zhang En Rong	Beneficial Interest	235,617,000	43.49%	29.53%
Zhang Yun San	Beneficial Interest	23,108,000	4.27%	2.90%

Name	Type of interest	Number of H shares	Percentage of H shares	Percentage of total registered capital
Zhang Yun San	Beneficial Interest	9,060,400	3.54%	1.14%

Note: Zhang En Rong is the controlling shareholder of the Company. He is father of Zhang Yun San. The Company is not aware of any relationship between the other shareholders of the Company or whether such shareholders are parties to any concerted action.

Related Party Relationships and Connected Transactions

The details of related party transactions during the Year are set out in note XII to the financial statements and XVI. Significant related party transaction of VI. Material Matters of this annual report.

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 that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the Listing Rules, or has any other conflict of interests with the Group during the Year.



V. Directors' Report

Corporate Governance

The details of corporate governance of the Company are set out in the section head "Corporate Governance Report" of this annual report.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2017. To the best knowledge of the Directors, the Company has fulfilled the public float requirements under Rule 8.08 of the Listing Rules.

Auditors

The Company has appointed ShineWing CPA Limited (Special General Partnership) as the auditor of the Company. ShineWing CPA Limited (Special General Partnership) will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

Events after the Reporting Period

(1) Delisting risk warning from Shenzhen Stock Exchange

The net profits attributable to the shareholders of the Company for two consecutive fiscal years of 2015 and 2016 were negative. According to the relevant provisions of 13.2.1 of the Listing Rules of Stocks on the Shenzhen Stock Exchange, the Company's shares were warned of delisting risk on 7 April 2017. The net profits attributable to the shareholders of the Company in 2017 is positive, and there are no other conditions that require warnings of delisting risk or other risks as according to the Listing Rules of Stocks on the Shenzhen Stock Exchange. During this report, the Company reports has applied for the revocation of the warning of delisting risk, which is pending approval by the Shenzhen Stock Exchange.

(2) Save for the above-mentioned events after the balance sheet date, the Group has no other substantial events.

On behalf of the Board

Shandong Molong Petroleum Machinery Company Limited

Chairman

Zhang En Rong

Shandong, the PRC

29 March 2018

VI. Material Matters



I. Profit distribution for the ordinary shares of the Company and conversion of capital reserves into share

Profit distribution for the ordinary shares, especially the formulation, implementation or adjustment of cash dividend during the reporting period

Applicable Not applicable

According to the proposals on profit distribution passed at the eighth meeting of fifth session of the Board held on 29 March 2018, the Company does not recommend the payment of final dividend for the year ended 31 December 2017. The above proposals on profit distribution still need to be considered and approved at the AGM.

Cash dividend policy special explanation

It accords with articles of association stipulate or resolutions of shareholders' meeting requirement:	Yes
Participation in profit standard and proportion is clear-cut and distinct.	Yes
Relevant decision-making process and institution are complete	Yes
Independent Directors are conscientiousness and give play to proper role	Yes
Minority shareholders can fully express opinions and appeals. Legitimate rights and interests been fully protected	Yes
Adjustment or changed cash dividend policy, conditions and procedures meet the specification and transparent	Yes

The proposals on profit distribution for the ordinary shares and conversion of capital reserves into share in the past three years (the reporting period inclusive)

There is no profit distribution in the past three years (the reporting period inclusive).

Cash dividend of the ordinary shares for the last three years (the reporting period inclusive)

Unit: RMB

Cash bonus year	Amount for profit for cash bonus (including tax)	Net profit attributable to ordinary shareholders of the listed Company in consolidated statement of cash bonus year	Ratio of cash bonus to net profit attributable to equity holders of the Company	Amount for profit for other ways' cash bonus	Ratio of other ways' cash bonus
2017	0.00	38,038,484.18	0.00%	0.00	0.00%
2016	0.00	(612,476,376.18)	0.00%	0.00	0.00%
2015	0.00	(259,565,004.32)	0.00%	0.00	0.00%

The Company generated profit and the parent company generated positive distributable profit for ordinary shareholders during the reporting period but no cash dividend distribution proposal was presented during the reporting period

Applicable Not applicable



VI. Material Matters

II. Proposal on 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 capitalization.

III. Performance of commitment

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

Applicable Not applicable

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

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

Applicable Not applicable

IV. Non-operating capital of the listed company by the controlling shareholder and its related parties

Applicable Not applicable

There is no non-operating capital of listed company by controlling shareholder and related parties of the Company during the reporting period.

V. Explanation for Board, Supervisory Committee and independent Director (if any) regarding the "modified auditor's report" for the current period by the accounting firm.

Applicable Not applicable

VI. Material Matters



VI. Explanation for the change in accounting policy, accounting estimate and accounting method as compared to the financial report of last year.

✓ Applicable Not applicable

Contents and reasons for the changes in accounting policies

	Vetting Process	Remarks
In 2017, the Ministry of Finance revised the No.16 of Accounting Standards for Business Enterprises, which come into force since 12 June 2017. The government grants existing on 1 January 2017 shall apply prospective application method; and government grants newly granted from 1 January 2017 to the implementation date shall also be adjusted persuade to the revised Standard. The Group adopted the relevant accounting standards when preparing the financial statement for the year of 2017 processed them in accordance with the relevant convergence rules.	The relevant changes in accounting policies have been approved on the 7th meeting of the 5th Board.	Note 1
In 2017, the Ministry of Finance published the No.42 of Accounting Standards for Business Enterprises: Holding Non-current Assets to Be Sold, Disposal Groups and Termination of Business, which come into force since 28 May 2017. The non-current assets, disposal groups and termination of business existing on 28 May 2017 shall apply the new published standards. The Group adopted the relevant accounting standards when preparing the financial statement for the year of 2017 processed them in accordance with the relevant convergence rules.	The relevant changes in accounting policies have been approved on the 8th meeting of the 5th Board.	Note 2
In 2017, the Ministry of Finance published the Notice of the Ministry of Finance on the Revision of The Format for The Issuance of Financial Statements of the General Corporates, which made some revisions on the format of general corporates' financial statements issued during and after the Year 2017. The Group adopted the relevant accounting standards when preparing the financial statement for the year of 2017 processed them in accordance with the relevant convergence rules.	The relevant changes in accounting policies have been approved on the 8th meeting of the 5th Board.	Note 3

Note 1: According to the new Standards for Government Grants, the government grants related to the Group's daily operation activities will be accounted in other incomes but no longer in non-operating income, while the comparative data remains unchanged. This policy influenced the Group's other income in the financial statement of the financial year of 2017 with RMB 156,275,852.23.

Note 2: The implementation of the policies does not influence the financial statement of the financial year of 2017 of the Group.

Note 3: ① The net profits from continuing operations of the Group in 2017 was influenced with RMB 35,081,480.83, comparing to the RMB(650,705,699.73) in 2016, by the Ministry of Finance's Notice on listing out the "Net Profits from Continuing Operations" and "Net Profits from Discontinued Operations" in the profit table, respectively, which drives the adjustment of the comparative data. ② The asset disposal income of the Group in 2017 of RMB 62,088,298.95, comparing to the RMB 270,348.71 in 2016, was influenced with non-operating income of RMB(270,348.71), respectively, by the Ministry of Finance's Notice on listing out the Asset Disposal Income in the profit table and re-sorting the items previously listed under "Non-operating Income" and "Non-operating Expenses" into the "Asset Disposal Income", which drives the adjustment of the comparative data.



VI. Material Matters

VII. Explanation for major accounting errors correction that need to trace the restatement

No major accounting errors correction needs to trace the restatement during the reporting period.

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

There is no change of the consolidated statements range.

IX. Appointment, dismissal of accounting firm

Appointed accounting firm

Name of the domestic accounting firm	Shinewing Certified Public Accountants Ltd. (Special General Partner)
Reward of the domestic accounting firm (Unit: RMB'0,000)	120
Continued term of service of the domestic accounting firm	5
Name of CPA of the domestic accounting firm	Kan Jing Ping, Zhang Xiu Qin
Continued term of service of certified public accountants of the domestic accounting firm	1, 3
Name of the foreign accounting firm (if any)	Not applicable
Reward of the foreign accounting firm (if any)	Not applicable
Continued term of service of the foreign accounting firm (if any)	Not applicable

Whether change appointed accounting firm at current period

Yes No

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

Applicable Not applicable

VI. Material Matters



X. Suspension of listing and termination of listing after disclosure of annual report

Applicable Not applicable

XI. Matter related to bankruptcy and reorganisation

Applicable Not applicable

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

XII. Significant lawsuit and arbitration

Applicable Not applicable

Basic information about litigation (arbitration)	Amount involved (RMB'0,000)	Will liability be incurred	Progress of litigation (arbitration)	Judgment result of the litigation (arbitration) and its effect	Judgment execution of the litigation (arbitration)	Disclosure date	Disclosure index
Claims from investors	1,250	Yes	9 cases under trial, and the remaining not called for trial yet.	No litigation conclusions have been issued.	Not Applicable	—	—



VI. Material Matters

XIII. Punishment and rectification

✓ Applicable □ Not applicable

Name	Type	Reason	Type of investigate punishment	Conclusion (If any)	Disclosure date	Disclosure index
Shandong Molong Petroleum Machinery Company Limited	Company	Breach of rules and regulations by information disclosure	Investigation or administrative punishment from CSRC	Giving a warning to and ordering for making rectification for the Company, and imposing a fine of RMB600,000.	26 September 2017	The announcement regarding receiving Prior Notification of Administrative Penalty of CSRC (announcement No.: 2017-052) disclosed by the Company at Juchao Website (http://www.cninfo.com.cn).
Zhang En Rong, Zhang Yun San, Yang Jin, Lin Fu Long, Guo Huan Ran, Guo Hong Li, John Paul Cameron, Wang Chun Hua, Xiao Qing Zhou, Qin Xue Chang, Ji Yan Song, Quan Yu Hua	Directors	Breach of rules and regulations by information disclosure	Investigation or administrative punishment from CSRC	Giving a warning; imposing a fine of RMB100,000 to Zhang En Rong; imposing a fine of RMB300,000 to Zhang Yun San and Yang Jin respectively; imposing a fine of RMB50,000 to Lin Fu Long, Guo Huan Ran, Guo Hong Li, John Paul Cameron and Wang Chun Hua respectively; imposing a fine of RMB30,000 to Xiao Qing Zhou, Qin Xue Chang, Ji Yan Song and Quan Yu Hua respectively.	26 September 2017	The announcement regarding receiving Prior Notification of Administrative Penalty of CSRC (announcement No.: 2017-052) disclosed by the Company at Juchao Website (http://www.cninfo.com.cn).
Hao Liang, Fan Ren Yi, Zhang Jiu Li, Zheng Jian Guo	Supervisors	Breach of rules and regulations by information disclosure	Investigation or administrative punishment from CSRC	Giving a warning and imposing a fine of RMB30,000.	26 September 2017	The announcement regarding receiving Prior Notification of Administrative Penalty of CSRC (announcement No.: 2017-052) disclosed by the Company at Juchao Website (http://www.cninfo.com.cn).
Zhao Hong Feng, Ding Zhi Shui	Senior management	Breach of rules and regulations by information disclosure	Investigation or administrative punishment from CSRC	Giving a warning, and imposing a fine of RMB100,000 to Zhao Hong Feng; and imposing a fine of RMB50,000 to Ding Zhi Shui.	26 September 2017	The announcement regarding receiving Prior Notification of Administrative Penalty of CSRC (announcement No.: 2017-052) disclosed by the Company at Juchao Website (http://www.cninfo.com.cn).
Zhang En Rong	Actual controller	Breach of rules and regulations by information disclosure and insider trading	Investigation or administrative punishment from CSRC	For breach of rules and regulations by information disclosure, ordering for making rectification and giving a warning, and imposing a fine of RMB300,000; for insider trading, confiscating the proceed of RMB16,259,280, and imposing a fine of RMB48,777,840.	26 September 2017	The announcement regarding receiving Written Decision of Administrative Penalty of CSRC by Zhang En Rong, Zhang Yun San and other related parties (announcement No.: 2017-053) disclosed by the Company at Juchao Website (http://www.cninfo.com.cn).
Zhang Yun San	Director	Breach of rules and regulations by information disclosure and insider trading	Investigation or administrative punishment from CSRC	For insider trading, confiscating the proceed of RMB14,343,540, and imposing a fine of RMB43,030,620.	26 September 2017	The announcement regarding receiving Written Decision of Administrative Penalty of CSRC by Zhang En Rong, Zhang Yun San and other related parties (announcement No.: 2017-053) disclosed by the Company at Juchao Website (http://www.cninfo.com.cn).
Shandong Molong Petroleum Machinery Company Limited	Company	Breach of rules and regulations by information disclosure	Public censure by stock exchanges	Public censure	12 January 2018	The Announcement on the Company and the parties concerned receiving public censure by the Shenzhen Stock Exchange (announcement No.: 2018-001) disclosed by the Company at Juchao Website (http://www.cninfo.com.cn).
Zhang En Rong, Zhang Yun San, Yang Jin, Guo Huan Ran, Guo Hong Li, Wang Chun Hua	Directors	Breach of rules and regulations by information disclosure	Public censure by stock exchanges	Public censure	12 January 2018	The Announcement on the Company and the parties concerned receiving public censure by the Shenzhen Stock Exchange (announcement No.: 2018-001) disclosed by the Company at Juchao Website (http://www.cninfo.com.cn).
Hao Liang, Zhang Jiu Li	Supervisors	Breach of rules and regulations by information disclosure	Public censure by stock exchanges	Public censure	12 January 2018	The Announcement on the Company and the parties concerned receiving public censure by the Shenzhen Stock Exchange (announcement No.: 2018-001) disclosed by the Company at Juchao Website (http://www.cninfo.com.cn).
Zhao Hong Feng, Zhang Shou Kui, Liu Zengxiang, Li Peng	Senior management	Breach of rules and regulations by information disclosure	Public censure by stock exchanges	Public censure	12 January 2018	The Announcement on the Company and the parties concerned receiving public censure by the Shenzhen Stock Exchange (announcement No.: 2018-001) disclosed by the Company at Juchao Website (http://www.cninfo.com.cn).

VI. Material Matters



Note of Rectification

Applicable Not applicable

At present, the Company and the parties concerned have paid corresponding penalties according to the decisions in the Written Decision of Administrative Penalty by CSRC. The Company disclosed the Announcement on Correction for the First Quarterly Report, Interim Report and Third Quarterly Report of 2016 on 31 March 2017 and the Announcement on Correction for the First Quarterly Report, Interim Report and Third Quarterly Report of 2015 on 30 September 2017 at Juchao Website (<http://www.cninfo.com.cn>) respectively to correct relevant major accounting errors in the earlier stage.

XIV. Integrity condition of the Company and its controlling shareholders and actual controllers

Applicable Not applicable

During the reporting period, the Company and its controlling shareholders and actual controllers were in good credit standing, and there were neither failure to implement the effective judgment of the court, nor any large amount of outstanding debts.

XV. Implementation of stock incentive plan, ESOP or other personnel encouragement method

Applicable Not applicable

There is no stock incentive plan, ESOP or other personnel encouragement method and implementation during the reporting period.

XVI. Significant related party transaction

1. Related party transactions associated with the day-to-day operations

Applicable Not applicable

Related transaction parties	Related party relationship	Types of the related party transactions	Content of related party transactions	Pricing basis of the related party transactions	Price of related party transactions	Amount of related party transactions (RMB'0,000)	Percentage as the amount of similar transactions	Amount of transactions approved (RMB'0,000)	Whether exceeding approved cap	Settlement of related party transactions	Market price of available similar transaction	Date of disclosure	Disclosure index
Karamay Yalong Petroleum Machinery	Joint venture	Sale of goods	Oil well pump and parts	Market price	Market price	256.06	24.58%	1,000	No	Spot exchange or acceptance	Yes	—	—
Total				—	—	256.06	—	1,000	—	—	—	—	—

Big sales return details

No

Do the prediction for aggregate amount of daily related party transaction which will happen in the reporting period by category. Actual performance condition in the reporting period (if any)

Not applicable

Explanation for transaction price has a big difference with market reference price (if any)

Not applicable



VI. Material Matters

2. Related party transaction in connection with purchase or sale of assets or equity interests

Applicable Not applicable

There was no related party transaction of the Company in connection with purchase or sale of assets or equity interest during the reporting period.

3. Related party transaction connected to joint external investment

Applicable Not applicable

There was no related party transaction of the Company connected to joint external investment during the reporting period.

4. Related creditors' rights and debts transactions

Applicable Not applicable

There were no related creditors' rights and debts transactions of the Company during the reporting period.

5. Other significant related party transaction

Applicable Not applicable

On 18 January 2017, in the 2nd temporary meeting of the 5th Board of the Company, the proposal of using Mr. Zhang En Rong's (the Company's controlling shareholder) funds and related transactions was considered and approved. They decided to use Mr. Zhang En Rong's capital of RMB150 million for the development of the Company. For details, please refer to the Announcement in respect of using capital from controlling shareholder and related party transaction as disclosed at Juchao Website (<http://www.cninfo.com.cn>) on 19 January 2017.

On 30 March 2017, in the 4th meeting of the 5th Board of the Company, the proposal of using Mr. Zhang En Rong's (the Company's controlling shareholder) funds and related transactions was considered and approved. They decided to use Mr. Zhang En Rong's capital of RMB60 million for the development of the Company. For details, please refer to the Announcement in respect of using capital from controlling shareholder and related party transaction as disclosed at Juchao Website (<http://www.cninfo.com.cn>) on 6 April 2017.



XVII. Significant contract and its performance

1. Trusteeship, Contracting and lease condition

(1). Trusteeship condition

The Company has no trusteeship during the reporting period.

(2). Contracting condition

The Company has no contracting during the reporting period.

(3). Lease condition

The Company had no lease during the reporting period.

2. Significant guarantee

The Company had no guarantee during the reporting period.

3. Entrust others to manage cash assets

(1). Entrust to manage money matters condition

Unit: RMB'0,000

Specific type	Source of funds for entrusted wealth management	Number for entrusted wealth management	Outstanding balance	The amount due but not received
Wealth management products of banks	Self-owned capital	7,369	0	0
Total		7,369	0	0

(2). Entrust loans condition

The Company had no entrust loans during the reporting period.

4. Other significant contract

There was no significant contract during the reporting period.



VI. Material Matters

XVIII. Social Responsibility Report

1. Performing social responsibility

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

1. Safeguarding shareholders' interest

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

2. Safeguarding employees' interest

The Company highly emphasized the nurture of talents. We strived to improve the quality of our staff and realized mutual growth of our staff and the enterprise by offering our staff with career planning and organising various corporate training. The Company offered various social insurance to our staff and established relief fund to care and support staff in difficult times and created a harmonious working environment.

3. Actively participate in social undertakings

The Company paid great attention to the creation of social value and placed our focus of fulfilling social responsibility on actively participating in social services. We have spared no effort to join social undertakings and charity activities and organize numerous donations with a view to rewarding the society within our capacity.

2. Fulfillment of social responsibility regarding targeted poverty alleviation

During the reporting period, the Company had no targeted e poverty alleviation activity, and also no subsequent targeted poverty alleviation plan.

3. Information relating to environmental protection

Whether or not the listed company and its subsidiaries are among a list of major entities discharging pollutants released by environmental protection departments

No

In strict accordance with the requirements for environmental protection laws and regulations in project construction and production and operation, the Company always adheres to the business philosophy of lawful business and integrity management, and focuses on the performance of its social responsibilities. During the reporting period, the Company improved the gas generators as required by the government in "coal-to-gas" policy, resulting in the smooth substitution of LNG and natural gas with coal gas. In addition, the Company spent large amount of funds to purchase environmental protection devices to improve the workshop in a timely manner and continuously reduce noise and other pollutions. Furthermore, the Company achieved zero discharge of production wastewater by addition of sewage disposal equipment and pipeline reconstruction, thus achieving good results in terms of environmental protection.

VI. Material Matters



XIX. Explanation for other matters of significance

Applicable Not applicable

The Company had no explanation for other matters of significance during the reporting period.

XX. Significant events of subsidiaries of the Company

Applicable Not applicable



VII. Changes in Share Capital and Shareholders

I. Changes in Share Capital

I. Changes in Shares

Unit: share

	Prior to the change		The change (+, -) Accumulation				After the change		
	Number of shares	Percentage	New issue of shares	Share-granting	fund turn to equity	Other	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	248,330,750	31.13%	—	—	—	—	(12,929,000)	235,401,750	29.50%
1. State-owned shares	—	0.00%	—	—	—	—	—	—	0.00%
2. Domestic legal person	—	0.00%	—	—	—	—	—	—	0.00%
3. Other domestic shares	248,330,750	31.13%	—	—	—	—	(12,929,000)	235,401,750	29.50%
In which : Domestic legal person shares	—	0.00%	—	—	—	—	—	—	0.00%
Domestic natural person shares	248,330,750	31.13%	—	—	—	—	(12,929,000)	235,401,750	29.50%
4. Foreign Shares	—	0.00%	—	—	—	—	—	—	0.00%
In which : Overseas legal person shares	—	0.00%	—	—	—	—	—	—	0.00%
Overseas natural person shares	—	0.00%	—	—	—	—	—	—	0.00%
II. Shares not subject to lock-up	549,517,650	68.87%	—	—	—	—	12,929,000	562,446,650	70.50%
1. RMB ordinary shares	293,391,250	36.77%	—	—	—	—	12,929,000	306,320,250	38.40%
2. Domestic -listed foreign shares	—	0.00%	—	—	—	—	—	—	0.00%
3. Overseas-listed foreign shares	256,126,400	32.10%	—	—	—	—	—	256,126,400	32.10%
4. Others	—	0.00%	—	—	—	—	—	—	0.00%
III. Total number of shares	797,848,400	100.00%	—	—	—	—	—	797,848,400	100.00%

Reason for shareholding change

Applicable Not applicable

On 14 August 2017, Zhang Yun San, the Company's executive Director, Deputy Director and General Manager resigned. All his shares were locked-up during the half year after his cessation of directorship according to the requirements of the listing rules.

Approval for shareholding change

Applicable Not applicable

Transfer of ownership for shareholding change

Applicable Not applicable

VII. Changes in Share Capital and Shareholders



Shareholding change would affect the recent one year and recent one period basic EPS and diluted EPS, common stock holder net asset value per share and other financial indicators

Applicable Not applicable

Other guide that the Company think it's necessary or securities regulatory institution ask for disclosure

Applicable Not applicable

II. Change of restricted shares

Applicable Not applicable

Unit: share

Name of shareholders	Restricted shares at the beginning of the period	Number of shares relieved from restrictions for the period	Increase in number of shares with selling restrictions in the period	Number of shares with selling restrictions at the end of the period	Reasons for selling restrictions	Date of relieving from restrictions
Zhang Yun San	22,956,000	5,777,000	5,777,000	23,108,000	Resignation of a director, no reducing within Six months	2018/02/15
Total	22,956,000	5,777,000	5,777,000	23,108,000	—	—

II. Issuance and listing of securities

- Securities issuance (exclusive of preferred stock) during the reporting period
 Applicable Not applicable
- Explanation for the changes in total shares of the Company and shareholding structure and movement in the assets and liability structure of the Company
 Applicable Not applicable
- Existing internal staff shares condition
 Applicable Not applicable



VII. Changes in Share Capital and Shareholders

III. Profiles of the shareholders and actual controller

1. Number of corporate shareholders and shareholding condition

Unit: share

Total number of ordinary shareholders at the end of reporting period	44,647	Total number of ordinary shareholders at last end of month before the annual report disclosure day	42,069	Total number of voted recovery preferred stockholder at the end of reporting period (if any) (see note 8)	0	Total number of voted recovery preferred stockholder at last end of month before the annual report disclosure day (if any) (see note 8)	0
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Shareholders holding more than 5% of the shares or shareholding of the top ten shareholders

Name of shareholder	Nature of shareholders	Shareholding ratio	Amount of holding shares at the end of reporting period	Increase/decrease in the reporting period	Number of restricted shares held	Number of non-restricted shares held	Pledge or freeze condition	
							State in shares	Number
HKSCC Nominees Limited	Overseas legal person	32.06%	255,818,590	0	0	0	—	—
Zhang En Rong	Domestic natural person	29.53%	235,617,000	-30000000	199,212,750	36,404,250	Pledge	85,000,000
Zhang Yun San	Domestic natural person	4.03%	32,168,400	0	23,108,000	9,060,400	—	—
Lin Fu Long	Domestic natural person	3.28%	26,162,000	0	13,081,000	13,081,000	—	—
Central Huijin Asset Management Co., Ltd	State-owned legal person	1.70%	13,536,100	0	0	0	—	—
Ronghe Phase II private securities investment fund of Shenzhen Qianhai Jingwei Ronghe Asset Management Co., Ltd. (深圳前海經緯融和資產管理有限公司)	Domestic non-state legal person	0.48%	3,827,552	0	0	0	—	—
Beijing Hao Shi Jia gas equipment co., LTD	Domestic non-state legal person	0.42%	3,390,171	0	0	0	—	—
Wang Hai Bo	Domestic natural person	0.38%	2,992,308	0	0	0	—	—
Hangzhou Yirun Hongrui Investment Partnership (Limited Partnership) (杭州益潤宏瑞投資合夥企業(有限合夥))	Domestic non-state legal person	0.37%	2,962,700	0	0	0	—	—
Yu Zhao Gang	Domestic natural person	0.21%	1,674,500	0	0	0	—	—

VII. Changes in Share Capital and Shareholders



Remarks on strategic investor or ordinary legal person becoming top 10 shareholders after placing of new shares (if any) (see note 3)	Not applicable
Connected relationship or concert-party relationship among the above shareholders	Zhang En Rong is the controlling shareholder of the Company, he is the father of Zhang Yun San. The Company is not aware of any connected relationship or concert-party relationship among other shareholders.

Shareholdings of the top ten shareholders of non-restricted shares

Name of shareholder	Number of unrestricted shares held at the end of the reporting period	Class of shares	
		Class of shares	Amount
HKSCC Nominees Limited	255,818,590	Overseas listed foreign shares	255,818,590
Zhang En Rong	36,404,250	RMB ordinary shares	36,404,250
Central Huijin Asset Management Co., Ltd	13,536,100	RMB ordinary shares	13,536,100
Lin Fu Long	13,081,000	RMB ordinary shares	13,081,000
Zhang Yun San	9,060,400	Overseas listed foreign shares	9,060,400
Ronghe Phase II private securities investment fund of Shenzhen Qianhai Jingwei Ronghe Asset Management Co., Ltd.	3,827,552	RMB ordinary shares	3,827,552
Beijing Hao Shi Jia Gas Equipment Co., LTD	3,390,171	RMB ordinary shares	3,390,171
Wang Hai Bo	2,992,308	RMB ordinary shares	2,992,308
Hangzhou Yirun Hongrui Investment Partnership (Limited Partnership)	2,962,700	RMB ordinary shares	2,962,700
Yu Zhao Gang	1,674,500	RMB ordinary shares	1,674,500

Explanation for the connected relationship or concert-party relationship in the Top ten holders of non-restricted circulating shares, and between Top ten holders of non-restricted circulating shares and Top ten shareholders

Zhang Enrong is the father of Zhang Yun San. The Company is not aware about whether there exists connected relationship or concert-party relationship among other shareholders.

Explanation for top ten common stockholders participate in securities margin trading (if any)(see note 4)

Not applicable

Any top ten holders of common stock and top ten holders of non-restricted ordinary shares conducting any repurchase of shares.

Yes No

Top ten holders of common stock and top ten holders of non-restricted ordinary shares did not conduct any repurchase of shares.



VII. Changes in Share Capital and Shareholders

2. Controlling shareholders of the Company

Natural of controlling shareholder: Natural person holding

Type of controlling shareholder: Natural person

Name of controlling shareholder	Citizenship	Whether obtained the residential right from other countries or districts
Zhang En Rong	China	No
Main occupation and duties	Chairman	
Equity interests controlled and invested in other companies whose shares were listed domestically or overseas during the reporting period.	Not applicable	

Change condition of controlling shareholders during the reporting period.

Applicable Not applicable

There is no change of controlling shareholder during the reporting period.

3. Profile of actual controller of the Company

Nature of actual controller: Domestic natural person

Type of actual controller: natural person

Name of actual controller	Citizenship	Whether obtained the residential right from other countries or districts
Zhang En Rong	China	No
Main occupation and duties	Chairman	
Companies listed domestically or overseas in the past 10 years	Not applicable	

Change of the actual controller during the reporting period

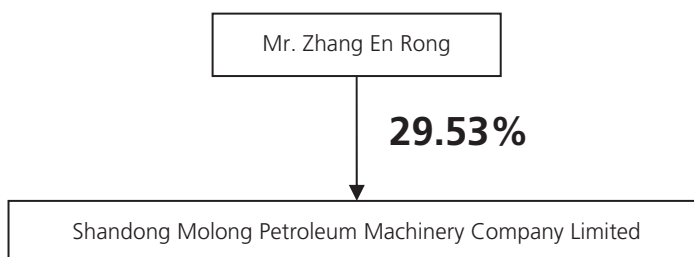
Applicable Not applicable

There is no change of the actual controller during the reporting period

VII. Changes in Share Capital and Shareholders



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



Actual controller controls the Company by trust or other assets management way.

Applicable Not applicable

4. Other legal person shareholder who holds more than 10% of the shares

Applicable Not applicable

5. Restrictions on reduction of shares for the controlling shareholder, actual controller, party to restructuring and other commitment entity

Applicable Not applicable



VIII. Preferred Stock

Applicable Not applicable

The Company has no preferred stock during the reporting period.

IX. Directors, Supervisors, Senior Management and Employees



I. Changes in Shareholdings of the Directors, Supervisors and Senior Management

Name	Position	Duty State	Gender	Age	Term start date	Term end date	Shares held at the beginning of the year	Shares increased this year	Shares decreased this year	Other changes (shares)	Shares held at the end of the year
Zhang En Rong	Chairman of Company	Current	M	79	29 June 2016	28 June 2019	265,617,000	0	30,000,000	0	235,617,000
Zhang Yun San	Deputy Chairman and General Manager	Former	M	56	29 June 2016	14 August 2017	32,168,400	0	0	0	32,168,400
Guo Huan Ran	Executive Director and Deputy General Manager	Current	M	50	29 June 2016	28 June 2019	0	0	0	0	0
Yang Jin	Executive Director	Current	M	55	29 June 2016	28 June 2019	0	0	0	0	0
Yang Jin	Chief Financial Officer	Redesignated	M	55	29 June 2016	24 April 2017	0	0	0	0	0
Yang Jin	Deputy General Manager	Redesignated	M	55	24 April 2017	28 June 2019	0	0	0	0	0
Guo Hong Li	Non-executive Director	Current	M	62	29 June 2016	28 June 2019	0	0	0	0	0
Wang Chun Hua	Non-executive Director	Current	F	65	29 June 2016	28 June 2019	0	0	0	0	0
Qin Xue Chang	Independent Director	Current	M	52	29 June 2016	28 June 2019	0	0	0	0	0
Ji Yan Song	Independent Director	Current	M	50	29 June 2016	28 June 2019	0	0	0	0	0
Quan Yu Hua	Independent Director	Current	F	62	29 June 2016	28 June 2019	0	0	0	0	0
Hao Liang	Chairman of Supervisory Committee	Current	M	37	29 June 2016	28 June 2019	0	0	0	0	0
Zhang Jiu Li	Supervisor	Current	M	53	29 June 2016	28 June 2019	0	0	0	0	0
Zheng Jian Guo	Supervisor	Current	M	60	29 June 2016	28 June 2019	0	0	0	0	0
Zhang Shou Kui	Deputy General Manager	Redesignated	M	48	29 June 2016	24 April 2017	0	0	0	0	0
Liu Zeng Xiang	Deputy General Manager	Redesignated	M	48	29 June 2016	24 April 2017	0	0	0	0	0
Li Peng	Deputy General Manager	Redesignated	M	40	29 June 2016	24 April 2017	0	0	0	0	0
Zhao Hong Feng	Deputy General Manager and the Secretary of the Board	Current	M	39	29 June 2016	28 June 2019	0	0	0	0	0
Zhang Yu Zhi	Deputy General Manager	Redesignated	M	61	24 April 2017	28 June 2019	0	0	0	0	0
Li Wen Qing	Deputy General Manager	Former	M	48	24 April 2017	12 July 2017	0	0	0	0	0
Guo Xing Ping	Deputy General Manager and Chief Financial Officer	Former	F	46	24 April 2017	12 July 2017	0	0	0	0	0
Ci Xiao Lei	Deputy General Manager	Former	M	44	24 April 2017	23 August 2017	0	0	0	0	0
Liu Min	Deputy General Manager and Chief Financial Officer	Redesignated	M	44	23 August 2017	28 June 2019	0	0	0	0	0
Total	—	—	—	—	—	—	297,785,400	0	30,000,000	0	267,785,400



IX. Directors, Supervisors, Senior Management and Employees

II. Changes of the Directors, Supervisors and Senior Management

Applicable Not Applicable

Name	Position	Type	Date	Explanation
Yang Jin	Chief Financial Officer	Dismissal	24 April 2017	No longer taking the position of Financial Director due to job adjustment.
Yang Jin	Deputy General Manager	Redesignated	24 April 2017	Being appointed as the Deputy General Manager of the Company due to job adjustment.
Zhang Yun San	Deputy Chairman and General Manager	Former	14 August 2017	Resigning for personal reasons.
Zhang Yu Zhi	Deputy General Manager	Redesignated	24 April 2017	Being appointed as the Deputy General Manager of the Company due to job adjustment.
Li Wen Qing	Deputy General Manager	Redesignated	24 April 2017	Being appointed as the Deputy General Manager of the Company.
Li Wen Qing	Deputy General Manager	Dismissal	12 July 2017	Resigning the position of Deputy General Manager of the Company for personal reasons.
Guo Xing Ping	Deputy General Manager and Chief Financial Officer	Redesignated	24 April 2017	Being appointed as the Deputy General Manager and Chief Financial Officer of the Company.
Guo Xing Ping	Deputy General Manager and Chief Financial Officer	Dismissal	12 July 2017	Resigning the positions of Deputy General Manager and Chief Financial Officer of the Company for personal reasons.
Ci Xiao Lei	Deputy General Manager	Redesignated	24 April 2017	Being appointed as the Deputy General Manager of the Company.
Ci Xiao Lei	Deputy General Manager	Dismissal	23 August 2017	Resigning the position of Deputy General Manager of the Company for personal reasons.
Zhang Shou Kui	Deputy General Manager	Dismissal	24 April 2017	No longer taking the position of Deputy General Manager of the Company due to job adjustment.
Liu Zeng Xiang	Deputy General Manager	Dismissal	24 April 2017	No longer taking the position of Deputy General Manager of the Company due to job adjustment.
Li Peng	Deputy General Manager	Dismissal	24 April 2017	No longer taking the position of Deputy General Manager of the Company due to job adjustment.

IX. Directors, Supervisors, Senior Management and Employees



III. Working Conditions

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

1. Members of the Board

Executive Director

Mr. Zhang En Rong (張恩榮先生), Chinese nationality, born in January 1940, is the chairman of the Company. Mr. Zhang with Junior college degree, is a founder of the Company and is responsible for the overall strategic planning, management and business development of the Group. Mr. Zhang has held several positions within the Group, and was the legal representative and factory manager of Shandong Shouguang Petroleum Machinery Parts Factory, Shandong Shouguang Petroleum Machinery Factory and Weifang Molong Industrial Company from 1987 to 1993 and the General Manager of Shandong Molong Holdings Company from 1994 to 2001, Mr. Zhang has been the Chairman of the Company since 2001. Mr. Zhang En Rong was a member of the 12th session, 13th session and 14th session of the Weifang City People's Congress of the PRC, a member of the 5th session and the 6th session of the Shandong Shouguang City Committee of the Chinese People's Political Consultative Conference. Mr. Zhang was awarded the "Good Enterprise Management Personnel" certificate in 1988 and 2001, and the "Wealth Attainment and Development of Shandong" medal of Shandong Province in 2004.

Mr. Guo Huan Ran (國煥然先生), Chinese nationality, born in April 1967, executive master of business administration degree from School of Continuing Education, Tsinghua University, is Deputy General Manager of the Company. Mr. Guo has served in Shandong Shouguang Petroleum Machinery Factory since March 1991 as technician, and held workshop supervisor and Production Director of the Company from 1994 to 2001, and has been the Production Director and Deputy General Manager of the Company since 2001, responsible of Marketing and Technical works of the Group. Mr. Guo has extensive experience in areas including production management and technology research and development of petroleum drilling and extraction machinery. Mr. Guo has directed the innovation of various items for export, such as liner for mud pump and valve body. Some of the products, such as "Special Centralizer for Electrical Submersible Pump System", won the third prize of "Science and Technology Achievements Award from Village & Township Enterprises Administration of Agriculture of People's Republic of China". Mr. Guo has been awarded the title of "Outstanding Young Entrepreneur of Shouguang City" in 2007.

Mr. Yang Jin (楊晉先生), Chinese nationality, born in March 1964, the financial controller of the Company, graduated from Shandong Economics College with qualification in economic management. Mr. Yang Jin joined Shandong Molong Petroleum Machinery Company Limited in 2008 and served as the manager of the legal affairs division; he served also as the manager of the Human Resources Division in 2009; and from 2009 to 2012, he served as the assistant of the general manager, and from March 2012 to April 2017, he served as the Chief Financial Officer of the Company, and from April 2017 till now, he has served as Deputy General Manager of the Company.

Non-executive Director

Ms. Wang Chun Hua (王春花女士), Chinese nationality, born in November 1953, holds a bachelor's degree and is retired now. Ms. Wang has over 20 years of experience in the court work and had held the various positions in Shandong Shouguang People's Court including the judge, associate chief judge and the chief judge of the No. 1 criminal justice division, vice president, president and the Party secretary. Ms. Wang had been appointed as the Vice Chairman of the eighth session of the Shouguang City Committee of the Chinese People's Political Consultative Conference.

Mr. Guo Hong Li (郭洪利先生), Chinese nationality, born in September 1956, holds a bachelor's degree. Mr. Guo has more than 30 years of experience in financial industry. He has held Shouguang city credit cooperatives, director of Shouguang city bank director, deputy governor and president of Shouguang branch of agricultural bank.



IX. Directors, Supervisors, Senior Management and Employees

Independent non-executive Directors

Mr. Qin Xue Chang (秦學昌先生), Chinese nationality, was born in July 1965. Mr. Qin holds a Bachelor Degree and is a senior accountant. He is one of the first fellow certified public accountants in the PRC, a chartered certified public accountant in securities and futures industry, a representative of the tenth Party Congress of Shandong Province of the PRC, a member of the CPPCC Shandong Provincial Committee, a member of the Standing Committee of Weifang City People's Congress, a member of Finance Committee under the Standing Committee of Weifang City People's Congress. He was the department head, deputy chairman, and directorial deputy chairman of the accounting firm under the Finance Bureau of Weifang City, and the director and deputy chief accountant of Beijing Yongtuo Certified Public Accountants Co., Ltd. He is currently the general manager and chief accountant of Shandong Branch, Beijing Yongtuo Certified Public Accountants Co., Ltd., as well as a managing director of the Shandong Provincial Accounting Society, an executive member of the Shandong Provincial Industry & Commerce Federation, a supervisor of the People's Procuratorate of Shandong Province and a managing director of Shandong Business Promotion Association.

Mr. Ji Yan Song (冀延松先生), Chinese nationality, born in May 1968, holds a master degree in management. Mr. Ji first joined Jun An Security Company Limited as an industry researcher and then as an investment manager in the asset management department. He then served as the Director of research institute at Hua'an Securities Company Limited, as an Investment Director of Bai Rui Trust Limited Company, and later as the director in the organization department of China Merchants Fund Management Company Limited. Mr. Ji is currently the chairman of Shenzhen Zongcai Investment Management Company Limited and a limited partner of Shanghai Liding Capital Company (a limited liability partnership).

Ms. Quan Yu Hua (權玉華女士), Chinese nationality, born in May 1956, holds a bachelor degree, and is an accountant. She served as appropriation member of CCB Huimin area central sub-branch, Huimin area tax bureau local tax department deputy chief, section chief, State auditing administration Jinan Tepakban section chief, trust and investment corporation financing department manager of CCB Shandong branch, Level 5 customer manager of CCB Jinan Pearl Spring branch.

2. Members of Supervisory Committee

Mr. Hao Liang (郝亮先生), Chinese nationality, born in November 1981, junior college degree, graduated from Qingdao University of Science and Technology automation specialty in 2003, and was engaged to work for the Company from May 2007, Mr. Hao currently does QHSE (quality, health, safety, and environment) system management. In working lifetime, he obtained qualification certificates including but not limited to "QES internal auditor" "API internal auditor" and "energy contract manager" through training.

Mr. Zhang Jiu Li (張九利先生), Chinese nationality, born in July 1965, holds a bachelor's degree, and is a senior accountant. Mr. Zhang Jiu Li possesses more than a decade of accountant, audit, assets appraisal and business administration experience. He Held the post of Shouguang City personnel bureau section member, Shouguang City bureau of finance section chief. Mr. Zhang is currently the chairman and party branch secretary of Shouguang Shengcheng limited liability accounting firm, as well as the president of Shouguang City Promote the development of private enterprise association, Shouguang City association of industry and commerce vice-chairman, Shouguang City accounting association vice-chairman.

Mr. Zheng Jian Guo (鄭建國先生), Chinese nationality, born in June 1958, holds a bachelor's degree, and is a senior engineer. Mr. Zheng Jian Guo possesses more than two decades of corporate managerial experience. He Held the post of Taiyuan heavy machinery limited company designing institute steel rolling deputy director, Straightening factory director, steel rolling forge and press instrument factory director, Taiyuan Heavy Industry Co., Ltd steel rolling forge and press instrument branch manager, Taiyuan Heavy Industry Co., Ltd chief engineer, Shanxi Province mechanical engineering Society executive member of the council, The Chinese Society for Metals steel rolling branch Academic Committee Members. He once obtained one Shanxi Province scientific and technological progress first prize, and two National scientific and technological progress awards (Second class).

IX. Directors, Supervisors, Senior Management and Employees



3. Senior Management

As for the information about Guo Huan Ran and Yang Jin, the deputy general managers of the Company, please refer to "1. Directors" of this section above. Other members of senior management are as follows:

Mr. Zhang Yu Zhi (張玉之先生), Chinese nationality, without permanent right of abode overseas, was born in November 1958. Before joining the Company, he was responsible for management of Weifang Motor Transportation Company(濰坊汽運公司) and Shouguang Shangkou Sales Agency. Since joining the Company in October 1994, he has successively held the posts of manager of Xinjiang representative office, general manager of marketing company, deputy general manager of the group company and chairman of the Labour Union.

Mr. Liu Min (劉民先生), Chinese nationality, without permanent right of abode overseas, born in February 1975, was graduated from Shandong University with the title of accountant. He joined the Company in 2003, and has successively held the posts of director of information center, audit director and finance director of the Company. He has over 10 years of experience in finance management.

Mr. Zhao Hong Feng (趙洪峰先生), Chinese nationality, born in August 1979, graduated from Huabei Institute of Technology (華北工學院) with a degree in business administration. Mr. Zhao Hong Feng joined Shandong Molong Petroleum Machinery Company Limited in 2003, he has served as the salesperson of the Import and Export Division, the Investor Relation Manager, the Director of the Board office, the Securities Officer, Deputy General Manager, Board secretary, etc. Since October 2012 up till now, Mr. Zhao has served as the Deputy General Manager and Board secretary of the Company.

4. Company Secretary

Mr. Chan Wing Nang, Billy (陳永能先生), born in June 1961, is the company secretary of the Company. Mr. Chan graduated from the University of Newcastle upon Tyne, United Kingdom with a bachelor degree in Civil Engineering in 1986. He also read a master degree in business administration at the University of Warwick, United Kingdom. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Chan has over 10 years of experience in the accounting and consulting field. Prior to joining the Group, Mr. Chan was a director in a consulting company. Mr. Chan joined the Group on 13 December 2004.

Major position at the subsidiaries of the Group:

Applicable Not applicable

Name	Name of subsidiaries	Major position at the subsidiaries of the Group	Term start date	Term end date	Whether receiving any remuneration or allowance from subsidiaries
Guo Huan Ran	Shouguang Maolong Micro-credit Co., Ltd	Chairman	—	—	No
Explanation for major position at the subsidiaries of the Group	Not applicable				



IX. Directors, Supervisors, Senior Management and Employees

Major position at other organizations

Applicable Not applicable

Name	Name of the organization	Positions	Term start date	Term end date	Whether receiving any remuneration or allowance from the other organization
Guo Hong Li	Weifang Binhai Yufeng Pawn Co., Ltd	General manager	—	—	Yes
Qin Xue Chang	Haoxin Yongtuo (Shandong) Certified Public Accounting Firm	General manager	—	—	Yes
Zhang Jiu Li	Shouguang Shengcheng Limited Liability Accounting Firm	Director	—	—	Yes
Explanation for major position at the Explanation for major position at other organizations	Not applicable				

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

Applicable Not applicable

On 25 September 2017, the Company and the parties concerned received the Written Decision of Administrative Penalty ([2017] No.87) from CSRC, pursuant to which a warning was given and a fine was imposed to Zhang En Rong, Zhang Yun San, Guo Huan Ran, Yang Jin, Guo Hong Li, Wang Chun Hua, Qin Xue Chang, Ji Yan Song, Quan Yu Hua, Hao Liang, Zhang Jiu Li, Zheng Jian Guo and Zhao Hong Feng.

IV. Remunerations of Directors, Supervisors and Senior Management

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

The remuneration proposal for the Directors and Supervisors is drafted by the Board of the Company and agreed by the Board, then presented to the General Meeting for consideration and approval; while the remuneration plan for the senior management is approved by the Board. The subsidy for the Independent Directors and Supervisors of the Company is determined according to the industry level; the remuneration of the Worker Directors, Worker Supervisors and Senior Management of the Company is decided based on the internal wage system and assessment system of the Company. During the reporting period, the Worker Directors, Worker Supervisors and Senior Management received their remuneration on a timely manner according to the wage system and assessment system of the Company. As for the Outside Directors and supervisors, they received their remuneration semi-annually.

IX. Directors, Supervisors, Senior Management and Employees



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

Unit: RMB'0000

Name	Position	Gender	Age	Duty State	Total remuneration before tax received from the Company	Whether receiving any remuneration from the related parties of the Company
Zhang En Rong	Chairman	M	79	Current	52	No
Zhang Yun San	Deputy Chairman and General Manager	M	56	Former	3.47	No
Guo Huan Ran	Executive Director and Deputy general manager	M	50	Current	52.93	No
Guo Hong Li	Non-executive Director	M	62	Current	3.5	No
Wang Chun Hua	Non-executive Director	F	65	Current	3.5	No
Qin Xue Chang	Independent Director	M	52	Current	7.5	No
Hao Liang	Chairman of Supervisory Committee	M	37	Current	8.43	No
Zhang Jiu Li	Supervisor	M	53	Current	1.01	No
Ji Yan Song	Independent Director	M	50	Current	7.5	No
Quan Yu Hua	Independent Director	M	62	Current	7.5	No
Zheng Jian Guo	Supervisor	M	60	Current	1.01	No
Zhang Shou Kui	Deputy General Manager	M	48	Redesignated	33.5	No
Liu Zeng Xiang	Deputy General Manager	M	48	Redesignated	37.49	No
Yang Jin	Executive Director and Deputy General Manager	M	54	Current	44.07	No
Li Peng	Deputy General Manager	M	40	Redesignated	9.23	No
Zhao Hong Feng	Deputy General Manager and the Secretary of the Board	M	39	Current	25.78	No
Guo Xing Ping	Chief Financial Officer	F	46	Former	1	No
Li Wen Qing	Deputy General Manager	M	48	Former	1	No
Ci Xiao Lei	Deputy General Manager	M	44	Former	0	No
Liu Min	Deputy General Manager and Chief Financial Officer	M	44	Current	8.03	No
Zhang Yu Zhi	Deputy General Manager	M	61	Current	18.69	No
Total	—	—	—	—	327.14	—

Stock ownership incentive awarded to the Directors and senior management of the Company

Applicable Not applicable



IX. Directors, Supervisors, Senior Management and Employees

V. Personnel of the Company

1. Number of staffs, professional structure and education level

Number of staffs on active duty in parent company (persons)	1,573
Number of staffs on active duty in major (persons)	1,107
Total number of staffs on active duty (persons)	2,680
Total number of paid staffs in the current period (persons)	2,680
Number of retired staffs that parent company and major subsidiaries need to bear the their expenses (persons)	0

Professional structure

Professional structure type	Number of professional structure (persons)
Production personnel	2,393
Sales personnel	53
Technicist	18
Financial staff	24
Administrative staff	192
Total	2,680

Degree of education

Type of education degree	Number of professional structure (persons)
Technical secondary school (high school) qualifications and below	1,991
Junior college	501
Bachelor	152
Master	36
Total	2,680

2. Remuneration policy

The Company provides stabilized and competitive remuneration for staffs. Staffs' remuneration includes wages, bonuses, allowances and subsidies, employee welfare, and social insurance premiums consisting of insurance premium of pay medical treatment, industrial injury insurance and birth insurance premium etc. The Company enhanced technicians and production personnel's remuneration to fully mobilize staffs' positive initiative and creativity in 2017, and constantly improving the staff's satisfaction and loyalty.

3. Training plan

To enhance staffs' overall quality and work efficiency. HR formulates next year training plan at the end of every year, including training demand analysis, content, time, participants, and training effectiveness specifically. According with strategic target and develop requirement, the Company trained new staffs' management skills, leadership, professional image and manners, improvement of professional skill, job skills training by company learning platform, lecturer Part-time lecturers teach and web-based learning ways.

4. Labor outsourcing condition

Applicable Not applicable

X. Corporate Governance



I. Corporate Governance

During the reporting period, under the requirements of Company Law (《公司法》), Securities Law (《證券法》), Code of Corporate Governance for Listed Companies (《上市公司治理準則》) and listing rules of Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》) in the PRC, and other requirements of the relevant provisions of China Securities Regulatory Commission, the Company has established a high standard of governance structure and sound internal management system to improve the Company's standard operation level. The Board considers there is no material deviation of the Company in its corporate governance from the documented regulatory requirements provided for listed companies in respect of corporate governance.

- (I) **Shareholders and general meetings:** The Company has established a corporate governance structure to ensure that all shareholders are able to fully exercise their rights and enjoy equal status, in particular for minority shareholders. Sufficient time is provided at general meetings of shareholders, which are to be convened legally and validly, for the discussion of each proposal, to provide good opportunities for communications between the Board and the shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or through its designated e-mail address for any enquiries.
- (II) **Controlling shareholder and the listed company:** The Company's controlling shareholder is Mr. Zhang En Rong. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without adversely affecting the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with laws and regulations and the terms and procedures as set out in the Articles. The staffing, assets, financial affairs, organization and business of the controlling shareholder are independent to those of the listed company, with the controlling shareholder. The controlling shareholder has not directly or indirectly interfered with the decision-making and business activities of the Company beyond the general meeting.
- (III) **Directors and the Board:** The Company appoints directors in strict compliance with the procedures set out its Articles, ensuring that the directors are appointed in an open, fair, just and independent manner. In order to fully reflect the opinions of minority shareholders, a cumulative voting scheme is adopted for the appointment of directors. The Board has a reasonable professional structure, acting in the best interests of the Company and in good faith. The Company has formulated a set of rules of procedure for Board meetings, and board meetings are convened and held in strict compliance with the Articles and Rules of Procedure of the Board Meetings. To optimize the corporate governance structure, four specialist committees — the Strategic Committee, Nomination Committee, Audit Committee and Remuneration and Evaluation Committee — have been established by the Board in accordance with the Governance Standards for Listed Companies. The majority of members and the conveners in each of these committees are Independent Directors, providing scientific and professional opinions for reference by the Board in its decision-making.
- (IV) **Supervisors and the Supervisory Committee:** The Supervisors possess professional knowledge and work experience in legal, accounting and other areas and are elected by way of cumulative voting. They monitor the financial affairs and supervise the lawful and regulatory performance of duties by the Company's Directors, the General Manager and other members of the senior management, and safeguard the legal rights and interests of the Company and shareholders. The Company has formulated rules of procedure for the Supervisory Committee meetings. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles and the Rules of Procedure for Supervisory Committee Meetings.



X. Corporate Governance

- (V) **Performance appraisal and incentive mechanism:** During the year, the Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and personal performance in accordance with the Articles of the Company. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of the Company.
- (VI) **Information disclosure and transparency:** The Secretary to the Board is responsible for handling information disclosure, arranging receptions of visiting shareholders and answering enquiries on behalf of the Company. Relevant information is disclosed in strict compliance with Rules on Fair Information Disclosure by Companies Listed on the Shenzhen Stock Exchange and the Articles in a true, accurate, complete and timely manner, ensuring that all shareholders have equal access to information.
- (VII) **Stakeholders:** The Company respects the legal rights and interests of banks and other stakeholders such as creditors, employees, consumers, and suppliers, and works actively with these stakeholders to promote the sustainable and healthy development of the Company.

Any significant variance between actual state of corporate governance and listed company governing listed company governing of CSRC issue.

Yes No

The Company considers that there is no significant variance between actual state of corporate governance and requirements of governance and restrictive guidelines relating to a listed company issued by the CSRC.

II. Particulars about the Independence of Businesses, Personnel, Assets, Organizations, and Finance of the Company from the Controlling Shareholder

1. In terms of business: The Company was operated completely independent from the controlling shareholder, and had its independent and complete business operation capability.
2. In terms of personnel: The labour, personnel and remuneration management were completely separated from the controlling shareholder.
3. In terms of assets: There was only shareholding relationship between the Company and its controlling shareholders. The assets of the Company were completely separated from the controlling shareholder.
4. In terms of organization: The Company had a mature and independent organization structure, which was established according to the legal processes and the business practice of the Company. It was completely separated from the controlling shareholder.
5. In terms of finance: The Company had its own accounting department, accounting system, financial management system, and bank accounts which were independent of the controlling shareholder.

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III. Horizontal competition condition

Applicable Not Applicable

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

1. General meeting during the reporting period

The Meeting Time	Meeting type	Percentage of investors participating	Date of Convening	Date of Disclosure	Index of Disclosure
2016	Annual general meeting	37.36%	29 June 2017	30 June 2017	http://www.hkex.com.hk ; http://www.cninfo.com.cn

2. Preferred stockholder who is recovered by voting power request convoke extraordinary general meeting.

Applicable Not Applicable

V. Discharge of duties by independent directors during the reporting period

1. The attendance of independent directors to the Board meeting and general meeting

Name of independent director	The attendance of independent directors to the Board meeting and general meeting						Whether two consecutive absences from the meeting by person	Number of attendance to the meeting
	Number of meeting of Board entitled to attend during the reporting period	Attendance by person	Attendance by telecommunications	Attendance by proxy	Number of absences			
Qin Xue Chang	7	1		6	0	0	No	0
Ji Yan Song	7	1		6	0	0	No	1
Quan Yu Hua	7	1		6	0	0	No	1

Explanation for the two consecutive absences from board meeting by person

Not applicable

2. The independent directors' disagreement on matters rose to the Company

Whether the independent directors have raised any disagreement on matters to the Company

Yes No

During the reporting period, independent directors have not raised any disagreement on matters to the Company.



X. Corporate Governance

3. Other description of duty performance by independent directors

Whether independent director's suggestion for the Company was accepted

Yes No

Explanation for independent director's suggestion for the Company was accepted or unaccepted

Not applicable

VI. Disclosures in accordance with the Listing Rules of the Stock Exchange

1. Comply with the "Code on Corporate Governance Practices"

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

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

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

2. Securities Transactions by Directors

In accordance with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules, the Company has adopted codes of conduct relating to securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code. The Model Code is also applicable to the senior management of the Company. Having made specific enquiries to all the Directors, no Directors have indicated that they had breached the Model Code throughout 2017.

X. Corporate Governance



3. The Composition and Responsibilities of the Board

The Board is responsible for planning and overseeing the overall development and management of the Group with the objective of enhancing Shareholders' value. The Board, led by the Chairman, is responsible for the approval and monitoring of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company's performance and oversight of the works of management. In 2017, the Board comprised nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. On 14 August 2017, Mr. Zhang Yun San has resigned as an executive Director of the Company. Biographical details of the Directors are set out in the section IX(III) in this annual report. Pursuant to Rule 3.13 of the Listing Rule, the Company has received the written confirmation of independence from each independent non-executive Director. The independent non-executive Director will only be regarded as independent by the Board if it is confirmed that such Director does not have any other direct or indirect relationship with the Group. The Chairman of the Board, Mr. Zhang En Rong, is the father of Mr. Zhang Yun San, the vice Chairman of the Board and executive Director. Beside from this, there is no financial, business and relatives relationship among members of the Board.

In 2017, the Board had convened seven 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:

Members of Directors	Position	Number of meetings attended/ Total number of meetings
Zhang En Rong	Chairman and executive Director	7/7
Zhang Yun San	Vice Chairman and executive Director	0/0
Guo Huan Ran	Executive Director	7/7
Yang Jin	Executive Director	7/7
Guo Hong Li	Non-executive Director	7/7
Wang Chun Hua	Non-executive Director	7/7
Qin Xue Chang	Independent non-executive Director	7/7
Ji Yan Song	Independent non-executive Director	7/7
Quan Yu Hua	Independent non-executive Director	7/7

All the Directors have access to relevant information timely. They also have access to the advice and services of the company 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.



X. Corporate Governance

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. Induction and training

Each newly appointed Director, executive or non-executive, is required to undertake an induction program to ensure that he has a proper understanding of his duties and responsibilities. The induction program includes an overview of the Group's business operation and governance policies, the Board meetings' procedures, matters reserved to the Board, an introduction of the Board committees, the Directors' responsibilities and duties, relevant regulatory requirements, review(s) of minutes of the Board and Board committees in the past 12 months, and briefings with senior officers of the Group and site visits (if necessary).

Pursuant to the Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure their contribution to the Board remains informed and relevant. During the Year, 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.

The company secretary of the Company maintains records of training attended by the Directors. The training attended by each Director during the Year is tabulated as follows:

Training Records

Name	Type of trainings <i>(Note 1)</i>	Training matters <i>(Note 2)</i>
Zhang En Rong (<i>Chairman</i>)	a, b	I, ii, iii, iv
Guo Huan Ran	a, b	i, ii, iii, iv
Yang Jin	a, b	i, ii, iii, iv
Guo Hong Li	a, b	i, ii, iii, iv
Qin Xue Chang	a, b	i, ii, iii, iv
Ji Yan Song	a, b	i, ii, iii, iv
Quan Yu Hua	a, b	i, ii, iii, iv
Wang Chun Hua	a, b	i, ii, iii, iv

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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 organized the Directors to take part in training activities which organized by the Stock Exchange, SZSE, and other regulators, which including rules amendments, system updates, and the latest market trend, in order to let the Directors have the updated knowledge to the latest regulatory system and rules.

6. Directors' and officers' liability insurance and indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors. Throughout 2017, no claim had been made against the Directors and the officers of the Company.

7. Chairman and General Manager

The Chairman provides leadership for the Board. He is responsible for approving and monitoring the overall strategies and policies of the Group, approving annual budget and business plan, assessing the performance of the Company and overseeing the duties of management. The General Manager is responsible for the daily operations of the Group. Pursuant to Code Provision A.2.1, the roles of Chairman and General Manager are separate and are not performed by the same individual. During the current year, Mr. Zhang En Rong was the Chairman. Mr. Zhang Yun San has resigned as the General Manager of the Company on 14 August 2017.

8. The term of appointment of Directors

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service contract or appointment letter with the Company. In respect of the term of appointment, please refer to Part I of section VIII (Directors, Supervisors, Senior Management and Employees) of this annual report. The Directors have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. The company fifth session of the board's term ends in June 2019.

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

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

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



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

10. The Board Committees of the Company

(A) Discharge of duties by the Strategic Committee

The Strategic Committee was established on 26 December 2012 and its current members are Mr. Zhang En Rong, Mr. Qin Xue Chang, Mr. Ji Yan Song and Ms. Quan Yu Hua, with Mr. Zhang En Rong as the Chairman of the Committee. The Strategic Committee of the Board discharged of its duties with diligence in accordance with the related requirements of the China Securities Regulatory Commission, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange and the implementation rules of the Strategic Committee of the Board of the Company.

(B) The Audit Committee

The Audit Committee was established on 20 March 2004 and its current members are Mr. Qin Xue Chang, Mr. Ji Yan Song and Ms. Quan Yu Hua, with Mr. Qin Xue Chang as the Chairman of the Committee. The audit committee of the Board discharged of its duties with diligence in accordance with the related requirements of the China Securities Regulatory Commission, the Shenzhen Stock Exchange, the Stock Exchange and the work instructions of the audit committee of the Board as follows:

- (1) The following major tasks were completed during 2017:
 1. It conducted pre-audit communication with auditing institution engaged by the Company in respect of the 2016 financial report auditing on pre-auditing work, and reviewed the 2016 auditing report and financial report and submitted such reports to the Board of the Company.
 2. It reviewed the 2017 first quarter financial report ended 31 March 2017, which was passed to the Board for approval.
 3. It reviewed the 2017 interim financial report ended 30 June 2017, which was passed to the Board for approval.
 4. It reviewed the 2017 third quarter financial report ended 30 September 2017, which was passed to the Board for approval.
- (2) It reviewed the proposal in relation to the re-appointment of external auditor by the Company.

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- (3) Auditing work conducted on the 2017 financial report of the Company was as follows:
1. It reviewed the 2017 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 2017 financial statements of the Company with Shinewing Certified Public Accountants Ltd (Special general partnership);
 2. It reviewed the draft of financial statements of the Company prior to an annual onsite audit performed by the auditing certified public accountants and issued its approval to audit;
 3. It kept in close contact with the auditors upon the annual onsite audit and issued a letter to the auditors to urge the submission of the auditors' report on schedule;
 4. The Audit Committee reviewed the financial statements of the Company again upon the issue of draft opinion by the 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;
 5. The Audit Committee held the meeting and reviewed the auditing summary report in the current year issued by the anual auditing certified public accountants and then submitted the report to the Board;
 6. It reviewed the report on internal audit and internal control of the Company for the year ended 31 December 2017.

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.

The individual attendance record of each member of the Audit Committee is tabulated as follows:

Members of the Audit Committee	Duties	Number of meetings attended/Total number of meetings
Qin Xue Chang	Committee Chairman and Independent non-executive Director	4/4
Ji Yan Song	Independent non-executive Director	4/4
Quan Yu Hua	Independent non-executive Director	4/4



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(C) The Nomination Committee

The Nomination Committee was established on 18 January 2005 and its current members are Ms. Quan Yu Hua, Mr. Zhang En Rong, Mr. Qin Xue Chang and Mr. Ji Yan Song, with Ms. Quan Yu Hua as the Chairperson of the Nomination Committee. In the reporting period, the nomination committee held one meeting in total. The individual attendance record of each member of the Nomination Committee is tabulated as follows:

Members of the Nomination committee	Duties	Number of meetings attended/Total number of meetings
Quan Yu Hua	Committee Chairperson and Independent non-executive Director	1/1
Zhang En Rong	Chairman and executive Director	1/1
Qin Xue Chang	Independent non-executive Director	1/1
Ji Yan Song	Independent non-executive Director	0/0

According to the written terms of reference of the Nomination Committee, the major responsibilities of the Nomination Committee include:

- (a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (c) to assess the independence of the independent non-executive Directors; and
- (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.

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

A board diversity policy was adopted in 2013. Diversity of board members can be achieved through consideration of a member of aspects, including but not limited to gender, age, cultural and educational-background, ethnicity, professional experience, skills, knowledge and length of service.



(D) The Remuneration and Assessment Committee

The Remuneration and Assessment Committee of the Company was established on 18 January 2005 and its current members are Mr. Ji Yan Song, Mr. Zhang En Rong, Mr. Qin Xue Chang and Ms. Quan Yu Hua. Mr. Ji Yan Song is the Chairman of the Remuneration and Evaluation Committee. It was 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, and accountable to the Board. The remuneration and assessment committee does not determine the remuneration for the Directors and the Senior Management directly, but advised their remuneration to the Board according to their job performance.

The Remuneration and Assessment Committee had met one time during 2017. Attendance of each member of the committee is shown in the table below:

Members of the Remuneration and Assessment Committee	Duties	Number of meetings attended
Ji Yan Song (<i>Chairman</i>)	Committee Chairman and Independent non-executive Director	1/1
Mr. Zhang En Rong	Chairman and executive Director	1/1
Mr. Qin Xue Chang	Independent non-executive Director	1/1
Quan Yu Hua	Independent non-executive Director	1/1

The Remuneration and Assessment Committee is provided with sufficient resources to perform its duties. The current duties and responsibilities of the Remuneration and Assessment Committee are more specifically set out in its latest terms of reference, details of which can be viewed on the website of the Company and the website of the Stock Exchange.

11. Internal Control

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

The Company has an Internal Audit Department which plays a major role in monitoring the internal governance of the Company. The major tasks of the Internal Audit Department are reviewing the financial condition and management of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis. The Company has taken many steps to enhance the internal control of the Company in 2017, 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 auditing.



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

1. To develop and review the Group's policies and practices on corporate governance and make recommendations;
2. To review and monitor the training and continuous professional development of Directors and senior management;
3. To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements ;
4. To develop, review and monitor the code of conduct and compliance manual to the employees and directors of the Group; and
5. To review the Group's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

12. Ability of Going Concern

By 31 December 2017, there was no uncertainty or conditions of a material nature that would affect the Company's ability to continue as a going concern.

13. Investor Relations

During 2017, the Company has not amended its Articles of Association. The latest Articles of Association of the Company can be viewed on the website of the Company and the website of the Stock Exchange.

14. 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 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.



15. Communication with shareholders

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

- (a) The Company's annual and interim reports which have been enhanced to present a balanced, clear and comprehensive assessment of the Group's position and prospects;
- (b) Forum and notices of AGMs and other general meetings and accompanying explanatory materials;
- (c) Press releases on major development of the Group;
- (d) Disclosures to the Stock Exchange and relevant regulatory bodies;
- (e) Response to inquiries from shareholders or media by the Company Secretary; and
- (f) The website of the Company through which the public can access, among other things, corporate announcements, press releases, annual reports, and general corporate information of the Group.

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

Constructive use 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. During 2017, one general meetings (i.e. AGM held on 29 June 2017) was held by the Company. The attendance record of the Directors at the general meetings is set out below:

Attendance record of the Directors

Name	Attended in person
Mr. Zhang En Rong (<i>Chairman</i>)	1/1
Mr. Guo Huan Ran	1/1
Mr. Yang Jin	1/1
Mr. Guo Hong Li	1/1
Ms. Wang Chun Hua	1/1
Mr. Qin Xue Chang	1/1
Mr. Ji Yan Song	1/1
Ms. Quan Yu Hua	1/1

Notice of general meetings, 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.



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

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

17. 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.

The remuneration required from audit and non-audit services provided by auditor for the year of 2017 was RMB1.20 million.

The changes of auditors in last three years: The Company appointed Shinewing Certified Public Accountants Ltd (Special General Partner) as the Company's auditor for the last three years.

18. Shareholders' Rights

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

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

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

- (1) Two or more shareholders who in aggregate hold 10% or more of the voting rights of all the shares having the right to vote in such a meeting may sign one or several written requisitions in the same form requesting the Board to convene an extraordinary general meeting or a class shareholders' meeting, and the subject matter of the meeting shall be specified.
- (2) The Board should according to the laws, administrative rules and regulations and the articles of association express their acceptance or refusal of the request within 10 days in writing form with reasons on the convention of the general meeting.
- (3) If the Board agrees to convene an extraordinary general meeting, a notice of general meeting will be made within 5 days after the decision of the Board. If there is any change to the original proposed resolutions, consent from the original proposers should be obtained.

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

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

If the board of supervisors does not issue the general meeting notification within the schedule time, it will be deemed as the board of supervisors not convene and preside over the general meeting, continuous over ninety days. One or more shareholders (including shareholders agent) individually or collectively owning 10% above (contain 10%) shares may make the call and preside over the meeting.

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

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

The shareholders that individually or collectively hold more than 3% shares in the company, they can put forward proposals and submit to convene by written 20 days before the general meeting. Regarding the proposal that according with the provisions of article eighty-two, 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 Suite A, 11th Floor Ho Lee Commercial Building 38-44 D'Aguilar Street, Central Hong Kong	Registered Address in the PRC No. 999 Wensheng Street Shouguang City Shandong Province The PRC



X. Corporate Governance

VII. Performance of duties by the Supervisory Committee

Whether there exist any risks in the Company identified by Supervisory Committee when performing its duties during the reporting period

Yes No

None of those issues under the supervision was objected by Supervisory Committee during the reporting period.

VIII. Assessment and incentive mechanism for the Senior Management

The Senior Management of the Company is assessed on monthly and annually basis. Monthly assessments were conducted in line with the direction of the annual major tasks, and were focused on appraisals of two fixed indicators, namely the completion status of in each month and the evaluation on important performance indicators. It was carried out monthly by way of cross assessment and supervision among the related departments. The annual assessments were carried out by the Remuneration and Assessment Committee with reference to the results of monthly assessments and overall performances during the year, including the integrated quality of Senior Management and internal training of talents.

IX. Evaluation Report of internal control

1. Any material deficiency was detected during the reporting period

Yes No

2. Self-assessment report on internal control

Date of disclosure of the full context of the self-assessment report on internal control	30 March 2018
Index of full disclosure of self-assessment report on internal controls	www.cninfo.com.cn, announcement named "2017 Assessment Report on Internal Control of Shandong Molong Petroleum Machinery Company Limited".
The percentage of total assets included in the scope of evaluation to the total assets in combined financial statement of the Company.	100.00%
The percentage of operation revenue included in the scope of evaluation to the total assets in combined financial statement of the Company.	100.00%

X. Corporate Governance



Type	Standard of affirming defect	
	Financial reports	Non-financial reports
Qualitative standard	<p>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 anti-fraud 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 realize the fair reflection. Common Defects is other control defect in addition to the above major flaws and important defects control.</p>	<p>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.</p>
Quantitative criterion	<p>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 operation revenue or 0.8% of the total profits). 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 operation revenue or 0.8% of the total profits), but higher than the general level (0.1% of the total amount or 0.5% of the revenues or profits). Defects commonly refer to consider compensating control measures and actual deviation rate, defect the overall level is lower than the general level (0.1% of the operation revenue or 0.5% of the total profits).</p>	<p>Non-financial reporting major defects refer to the direct property losses in RMB5 million (including) 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 (including) 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. Defects commonly refer 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.</p>
Number of major defect in financial reports		0
Number of major defect in non-financial reports		0
Number of significant defect in financial reports		0
Number of significant defect in non-financial reports		0



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X. Auditors' report or assurance report on internal control

Auditors' report on internal control

Auditors' opinion in the Auditor's report on internal control

The Company maintained effective internal control system of financial reporting in all major aspects as at 31 December 2017 in accordance with the Basic Standard and Implementation Guidelines and the requirements of other relevant laws and regulations.

Auditors' report on internal control disclosure condition Disclosure

Date of disclosure of the full context of the Auditors' report on internal control 30 March 2018

Index of full disclosure of Auditors' report on internal control www.cninfo.com.cn, announcement named "2017 Auditors' report on Internal Control of Shandong Molong Petroleum Machinery Company Limited"

Auditors' report on internal control Opinion type Standard without reservation

Whether there is significant defect in non-financial reports 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

XI. Corporate Bonds



The Company did not have issued corporate bonds which are publicly issued and listed on a stock exchange, and which have not reached maturity, or have matured but the Company is not able to fully repay, at the time that this annual report was approved for issue.



XII. Environmental, Social and Governance Report

This Report is prepared according to Environmental, Social and Governance Reporting Guidelines as described in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”), and describes the efforts Shandong Molong Petroleum Machinery Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) made during the fiscal year ended on 31 December 2017 to achieve its environmental, social and governance goals and the performances in 2017 and provides the related policies the Group implemented and the conventional materials.

This report illustrates how the Group has complied with the “comply or explain” provisions as set out in the Environmental, Social and Governance Reporting Guide of the Stock Exchange.

This report has been reviewed and approved by the Board of the Company.

The Company was mainly engaged in the research and development, production and sales of the products needed by the energy equipment industry. The main products include petroleum extraction tubes, fluid and structural pipes, oil well machineries, oil well pumps, sucker rods, valve parts and large castings and so on. The Company’s products are mainly used for energy drilling, such as, petroleum, natural gas, coalbed gas, shale gas, machining, city steel pipe and other industries.

Environment

The Group practices a green and low-carbon development strategy, strictly complies with China’s environmental protection legislations, regulations, policies and standards, including Environmental Protection Laws, Air Pollution Prevention and Control Law and Prevention and Control of Environment Pollution Caused by Solid Wastes as well as other laws and regulations and normative documents as to the governance of exhaust emission and wastes discharged to water and land, actively responds to climate changes, vigorously advance cleaner production, protects the environment and is dedicated to constructing a resource-saving and environment-friendly company.

The Company’s board of directors believes that as of the fiscal year ended 31 December 2017, the Group’s annual cost of compliance with environmental protection legislations, regulations, policies and standards are not significant. It is expected that such compliance cost to be spent in the future is also insignificant. The Board believes that the Group has taken adequate measures to reduce waste and pollution in accordance with applicable environmental legislation, regulations, policies and standards in the course of its work.

A. Policy for Reducing Emissions and Achievement

A1 Policy for Green House Gas Emission and Achievement

The green house gas emission is one of the major causes to the current global warming. In order to prevent and reduce pollution, the Group takes the following measures to reduce green house gas emission:

1. prefers to select low-energy-consumption and high-energy-efficiency products and renewable energy so as to reduce energy consumption;
2. avoids unnecessary business trips to reduce carbon emission from transport tools (i.e. airplanes) taken for business trips.
3. prefers to select local suppliers so as to reduce energy consumption generated from transportation cargo;
4. advances the importance of “Reducing Carbon” Emission among supply chains;
5. sets up ventilation, dust removal, decontamination and filtering system in the plants so as to reduce exhaust emission and pollution;

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6. uses environmental protection materials for decoration of the office building. Air quality detection is conducted prior to using such materials. Only qualified materials can be put into use.

The total greenhouse gas emissions of the Group in 2017 were approximately 71,236 tonnes of carbon dioxide equivalent (2016: approximately 54,002 tonnes). Approximately 0.114 tonne of carbon dioxide equivalent were produced for each tonne of products made (2016: approximately 0.115 tonne).

Compared with 2016, the total carbon dioxide equivalent of the Group's greenhouse gas emissions increased by approximately 31.91% in 2017, which was mainly due to the significant increase in the output of the company's pipe products.

A2. Policy for Waste Water Discharge and Achievement

The Group's production process and technology does not involve a lot of water usage or waste water discharges. Related measures are only applicable to the norms for general production and daily office work:

1. Recycling water is used in the product production devices;
2. Water-saving signs are displayed on the office room, washroom, pantry, dining room and employee dormitory.

The total waste water discharge of the Group in 2017 were approximately 60,700 tonnes (2016: approximately 70,200 tonnes). Compared with 2016, the total waste water discharge of the Group decreased by approximately 13.53%, which shows that the Company has achieved good results in water recycling and reuse.

A3. Policy for Reducing Wastes and Achievement

1. optimizes the production processes and flows, improves the utilization rate of production materials, and reduces the quantity of waste materials;
2. classifies hazardous wastes, labels hazardous wastes, and the final commissioning of qualified subcontractors for recycling and disposal of such hazardous wastes;
3. carries out a simple classification of general wastes, and sells them to the recyclable waste collectors on a regular basis;
4. recycles scrap iron produced in the processing processes;
5. prepares annual hazardous waste management plan, sets up indicators of amount of wastes required by the relevant departments, conducts a monthly assessment, and, if necessary, takes appropriate control measures to reduce waste;
6. reduces the leakage of various types of oil by strengthening management;
7. strengthens quality control to reduce waste caused by poor quality.

The total hazardous waste produced in 2017 was approximately 40 tonnes (2016: approximately 220 tonnes). Approximately 0.062 kilogram of hazardous waste was produced for each tonne of products made. Compared with 2016, the total amount of hazardous waste produced by the Group in 2017 decreased by approximately 81.82%, which shows that the Group has achieved a good effect in reducing the amount of hazardous waste produced.



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The total non-hazardous waste produced in 2017 was approximately 50 tonnes (2016: approximately 160 tonnes). Approximately 0.078 kilogram of hazardous waste was produced for each tonne of products made. Compared with 2016, the total amount of non-hazardous waste produced by the Group in 2017 decreased by approximately 68.75%, which shows that the Group has achieved a good effect in reducing the amount of non-hazardous waste produced.

B Effective Use of Resource

B1. Green Office Policy

1. reduces the use of office resources, such as setting a single page print to double-sided printing;
2. wholly achieves paperless office within the Group;
3. reminds employees and visitors to save water during daily operation;
4. uses water-saving toilets, automatic faucets and LED lights in the office buildings;
5. reminds employees to control the power and fuel for running the office air conditioning, lighting, machinery and equipment and vehicles;
6. uses energy-saving power supply for plant lighting, transparent tiles, and take full advantage of natural lighting.

B2. Green Manufacturing Policy

1. optimizes production processes and flows, improves the utilization rate of production materials, and reduces the quantity of waste materials;
2. uses environmental-protection and emission-reduction production materials, and fully uses cleaner energy for production;
3. adopts new technologies or green processes to reduce pollutants.

B3. Use of Resource and Achievement

1. The energy consumed by the Group comprises mainly electricity, gasoline, diesel fuel and natural gas. The direct and indirect energy consumption in total in 2017 was approximately 38,856 tonnes of standard coal (2016: approximately 29,456 tonnes of standard coal) and the energy consumption per tonne of product was approximately 0.061 tonnes of standard coal (2016: approximately 0.063 tonnes of standard coal).
2. Compared with 2016, the unit energy consumption of the Group decreased by approximately 3.17% in 2017.
3. The water consumption in total in 2017 was approximately 60,700 cubic metres (2016: approximately 70,200 cubic metres) and the water consumption per tonne of product was approximately 0.095 cubic metre (2016: approximately 0.149 cubic metre).
4. Compared with 2016, the total water consumption of the Group in 2017 decreased by approximately 13.53%.



B4. Applicable Water Source Description and Achievement for Reducing Water Usage

1. The water source applicable to the Group is the tap water provided by the government. The quality is reliable and the amount of water is sufficient. No accidental water stoppage occurred in 2017.
2. Compared with 2016, the total water consumption of the Group in 2017 decreased by approximately 13.53%.

B5. Total Amount of Packaging Materials

1. According to customer's requirements, the Group uses simple materials such as protective covers and caps to carry out simple packaging of the products.
2. Approximately 589,096 (2017: approximately 358,778) oil casings were used in 2017, 581,285 (2016: approximately 341,407) oil casing protection plugs were used in 2017 and 49,686 (2016: approximately 117,443) line pipe protection plugs were used in 2017 by the Group. The main reason for the change in the protective covers and caps was that the Company has adjusted its sales policy due to the impact of market change. In 2017, the output of oil casings increased significantly, and the output of line pipe products decreased significantly.

C Policies for Reducing the Significant Impact on Environment and Natural Resources

1. provides green products and green operation flows;
2. all products are accredited by the industry to meet the product's environmental protection requirements;
3. strictly prohibits the use of asbestos within the plant;
4. develops training plans to constantly improve the employee's environmental protection awareness and on-site environmental protection and control ability via training;
5. publicizes the environmental protection among supply chains and deems the environmental protection requirements as one of the supplier review indicators.

Society

Strong sense of social responsibility, environmental protection, environmental security and economic sustainable development is the key factor to ensure the success of the business. In business development and other social activities, the Group maintains a view of values of being tolerant, open, reliable and cooperative, and introduces effective measures to ensure that the Group's policy in the society, safety and environment can be fully implemented. These measures relate to our employees, business partners, supply chain partners and global individual communities and cultures.

I. Employment and Labor Practices

The Group strongly recognizes that employees are important assets, and makes efforts to improve the following four areas, including employment, health and safety, development and training, and labor standards. As of the date of this report, the Group has not received any complaints and illegal notices relating to the employment of workers, and there are no reports of violations of the relevant occupational health and safety legislation, and the number of working days lost due to work-related injuries.



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A. Employment

The Group has formulated and implemented a set of human resource policies and procedures, including the Group's recruitment, promotion guidelines, salary scale, holidays and statutory paid holidays, maternity leave and working hours to ensure equal treatment for all employees. Their employment, remuneration and promotion opportunities are not affected by nationality and ethnicity. The Group complies with the provisions of China's Labor Contract Law and the related employment laws to provide a good and safe working environment for employees. In addition, the Group and other subsidiary have reached the local (including Hong Kong) minimum wage standards.

In order to enhance the ability to hire all kinds of talents, our compensation system is based on position and performance. On top of the stable basic income, an incentive scheme with employee performance linked to the incentive to encourage employees' loyalty.

In addition, the Group will also purchase additional commercial insurance for a part of the employees who has reached a certain seniority, in order to improve the additional security of employees. Employee benefits are also included: free shuttle bus, meal allowance, accommodation allowance, etc.

As at 31 December 2017, the Group had a total of 2,680 (2016: 1,925) employees, with men-to-women ratio of 4:1 (2016: 4:1). The ratio of office management staff to production and operating staff was 1:4 (2016: 1:4). Approximately 92% of the employees were stationed at the Shandong production bases. Approximately 93% of the employees were 50 years old or below, while approximately 30% of employees were below 30 years old.

B. Health and Safety

The Group is committed to providing a safe and healthy working environment for employees and workers, and has taken the necessary work security measures to prevent the occurrence of industrial accidents and reduce the risks of the project. The Group according to the job requirements for different positions, develops work safety guidelines for employees, provides regular work safety training to the employees, conducts regular on-site safety inspection, and requires workers to use safety equipment, provides sufficient and appropriate protective equipment and requires workers and employees to wear such safety protection gears before stepping into production plants. In addition, the Group takes appropriate measures to ensure that all technician, including electrician and welders are special trained and have all the required licenses or qualifications. The Group has project supervisors and safety officers for each production project to evaluate and implement safety measures and emergency plans during the production period, comply with national and industry standards procure and inspect protective equipment, and assess of production lines of the specific requirement of the type of work, so as to achieve on-demand distribution, regular replacement, and on-site supervision of such protective equipment. Moreover, the Group also sets up bulletin boards to publish guidelines on safety in production to improve the safety awareness of workers on the production line. When the safety of the person is in danger, any person has the right to stop operations to prevent accidents.

The Group is highly concerned about the health and safety of employees, is dedicated to improving the working environment to prevent occupation disease. We actively respond to issues relevant to occupation health and safety put forward by employees, and recognize and reward such employees making contribution to the continuous improvement topics of occupation health and safety. We also ensure that all employees understand and are responsible for their own safety and the safety of the affected persons. The Group provides PPE for employees, such as helmets, protective glasses, protective masks, protective gloves, safety belt, semi faced and full faced filtering respirators. The human resources department each year arranges qualified medical institutions to conduct physical examination for employees who may suffer occupation diseases and follow up individual cases. In addition, the Group also attaches great importance to the development of mental health of employees, and carries out group exchange and other activities to relieve the employees' pressure at work.

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Occupational health and safety management is included in the performance appraisal of various departments, and specialized departments monitor and supervise occupational health and safety management regularly and irregularly. In 2017, the Group did not experience any fatal work-related incidents or accidents involving serious injury.

C. Development and Training

The Group focuses on the cultivation of potential talents, and has a training staff dedicated to training. The Group, through systematic training curriculum, matches the talent's ability with its strategies to effectively inherit technology and company culture, and to achieve knowledge integration. In addition, the Group, through a sharing training mode featured with "Inheriting, Helping and Leading", promotes all of its employees to achieve ability self-improvement. The Group focuses on the development of the management and technical talents, including talents with potentials, key professional talents, key management talents, technical experts and etc. Moreover, the Group also advocates mutual cooperation with talents, so that, in three to five years, such talents, with accumulated experience, will form the backbone force for the Group's continuous development.

The Company attaches importance to talent training, and provides occupation career planning and organizes various training for employees, to enhance the quality of employees, so as to achieve common development of employees and the company. In order to improve the overall quality of the employees and work efficiency, the human resources department, at the end of each year, will develop next year's training plan, including training needs analysis, content, time, attendance and training effectiveness evaluation. The Company, through its learning platform, lectures of internal lecturers and external lecturers, network learning and etc. and according to strategic targets and the needs of development, provides new employees with training in the areas such as management and leadership, professional image and etiquette, enhancement of the professional skills, job skills, etc.

The Group enhances the competence of its employees by a combination of internal trainings and external trainings. The implementation rate of training programmes in 2017 was 100%. Internal trainings carried out in 2017 include occupational health education and training, nondestructive testing knowledge training, fire safety training, QES management manual replacement training, product standards and operation specification training, etc. External trainings carried out in 2017 include tax audit training, safety management training, performance management and compensation design training, lean production management training, etc.

D. Labor Standards

The Group has been creating equal employment opportunity. The Group has recruited talents for each vacancy through Internet or other appropriate channels and fairly selected appropriate talents in accordance with the ability, skills and other requirements of applicants. We will not reject any applicants because of their race, color, sex, language, religion, politics or other factors.

The Group has been advocating a principle of balance between work and family. We do not encourage overtime work. Even if the departments need to work overtime temporarily, we will, through the overtime approval process, strictly control the overtime working hours. Any overtime work shall need to be approved by the Department Manager, and be complied with local labor laws and ensured that employees have enough time to rest, so as to prevent the employees from suffering from serious reduced quality of life because of long working hours and meanwhile reduce the risk of any possible work-related accident due to long working hours.

The Group strictly complies with the relevant child labor and forced labor employment ordinance and other laws of the places where it operates. All applicants must provide proof of identity for verification. Before we enter into employment contracts with the employees, we give employees sufficient time to read carefully and understand the relevant content of the contracts. We only sign related employment contracts with employees after they fully understand such contracts.



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II. Operating Practices

Good corporate governance is a symbol of corporate modernization and a prerequisite for sustainable development of the corporate. The Group has been investing a large number of resources and human resources to develop appropriate corporate governance practices according to the business needs, and to conduct continuous integration of the essence of corporate governance which is incorporated into the management structure and internal control procedures. Meanwhile, the Group is also dedicated to maintaining the highest moral integrity, so that all business activities can achieve the highest standards or best practices, to ensure that our actions can fully comply with applicable laws and regulations.

The Group is committed to continuously improving the performance and quality of products and services, reaching a high moral level as a company in terms of supply chain management, internal control and product quality assurance, and ensuring its compliance with the standards established based on relevant laws and regulations to meet industry and customer expectation. The realization of comprehensive corporate governance at a high standard will enable the Group to be more efficient as to each topic of the Group's sustainable development and help maintain and increase the stakeholders' interests.

A Supply Chain Management

The Group has formulated "Material Procurement and Management System". The Group, according to a series of quantitative criteria, such as, the compliance conditions, price, quality, supply stability, timely delivery rate, incoming passing rate, customer complaints and customer service, strictly selects suppliers and, according to the evaluation results of suppliers, maintains a long-term relationship with suppliers. The Group implements a strict test and control flow in the process of production. In the incoming material warehousing and production stage, the Group continues to monitor the quality of the materials provided by the external suppliers. Meanwhile, the Group also implements different warehouse storage managements according to the production materials provided by suppliers. As of the date of this report, the Group has been exposed to no significant risks related to the supply chain at environment and society levels. As at 31 December 2017, the Group had approximately 300 eligible suppliers, all of which are located in the PRC.

B Product Responsibility

Product safety and quality is the first priority of the Group. All products must be tested for quality. Its design, manufacturing, installation and test must comply with the requirements of relevant standards and specifications and also technical requirements, meanwhile also must meet the requirements of relevant design parameters. In addition, all products must accept and pass strict quality and safety verification:

1. Material inspection: all raw materials must be inspected in accordance with the drawings, standards, specifications, technical agreements. Only qualified materials can be stored in the warehouses;
2. Production process: the Group implements process verification and testing. Only qualified semi-finished products can flow into the next process;
3. Finished product inspection: the Group implements finished product inspection, and provides qualified product report before delivery;
4. Control of unqualified products: when any unqualified product is found in the inspection process, the unqualified products will be analyzed and processed. The Group strictly prohibits any unqualified products from continuing to flow in the manufacturing process.

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The Group has developed specific measures covering the quality of products and services and safety, to ensure a compliance with the legislation and regulations. Upon receiving any complaints, the Company will immediately assess such complaints and conduct an investigation on that matter, in order to identify the problem, and make a correction in the practical situation as soon as possible. As of the date of this report, the Group has faced no complaints disputes and released litigation or any related actions as to product responsibility. In 2017, the Group did not experience any return of products sold or delivered out of safety and health reasons.

Employees are encouraged to apply for patents and publish theses. In 2017, a total of 13 utility model patents were obtained.

To ensure information security, full-time or part-time staff are deployed to perform centralised management of computer systems and networks. Through enhancing the management of labour discipline and streamlining work procedures, the risk of leakage of corporate information is kept to minimal. In 2017, no complaints or proceedings regarding the leakage of information were received or brought against the Group.

C Anti-corruption

The Group insists on implementing a high standard of business ethics throughout the entire operation process. In its daily operations, the Group does not tolerate any form of corruption or bribery based on a fair and equitable principle. At the same time, such principle also is the code of conduct of the Group as to its internal management. The Group's employees must comply with the code of ethics and laws and regulations and fulfill their duties in their daily work. The Group also, through conference presentations, employee communication and other activities, conveys the rules and regulations of the Company and external laws and regulations to its employees, to constantly put emphasis on that all employees should comply with relevant laws and regulations, adhere to the moral bottom line, reject temptation, and prevent corruption and fraud and money laundering. The Group strictly abides by relevant anti-corruption laws and regulations of the state and regions, including "Chapter 8: the Crime of Corruption and Bribery" of China's Criminal Law, "the Prevention of Bribery Ordinance" of Hong Kong Special Administrative Region and etc.

The Group, in processing product trading, exporting and reselling, insists on complying with related compliance policies, and relevant laws and regulations, including being reasonably prudent to ensure it does not violate any trade regulation laws. All employees shall be subject to necessary internal guidelines in product sales and customer contact. In addition, the Group has also clearly defined the responsibilities of different departments in anti-corruption work, such as, records of financial transactions, the audit of business partners, regular internal audit, to ensure the effective implementation of the policy. Moreover, the Group provides new employees with anti-corruption training to cultivate a company culture of honesty and integrity. The Group also complies with regulatory standards as to health and safety and applicable laws as to advertising and labeling. The primary goal of this Group is to provide customers with confidence in its services, and to provide sufficient information for customers to make informed choices. As of the date of this report, the Group has not been aware of any corruption matters and related complaints.



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III. Community

With the market's concerns on the behavior of corporates, the pursuit of maximum short-term financial performance to return to shareholders is no longer the only goal of corporate management. As a responsible corporate, the Group is dedicated to extending its concerns from its own operation to the public. The Group believes that employees are the core strength to create value for the society. The Group will continue to gather power of all to increase community participation, and to balance the interests between shareholders and other stakeholders to bring more positive impact to the society. Meanwhile, the Group has, through various channels, irregularly communicated with all stakeholders, including customers, employees, community organizations and government agencies etc., to achieve open and transparent operation and to understand each other's expectations of corporate social responsibility, so that the Group can achieve the goal of sustainable business development maintain a good relationship with the communities which it operates in.

A. Community Investment

The managements of the Group have been adhering to the concept of establishing a harmonious society and a harmonious community, leading all employees to actively participate in organizing and strengthening a good community environment, and actively organizing and participating in various communicative activities in the community, so as to promote humanities construction of the harmonious community. The Group has developed relevant policies and measures, in order to understand the needs of the community. Making contributions to the community and maintaining a harmonious relationship with the stakeholders in the business areas is essential for the Group's sustainable development. The Company has also underwritten all kinds of social insurances for the employees and established support funds to care for and subsidize employees who have financial difficulties, so as to create a harmonious working atmosphere. As of the date of this report, the Group has been actively participating in various community activities, which are shown below:

1. The Company has been actively participating in social charitable donation activities and activities of supporting the Company's employees who have financial difficulties. The Company's cumulative expenditure as to such activities has been more than RMB70,000 this year;
2. The Company has been actively participating in public charity activities organized by local government organisations to support the development of public charity.

Type of audit opinions	Standard unqualified opinions
Date of signing of auditors report	29 March 2018
Name of auditors	Shinewing Certified Public Accountants(Special General Partnership)
Auditors report file number	XYZH/2018JNA30078
Names of the CPAs	Kan Jing Ping,Zhang Xiu Qin



To the shareholders of Shandong Molong Petroleum Machinery Company Limited

1. Opinion

We have audited the financial statements of Shandong Molong Petroleum Machinery Company Limited (hereinafter referred to as "Shandong Molong" or the "Company"), which comprise the consolidated and parent company's balance sheet as at 31 December 2017, 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, 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 2017, as well as the consolidated and parent company's results of operations and cash flows for the year then ended.

2. Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. In accordance with the Code of Ethics for Chinese Certified Public Accountants, we are independent of Shandong Molong, and we have fulfilled other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our audit opinion.

3. Key Audit Matters

The key audit matters are the matters that we consider to be the most important for auditing financial statements in this period according to professional judgement. The response to these matters is based on overall audit of the financial statements and the formation of our audit opinion thereon, and we do not comment on these matters separately.



1. Recognition of Revenue

Key Audit Matter

As refers to note IV.25 and note VI.39 to the consolidated financial statements, Shandong Molong's 2017 operating revenue is RMB2.965 billion, a significant increase from the previous year with a growth rate of 93.66%, and the recognition of revenue has a great impact on 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:

- Understand and evaluate the Management's effectiveness of the design and operation of key internal controls related to the revenue recognition;
- Select samples to inspect sales contracts, identify contract terms and conditions related to risk and reward transferred on commodity ownership, and assess whether the timing of Shandong Molong's revenue recognition meets the requirements of the Accounting Standards for Business Enterprises;
- Select samples for revenue transactions recorded this year, check invoices, sales contracts, and delivery orders, and evaluate whether the related revenue recognition conform to the accounting policies of Shandong Molong's revenue recognition;
- Perform analysis procedures on income and costs, including analysis procedures for product's revenue, cost, gross profit margin of current period, and comparative analysis of the previous period;
- Select important clients to conduct on-site visits to verify the authenticity and accuracy of the revenue;
- In conjunction with the accounts receivable confirmation procedure, select principal client and confirm sales figure, and select the related receipts of revenue recognition and verify the authenticity of the confirmed revenue;
- 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;

2. Impairment of Inventory

Key Audit Matter

As at 31 December 2017, as refers to note IV.32, note VI.8 and note VI.44 to the consolidated financial statements, Shandong Molong's inventory balance is RMB948.6895 million, and the balance of provision for impairment of inventory is RMB22.9168 million. Shandong Molong regularly estimates the net realizable value of inventories, and recognizes the inventory declining loss for the difference between the inventory cost and the net realizable value. Due to the complexity of the impairment testing process, Shandong Molong's management needs to make significant judgments and assumptions in its predictions. 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:

- Understand and evaluate the effectiveness of the design and operation of key internal controls related to inventory impairment;
- Perform inventory monitoring procedures for inventory, check inventory quantity and condition, etc.;
- Obtain the list of end-of-year inventory of Shandong Molong, and conduct an analytical review of inventory with a longer history;
- Check the previous year's impairment of inventory and the changes of the impairment in the current year;
- Inquire about the changes in raw material prices during the year and understand the trend of raw material prices in 2017. Check whether the Management considers these factors to have an impact on the impairment of Shandong Molong's inventory;
- Obtain information such as subsidiary ledger of inventory impairment, perform inventory impairment testing procedures, check and analyze the reasonableness of the net realizable value, and assess the correctness of accrual of inventory impairment;



3. Impairment of Accounts Receivable

Key Audit Matter

As at 31 December 2017, as refers to note IV.32, note VI.3 and note VI.44 to the consolidated financial statements, Shandong Molong's balance of accounts receivable is RMB464.6205 million, and the balance of allowance for bad debts is RMB85.8909 million. Accounts receivable may have a recovery risk, and the assessment of allowance for bad debt involves significant judgment and estimation from the Management. Therefore, we make impairment of accounts receivable a key audit matter.

How the matter was addressed in the audit

We mainly performed the following audit procedures:

- Understand and evaluate the Management and the effectiveness of the design and operation of key internal controls related to the impairment of accounts receivable;
- Review the approval process for accrued provisions of bad debt of Shandong Molong's accounts receivable and assess the rationality of key assumptions and data;
- Analyze and compare the rationality and consistency of allowance for bad debts of Shandong Molong's accounts receivable in this year and in previous years;
- Analyze the Shandong Molong's transactions with its major customers and performed the impairment test of accounts receivable combine the Management's assessment of the current and subsequent payment collections to understand possible recovery risks. Analyze and check the reasonableness of accrued allowance for bad debts of accounts receivable made by Management;
- Obtain information such as Shandong Molong's breakdown of allowance for bad debts, analyze and check the rationality of the key assumptions and data, as well as the accuracy of accrued allowance for bad debts made by Management;

4. Government Grants

Key Audit Matter

As refers to note IV.26 and note VI.47 to the consolidated financial statements, in 2017 the government grants included in non-operating income is RMB156.2759 million, and government grants has a significant impact on Shandong Molong's current financial statements. The authenticity of government grants and whether they are reported in the appropriate accounting period are critical to the audit. Therefore, we make government grants a key audit matter.

How the matter was addressed in the audit

We mainly performed the following audit procedures:

- Check government funding documents, collect vouchers and other supporting documents, etc.;
- Send confirmation letter to the funding unit for the crucial funding source of government grants, the nature of the fund, and the purpose of the fund;
- Examine the company application documents for major government grants;
- Analyze and examine the accounting treatment of Shandong Molong government grants in order to judge whether its accounting treatment complied with the relevant provisions of its accounting policy;

4. Other Information

The management of Shandong Molong (hereinafter referred to as the "Management") is responsible for the other information. The other information includes the information covered in the Shandong Molong 2017 annual report, but does not include the financial statements and the audit report.

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

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

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

5. 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.



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

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide basis for our audit. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
4. Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists is related to events or conditions that may cast significant doubt on Shandong Molong's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements in accordance with the auditing standards or, if such disclosures are inadequate, we should express a modified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and also evaluate whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

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

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

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

Shinewing Certified Public Accountants (Special General Partnership)

PRC certified public accountants: (Project Partner)

PRC certified public accountants:

China, Beijing

29 March 2018



Consolidated Balance Sheet

As at 31 December 2017

Items	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Current assets:		
Monetary funds	879,371,103.17	679,448,755.91
Settlement reserve	—	—
Lending funds	—	—
Financial assets at fair value through profit or loss for the current period	—	—
Derivative financial assets	—	—
Bills receivable	94,525,409.69	23,403,982.45
Accounts receivable	378,729,615.88	304,148,614.98
Loans and advances	88,102,411.40	142,887,708.94
Prepayments	91,643,819.19	37,042,473.89
Insurance receivables	—	—
Reinsurance receivables	—	—
Reinsurance contract reserve receivables	—	—
Interest receivables	4,220,913.66	8,196,910.73
Dividend receivables	—	—
Other receivables	44,428,243.02	55,703,355.24
Financial assets purchased under resales agreement	—	—
Inventories	925,772,719.28	768,734,172.36
Assets classified as held for sale	—	10,765,552.13
Non-current assets due within one year	—	—
Other current assets	118,436,141.88	112,973,607.82
Total current assets	2,625,230,377.17	2,143,305,134.45

Consolidated Balance Sheet



As at 31 December 2017

Items	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Non-current assets:		
Issuance of loans and advances	—	—
Available-for-sales financial assets	20,000.00	50,000.00
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	2,639,321.48	2,707,572.57
Investment properties	—	—
Fixed assets	2,891,875,882.19	3,066,573,497.65
Construction-in-progress	170,880,899.68	31,579,353.99
Construction materials	—	—
Disposal of fixed assets	—	—
Productive biological asset	—	—
Oil and nature gas assets	—	—
Intangible assets	443,968,124.33	449,212,108.76
Development expenditure	—	—
Goodwill	26,683,383.21	26,683,383.21
Long-term unamortized expenses	—	—
Deferred income tax assets	4,391,835.90	3,465,431.48
Other non-current assets	57,113,143.58	48,466,358.95
Total non-current assets	3,597,572,590.37	3,628,737,706.61
Total assets	6,222,802,967.54	5,772,042,841.06



Consolidated Balance Sheet

As at 31 December 2017

Items	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Current liabilities:		
Short-term borrowings	2,141,086,600.02	2,436,842,117.30
Borrowings from the central bank	—	—
Absorbing deposit and interbank deposit	—	—
Borrowing money	—	—
Financial liabilities at fair value through profit or loss for the current period	—	—
Derivative financial liabilities	—	—
Bills payable	213,984,811.00	241,427,907.86
Accounts payable	843,834,731.51	901,601,597.75
Receipts in advance	68,937,156.42	73,674,754.30
Financial assets sold under repurchase agreements	—	—
Bank charges and commission payable	—	—
Salaries payable	51,245,591.21	30,194,232.47
Taxes payable	18,916,357.37	9,905,721.00
Interests payable	5,458,818.99	3,716,115.91
Dividends payable	—	—
Other payables	32,518,520.13	29,429,211.29
Amounts due to reinsurers	—	—
Insurance contract reserve	—	—
Securities brokerage deposits	—	—
Securities underwriting brokerage deposits	—	—
Liabilities classified as held for sale	—	—
Non-current liabilities due within one year	155,946,611.23	—
Other current liabilities	—	—
Total current liabilities	3,531,929,197.88	3,726,791,657.88

Consolidated Balance Sheet



As at 31 December 2017

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Non-current liabilities:		
Long-term borrowings	737,259,900.98	145,000,000.00
Bonds payable	—	—
Including: Preferred stock	—	—
Perpetual capital securities	—	—
Long-term payables	—	—
Long-term salaries payable	—	—
Specific payable	—	—
Estimated liabilities	8,000,000.00	—
Deferred income	6,954,855.00	6,954,855.00
Deferred income tax liabilities	7,325,919.30	7,629,102.79
Other non-current liabilities	—	—
Total non-current liabilities	759,540,675.28	159,583,957.79
Total liabilities	4,291,469,873.16	3,886,375,615.67
Owners' equity:		
Share capital	797,848,400.00	797,848,400.00
Other equity instruments	—	—
Including: Preferred stock	—	—
Perpetual capital securities	—	—
Capital reserve	860,517,458.42	849,718,158.42
Less: Treasury stock	—	—
Other comprehensive income	(1,402,748.25)	(3,092,433.84)
Special reserve	—	—
Surplus reserve	176,686,903.51	176,686,903.51
General risk reserve	11,236.91	11,236.91
Undistributed profits	35,934,311.12	(2,104,173.06)
Total equity attributable to shareholders of Company	1,869,595,561.71	1,819,068,091.94
Minority interests	61,737,532.67	66,599,133.45
Total shareholders' equity	1,931,333,094.38	1,885,667,225.39
Total liabilities and shareholders' equity	6,222,802,967.54	5,772,042,841.06

Legal representative:
Zhang En Rong

Comptroller principal:
Liu Min

Leading member of the accounting body:
Ding Zhi Shui



Parent Company's Balance Sheet

As at 31 December 2017

Items	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Current assets:		
Monetary funds	773,947,067.08	599,097,430.73
Financial assets at fair value through profit or loss for the current period	—	—
Derivative financial assets	—	—
Bills receivables	72,924,479.69	20,668,982.45
Accounts receivables	471,120,191.29	576,856,586.89
Prepayments	505,965,265.70	428,363,237.40
Interest receivables	4,220,913.66	5,984,073.95
Dividend receivables	—	—
Other receivables	523,913,640.90	338,646,279.63
Inventories	695,259,975.82	600,619,996.95
Assets classified as held for sale	—	10,765,552.13
Non-current assets due within one year	—	—
Other current assets	—	2,453,338.22
Total current assets	3,047,351,534.14	2,583,455,478.35
Non-current assets:		
Available-for-sales financial assets	20,000.00	20,000.00
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	1,144,069,921.73	1,144,069,921.73
Investment properties	—	—
Fixed assets	1,220,914,534.22	1,311,349,758.67
Construction-in-progress	—	9,148,911.28
Construction materials	—	—
Disposal of fixed assets	—	—
Productive biological asset	—	—
Oil and nature gas assets	—	—
Intangible assets	145,039,514.50	150,781,549.00
Development expenditure	—	—
Goodwill	—	—
Long-term unamortized expenses	—	—
Deferred income tax assets	—	—
Other non-current assets	2,922,972.59	—
Total non-current assets	2,512,966,943.04	2,615,370,140.68
Total assets	5,560,318,477.18	5,198,825,619.03

Parent Company's Balance Sheet



As at 31 December 2017

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Current liabilities:		
Short-term borrowings	1,254,744,600.02	1,572,921,489.30
Financial liabilities at fair value through profit or loss for the current period	—	—
Derivative financial liabilities	—	—
Bills payable	1,042,444,811.00	925,978,535.86
Accounts payable	302,549,838.78	354,013,293.48
Prepayments	62,536,928.81	46,083,166.73
Salaries payable	33,949,349.08	21,715,692.23
Taxes payable	9,956,505.15	3,645,957.07
Interests payable	2,704,194.54	3,375,485.69
Dividends payable	—	—
Other payables	26,825,514.17	121,252,406.87
Liabilities classified as held for sale	—	—
Non-current liabilities due within one year	148,403,413.66	—
Other current liabilities	—	—
Total current liabilities	2,884,115,155.21	3,048,986,027.23
Non-current liabilities:		
Long-term borrowings	444,803,098.55	145,000,000.00
Bonds payable	—	—
Including: Preferred stock	—	—
Perpetual capital securities	—	—
Long-term payables	—	—
Long-term salaries payable	—	—
Specific payable	—	—
Estimated liabilities	8,000,000.00	—
Deferred income	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
Total non-current liabilities	452,803,098.55	145,000,000.00
Total liabilities	3,336,918,253.76	3,193,986,027.23



Parent Company's Balance Sheet

As at 31 December 2017

Items	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Owners' equity:		
Share capital	797,848,400.00	797,848,400.00
Other equity instruments	—	—
including: Preferred stock	—	—
Perpetual capital securities	—	—
Capital reserve	860,498,790.92	849,699,490.92
Less: Treasury stock	—	—
Other comprehensive income	—	—
Special reserve	—	—
Surplus reserve	176,686,903.51	176,686,903.51
Undistributed profits	388,366,128.99	180,604,797.37
Total owners' equity	2,223,400,223.42	2,004,839,591.80
Total liabilities and owners' equity	5,560,318,477.18	5,198,825,619.03

Consolidated Income Statements



Year 2017

Unit: RMB

Items	Amount of the period	Amount of the last period
I. Total income from operations	2,965,216,722.37	1,531,118,375.18
Including: Operating income	2,965,216,722.37	1,531,118,375.18
Interest income	—	—
Earned insurance premium	—	—
Brokerage and commission income	—	—
II. Total costs of operations	3,138,440,402.50	2,136,977,077.37
Including: Operating cost	2,736,727,487.28	1,641,800,821.53
Interest expenses	—	—
Brokerage and commission income	—	—
Surrenders	—	—
Net amount of compensation paid	—	—
Net amount of reserves for reinsurance contract	—	—
Insurance dividend payments	—	—
Reinsurance premium	—	—
Business tax and surcharges	23,421,675.66	17,949,257.54
Selling expenses	65,682,352.59	50,980,617.53
Administrative expenses	162,091,883.83	157,120,673.19
Finance costs	131,241,514.49	52,507,807.22
Asset impairment losses	19,275,488.65	216,617,900.36
Add: Gains from changes in fair value (Fill losses by “—”)	—	—
Investment revenue (Fill losses by “—”)	447,550.68	50,624.92
Including: Gains from investment in associates and joint ventures	18,748.91	(76,330.30)
Exchange gain (Fill losses by “—”)	—	—
Asset disposal revenue (Fill losses by “—”)	62,088,298.95	270,348.71
Other revenue	156,275,852.23	—
III. Operating profit (Fill losses by “—”)	45,588,021.73	(605,537,728.56)
Add : Non-operating income	5,781,343.10	7,072,428.37
Less : Non-operating expenses	16,881,710.08	1,020,719.53
IV. Total profit (Fill total losses by “—”)	34,487,654.75	(599,486,019.72)
Less: Income tax expenses	(593,826.08)	51,219,680.01
V. Net profit (Fill net losses by “—”)	35,081,480.83	(650,705,699.73)
(i) Net profit from continuing operation (Fill losses by “—”)	35,081,480.83	(650,705,699.73)
(ii) Net profit from discontinued operation (Fill losses by “—”)	—	—
Net profit attributable to the owners of the Parent Company	38,038,484.18	(612,476,376.18)
Profit or loss attributable to minority interests	(2,957,003.35)	(38,229,323.55)



Consolidated Income Statements

Year 2017

Items	Unit: RMB	
	Amount of the period	Amount of the last period
VI. Net amount of other comprehensive income after tax	1,785,088.16	(1,929,170.78)
Net amount of other comprehensive income after tax attributable to owners of the parent company	1,689,685.59	(1,830,258.09)
(I) Other comprehensive income not to be reclassified into profit or loss subsequently	—	—
1. Changes of net liabilities or net assets arising from the re-measurement of defined benefit plans	—	—
2. Share of other comprehensive income of the investees which cannot be reclassified into profit or loss under equity method	—	—
(II) Other comprehensive income to be reclassified into profit or loss subsequently	1,689,685.59	(1,830,258.09)
1. Share of other comprehensive income of the investees which can be reclassified into profit or loss under equity method subsequently	—	—
2. Profit or loss from the change of fair value of available-for-sale financial assets	—	—
3. Profit or loss from held-to-maturity investment reclassified as available-for-sale financial assets	—	—
4. Effective portion of profit or loss from cash flows hedges	—	—
5. Exchange differences from translation of financial statements	1,689,685.59	(1,830,258.09)
6. Others	—	—
Net amount of other comprehensive income after tax attributable to minority shareholders	95,402.57	(98,912.69)
VII. Total comprehensive income	36,866,568.99	(652,634,870.51)
Total comprehensive income attributable to owners of the parent company	39,728,169.77	(614,306,634.27)
Total comprehensive income attributable to minority shareholders	(2,861,600.78)	(38,328,236.24)
VIII. Earnings per share:	—	—
(1) Basic earnings per share	0.05	(0.77)
(2) Diluted earnings per share	0.05	(0.77)

In the current period of business combinations under the common control, the net profit realized by the merged party before the merger is Nil, the net profit realized by the merged party in the previous period is Nil.

Legal representative:
Zhang En Rong

Comptroller principal:
Liu Min

Leading member of the accounting body:
Ding Zhi Shui

Income Statements of the Parent Company



Year 2017

Unit: RMB

Items	Amount of the period	Amount of the last period
I. Operating income	2,715,636,626.66	1,403,540,540.00
Less: Operating cost	2,439,368,638.77	1,403,244,504.99
Business tax and surcharges	15,338,122.52	12,621,880.88
Selling expenses	58,397,639.18	48,289,921.64
Administrative expenses	85,933,957.49	126,530,848.82
Finance costs	94,862,632.66	51,420,439.38
Losses on assets impairment	13,551,904.93	318,580,522.60
Add: Gains from changes of fair value (losses is represented by “—”)	—	—
Income from investment (losses is represented by “—”)	—	259.63
Including: Gains from investment in associates and joint ventures	—	—
Asset disposal income (losses is represented by “—”)	61,909,218.42	270,348.71
Other income	150,563,303.22	—
II. Operating profits (losses is represented by “—”)	220,656,252.75	(556,876,969.97)
Add: Non-operating income	3,404,231.47	3,846,931.92
Less: Non-operating expenses	16,299,152.60	858,455.98
III. Total profit (losses is represented by “—”)	207,761,331.62	(553,888,494.03)
Less: Income tax expenses	—	55,590,705.42
IV. Net profit (losses is represented by “—”)	207,761,331.62	(609,479,199.45)
(i) Continuing operation net profits (losses is represented by “—”)	207,761,331.62	(609,479,199.45)
(ii) Discontinued operation net profits (losses is represented by “—”)	—	—
V. Net amount of other comprehensive income after tax	—	—
(I) Other comprehensive income not to be reclassified into profit or loss subsequently	—	—
1. Changes of net liabilities or net assets arising from the re-measurement of defined benefit plans	—	—
2. Share of other comprehensive income of the investees which cannot be reclassified into profit or loss under equity method	—	—
(II) Other comprehensive income to be reclassified into profit or loss subsequently	—	—
1. Share of other comprehensive income of the investees which can be reclassified into profit or loss under equity method subsequently	—	—
2. Profit or loss from the change of fair value of available-for-sale financial assets	—	—
3. Profit or loss from held-to-maturity investment reclassified as available-for-sale financial assets	—	—
4. Effective portion of profit or loss from cash flows hedges	—	—
5. Exchange differences from translation of financial statements	—	—
6. Others	—	—
Net amount of other comprehensive income after tax attributable to minority shareholders	207,761,331.62	(609,479,199.45)
VII. Earnings per share:	—	—
(1) Basic earnings per share	—	—
(2) Diluted earnings per share	—	—

Legal representative:
Zhang En Rong

Comptroller principal:
Liu Min

Leading member of the accounting body:
Ding Zhi Shui



Consolidated Statement of Cash Flow

Year 2017

Unit: RMB

Items	Amount of the period	Amount of the last period
1. CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales of goods and rendering of services	2,480,391,727.98	1,405,063,772.88
Net increase in deposits from customers and deposits from other banks	50,683,255.71	—
Net increase in borrowings from central bank	—	—
Net increase in placements from other financial institutions	—	—
Cash received from original insurance contract premiums	—	—
Net cash received from reinsurance business	—	—
Net increase in deposits from insurance policy holders and investment	—	—
Net increase from disposal of financial assets at fair value through profit or loss	—	—
Cash received of interest, fees and commission	6,016,324.71	8,185,886.76
Net increase in capital borrowed	—	—
Net increase in sales and repurchase business	—	—
Refunds of taxes received	11,489,704.18	10,652,636.64
Cash received relating to other operating activities	181,657,754.35	163,415,724.85
Sub-total of cash inflows from operating activities	2,730,238,766.93	1,587,318,021.13
Cash paid for purchasing goods and receiving services	2,326,017,658.96	1,148,147,984.69
Net increase in customer loans and advances to customers	—	10,711,260.71
Net increase in deposit with central bank and other banks	—	—
Cash paid for original insurance contract claimed	—	—
Cash paid for interest, fee and commission	—	—
Cash paid for dividends of insurance policies	—	—
Cash paid to and for employees	141,869,811.02	102,580,015.99
Payments of taxes and surcharges	35,443,879.57	29,163,081.98
Cash paid relating to other operating activities	194,406,463.21	192,298,545.04
Sub-total of cash outflows from operating activities	2,697,737,812.76	1,482,900,888.41
NET CASH FLOWS FROM OPERATING ACTIVITIES	32,500,954.17	104,417,132.72

Consolidated Statement of Cash Flow



Year 2017

Unit: RMB

Items	Amount of the period	Amount of the last period
II CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from disposal of investments	—	10,000,000.00
Cash received from returns on investments	515,801.77	126,955.22
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	73,084,255.07	84,356.21
Net cash received from disposals of subsidiaries and other operating business units	—	—
Cash received relating to other investing activities	—	—
Sub-total of cash inflows from investing activities	73,600,056.84	10,211,311.43
Cash paid to acquisition and construction fixed assets, intangible assets and other long-term assets	293,984,014.58	309,810,900.37
Cash paid for investment	—	20,000.00
Net increase in pledged loans	—	—
Net cash paid to acquire subsidiaries and other operating business units	—	—
Cash paid relating to other investing activities	—	—
Sub-total of cash outflow from investing activities	293,984,014.58	309,830,900.37
NET CASH FLOWS FROM INVESTING ACTIVITIES	(220,383,957.74)	(299,619,588.94)
III CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from investment	—	—
Including: Cash received by subsidiaries from investment of minority shareholders	—	—
Cash received from borrowings	3,914,608,542.60	3,093,252,422.24
Cash received from issuing bonds	—	—
Cash received relating to other financing activities	219,552,865.10	106,954,855.00
Sub-total of cash inflows from financing activities	4,134,161,407.70	3,200,207,277.24
Cash paid for repaying debts	3,507,353,467.28	2,616,321,277.40
Cash paid for distributing dividends, profits or interest repayments	115,722,326.75	106,168,568.85
Including: Dividends and profits paid by subsidiaries to minority shareholders	—	—
Cash paid relating to other financing activities	159,552,865.10	10,050,000.00
Sub-total of cash outflows from financing activities	3,782,628,659.13	2,732,539,846.25
NET CASH FLOWS FROM FINANCING ACTIVITIES	351,532,748.57	467,667,430.99



Consolidated Statement of Cash Flow

Year 2017

Unit: RMB

Items	Amount of the period	Amount of the last period
IV Effect of changes in foreign exchange rate to cash and cash equivalents	(10,752,397.74)	17,724,755.63
V Net increase in cash and cash equivalents	152,897,347.26	290,189,730.40
Add: balance of cash and cash equivalents at the beginning of the period	508,498,755.91	218,309,025.51
VI Balance of cash and cash equivalents at the end of the period	661,396,103.17	508,498,755.91

Legal representative:
Zhang En Rong

Comptroller principal:
Liu Min

Leading member of the accounting body:
Ding Zhi Shui

Cash Flow Statement of the Parent Company



Year 2017

Unit: RMB

Items	Amount of the period	Amount of the last period
I CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales of goods and rendering of services	2,633,003,483.02	1,296,786,996.54
Refunds of taxes received	7,497,707.91	10,265,423.37
Cash received relating to other operating activities	418,507,012.65	378,660,734.43
Sub-total of cash inflows from operating activities	3,059,008,203.58	1,685,713,154.34
Cash paid for purchasing goods and receiving services	2,341,230,767.91	1,172,472,523.22
Cash paid to and for employees	91,506,762.82	74,918,627.52
Payments of taxes and surcharges	18,407,114.57	18,777,499.65
Cash paid relating to other operating activities	571,574,970.75	231,395,422.38
Sub-total of cash outflows from operating activities	3,022,719,616.05	1,497,564,072.77
Net cash flows from operating activities	36,288,587.53	188,149,081.57
II CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from disposal investments	—	10,000,000.00
Cash received from returns on investments	—	259.63
Cash received from disposal of fixed assets, intangible assets and other long-term assets	72,915,325.84	13,796.31
Net cash received from disposal of subsidiaries and other business units	—	—
Cash received relating to other investing activities	—	—
Sub-total of cash inflows from investing activities	72,915,325.84	10,014,055.94
Cash paid to acquisition and construction of fixed assets, intangible assets and other long-term assets	32,268,016.80	17,561,512.10
Cash paid for investments	—	300,020,000.00
Net cash paid to acquire subsidiaries or other business units	—	—
Cash paid relating to other investing activities	—	—
Sub-total of cash outflows from investing activities	32,268,016.80	317,581,512.10
Net cash flows from investing activities	40,647,309.04	(307,567,456.16)



Cash Flow Statement of the Parent Company

Year 2017

Unit: RMB

Items	Amount of the period	Amount of the last period
III Cash flows from financing activities:		
Cash received from investment	—	—
Cash received from borrowings	2,545,510,542.60	2,233,064,794.24
Cash received from issuing bonds	—	—
Cash received relating to other financing activities	219,552,865.10	693,055,031.30
Sub-total of cash inflows from financing activities	2,765,063,407.70	2,926,119,825.54
Cash paid for repaying debts	2,464,704,839.28	2,500,684,277.40
Cash paid for distributing dividends, profits or interest, repayment	79,590,690.14	78,013,164.77
Cash paid relating to other financing activities	159,552,865.10	10,050,000.00
Sub-total of cash outflows from financing activities	2,703,848,394.52	2,588,747,442.17
Net cash flows from financing activities	61,215,013.18	337,372,383.37
IV Effect of changes in foreign exchange rate on cash and cash equivalents	(10,326,273.40)	14,783,353.62
V Net increase in cash and cash equivalents	127,824,636.35	232,737,362.40
Add: Balance of Cash and cash equivalents at the beginning of the period	428,147,430.73	195,410,068.33
VI Balance of cash and cash equivalents at the end of the period	555,972,067.08	428,147,430.73

Legal representative:
Zhang En Rong

Comptroller principal:
Liu Min

Leading member of the accounting body:
Ding Zhi Shui

Consolidated Statements of Changes in Equity



Year 2017

Unit: RMB

Items	The period												
	Attribute to owners of the Parent Company												
	Other equity instrument			Less: treasury stock		Other comprehensive income		Special reserve	Surplus reserve	Provision for General Risk	Undistributed profits	Minority Shareholders interest	Total of owners' interest
	Share capital	Preferred share	Perpetual bonds	Others	Capital reserve								
I. Balance at the end of last year	797,848,400.00	—	—	—	849,718,158.42	—	(3,092,433.84)	—	176,686,903.51	11,236.91	(2,104,173.06)	66,599,133.45	1,885,667,225.39
Add: Change in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—
Correction of errors in the early stage	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combinations under the common control	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the year	797,848,400.00	—	—	—	849,718,158.42	—	(3,092,433.84)	—	176,686,903.51	11,236.91	(2,104,173.06)	66,599,133.45	1,885,667,225.39
III. Changes for the year (decrease is represented by "-")	—	—	—	—	10,799,300.00	—	1,689,685.59	—	—	—	38,038,484.18	(4,861,600.78)	45,665,868.99
(i) Total comprehensive income	—	—	—	—	—	—	1,689,685.59	—	—	—	38,038,484.18	(2,861,600.78)	36,866,568.99
(ii) Owners input and capital reduce	—	—	—	—	10,799,300.00	—	—	—	—	—	—	—	10,799,300.00
1. ordinary shares by shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
2. capital from other equity-instrument holders	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Share based payments credited to owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	10,799,300.00	—	—	—	—	—	—	—	10,799,300.00
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Appropriation to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Appropriation to general risk provision;	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Internal carry-forward of owners' equities	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Conversion of capital reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Conversion of surplus reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Making good of loss with surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Amount withdrawn in the period	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Amount-utilized in the period	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the period	797,848,400.00	—	—	—	860,517,458.42	—	(1,402,748.25)	—	176,686,903.51	11,236.91	35,934,311.12	61,737,532.67	1,931,333,094.38

Amount of the period



Consolidated Statements of Changes in Equity

Year 2017

Unit: RMB

Items	For the last period												
	Attributed to owners of the Parent Company					Attributed to owners of the Parent Company							
	Share capital	Preferred share	Perpetual bonds	Other	Capital reserves	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for General Risk	Undistributed profits	Minority shareholders' interest	Total of owners' interest
I. Balance at the end of last year	797,848,400.00	—	—	—	849,500,658.42	—	(1,262,175.75)	—	176,686,903.51	11,236.91	610,372,203.12	104,927,369.69	2,538,084,595.90
Add: Change in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—
Correction of errors in the early stage	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combinations under common control	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the period	797,848,400.00	—	—	—	849,500,658.42	—	(1,262,175.75)	—	176,686,903.51	11,236.91	610,372,203.12	104,927,369.69	2,538,084,595.90
III. Changes for the year (decrease is represented by "-")	—	—	—	—	217,500.00	—	(1,830,258.09)	—	—	—	(612,476,376.18)	(38,328,236.24)	(652,417,370.51)
(I) Total comprehensive income	—	—	—	—	—	—	(1,830,258.09)	—	—	—	(612,476,376.18)	(38,328,236.24)	(652,634,870.51)
(II) Owners input and capital reduce	—	—	—	—	217,500.00	—	—	—	—	—	—	—	217,500.00
1. Ordinary shares by shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital from other-equity-instrument holders	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Share based payments credited to owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	217,500.00	—	—	—	—	—	—	—	217,500.00
(III) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Appropriation to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Appropriation to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(IV) Internal carry-forward owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Conversion of capital reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Conversion of surplus reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Making good of loss with surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	6,782,481.72	—	—	—	—	—
(V) Special reserves	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Amount withdrawn in of the period	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Amount utilized in the period	—	—	—	—	—	—	—	6,782,481.72	—	—	—	—	—
(VI) Others	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the period	797,848,400.00	—	—	—	849,718,158.42	—	(3,092,433.84)	—	176,686,903.51	11,236.91	(2,104,173.06)	66,599,133.45	1,885,667,225.39

Legal Representative: Zhang En Rong

Accountant-in-charge: Liu Min

Partner-in-charges: Ding Zhi Shui

Statement of Changes in Equity of the Parent Company



Year 2017

Unit: RMB

Items	For the period							Total of owners' interest			
	Share capital	Preferred share	Perpetual bond	Others	Capital reserve	less: treasury stock	Other comprehensive income		Special reserve	Surplus reserve	Undistributed profits
I. Balance at the end of the last year	797,848,400.00	—	—	—	849,699,490.92	—	—	—	176,686,903.51	180,604,797.37	2,004,839,591.80
Add: Change in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Correction of errors in the early stage	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—
Balance at the beginning of the year	797,848,400.00	—	—	—	849,699,490.92	—	—	—	176,686,903.51	180,604,797.37	2,004,839,591.80
III. Changes for the period (loss represented by "-")	—	—	—	—	10,799,300.00	—	—	—	—	207,761,331.62	218,560,631.62
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	207,761,331.62	207,761,331.62
(ii) Owner's input and capital reduce	—	—	—	—	10,799,300.00	—	—	—	—	—	10,799,300.00
1. Ordinary shares by shareholders	—	—	—	—	—	—	—	—	—	—	—
2. Capital from other-equity instrument holders	—	—	—	—	—	—	—	—	—	—	—
3. Share based payment credited to owners' equity	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	10,799,300.00	—	—	—	—	—	10,799,300.00
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—
1. Appropriation to surplus reserve	—	—	—	—	—	—	—	—	—	—	—
2. Distribution to owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—
(iv) Internal carry-forward of owners' equities	—	—	—	—	—	—	—	—	—	—	—
1. Conversion of capital reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—
2. Conversion of surplus reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—
3. Making good loss with surplus reserve for loss	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—
1. Amount withdrawn in the period	—	—	—	—	—	—	—	—	4,008,900.94	—	4,008,900.94
2. Amount utilized in the period	—	—	—	—	—	—	—	—	—	—	—
(vi) Others	—	—	—	—	—	—	—	—	—	—	—
Balance at the end of the period	797,848,400.00	—	—	—	860,498,790.92	—	—	—	176,686,903.51	388,366,128.99	2,223,400,223.42

Amount of the period



Statement of Changes in Equity of the Parent Company

Year 2017

Items	Other equity instrument							For the last period					Total of owners' interest
	Share capital	Preferred share	Perpetual bond	Others	Capital reserve	less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Unit: RMB		
I. Balance at the end of the last year	797,848,400.00	—	—	—	849,481,990.92	—	—	—	176,686,903.51	790,083,996.82	2,614,101,291.25		
Add: Change in accounting policies	—	—	—	—	—	—	—	—	—	—	—		
Correction of errors in the early stage	—	—	—	—	—	—	—	—	—	—	—		
Others	—	—	—	—	—	—	—	—	—	—	—		
II. Balance at the beginning of the year	797,848,400.00	—	—	—	849,481,990.92	—	—	—	176,686,903.51	790,083,996.82	2,614,101,291.25		
III. Changes for the period (loss represented by "-")	—	—	—	—	217,500.00	—	—	—	—	(609,479,199.45)	(609,261,699.45)		
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	(609,479,199.45)	(609,479,199.45)		
(ii) Owner's input and capital reduce	—	—	—	—	217,500.00	—	—	—	—	—	217,500.00		
1. Ordinary shares by shareholders	—	—	—	—	—	—	—	—	—	—	—		
2. Capital from other-equity-instrument holders	—	—	—	—	—	—	—	—	—	—	—		
3. Share based payments credited to owners' equity	—	—	—	—	—	—	—	—	—	—	—		
4. Others	—	—	—	—	217,500.00	—	—	—	—	—	217,500.00		
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—		
1. Appropriation to surplus reserve	—	—	—	—	—	—	—	—	—	—	—		
2. Distribution to owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—		
3. Others	—	—	—	—	—	—	—	—	—	—	—		
(iv) Internal carry-forward of owners' equities	—	—	—	—	—	—	—	—	—	—	—		
1. Conversion of capital reserve transferred capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—		
2. Conversion of surplus reserve transferred capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—		
3. Making good of loss with surplus reserve for loss	—	—	—	—	—	—	—	—	—	—	—		
4. Others	—	—	—	—	—	—	—	—	—	—	—		
(v) Special reserve	—	—	—	—	—	—	—	4,107,947.74	—	—	4,107,947.74		
1. Amount withdrawn in the period	—	—	—	—	—	—	—	4,107,947.74	—	—	4,107,947.74		
2. Amount utilized in the period	—	—	—	—	—	—	—	—	—	—	—		
(vi) Others	—	—	—	—	—	—	—	—	—	—	—		
IV. Balance at the end of the period	797,848,400.00	—	—	—	849,699,490.92	—	—	—	176,686,903.51	180,604,797.37	2,004,839,591.80		

Partner-in-charges: Ding Zhi Shui

Accountant-in-charge: Liu Min

Legal Representative: Zhang En Rong



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

I. General Information of the Company

Shandong Molong Petroleum Machinery Company Limited (hereunder the "Company") is a joint stock limited company registered in the People's Republic of China, the predecessor company is Shandong Molong Holdings Company, which was established jointly by Zhang En Rong, Lin Fu Long, Zhang Yun San, Xie Xin Cang, Liu Yun Long, Cui Huan You, Liang Yong Qiang, Shengli Oil Field Kaiyuan Oil Exploitation Company Limited (勝利油田凱源石油開發有限責任公司) and Gansu Industrial University Alloy Materials Factory (甘肅工業大學合金材料總廠) on 27 December 2001 with the approval from Office for Restructuring the Economic System of Shandong Province (山東省經濟體制改革辦公室) with the letter Lu Ti Gai Han Zi [2001] No. 53 (魯體改函字[2001]53號文). On 30 December 2001, the Company obtained the business license for enterprise natural person (registration number: Qi Gu Lu Zong Zi No. 004025 (企股魯總字第004025號)) with a registered capital of RMB40,500,000.00, total number of shares of 40,500,000 shares of RMB1 each.

On 28 February 2003, upon the approval by Office of Ministry of Finance (財政部辦公廳) with Cai Ban Qi [2003] No. 30 (財辦企[2003]30號文), Gansu Industrial University Alloy Materials Factory (甘肅工業大學合金材料總廠) transferred 327,800 state-owned legal person shares of the Company to the National Council for Social Security Fund (全國社會保障基金理事會).

On 29 December 2003, upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2003] No. 50 (證監國合字[2003]50號文), the Company divided the nominal value per share to RMB0.10, and the change in total number of shares was 405,000,000 shares.

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

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2005] No. 13 (證監國合字[2005]13號文), on 12 May 2005, the Company issued 108,000,000 additional overseas listed foreign shares (H Shares) at the issuing price of HKD0.92 per share with a nominal value of RMB0.10 each. The Company's registered capital has changed to RMB64,799,800.00, and the total number of shares has changed to 647,998,000 shares.

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

Pursuant to the resolutions of 2006 Annual General Meeting convened on 25 May 2007, on the basis of a total of 647,998,000 shares as at 31 December 2006, the Company added its share capital from undistributed profit with bonus issue of 2 shares for every 1 share and added its share capital from capital reserve with the addition of 2 shares for every 1 share, adding 2,591,992,000 shares in aggregate, and the addition date was 18 July 2007. Upon the addition, the Company's registered capital has changed to RMB323,999,000.00, and the total number of shares has changed to 3,239,990,000 shares.

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2007] No. 28 (證監國合字[2007]28號文), on 19 September 2007, the Company added 49,252,000 additional overseas listed foreign shares (H Shares) at the issuing price of HKD\$1.70 per share with a nominal value of RMB0.10 each. The Company's registered capital has changed to RMB328,924,200.00, and the total number of shares has changed to 3,289,242,000 shares.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

I. General Information of the Company (continued)

On 29 December 2009, the board of the Company has resolved to implement share consolidation, which is consolidating every 10 shares in issued with nominal value of RMB0.10 each into 1 share with nominal value of RMB1.00. Such share consolidation has been completed on 7 January 2010.

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2010] No. 1285 (證監許可[2010]1285號文), on 11 October 2010, the Company offered 70,000,000 Renminbi ordinary shares (A Shares) with nominal value of RMB1 each at an offering price of RMB18 per share. The Company's registered capital has changed to RMB398,924,200.00, and the total number of shares has changed to 398,942,200 shares.

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

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

The Company and its subsidiaries (hereunder refer as to the "Group") belong to the machinery manufacturing industry and are mainly engaged in the manufacture of special equipment for petroleum machinery. The scope of business is mainly included the production and sales of oil pump, sucker rod, pumping unit, pumping tubing, petroleum machinery and textile machinery; development of petroleum machinery and related products; commodity information services (excluding intermediaries) (The project approved by law can only be carried out with the approval of the relevant department, and the effective period of the license shall prevail).

Zhang En Rong, a natural person, is the controlling shareholder and final control person of the Company.

The Group's consolidated financial statements including 10 companies including Shouguang Baolong Petroleum Material Company Limited, Shouguang Maolong Machinery Company Limited, Weihai Baolong Company Limited. Compared with last year, there is no change in the scope of the consolidated financial statements.

For the detail of the Group's subsidiaries, please refer to the related content of notes "8. Change in the consolidated scope" and "9. Interest in other subjects".



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

II. Basic of preparation to the Financial Statements

1. Basic of preparation

The financial statements have been prepared on a going concern basis, according to the actual occurrence of the transactions and events and in accordance with the Accounting Standards for Business Enterprises and related regulations (hereinafter collectively referred to as the “Accounting Standards for Business Enterprises”) promulgated by the Ministry of Finance of the People’s Republic of China, and disclosure requirements on Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 — General Provisions on Financial Reporting (amended in 2014) issued by the China Securities Regulatory Commission, Hong Kong Companies Ordinance, and Stock Exchange Listing Rules issued by the Hong Kong Stock Exchange, and based on the accounting policies and accounting estimates set out in the note V. “Significant Accounting Policies and Accounting Estimate” .

2. Going concern

For the year ended 31 December 2017, the net profit of the Group’s consolidated financial statements was RMB35.08 million, and the net cash flow from operating activities was RMB32.5 million. As of 31 December 2017, the current liabilities in the consolidated financial statements were higher than the current assets of RMB906.6988 million, the ratio is 0.74, and the financial situation has greatly improved compared to the last year. At the end of the year, the company had more outstanding orders and sufficient funds to maintain normal production and operations. Therefore, it is reasonable to prepare financial statements based on going concern.

III. Significant Accounting Policies and Accounting Estimate

Whether the company need to comply with the disclosure requirements of a particular industry

No

Suggest of specific accounting policies and accounting estimates:

Suggest of specific accounting policies and accounting estimates: accounting policies developed by the Group according to characteristics of actual production and operation and accounting estimates including business cycle, the recognition and measurement of provisions for bad debts from receivables, the measurement of inventory dispatched, fixed assets classification and depreciation methods, amortization of intangible assets, conditions for capitalizing R&D expenses, recognition and measurement of incomes, etc

1. Declaration on Compliance with the Accounting Standards for Business Enterprises

The Company declares that the financial statements for 2017 prepared comply with the Accounting Standards for Business Enterprises, which reflect financial position as at 31 December 2017, and results of operation and cash flow for 2017 of the Company and the Group truly and completely.

2. Accounting Period

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



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

3. Operating cycle

The Group's operating cycle is 12 months, from 1 January to 31 December. This operating cycle is adopted for classification criteria for liquidity of assets and liabilities.

4. Reporting currency

The functional currency of the Company and those subsidiaries established in the PRC is RMB. The functional currency of the overseas subsidiary is USD.

The Group adopts RMB as its presentation currency when preparing for these financial statements.

5. Accounting treatment for business combinations under/not under common 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 realized by two or more 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 recognized 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 takes all subsidiaries and Structured subject owning the actual controlling power into the scope of the consolidated financial statements.

When the Group prepares 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 unrealized profits within the scope of combination 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.



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

6. Preparation of consolidated financial statements (continued)

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.

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 recognized 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 re-measurement 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. 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.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. 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 recognized 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 common cooperation

The joint arrangement of the Group includes common operations and joint ventures. For common 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. Determination of cash and cash equivalents

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

9. Foreign currency and the translation of statements denominated in foreign currency

(1) Foreign currency transaction

The Group's foreign currency transactions shall be converted to RMB at the spot exchange rate of the day when the transaction occurs.

At the balance sheet date, foreign currency monetary items shall be translated to RMB using the spot exchange rate of the day. Exchange differences arising shall be recognized in profit or loss for the current period, except for the exchange differences arising on the borrowing costs eligible for acquisition, construction or production of assets which shall be qualified for capitalization. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items denominated in foreign currency measured at fair value shall continue to be translated at the spot exchange rate at the date of transaction.

(2) Translation of financial statements denominated in foreign currency

Assets and liabilities in the balance sheet denominated in foreign currencies are translated at the spot rate prevailing at the balance sheet date. The equity items, except for undistributed profits, are translated at the spot exchange rate when they occurred. Income and expenses in the income statement denominated in foreign currencies are translated at the spot exchange rate at the date of the transactions. The resulting differences are presented as a separated component of shareholders' equity in the balance sheet. Cash flow dominated in foreign currency or from the foreign subsidiaries are translated at the spot rate when occurs. Effects on cash arising from the change of exchange rate are presented as separate item in the cash flow statement.



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial Instruments

The Group recognises a financial asset or liability when it enters a financial instrument contract.

(1) Financial assets

1) Classification, recognition and measurement of financial assets

According to investment objectives and economic essence, the Group's financial assets shall be classified as financial assets at fair value through profit or loss (FVTPL), held-to-maturity investments, loans and receivables and available-for-sale (AFS) financial assets.

Financial assets at FVTPL consist of financial assets held for trading and those designated as financial assets at FVTPL at initial recognition. The Group shall classify financial assets as financial assets held for trading as long as they meet one of the following conditions: the purpose of acquiring the financial assets is to sell them within a short time; they fall under a portfolio of identifiable financial instruments for centralized management, and there is objective evidence that the Company has managed the portfolio in a manner for making profits within a short time; they fall under derivative instruments, except those designated as effective hedging instruments, financial guarantee contracts and equitylinked investments that are not quoted in an active market and whose fair value cannot be measured reliably and have to be settled through delivery. The Group shall designate financial instruments as financial assets at FVTPL at initial recognition only when they meet one of the following conditions: The designation can eliminate or significantly reduce inconsistencies in terms of recognition and measurement of relevant gains or losses caused by different measurement bases of the financial instruments. The formal written documents of corporate risk management or investment strategies have recorded that the financial portfolio is managed and assessed on the basis of the fair value and this is reported to the key management personnel. The financial instrument is a hybrid instrument containing one or more embedded derivatives, unless the embedded derivatives do not significantly change the cash flow of the hybrid instrument or obviously should not be separated from the relevant hybrid instrument. The hybrid instrument contains embedded derivatives that need to be separated but cannot be measured separately on the acquisition date or on the subsequent balance sheet date. The Group does not have such financial assets at present, which shall be subsequently measured at fair value. Changes in fair value shall be accounted for in gains or loss from changes in fair value. The interests or cash dividends acquired while the Group holds the assets shall be recognized as investment gains. In the process of disposal, the balance between its fair value and the initial booked amount shall be recognized as investment gains or loss and gains or loss from changes in fair value will be adjusted.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments using the effective interest method are subsequently measured at amortized cost, the amortization or impairment and gains or losses are recognized upon termination arising and are recognized in the profit or loss for the current period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial Instruments (continued)

(1) Financial assets (continued)

1) Classification, recognition and measurement of financial assets (continued)

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as financial assets of any other class at initial recognition. For equity instruments which do not have quotations in active market and the fair values of which cannot be reliably measured and linked to that equity instrument, and derivatives linked to such equity instrument and settled through delivery of such equity instrument, will be measured at cost. Other equity instrument which do not have quotations in active market but the fair values of which can be reliably measured is measured by fair value of which the change will be recognized as other comprehensive income. Except for exchange of impairment loss and exchange gain or loss arising from foreign currency monetary financial assets, changes in fair value of available-for-sale financial assets are directly recorded in shareholders' equity. Until such financial assets are derecognized, the accumulated change in the amount of fair value previously recorded in equity is transferred to the profit and loss account for the period. Interests for the period in which the assets are held are calculated using the effective interest method is charged to profit or loss for the period as Investment income. Cash dividends declared by the investee company relating to available-for-sale equity instruments are charged to profit or loss for the period as Investment income.

2) Recognition and measurement of financial assets transfers

A financial asset is derecognised when any one of the following conditions is satisfied: ① the rights to receive cash flows from the asset's expiration, ② the financial asset has been transferred and the Group transfers substantially all risks and rewards relating to the financial assets to the transferee, ③ the financial asset has been transferred to the transferee, the Group has given up its control of the financial asset although the Group neither transfers nor retains all risks and rewards of the financial asset.

Where an entity neither transfers nor retains substantially all risks and rewards of financial asset and does not give up the control over such financial asset, then the entity recognises such financial asset to the extent of its continuous involvement and recognises the corresponding liabilities.

In the case where the financial asset as a whole qualifies for the de-recognition conditions, the difference between the carrying value of transferred financial asset and the sum of the amount received for transfer and the accumulated amount of changes in fair value that was previously recorded under other comprehensive income is charged into profit or loss for the period.

In the case where only part of the financial asset meets the criteria for de-recognition, the carrying amount of financial asset being transferred is allocated between the portions that to be derecognised and the portion that continued to be recognised according to their relative fair value. The amount of consideration received for the transfer and the accumulated amount of changes in fair value that was previously recorded in other comprehensive income of the part qualifies for de-recognition and the above-mentioned allocated carrying amount is charged to profit or loss for the period.

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial Instruments (continued)

(1) Financial assets (continued)

3) Test and accounting treatment on impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the balance sheet date. Allowance is provided when there is objective evidence of impairment of financial assets occurred.

Impairment will be provided on the equity instruments measured by the cost when the performance of the investee continued to decline and there is no sign of reversing. Allowance is provided based on the present value of estimated future cash flows and the difference between the carrying value.

For financial assets carried at amortised cost, the amount of the impairment loss recognised the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss.

When there is a significant or prolonged decline in the fair value of available-for-sale financial assets, the accumulated losses in fair value that was previously directly recorded in shareholder's equity are transferred out and recognised as impairment losses. For the available-for-sale investment on debt instruments which impairment losses have been recognised, if in subsequent period, its fair value increases and the increase is objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previous recognised impairment loss is reversed into profit or loss for the period. For an investment in an equity instrument classified as available-for-sale equity on which impairment loss has been recognised, the increase in its fair value in a subsequent period is directly charged into shareholders' equity.

(2) Financial liabilities

1) Classification, recognition and measurement of financial liabilities

At initial recognition, financial liabilities are classified either as financial liabilities at fair value through profit or loss and other financial liabilities.

Financial liabilities at fair value through profit or loss include trading financial liabilities and financial liabilities held-for-trading and those designated as fair value through profit or loss on initial recognition. They 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.

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial Instruments (continued)

(2) Financial liabilities (continued)

2) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. Where an agreement between the Company and the creditor has been entered into to replace the existing financial liabilities by way of a new undertaking of financial liabilities, and the terms of the contracts for the new financial liabilities are materially different from those of the existing financial liabilities, the existing financial liabilities shall be derecognized, and at the same time the new financial liabilities shall be recognised. If the Company makes substantial amendments to all of or part of the terms of the contract for the new financial liabilities, the existing financial liabilities or part of them shall be derecognized, and meanwhile the financial liabilities under the amended terms shall be recognized as new financial liabilities. The balance between the book value of the part derecognized and the consideration paid shall be included in the profit or loss for the current period.

(3) Method for determination of fair values 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.

During the year, the Group had no financial assets at FVTPL and financial liabilities at FVTPL.

11. Receivables

(1) Accounts receivable that are individually significant and are provided for bad debts on individual basis

The basis or standard for determining the significant level of individual receivable

The Group recognizes accounts receivable of over RMB3.00 million and other receivables of over RMB2.00 million as single item with significant accounts receivable.

Provision-making method on individual receivables above significant level

The Group conducts impairment test for single item with significant accounts receivable separately, and tests financial assets without impairment separately, including conducting impairment test on financial asset groups with similar credit risk characteristics. For accounts receivable with impairment loss recognized in single item test, they ceased to be included in accounts receivable portfolio with similar risk characteristics for impairment test.

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

11. Receivables (continued)

(2) Receivables that are provided for bad debts on portfolio basis of risks

Name of portfolio	Method for withdrawal of provision for bad debts
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test	Other methods
Portfolios subject to withdrawal of provision for bad debts by aging analysis method:	
<input type="checkbox"/> Applicable <input checked="" type="checkbox"/> Not applicable	
Portfolios subject to withdrawal of provision for bad debts by percentage of balance:	
<input type="checkbox"/> Applicable <input checked="" type="checkbox"/> Not applicable	
Portfolios subject to withdrawal of provision for bad debts by other methods:	
<input type="checkbox"/> Applicable <input checked="" type="checkbox"/> Not applicable	

(3) Receivables not large in unit value but subject to separate withdrawal of provision for bad debts

Reasons for separate withdrawal of provision for bad debts	If there is evidence indicating higher credit risks for a certain amounts receivable, provision for bad debts is made separately for such amounts receivable.
Method for withdrawal of provision for bad debts	individual basis

12. Loan and provision for loan loss

The Group has classified its loans into five categories: pass, special mention, substandard, doubtful and loss, according to the following standards:

Pass loan: Loans for which corporate borrowers (personal borrowers) may perform the loan agreement (including the loan extension agreement) and repay the loan when it is due. (Duration characteristics of the extension: one extension, the duration of which is no longer than 0.5 times the original loan tenure; or the duration of one extension does not exceed six months).

Special mention loan: Loans for which corporate borrowers (personal borrowers) are currently solvent and may pay interest on normal terms despite some factors that might have an adverse impact on repayment. (Duration characteristics of the extension: the loan is extended once for a duration of no longer than the original loan tenure; or the duration of the extension does not exceed twelve months). Loans for which corporate borrowers (personal borrowers) are currently insolvent and may not pay interest on normal terms but the repayment of principal could be recovered after the enforcement of collateral.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

12. Loan and provision for loan loss (continued)

Substandard loan: Loans for which corporate borrowers (personal borrowers) are experiencing definable solvency issues and may not pay interest on normal terms, for which collection of loan in full is impossible relying solely on the normal income of the borrowers and on which certain losses might be inflicted even after the enforcement of collateral. (Duration characteristics of the extension: the duration of one or more extensions are longer than the original loan tenure but shorter than 18 months).

Doubtful loan: Loans for which collection in full is impossible from the corporate borrowers (personal borrowers), the interest is not paid on normal terms and on which significant losses might be inflicted even after the enforcement of collateral. (Duration characteristics of the extension: the duration of one or more extensions are longer than the original loan tenure but shorter than 30 months).

Loss loan: Loans for which collection in full is impossible from the corporate borrowers (borrowers), the interest is not paid on normal terms and which are considered uncollectable after all collection measures or all necessary legal proceedings, and loans for which corporate borrowers go bankrupt or borrowers are deceased and which are not fully repaid by liquidated assets or estates. (Duration characteristics of the extension: the duration of the extension is longer than 2.5 times the original loan tenure or longer than 30 months).

During the implementation of the five-tier classification of loans, the class that a corporate borrower (personal borrower) shall be included in could be adjusted in accordance with the results of the analysis on the corporate borrower's (personal borrower's) actual operations, asset changes, repayment of principal and interest in cases of loans and collateral guarantees.

In terms of the impairment of the loans and advances that have been extended, after considering whether the principal or interest of a loan is past due, whether the borrower will encounter liquidity problems and credit rating downgrades, or be relegated to a lesser position in the market competition, or violate the original contract terms, the following factors shall also be taken into account: the value of collaterals and pledges, sustainability of the borrower's business plan, the borrower's ability to increase performance in times of financial difficulties, recoverable amount from the project and expected recoverable amount in case of insolvent liquidation, other available sources of finance and the amount of the collaterals in case of realization, the expected time for the cash inflows. etc. After conducting a reasonable assessment and judgment on these factors, provision shall be made for impairment loss based on the differences between the present value of the expected future cash flows and the carrying amount.

13. Inventories

Whether the Company needs to comply with the disclosure requirements for special industries

No

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 amortized by one-time written-off.

At the end of the period, inventories are calculated at the lower of cost and net realizable value. If the net realizable value of the inventories is lower than the cost, provision for impairment is recognized. The provisions for goods-in-stock and large-amount raw materials are made on the excess of their costs over their lower net realizable values on an item-by-item basis. The provisions for other inventories items shall be made according to their category.



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

13. Inventories (continued)

Net realizable 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 realizable 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.

14. Assets held for sale

The Group classifies non-current assets or disposal group that meet the following criteria as held for sale: (1) Disposable immediately under current conditions based on similar transactions for disposals of such assets or practices for the disposal group; (2) Probable disposal; that is, a decision has been made on a plan for 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 of relevant authorities or regulators as required by relevant regulations. Before the Group classifies non-current assets or disposal groups as held as available-for sale for the first time, the book value of each asset and liability of the non-current assets or disposal group is measured according to the requirements of the relevant accounting standards. On initial measurement or remeasurement on the date of the balance sheet of non-current assets held for sale or disposal group, where book value is higher than the net value of fair value less disposal expenses, the difference between book value and the net value of fair value less disposal expenses is recognised as asset impairment loss in profit and loss in the current period, and at the same time, provision is made for impairment of held for sale asset.

1. Non-current assets or disposal groups which the Group acquired specifically for disposal, satisfy the requirement of “expected completion of disposal within one year” on the date of acquisition, and is probable to satisfy conditions of other sale classifications in the short term (usually within 3 months) are classified as sale on the date of acquisition. At initial measurement, the initial measurement assuming that it is not classified as held for sale and the net value of fair value less disposal expenses are compared, and the lower of the two is measured. Other than non-current assets or disposal groups acquired through corporate merger, the difference arising from recognising the net value of fair value of non-current assets or disposal groups less disposal expenses as initial measurement is recognised in profit and loss in the current period.
2. Where the Group has lost control of a subsidiary due to reasons such as disposal of investment in a subsidiary, regardless of the Group retaining part equity investment after the disposal, upon the investment in subsidiary intended to be disposed of satisfying the conditions for classification as held as available-for-sale, the investment in a subsidiary will be generally classified as held as available-for-sale in the parent company's separate financial statements, and all assets and liabilities of the subsidiary is classified as held as available-for-sale in the consolidated financial statements.
3. Where there is increase in net value of fair value less disposal expenses for non-current assets held for sale on subsequent balance sheet dates, the previously charged difference should be recovered and reversed in asset impairment loss recognised after classification as held as available-for-sale investment, with the reversal amount recognised in profit and loss in the current period. Asset impairment loss recognised before classification as held for sale investment is not reversible.
4. Asset impairment loss recognised for disposal groups held for sale is first offset against the book value of goodwill of the disposal group and then offset against the book values proportionally according to the share of book value of each non-current asset.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

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III. Significant Accounting Policies and Accounting Estimates (continued)

14. Assets held for sale (continued)

Where there is increase in net value of fair value less disposal expenses of held for sale disposal groups in subsequent assets and liabilities dates, the previously charged difference 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 investment, with the reversal amount recognised in profit and loss in the current period. Offset goodwill book value and asset impairment loss recognised before classification as held as available-for-sale investment are not reversible.

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

1. No provision for depreciation or amortisation of non-current assets held for sale non-current assets or disposal groups, and interest on liabilities and other expenses of disposal groups held as available for sale continues to be recognised.
2. When non-current assets or disposal groups held for sale are no longer classified as held as available for sale or non-current assets are removed from disposal groups held for sale, measurement is performed based on the lower of the following: ① book value prior to classification as held for sale adjusted by recognition of depreciation, amortisation or impairment assuming there was no classification as held for sale; ② recoverable amount.
3. Upon derecognition of non-current assets or disposal groups held for sale, unrecognised gain or loss is recognised in profit or loss in the current period.

15. Long-term equity investments

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

Our Group's 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% or 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 recognized as nil.

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

15. Long-term equity investments (continued)

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

For long-term equity investment acquired through business combination not under common 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 package transaction, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to package transaction, initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will change to cost method. 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 dispose related assets or liabilities upon disposal. For shareholding which it holds before acquisition and accounted for under fair value method in the available-for-sale financial assets, the accumulated change in fair value which is originally included in other comprehensive income shall be change to profit or loss for the current period on the date of combination.

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 recognized as investment income for the current period using the amount which it entitles.

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

On disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognized as investment income for the period. For long-term investments accounted for under equity method, the movements of shareholder's equity, other than the net profit or loss, of the investee company, previously recorded in the shareholder's equity of the Company are recycled to investment income for the period on disposal



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III. Significant Accounting Policies and Accounting Estimates (continued)

15. Long-term equity investments (continued)

When the Company ceases to have control or significant influence on the invested company due to the reasons such as disposal of part of its equity investment, the remaining shareholding after disposal shall be accounted for under available-for-sale financial assets, 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 recognized in the original equity investment which is accounted for using equity method, upon it will no longer be accounted for under equity method it shall be using the same accounting basis as the invested company directly disposing related assets or liabilities.

For loss of control in the invested company due to partly disposed long-term equity investment, for remaining shareholding which can apply common control or impose significant influence to the invested company after disposal, shall be accounted for under equity method. Difference between the carrying value of equity disposal and the disposal consideration shall be included as investment income. Such remaining shareholding shall be treated as accounting for under equity method since the shareholding is obtained and make adjustment. For remaining shareholding which cannot apply common control or impose significant influence after disposal, it can be accounted as under available-for sale financial assets, 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 recognized as other comprehensive income, and shall be transfer to the profit or loss for the current period upon loss of control.

16. Investment Properties

Measurement model of investment properties

Measured at cost method

Methods of depreciation or amortisation

Investment properties include leased land use rights, land use rights held for sale after appreciation and leased buildings.

Investment property is initially measured at cost. The cost of Investment properties purchased includes purchasing price, tax, and other expenses directly related to the assets. The cost of Investment properties constructed by the Company itself is cost of construction incurred to bring the assets to its intended usage condition. Subsequent expenditures related to an investment property shall be included in cost of investment property only when the economic benefits associated with the asset will likely flow to the Group and its cost can be measured reliably. All other expenditures on investment property shall be included in profit or loss for the current period when incurred.

The Group adopts cost method for subsequent measurement of investment property, which is depreciated or amortized using the same policy as that for buildings and land use rights.

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III. Significant Accounting Policies and Accounting Estimates (continued)

16. Investment Properties (continued)

The Group reassesses and adjusts the estimated useful life, estimated residual value and depreciation (amortization) rates of investment property at the end of each year if necessary.

Where an investment property is changed for owner-occupied purpose, it is transferred to a fixed asset or intangible asset at the date of the change. Where the owner-occupied property is changed for earning rentals or for capital appreciation, the fixed asset or intangible asset is transferred to an investment property at the date of the change. On conversion, the carrying amount immediate before conversion is taken as the cost of the asset.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no further economic benefits are expected from its disposals. When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

17. Fixed assets

(1) Confirmation conditions

Fixed assets are tangible assets with significant value and useful lives for more than one year, and held for use in the production goods, renting of services, for rental, or for administrative purposes. Fixed assets are recognized when it is highly probable of economic benefits inflow to the Group and their costs can be measured reliably. The Group's fixed assets include buildings, machinery, vehicles, electronic equipments and other equipments.

(2) Depreciation method

Classification	Depreciation method	Depreciation life	Residual Value Rate	Annual Depreciation Rate
Buildings	Straight-line method	20	5	4.75
Machinery	Straight-line method	5–20	5	19.00–4.75
Electronic equipments	Straight-line method	3–5	5	31.67–19.00
Vehicles	Straight-line method	5	5	19.00
Other equipments	Straight-line method	5	5	19.00

(3) Finance leased fixed assets recognized basis, pricing and depreciation method

The lower of the fair value of the finance leased fixed asset and the present value of the minimum lease payment is the recorded value of the leased asset. The difference between the recorded value of the leased asset and the minimum lease payment is the unrecognized financing cost. The depreciation policy of the finance leased fixed asset is consistent with that of its own fixed assets. When a leased asset can be reasonably determined that its ownership will be transferred at the end of the lease term, it is depreciated over the period of expected use; Otherwise, the asset is depreciated over the shorter of the lease term and its useful life. The Group currently has no finance leased fixed assets.



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III. Significant Accounting Policies and Accounting Estimates (continued)

18. Construction-in-progress

Whether the Company is required to comply with the special industry disclosure requirements

No

Construction-in-progress measured at the expenditures actually incurred. The cost of construction work undertaken by the Company itself includes costs incurred during construction period, capitalized borrowing costs and other necessary costs incurred for its intended use.

Construction-in-progress is transferred to fixed assets at the date of reaching its usable conditions at an estimated amount based on the construction budget, construction price, or actual cost of construction. Depreciated is charged from the next month after it is put into use. The value of the asset will be adjusted when the resolution procedures are completed. However, it does not to revise accumulated depreciation and amortization.

19. Borrowing costs

Borrowing costs include interest, amortization of discount or premium related to borrowings, ancillary costs incurred in connection with the borrowings, and exchange difference arising from foreign currency borrowings.

In terms of the borrowing costs involving fixed assets, investment real estate and stocks 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 capitalization of the borrowing costs shall be ceased. The amount of other borrowing costs shall be recognized as an expense in the period in which they are incurred. If the qualified asset is interrupted abnormally during construction or production, and interruption has lasted for three consecutive months, the capitalization of the borrowing costs shall be suspended till construction or production resumes.

When funds are borrowed under a specific-purpose borrowing the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds; when funds are borrowed under general-purpose borrowings the amount of interest to be capitalized is determinate by applying the weighted average of the interest rate applicable to the general purpose borrowing to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. Capitalization rate confirmed as general borrowing weighted average rate.

During capitalization period, exchange difference arising from specific-purpose borrowings denominated in foreign currency is capitalized while exchange difference arising from general-purpose borrowings denominated in foreign currency is recognized in profit or loss.



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III. Significant Accounting Policies and Accounting Estimates (continued)

20. Intangible Assets

(1) Measurement method, useful life and impairment test

The Group's intangible assets mainly include land use right (maritime use right), patented technology, nonpatented 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.

For intangible assets with limited useful lives, the Group adopts straight line method for amortization at the month of acquisition. The Group amortizes land use right (maritime use right) on the basis of its useful life by straight line method since it is acquired. The patent technology, non-patent technology and other intangible assets are amortized evenly on the basis of shorter of estimated useful life, stipulated beneficial year by contract, and legal available year. The amortization amount is accounted into profit and loss in the current period. The Group makes the assessment on the estimated useful life and amortization method of intangible assets with limited useful life at the end of each year. Any changes will be dealt with as changes on accounting estimates.

Due to various unforeseeable reasons the intangible assets bring economic benefits to the Group for the period and confirm with the useful lives. The Group will review the useful lives on those intangible assets with indefinite useful lives at each of the accounting period.

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

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

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

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

Expenditure on the research phase is recognized in profits or losses in the current period in which it is incurred.



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III. Significant Accounting Policies and Accounting Estimates (continued)

20. Intangible Assets (continued)

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

Expenditure on the development phase is recognized as an intangible asset when all of the following conditions are satisfied:

- 1) It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- 2) the management's intention to complete, use or sell the intangible asset;
- 3) the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- 4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;
- 5) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Expenditure on the development phase which does not meet the above conditions is included in the profit or loss in the current period in which it is incurred. Expenditure in the development phase which has been included in the profit or loss in the prior period will not be recognized as asset in subsequent period. The capitalized expenditures in development phase are presented as development expenditure in balance sheet and it is carried down into the intangible asset since the date when the asset reaches the status of available for use.

21. Impairment of long term assets

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

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



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(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimates (continued)

21. Impairment of long term assets (continued)

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 recognized.

22. Long term prepayments

The Group's long term prepayments will be amortized 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.

23. Employee compensation

(1) Accounting treatment of short-term employee compensation

The Group's employee compensation include short-term compensation, welfare post resignation, welfare post cancellation of labor relationship and other long-term compensation.

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

(2) Accounting method of welfare post resignation

Welfare post resignation mainly include basic pension insurance, unemployment insurance. According to the Company's risks and obligations, they are classified as defined contribution plans, 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 recognized as liabilities on the balance sheet date and included in profits or losses in the current period or relevant asset costs according to the beneficiaries. There is no defined benefit plan in the Group.

(3) Accounting method of welfare post cancellation of labor relationship

The Group does not currently exist welfare post cancellation of labor relationship.

(4) Accounting method of other long-term compensation

The Group does not currently exist other long-term compensation.



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III. Significant Accounting Policies and Accounting Estimates (continued)

24. Estimated Liabilities

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

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

If all or part of the expense necessary for settling the estimated liabilities 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 estimated liabilities.

The Group reviews the carrying amount of a estimated liabilities at the balance sheet date and the carrying amount shall be adjusted to the current best estimate.

25. Production Safety Fee

The Group collects, utilizes 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 Utilization of Enterprise Work Safety Funds (No. 16 [2012] of the Ministry of Finance and the State Administration of Work Safety) and Notice of the Ministry of Finance on Issuing Interpretation No. 3 of the Accounting Standards for Business Enterprises (No. 8 [2009] of the Ministry of Finance).

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

- (1) Operating income of RMB10 million and below, accrued in accordance with 2%;
- (2) Operating income of RMB10 million to RMB100 million (inclusive), accrued in accordance with 1%;
- (3) Operating income of RMB100 million to RMB1,000 million (inclusive), accrued in accordance with 0.2%;
- (4) Operating income of RMB1,000 million to RMB5,000 million (inclusive), accrued in accordance with 0.1%;
- (5) Operating income above RMB5,000 million, accrued in accordance with 0.05%.

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

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III. Significant Accounting Policies and Accounting Estimates (continued)

25. Production Safety Fee (continued)

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

26. Revenue

Whether the Company is required to comply with the special industry disclosure requirements

No

The Group’s operation revenue is mainly from sale of goods, provision of services and interest income. Details of revenue recognition are as follows:

(1) Revenue from sales of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied: (a) the Company has transferred the significant risks and rewards of ownership of the goods to the buyer; (b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the associated economic benefits will flow into the Company; and (e) the associated costs incurred or to be incurred can be measured reliably at the time of recognising revenue from the sales of goods. For domestic sales, the Group recognises revenue when goods are delivered to and accepted by the customers. For export sales, the Group recognises revenue when risk and rewards of exported goods transferred to customer in accordance with contractual terms about trade arrangements stated in sales contract and relevant regulations under International Rules for the Interpretation of Trade Terms (2010). If there are any special terms about risk transfer stated in sales contract, the relevant revenue is recognised in accordance with these terms.

(2) Revenue from rendering of services

Revenue from the rendering of services is recognised only when all of the following conditions are satisfied: the amount of revenue and costs for the transaction involving the rendering of services can be measured reliably; the associated economic benefits can flow into the Group; and the stage of completion of the service can be measured reliably.

At the balance sheet date, the results of the labor service transaction can be reliably estimated, relevant service revenue is recognized according to the percentage of completion, and the percentage of completion is determined by the proportion of the cost incurred to the estimated total cost. Where the labor service transaction result cannot be estimated reliably, and if the service cost is expected to be compensated, the labor service revenue will be recognized according to the amount of labor cost that can be compensated, and the service cost incurred shall be carried forward. If the results of the labor service transaction cannot be estimated reliably and the estimated cost of labor services cannot be fully compensated, the labor costs incurred shall be recorded into the current profits and losses account, and the revenue from rendering labor services would not be confirmed.



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III. Significant Accounting Policies and Accounting Estimates (continued)

26. Revenue (continued)

(3) Revenue from interest income

Interest Income: When economic interest associated with the transaction can flow into the enterprise, and the revenue can be reliably measured, the interest income is recognised at the time when customers utilised our Group's funds and the effective interest rate.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate at which the future cash flows are discounted to the carrying amount of the net book value at the estimated maturity date of the financial instrument or within a reasonably short period. In estimating future cash flows, the Company will take into account all the terms of the contract for the financial instrument, but will not consider future credit losses. Calculating the effective interest rate will take into account transaction costs, discounted premiums, and all costs associated with actual interest payments between parties to the contract.

If the financial asset is impaired, the effective interest rate of the interest income is recognized according to the discounted interest rate of the measured future cash flow.

27. Government grants

(1) Judgment basis and accounting method of the government grants related to the assets

The Group's government grants include financial appropriation, discount loans and tax rebate, of which a government grant related to an asset represents the government grant obtained by the Group, which was used for acquiring long-term assets by purchasing or other approaches. A government grant related to income represents the government grant except for those related to an asset. If no assistance object is specified in the government documents, the Group shall determine based on the above distinguishes principles, otherwise is classified as a government grant related to income as a whole.

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

Asset related government grants are recognised as deferred income and are allocated evenly to the profit or loss for the period over the useful life of the relevant asset. The undistributed deferred income balances of the related assets which were disposed, transferred, written-off or damaged before the useful life were transferred to the profits and losses of the disposal of assets for the current period.

(2) Judgment basis and accounting method of the government grants related to the revenue

If the government grants related to income are compensation for related expenses or losses to be incurred in subsequent periods, they are recognized as deferred income, and will be recognized in profit and loss for the current period. If the government grants related to the ordinary activities, they will be included in other income based on the nature of economy business. If the government grants are not related to the ordinary activities, they will be credited to revenue from non-operation.

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III. Significant Accounting Policies and Accounting Estimates (continued)

27. Government grants (continued)

(2) Judgment basis and accounting method of the government grants related to the revenue (continued)

Subsidised loans from preferential policy obtained by the Group is classified based on whether subsidy funds are paid to the loaning bank or directly to the Group and is treated based on the following principles:

- (1) Where subsidy funds are paid to the loaning bank, the loaning bank provides the loan to the Group at a preferential policy rate, and the Group recognises the actual borrowing amount received as the borrowing amount, calculating the relevant borrowing costs based on the principal and the preferential policy rate.
- (2) Where subsidy funds are paid directly to the Group, the Group will offset the corresponding subsidy against the relevant borrowing expenses.

Government grants to be returned recognised by the Group is treated in the periods where the return is to be performed according to the following:

- 1) Where it has been offset against the carrying value of the relevant asset on initial recognition, the carrying value of the asset is adjusted.
- 2) Where relevant deferred income exists, the carrying balance of the relevant deferred income is offset and the excess is recognised in profit and loss in the current period.
- 3) In other cases, it is directly recognised in profit and loss in the current period.

28. Deferred income tax assets/deferred income tax liabilities

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

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



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III. Significant Accounting Policies and Accounting Estimate (continued)

29. Leasing

(1) Accounting for operating lease

(1) Assets leased under operating leases

Rental expense for leasing assets under operating leases is recognized in the relevant cost of the asset or profit or loss for the period using the straight-line method over the lease term. Initial direct cost is recognized in income statement as it is incurred. Contingent rent is charged to profit or loss for the period as it incurred.

(2) Assets leased out under operating leases

Income derived from leasing out of assets under operating leases is recognised in the income statement using the straight-line method over the lease term. Initial direct costs in respect of the assets leased out are charged to profit or loss immediately. If the initial direct costs are material, the costs are initially capitalized and subsequently amortized in profit or loss over the lease term on the same basis as the lease income. Contingent rent is charged to profit or loss for the period as it incurred.

(2) Accounting for finance lease

(1) Assets acquired under finance leases

From the start date of the lease, comparing the fair value of the lease asset and the present value of the minimum lease payment, the lower one would be the entry value as assets acquired under finance leases. The unconfirmed financing expenses refers to the balance of the entry value as assets acquired under finance leases and the minimum lease payment; the amortization applied by effective interest method over the lease term. The minimum lease payment deducts the unconfirmed financing expenses account to long-term liabilities and the long-term liabilities due within one year.

The lease assets accrue depreciation during the working life if the ownership is reasonable confirmed before expiration. Otherwise, the lease assets would accrue depreciation in the shorter term between the lease term and its working life.

(2) Assets leased out under finance leases

From the start date of the lease, the entry value of receivable financing lease is the sum of the minimum lease payment and the initial direct expenses, and the unguaranteed residual value would be accounted; the balance of the total value of minimum lease payment, initial direct expenses and unguaranteed residual value and the sum of the present value is recognized as unrealized financing income, and distributed during the lease term. The current financing income is calculated by effective interest rate method.

The unguaranteed residual value would be reviewed at the end of each year. There is no adjustment while the unguaranteed residual value increases. If the evidence indicates that unguaranteed residual value has been decreased, the lease implicit interest rate would be recalculated. The caused decrease of net value of lease investment is accounted to profit or loss for the current period; the financing revenue would be recognized according to modified net value of lease investment and the lease implicit interest rate. The net value of lease investment refers to the balance of the minimum lease payment and unguaranteed residual value and unrealized financing income.

The recognized loss of unguaranteed residual value that might be recovered, which would be return in the original recognized amount of investment and recalculated lease implicit interest rate. The financing revenue would be recognized according to modified net value of lease investment and the lease implicit interest rate. It might be accounted to profit or loss for the current period when the contingent rental actual occurs.



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III. Significant Accounting Policies and Accounting Estimate (continued)

30. 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 dealt 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 the 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.

31. Other Significant Accounting Policies and Accounting Estimate

In preparation of the financial statements, the management of the Company need to use estimation and assumptions in accordance with historical experience and other factors, including rational expectations of future events. These estimations and assumptions may affect the application of accounting policy, assets, liabilities, revenue and expenses. Actual results may differ from these estimates. The management continues to evaluate the uncertain factors and key assumptions that affect estimates. The effects of changes on accounting estimates should be recognised in the current year or carry forward.

(1) Impairment of receivables

Based on the current market conditions, the Group made an estimation on the aging of accounts receivable, financial situation of customers, and the historical experiences of guarantees (if any) provided by customers. The Group has conducted reassessment regularly to find whether the bad-debt provision for accounts receivable is sufficient. If all assumptions and estimation in the process of reviewing have changed, the change will affect bad-debt provision of accounts receivable in the changing process of assumptions

(2) Impairment provision for inventories

The Group shall estimate the net realizable value of inventory regularly and confirm the loss on inventory valuation according to the difference between inventory cost and net realizable value.

The Group can estimate the net realizable value of inventory of raw materials, products and goods based on the amount obtained after the estimated selling price of similar goods is deducted by the costs, selling expenses and relevant taxes to be paid during completion. When the actual selling price or costs are different from the estimated ones, the management personnel shall perform corresponding adjustment on net realizable value. Therefore, the estimated results based on existing experience may be different from later actual results, and the book value of inventory in the balance sheet shall be adjusted. The amount for provision for decline in inventory may vary with the above-mentioned causes. The adjustment of inventory falling price reserves will affect the profits and losses within the estimated current period of change.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimate *(continued)*

31. Other Significant Accounting Policies and Accounting Estimate *(continued)*

(3) Provision for impairment of long-term assets

When the Group carries out an impairment test on goodwill, fixed assets, intangible assets and other long-term assets, it shall calculate the recoverable amount of the portfolio of asset groups, asset group or assets (hereinafter collectively referred to as assets), and the present value of the assets' expected future cash flow shall be calculated using basic assumptions and the accounting estimation. When estimating the present value of assets' expected future cash flow, it mainly involves in estimates of assets' expected future cash flow, service life and discount rate. Therefore, the estimated results based on existing experience may be different from later actual results, and this difference may affect the profits and losses of current period of change.

(4) Accounting estimation on recognition of deferred tax assets

For the estimation on deferred income tax assets, it is necessary to estimate on the taxable income and applicable tax rates in each future year. The achievement of deferred tax assets depends on whether the Company will obtain enough taxable income in the future or not. The withdrawing time of temporary difference and the change of future tax rate may also affect the income tax expense (revenue) and the balance of deferred income taxes. The change of the above-mentioned estimation may result in the significant adjustment to the deferred income taxes.

(5) Useful life for fixed assets and intangible assets

The Group review the useful life of fixed assets and intangible assets at the end of the year. The estimation of the useful lives involves management's estimation based on the historical experience on the similar assets and the industrial benchmark with expected renovation of technology. When the past estimates have been materially changed, the depreciation cost and amortization cost of future period shall be adjusted accordingly.

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimate (continued)

32. Change in significant accounting policies and accounting estimates

(1) Change in significant accounting policies

✓ Applicable Not applicable

Contents and reasons for changes in accounting policies

Approval procedure

Notes

Ministry of Finance revised "Accounting Standards for Business Enterprises No.16 — Government Grant" in 2017, the revised standard have been implemented since 12 June 2017, government grants existing on 1 January 2017 are requested to apply the laws applicable in the future; government grants newly granted between 1 January 2017 and the force date are also requested to apply the revised standard for adjustment. In preparing the 2017 annual financial statements, the Group implemented relevant accounting standards and processed them in accordance with the relevant convergence rules.

Changes in relevant accounting policies have been approved by the seventh meeting of the fifth session of the Board of Directors of the Company.

According to the newly revised government subsidy standards, government subsidies related to the daily operating activities of the Group are included in other income and are no longer included in non-operating income, and comparative data are not adjusted. The change of policy will affect other revenue items of the Group's 2017 financial statements with an impact amount of RMB156,275,852.23.

Ministry of Finance issued "Accounting Standards for Business Enterprises No.42 — Non-current Assets and Disposal Groups Held for Sale and Discontinued Operations" in 2017, and has been implemented since 28 May 2017, non-current assets and disposal groups held for sale and discontinued operations in existing on the implementation date are requested to apply the laws applicable in the future. In preparing the 2017 annual financial statements, the Group implemented relevant accounting standards and processed them in accordance with the relevant convergence rules.

Changes in relevant accounting policies have been approved by the eighth meeting of the fifth session of the Board of Directors of the Company.

The implementation of this policy has no effect on the Group's 2017 annual financial statements.

Ministry of Finance issued the "Notice on Revising and Issuing the Format of Financial Statements of General Enterprises" (《關於修訂印發一般企業財務報表格式的通知》), revised the format of financial statements of general enterprise, and applied for financial statements for 2017 and onwards. In preparing the 2017 annual financial statements, the Group implemented relevant accounting standards and processed them in accordance with the relevant convergence rules.

Changes in relevant accounting policies have been approved by the eighth meeting of the fifth session of the Board of Directors of the Company.

① According to the notice issued by the Ministry of Finance, the "net profit on continuing operation" and "net profit on discontinuing operation" are separately listed in the income statement, and the comparative data is adjusted accordingly. This policy affects the Group's items of net profit on continuing operation, and the impact amount is RMB35,081,480.83 in 2017, comparing the 2016 annual impact amount of RMB-650,705,699.73.
② According to the notice issued by the Ministry of Finance, the item of "proceeds from asset disposal" was added to the income statement, and some of the assets for profit and losses previously stated as "non-operating income" and "non-operating expenses" were reclassified to "proceeds from asset disposal", comparative data were adjusted accordingly. The adjustment affected the proceeds from assets disposal of RMB62,088,298.95 in the 2017 financial statements, and comparing the 2016 annual impacted proceeds from assets disposal of RMB270,348.71, which affected non-operating income of RMB-270,348.71.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

III. Significant Accounting Policies and Accounting Estimate (continued)

32. Change in significant accounting policies and accounting estimates (continued)

(2) Change in significant accounting estimates

Applicable Not applicable

33. Others

Business segment is confirmed in accordance with governance structure, management requests, internal reporting system, and the Group confirms the report segment on the basis of business segment.

Business segment is a component of the Group that satisfies the following conditions simultaneously: the component can take revenue and expenses; the management can appraise the operating performance of the component in order to allocate resources and appraise the performance; and the Group can acquire the financial position, operating performance and cash flow of the component etc. If two or more than two segments carry similar economic characteristics, and satisfied certain condition, could merge as one operation segment.

IV. TAXES

1. Main tax types and tax rates

Tax Type	Taxation basis	Tax rate
Value-added tax	Value-added tax payable is the balance after output tax minus import tax. Output tax is calculated at 17% of sales volume calculated under requirements of relevant tax laws. Export commodities are subject to taxation method of "exemption, reduction and rebate"	17%
City maintenance and construction tax	Value-added tax and Business tax payable	7%
Corporate income tax	Income tax payable	15%–25%
Educational surcharge	Value-added tax and Business tax payable	3%
Local education Surcharge	Value-added tax and Business tax payable	2%
Business tax	Business income payable	5%

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

IV. TAXES (continued)

1. Main taxes and tax rates (continued)

Disclosures of tax paying entities with different enterprise income tax rates

Name of tax paying entity	Income tax rate
The Company	15%
Shouguang Molong Logistic Company Limited	25%
MPM International Limited	16.5%
Shouguang Baolong Petroleum Material Company Limited	25%
Shouguang Maolong New Materials Technology Development Company Limited	25%
Shouguang Molong Electro-mechanical Equipment Company Limited	25%
Shouguang Maolong Old Metals Recycle Company Limited	25%
Weihai Baolong Company Limited	25%
Wendeng Baolong Recyclable Resource Company Limited	25%
Shouguang Maolong Micro-Credit Company Limited	25%
Shandong Molong Import & Export Company Limited	25%

2. Tax Preferences

According to the "Notice Regarding the 2078 enterprises including Weihai Expand Fiber Co., Ltd.(威海拓展纖維有限公司) recognized as Advanced Technology Enterprise in 2017" (關於《關於認定威海拓展纖維有限公司等2078家企業為2017年度高新技術企業的通知》)(Lu Ke Zi [2018] No. 37) from Technology Office of Shandong Province, Finance Office of Shandong Province, State Administration of Taxation of Shandong Province, Local Taxation Bureau of Shandong Province, the Company was recognized as an Advanced Technology Enterprise and obtained a Certificate of Advanced Technology Enterprise No. GR201737001253, and the issuing time is 28 December 2017 with 3 years of qualification period. The Company was subject to a preferred enterprise income tax rate of 15% for the Advanced Technology Enterprise from 1 January 2017 to 31 December 2019.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements

1. Monetary funds

Item	Balance at the end of the period	Unit: RMB Balance at the beginning of the period
Treasury cash	80,063.78	52,907.41
Bank deposit	358,337,889.58	142,997,137.90
Other monetary funds	520,953,149.81	536,398,710.60
Total	879,371,103.17	679,448,755.91
Including: total amount deposited abroad	39,886,422.23	70,961,819.80

Other notes:

- (1) The Group's fund deposited in overseas represented the monetary funds under the Hong Kong subsidiary, MPM Limited.
- (2) As at the end of the period, other monetary fund held by the Company included bank acceptance security deposit of RMB498,553,149.81 (as at the beginning of the year: RMB503,098,710.60), deposit for letter of credit of nil (as at the beginning of the year: RMB12,000,000.00), deposit for letter of guarantee of RMB22,400,000.00 (as at the beginning of the year: RMB21,300,000.00).
- (3) The Company's Bank acceptance bills deposit with maturity date over 3 months amounted to RMB216,175,000.00 (as at the beginning of the year: RMB157,500,000.00), deposit for letter of credit with maturity date over 3 months amounted to nil (as at the beginning of the year: RMB12,000,000.00), deposit for letter of guarantee with maturity date over 3 months amounted to nil (as at the beginning of the year: nil).
- (4) The company's deposit of RMB1,800,000.00 in bank deposits with China Construction Bank Shouguang Sub-branch was judicially frozen due to lawsuits. As of the reporting date, the lawsuit has been closed and the frozen funds have been released on 13 February, 2018.

2. Derivative financial assets

Applicable Not applicable

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

3. Bill receivable

(1) Classification of bills receivable

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bill	63,760,928.69	15,353,982.45
Trade acceptance bill	30,764,481.00	8,050,000.00
Total	94,525,409.69	23,403,982.45

(2) Pledged bills receivable at the end of the period

Unit: RMB

Items	Pledged amount at the end of the period
Bank acceptance bill	27,020,000.00
Trade acceptance bill	27,354,481.00
Total	54,374,481.00

(3) The bill receivable that have been endorsed or discounted at the end of the period and have not yet expired at the balance sheet date:

Unit: RMB

Items	Termination of the confirmation amount at the end of the period	Termination of the confirmation amount at the end of the period
Bank acceptance bill	788,986,157.02	—
Trade acceptance bill	28,637,712.29	—
Total	817,623,869.31	—



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

4. Accounts Receivable

(1) Disclosure of Accounts Receivable by Category

Unit: RMB

Type	Balance at the end of the period					Balance at the beginning of the period				
	Carrying balance		Provision for bad debts			Carrying balance		Provision for bad debts		
	Amount	Ratio	Amount	Proportion	Book value	Amount	Ratio	Amount	Proportion	Book value
Accounts receivable individually significant for which provision for bad debts has been individually made	142,754,267.39	30.73%	80,798,083.62	56.60%	61,956,183.77	112,268,032.58	29.43%	67,648,771.75	60.26%	44,619,260.83
Accounts receivable for which provision for bad debts has been made on group basis by credit risk characteristics	311,733,795.79	67.09%	—	—	311,733,795.79	257,244,161.81	67.44%	—	—	257,244,161.81
Accounts receivable individually insignificant but for which provision for bad debts has been individually made	10,132,417.11	2.18%	5,092,780.79	50.26%	5,039,636.32	11,944,569.01	3.13%	9,659,376.67	80.87%	2,285,192.34
Total	464,620,480.29	100.00%	85,890,864.41	—	378,729,615.88	381,456,763.40	100.00%	77,308,148.42	—	304,148,614.98

Accounts receivable individually significant for which provision for bad debts has been individually made at the end of the period:

Applicable Not applicable

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

4. Accounts Receivable (continued)

(1) Disclosure of Accounts Receivable by Category (continued)

Unit: RMB

Accounts Receivable (Companies basis)	Balances at the end of the period			
	Accounts Receivable	Provision for bad debt	Provision Proportion	Provision reason
Peak Pipe and Supply, LLC	43,382,829.73	25,757,036.86	59.37%	Long outstanding and little refund with greater risk of recovery
Shandong Coal Machinery Equipment Co., Ltd.	25,411,133.71	24,952,138.32	98.19%	Long outstanding and bad business condition of client with greater risk of recovery
Fairmont International Oil Company	15,671,792.49	9,403,075.49	60.00%	Long outstanding and little refund with greater risk of recovery
Wenlai Jinlong Investment Company Limited, Beijing Office	7,777,809.66	7,777,809.66	100.00%	Long outstanding and difficult to recover
HeBei ZhongTai Steel Pipe Manufacture Co., Limited	30,516,256.93	1,850,000.00	6.06%	Long outstanding and bad business condition of client at risk
Unix Techno Plus Ltd	12,766,316.55	3,829,894.97	30.00%	Long outstanding and little refund with greater risk of recovery
SBI Company (USA)	4,066,180.19	4,066,180.19	100.00%	Long outstanding with lower possibility of recovery
Samasu International Oil Corporation	3,161,948.13	3,161,948.13	100.00%	Long outstanding with lower possibility of recovery
Total	142,754,267.39	80,798,083.62	—	—

Accounts receivable for which provision for bad debts have been made by age analysis in portfolio:

Applicable Not applicable

Accounts receivable for which the provisions for bad debt have been made by balance percentage in portfolio:

Applicable Not applicable

Accounts receivable for which the provisions for bad debt have been made by other methods in portfolio:



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

4. Accounts Receivable (continued)

(1) Disclosure of Accounts Receivable by Category (continued)

Accounts receivable individually insignificant for which provision for bad debts has been individually made at the end of the year:

Company name	Carrying balance	Amount for bad debt	Provision Proportion (%)	Provision Reason
China Petroleum Technology Development Corporation	594,152.90	594,152.90	100.00	Long outstanding of aging with lower possibility of recovery
Amy, Canadian companies	169,889.20	101,933.52	60.00	Long outstanding of aging and little refund with greater risk of recovery
Hanting Energy Resource Private Service Company Limited	95,686.82	95,686.82	100.00	Long outstanding of aging with lower possibility of recovery
South China Petrochemical Group	1,127,700.99	1,127,700.99	100.00	Long outstanding of aging with lower possibility of recovery
Metal One Corporation	1,069,319.41	1,069,319.41	100.00	Long outstanding of aging with lower possibility of recovery
PETROCHINA COMPANY LIMITED	148,580.00	44,574.00	30.00	Outstanding of aging with certain risk Huabei Oil Field
Liaocheng Development Zone Yongfa Materials Co., Ltd. (聊城市開發區永發物資有限公司)	1,998,442.41	5,898.54	0.30	Outstanding of parts of aging with certain risk
Linyi Zhongkuang Jinding Electromechanical Manufacturing Co., Ltd. (臨沂中礦金鼎機電製造有限公司)	1,288,095.20	949,055.10	73.68	Long outstanding of aging and little refund with greater risk of recovery
Hubei Maikaeqi New Energy Technology Co., Ltd. (湖北邁科亞奇新能源科技有限公司)	1,306,390.07	391,917.02	30.00	Long outstanding of aging and little refund with greater risk of recovery
Shandong Fenglong High Pressure Gas Bottle Co., Ltd. (山東豐龍高壓氣瓶有限公司)	911,138.60	273,341.58	30.00	Long outstanding of aging and little refund with greater risk of recovery
Zhucheng Chuanghui Container Technology Co., Ltd. (諸城市創惠容器科技有限公司)	1,178,226.00	194,405.40	16.50	Outstanding of aging with certain risk
Zibo QiLin Electrical and Logistics Company Limited	244,795.51	244,795.51	100.00	Long outstanding with lower possibility of recovery
Total	10,132,417.11	5,092,780.79	—	—

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

4. Accounts Receivable (continued)

(2) Provision, recovery or reversal of the provision for bad debts during the period

The amount of provision for bad debts during the period amounted to RMB19,301,475.99; and the amount of recovery or reversal of the provision for bad debts during the period amounted to RMB10,718,760.00. Significant amounts of provision for bad debt recovered or reversed for the period:

Unit: RMB

Name of companies	Recovery or reversal amount	Recovery method
Dong'e Lianxing Metal Products Co., Ltd.	10,718,760.00	Acceptance
Total	10,718,760.00	—

(3) Trade receivables actually written off during the period

There is no trade receivables actually written off during the year.

(4) Top five trade receivables by ending balance collection of the borrower:

The total amount of the top five accounts receivable collected by the borrower was RMB281,695,787.98 during the year, accounting for 60.63% of the total balance of accounts receivable at the end of the year, and the corresponding total amount of bad debt provision accrued RMB27,651,610.86 at the end of the year.

(5) Account receivables that were derecognized due to the transfer of financial assets

Nil

(6) Amount of assets or liabilities for which accounts receivable is transferred but involvement continues

Nil



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

4. Accounts receivable (continued)

(7) Aging analysis of account receivable

Aging	Amount at the end of the year	Amount at the beginning of the year
Within 1 year	310,075,287.59	133,332,880.20
1 to 2 years	16,652,830.97	140,552,467.28
2 to 3 years	38,424,632.23	27,581,981.50
More than 3 years	13,576,865.09	2,681,286.00
Net	378,729,615.88	304,148,614.98

As of 31 December 2017, the Group had no pledged accounts receivable.

5. Issuance of loans and advances

(1) Details of Issuance of loans and advances

Items	Amount at the end of the year	Amount at the beginning of the year
Issuance of loans and advances	108,971,810.00	159,655,065.71
Less: provision for loan loss	20,869,398.60	16,767,356.77
Issuance of loans and advances, net	88,102,411.40	142,887,708.94

(2) Issuance of loans and advances by guarantee method are shown as follows

Loans category	Amount at the end of the year	Amount at the beginning of the year
Pledge loans	16,205,324.00	65,380,575.56
Mortgage loans	9,586,045.00	3,314,000.00
Guaranteed loans	62,311,042.40	74,193,133.38
Total	88,102,411.40	142,887,708.94

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

5. Issuance of loans and advances (continued)

(3) Five-category of Issuance of loans and advances and condition of loan losses provisions are shown as follows:

Category	Amount at the end of the year						
	Book balance		General provision for loan loss		Special provision for loan loss		Loan losses
	Amount	Proportion (%)	Amount	Proportion of accrual (%)	Amount	Proportion of accrual (%)	Total provisions
Normal	6,000,000.00	5.25	60,000.00	1.00	—	—	60,000.00
Special mention	32,148,500.00	59.74	321,485.00	1.00	642,970.00	2.00	964,455.00
Substandard	65,103,123.00	29.50	651,031.23	1.00	16,276,617.00	25.00	16,927,648.23
Doubtful	5,720,187.00	5.51	57,201.87	1.00	2,860,093.50	50.00	2,917,295.37
Loss	—	—	—	—	—	—	—
Total	108,971,810.00	100.00	1,089,718.10	—	19,779,680.50	—	20,869,398.60

Continued

Category	Amount at the beginning of the year						
	Book balance		General provision for loan loss		Special provision for loan loss		Loan losses
	Amount	Proportion (%)	Amount	Proportion of accrual (%)	Amount	Proportion of accrual (%)	Total provision
Normal	75,921,160.71	47.55	759,211.61	1.00	—	—	759,211.61
Special mention	31,794,218.00	19.92	317,942.18	1.00	635,884.36	2.00	953,826.54
Substandard	45,739,687.00	28.65	457,396.87	1.00	11,434,921.75	25.00	11,892,318.62
Doubtful	6,200,000.00	3.88	62,000.00	1.00	3,100,000.00	50.00	3,162,000.00
Loss	—	—	—	—	—	—	—
Total	159,655,065.71	100.00	1,596,550.66	—	15,170,806.11	—	16,767,356.77



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

5. Issuance of loans and advances (continued)

(4) Category classification by borrower

Category	Amount at the end of the year				Net loan
	Book balance		Provision for loan loss		
	Amount	Proportion (%)	Amount	Proportion of accrual (%)	
Corporate loan	66,246,810.00	60.79	13,566,648.60	20.48	52,680,161.40
Individual loan	42,725,000.00	39.21	7,302,750.00	17.09	35,422,250.00
Total	108,971,810.00	100.00	20,869,398.60	—	88,102,411.40

Continued

Category	Amount at the beginning of the year				Net loan
	Book balance		Provision for loan loss		
	Amount	Proportion (%)	Amount	Proportion of accrual (%)	
Corporate loan	90,555,947.71	56.72	15,383,523.23	16.99	75,172,424.48
Individual loan	69,099,118.00	43.28	1,383,833.54	2.00	67,715,284.46
Total	159,655,065.71	100.00	16,767,356.77	—	142,887,708.94

(5) As of 31 December 2017, the Group's total overdue loans to customers amounted to RMB 102,971,810.00. The overdue conditions are as follows:

Overdue time	Amount	Proportion (%) of total loans to customers	The balance of provision for loan loss at the end of the year
More than 360 days	56,151,810.00	51.53	13,275,298.60
180 to 360 days	32,950,000.00	30.24	6,313,000.00
90 to 180days	3,570,000.00	3.28	107,100.00
Within 90 days	10,300,000.00	9.45	1,114,000.00
Total	102,971,810.00	94.49	20,809,398.60

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

6. Prepayments

(1) Aging analysis of prepayments is shown as follows

Unit: RMB

Aging	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Proportion	Amount	Proportion
Within 1 year	79,154,406.20	86.37%	37,002,644.98	99.89%
1 to 2 year	12,478,729.38	13.62%	29,145.30	0.08%
Over 3 years	10,683.61	0.01%	10,683.61	0.03%
Total	91,643,819.19	—	37,042,473.89	—

Notes to reasons of significant prepayments over 1 year and not settled in time:

Nil

(2) Details of the top five ending balances of prepayments classified according to the payees

Unit name	Balance at the end of the year	Aging	Proportion of total balance of payments at the end of the year (%)
Unit I	9,140,452.80	within 1 year	9.97
Unit II	7,674,295.74	within 1 year	8.37
Unit III	7,538,553.87	within 1 year	8.23
Unit IV	7,200,102.43	within 1 year	7.86
Unit V	6,101,598.50	within 1 year	6.66
Total	37,655,003.34	—	41.09



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

7. Interest receivables

(1) Category of interest receivables

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Fixed deposit	—	929,487.40
Security deposit interest	4,220,913.66	5,054,586.55
Interest of loans and advances to customers	—	2,212,836.78
Total	4,220,913.66	8,196,910.73

(2) Significant overdue interest

The above interests of the Group are not overdue.

8. Other receivables

(1) Disclosure of other receivables by category

Unit: RMB

Category	Balance at the end of the period					Balance at the beginning of the period				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Proportion	Amount	Proportion of accrual		Amount	Proportion	Amount	Proportion of accrual	
Other receivables that are individually significant and for which bad debt provision has been assessed individually	33,336,780.03	50.47%	21,235,093.18	63.70%	12,101,686.85	35,391,821.96	53.27%	10,617,546.59	30.00%	24,774,275.37
Other receivables for which bad debt provision is assessed by groups according to credit risk characteristics	32,326,556.17	48.95%	—	—	32,326,556.17	30,929,079.87	46.55%	—	—	30,929,079.87
Other receivables that are not individually significant but for which the bad debt provision is assessed individually	381,919.25	0.58%	381,919.25	100.00%	—	122,119.25	0.18%	122,119.25	100.00%	—
Total	66,045,255.45	100.00%	21,617,012.43	—	44,428,243.02	66,443,021.08	100.00%	10,739,665.84	—	55,703,355.24

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

8. Other receivables (continued)

(1) Disclosure of other receivables by category (continued)

Other receivables that are individually significant and for which bad debt provision has been assessed individually at the end of the period:

Applicable Not applicable

Unit: RMB

Other receivables(by entity)	Balance at the end of the period			Reasons
	Other receivables	Bad debt provision	Proportion of accrual	
JESORO OIL LTD	33,336,780.03	21,235,093.18	63.70%	Overdue, recycling has certain risks
Total	33,336,780.03	21,235,093.18	—	

Other receivables using ageing analysis for making bad debt provision in the portfolio:

Applicable Not applicable

Other receivables using the balance percentage method for making bad debt provision in the portfolio:

Applicable Not applicable

Other receivables using other methods for making bad debt provision in the portfolio:

Applicable Not applicable



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

8. Other receivables (continued)

(1) Disclosure of other receivables by category (continued)

Other receivables that are individually significant and for which bad debt provision has been assessed individually at the end of the year:

Company name	Book balance	Amount of bad debt	Proportion of accruals (%)	Reasons
Wang Li Xue	40,000.00	40,000.00	100.00	Not recoverable due to long outstanding
Other companies	274,020.00	274,020.00	100.00	Not recoverable due to long outstanding
Other individuals	67,899.25	67,899.25	100.00	Not recoverable due to long outstanding
Total	381,919.25	381,919.25	—	

(2) Provision, recovery or reversal of bad debt provision during the current period

Bad debt provision during the current period amounted to RMB10,877,346.59. The amount for bad debt provision recovered or reversed during the current period was RMB0.00.

(3) Other receivables actually written off during the current period

Other receivables of the Group without written off during the year.

(4) Other receivables classified by the nature

Unit: RMB

Nature of payment	Book balance at the end of the period	Book balance at the beginning of the period
Dealings between companies	48,381,978.29	47,183,150.33
Dealings between individuals	818,444.00	1,374,430.50
Security, deposits	16,844,833.16	17,498,540.25
Other dealings	0.00	386,900.00
Total	66,045,255.45	66,443,021.08

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1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

8. Other receivables (continued)

(5) Other receivables with top five closing balances as collected as per the debtors:

Unit: RMB

Name of company	Nature of payment	Balance at the end of the period	Aging	Proportion to the total amount of closing balance of other receivables	Bad debt provision Balance at the end of the period
JESORO OIL LTD	Intercourse Funds	33,336,780.03	2 to 3 years	50.48%	21,235,093.18
Shouguang City Yang Kou Town Finance	Construction deposit	14,530,000.00	4 to 5 years	22.00%	—
Shouguang City Yang Kou Town Financial Management Statistic Center	Intercourse Funds	8,250,941.48	Within 3 years	12.49%	—
Shouguang City Shang Kou Town Financial Management Statistic Station	Intercourse Funds	2,035,385.00	Within 1 year	3.08%	—
Wendeng High Town People's Government	Borrowings	1,500,000.00	4 to 5 years	2.27%	—
Total	—	59,653,106.51	—	90.32%	21,235,093.18

(6) Accounts receivable involving governmental subsidy

Nil

(7) Other receivables derecognised due to transfer of financial assets

Nil

(8) Assets or liabilities formed by its continuous involvement of transferring other receivables

Nil

Other notes:

There is no staff borrowings for purchasing the equity interest of the Company in other receivables of the Group at the end of the year.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

9. Inventories

Whether the Company needs to comply with the disclosure requirements of the real estate industry

No

(1) Category of inventories

Unit: RMB

Items	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Raw materials	364,667,996.09	7,307,395.94	357,360,600.15	255,741,463.70	15,920,971.26	239,820,492.44
Work-in-process products	189,262,234.99	5,120,938.40	184,141,296.59	260,656,333.12	36,995,653.94	223,660,679.18
Goods in stock	371,508,759.21	10,488,448.82	361,020,310.39	332,603,185.00	32,187,279.31	300,415,905.69
Sub-contracting materials	23,250,512.15	—	23,250,512.15	6,155,672.39	1,318,577.34	4,837,095.05
Total	948,689,502.44	22,916,783.16	925,772,719.28	855,156,654.21	86,422,481.85	768,734,172.36

Whether the company needs to comply with the disclosure requirements set out in the Guidelines No.4 of the Shenzhen Stock Exchange on the Disclosure about industry information — Listed companies engaged in seed industry and planting business.

No

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1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

9. Inventories (continued)

(2) Impairment provision for inventories

Unit: RMB

Items	Balance at the end of the period	Increase in the current period		Decrease in the current period		Balance at the end of the period
		Accruals	Others	Reversal or write-off	Others	
Raw materials	15,920,971.26	4,077,261.36	—	12,690,836.68	—	7,307,395.94
Work-in-process products	36,995,653.94	3,920,592.70	—	35,795,308.24	—	5,120,938.40
Goods in stock	32,187,279.31	6,837,523.97	—	28,536,354.46	—	10,488,448.82
Entrusted processing materials	1,318,577.34	—	—	1,318,577.34	—	—
Total	86,422,481.85	14,835,378.03	—	78,341,076.72	—	22,916,783.16

Impairment provision for inventories decreased by RMB59,219,082.93 of write-off and RMB19,121,993.79 of reversal during the year.

Accrual of impairment provision for inventories

Items	Specific basis to determine net realizable value	Reason for reversal or write-off in the current year
Raw materials		Material Requisition for production and price change
Work-in-process products	The selling price of the products formed by the production of the materials and semi-finished products minus the further processing costs and related sales expenses and related expenses of taxation	Material Requisition for production and price change
Entrusted processing materials		Material Requisition for production and price change
Finished product	The selling price minus the selling expenses and related expenses of taxation	Sell outwards and price change

(3) Notes of period-end inventory balance containing borrowing expense capitalization amount

Nil

(4) Completed but not settled assets from period-end construction contract

Nil



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

10. Other current assets

Items	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Deductible input tax	115,388,999.62	109,948,611.66
Prepaid income tax	2,178,186.55	2,178,186.55
Prepaid other taxes	868,955.71	846,809.61
Total	118,436,141.88	112,973,607.82

11. Available-for-sale financial assets

(1) Analysis of Available-for-sale financial assets

Items	Balance at the end of the period			Balance at the beginning of the period			
	Book balance	Provision for impairment		Book value	Book value	Provision for impairment	
		Book value	Book value			Book value	Book value
Available-for-sale equity instruments:							
by cost	20,000.00	—	20,000.00	50,000.00	—	50,000.00	50,000.00
Total	20,000.00	—	20,000.00	50,000.00	—	50,000.00	50,000.00

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

11. Available-for-sale financial assets (continued)

(2) Analysis of available-for-sale financial assets by cost at the end of the period

Unit: RMB

Investee	Book balance			Provision for impairment			Shareholding in investee	Cash dividend for the period
	At the beginning of the period	Increase during the period	At the end of the period	At the beginning of the period	Increase during the period	Decrease during the period		
Shouguang Association of Environmental Protection	20,000.00	—	20,000.00	—	—	—	—	—
Shouguang Hand-in-hand Private Lending Service Center	30,000.00	—	0.00	—	30,000.00	—	—	—
Total	50,000.00	—	20,000.00	—	30,000.00	—	—	—

(3) Relevant details of the significant decline or non-temporary decline in the fair value of available-for-sale equity instruments without any provision for impairment at the end of the period

The Group's available-for-sale financial assets represent investment in external entities, there is no any indication of impairment, therefore no provision for impairment is made for available-for-sales financial assets.

12. Long-term Equity Investments

Unit: RMB

Investee	Movement during the period					Balance at the end of the period	Balance of Provision for impairment at the end of the period
	Balance at the beginning of the period	Investment gains and losses recognised under the equity method	Adjustment on other comprehensive income	Other changes in equity	Cash dividend or profits declared		
II. Associate							
Karamay Yalong Petroleum Machinery Co., Ltd	2,707,572.57	—	18,748.91	—	87,000.00	—	—
Sub-total	2,707,572.57	—	18,748.91	—	87,000.00	—	—
Total	2,707,572.57	—	18,748.91	—	87,000.00	—	—



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

12. Long-term Equity Investments (continued)

Other notes

There is no impairment indicators and the Group does not provide impairment loss for long-term equity investment.

As at 31 December 2017, there is no restriction on the Group of transferring capital from investee companies which the Group had long-term equity investment.

13. Fixed Assets

(1) Details of fixed assets

Unit: RMB

Items	Buildings	Machinery and equipment	Electronic and other equipment	Vehicles	Total
I. Original book value:					
1. Balance at the beginning of the period	1,091,091,207.13	3,120,695,863.93	118,800,790.72	16,951,090.85	4,347,538,952.63
2. Additions for the period	2,028,340.51	176,687,396.84	3,300,833.03	1,333,863.35	183,350,433.73
(1) Purchase	1,232,094.12	14,882,472.53	2,573,049.23	306,846.53	18,994,462.41
(2) Transferred from construction in progress	796,246.39	161,804,924.31	727,783.80	1,027,016.82	164,355,971.32
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the period	—	145,025,107.16	1,205,134.44	5,862,294.02	152,092,535.62
(1) Disposal or retirement	—	4,514,495.03	1,201,835.29	5,862,294.02	11,578,624.34
(2) Other reductions	—	140,510,612.13	3,299.15	—	140,513,911.28
4. Balance at the end of the period	1,093,119,547.64	3,152,358,153.61	120,896,489.31	12,422,660.18	4,378,796,850.74
II. Accumulated depreciation					
1. Balance at the beginning of the period	172,323,888.67	934,779,020.06	83,840,951.64	13,169,197.30	1,204,113,057.67
2. Additions for the period	50,763,707.36	184,515,168.00	5,535,306.87	1,055,711.36	241,869,893.59
(1) Provision	50,763,707.36	184,515,168.00	5,535,306.87	1,055,711.36	241,869,893.59
3. Reductions for the period	—	29,272,044.97	1,135,883.41	5,506,451.64	35,914,380.02
(1) Disposal or retirement	—	4,370,284.31	1,134,107.25	5,506,451.64	11,010,843.20
(2) Other	—	24,901,760.66	1,776.16	—	24,903,536.82
4. Balance at the end of the period	223,087,596.03	1,090,022,143.09	88,240,375.10	8,718,457.02	1,410,068,571.24
III. Impairment provision					
1. Balance at the beginning of the period	4,986,478.28	71,865,919.03	—	—	76,852,397.31
2. Additions for the period	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions for the period	—	—	—	—	—
(1) Disposal or retirement	—	—	—	—	—
4. Balance at the end of the period	4,986,478.28	71,865,919.03	—	—	76,852,397.31
IV. Book value					
1. Book value at the end of the period	865,045,473.33	1,990,470,091.49	32,656,114.21	3,704,203.16	2,891,875,882.19
2. Book value at the beginning of the period	913,780,840.18	2,114,050,924.84	34,959,839.08	3,781,893.55	3,066,573,497.65

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

13. Fixed Assets (continued)

(2) Temporarily idle fixed assets

Unit: RMB

Items	Original book value	Accumulated depreciation	Provision for depreciation	Book value	Notes
Buildings	7,148,084.66	3,756,537.60	—	3,391,547.06	—
Machinery equipment	2,307,143.04	2,035,093.30	—	272,049.74	—

(3) Fixed assets with pending out certificate of ownership

Unit: RMB

Items	Book value	Reasons for pending out certificate of ownership
140 rolled tube main workshop	4,948,222.27	Application in process
New dormitory building and staff dining hall in Weihai	4,598,462.34	Application in process
Building No. 7 of Molong Garden	8,145,000.00	Application in process
Logistics Park Plant	8,438,546.90	Application in process
NO. 12 house down the street in the Building No. 4 of Molong Garden	3,149,920.59	Application in process
Electric-arc furnace main plant and steel scrap plant	66,257,597.31	Application in process
Maolong new material workshop plant, office building and staff dining hall	269,018,250.58	Not handling

The subsidiary our Company, being Shouguang Molong Electro-mechanical Equipment Company Limited has removed to the Yang Kou Town due to the integration of our Company's business resources, which resulted in the vocation of plants in Shangkou town, while the overall selling price of company's plants are estimated materially higher than its book value, therefore the provision for impairment of fixed assets was not made.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

14. Construction in Progress

(1) Details of Construction in Progress

Unit: RMB

Projects	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
Employee technical development training centre	21,541,097.42	—	21,541,097.42	21,366,340.14	—	21,366,340.14
90 tons electric-arc furnace project II	130,136,869.43	—	130,136,869.43	—	—	—
Relocation project of Molong Electromechanical	10,931,962.65	—	10,931,962.65	—	—	—
Other sporadic projects	8,270,970.18	—	8,270,970.18	10,213,013.85	—	10,213,013.85
Total	170,880,899.68	—	170,880,899.68	31,579,353.99	—	31,579,353.99

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1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

14. Construction in Progress (continued)

(2) Changes of major Construction in progress during the period

Unit: RMB

Name of projects	Budget amount	Balance at		Transferred to fixed assets during the period	Other reduction during the period	Balance at the end of the period	Ratio of accumulated contribution to the construction to budget	Construction Progress	Accumulated interest capitalised	Including: capitalized interest expenses during the period	Ratio of interest capitalised	Sources of fund
		the beginning of the period	Increase during the period									
Employee technical Development training centre	26,000,000.00	21,366,340.14	174,757.28	—	—	21,541,097.42	82.85%	55.00%	—	—	—	Other
Expense on workshop equipment improvement	6,000,000.00	—	108,829,977.43	108,829,977.43	—	—	97.28%	100.00%	—	—	—	Other
Reduction and improvement of furnace and building of other supporting projects	50,000,000.00	—	46,852,832.21	41,641,502.03	—	5,211,330.18	93.71%	90.00%	—	—	—	Other
90 tons Arc furnace Phase II project	100,000,000.00	—	130,136,869.43	—	—	130,136,869.43	130.14%	95.00%	—	—	—	Other
Relocation project of Molong Electromechanical	20,570,000.00	—	10,931,962.65	—	—	10,931,962.65	53.15%	60.00%	—	—	—	Other
Total	202,570,000.00	21,366,340.14	296,926,399.00	150,471,479.46	—	167,821,259.68	—	—	—	—	—	—

(3) Details of provision for impairments of construction in progress during the period

There is no any indication of impairment at the end of the year, therefore no provision for impairment is made for construction in progress.

As at the end of the year, there is no restriction on the right to own or use construction in progress due to pledge, guarantee or any other reason.



Notes to the Financial Statements

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V. Notes to the Consolidated Financial Statements (continued)

15. Intangible assets

(1) Details of Intangible assets

Unit: RMB

Items	Land use rights	Patent right	Non-patent technology	Software	Total
I. Original book value					
1. Balance at the beginning of the period	461,627,176.49	2,541,868.11	364,466,588.43	770,036.72	829,405,669.75
2. Additions for the period	7,701,540.00	—	12,208,128.22	—	19,909,668.22
(1) Acquisition	7,701,540.00	—	—	—	7,701,540.00
(2) Internal research and development	—	—	12,208,128.22	—	12,208,128.22
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the period	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the period	469,328,716.49	2,541,868.11	376,674,716.65	770,036.72	849,315,337.97
II. Accumulated amortization					
1. Balance at the beginning of the period	47,664,377.99	2,228,564.66	295,562,206.17	770,036.72	346,225,185.54
2. Additions for the period	9,358,253.41	176,116.40	15,619,282.84	—	25,153,652.65
(1) Provision	9,358,253.41	176,116.40	15,619,282.84	—	25,153,652.65
3. Reductions for the period	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the period	57,022,631.40	2,404,681.06	311,181,489.01	770,036.72	371,378,838.19
III. Provision for impairment					
1. Balance at the beginning of the period	—	—	33,968,375.45	—	33,968,375.45
2. Additions for the period	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions for the period	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the period	—	—	33,968,375.45	—	33,968,375.45
IV. Book value					
1. Book value at the end of the period	412,306,085.09	137,187.05	31,524,852.19	—	443,968,124.33
2. Book value at the beginning of the period	413,962,798.50	313,303.45	34,936,006.81	—	449,212,108.76

The internally generated intangible assets accounted for 7.10% of the balance of intangible assets as at the end of the period.

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V. Notes to the Consolidated Financial Statements (continued)

16. Research and Development expenditure

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period		Balance at the end of the period
New model casing pipe	—	20,394,586.75	7,711,734.78	12,682,851.97	—
New model oil tube	—	18,679,513.11	4,496,393.44	14,183,119.67	—
Total	—	39,074,099.86	12,208,128.22	26,865,971.64	—

Other notes:

Please refer to V.20 this appendix for the division in the phase of research and development expenditures and the phase of development, the time and basis of capitalization of development phase.

As of 31 December 2017, all new products' research and development work has been completed.

17. Goodwill

(1) Original book value of goodwill

Unit: RMB

Name of the investee and item resulting in goodwill	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
a group of assets of Weihai Baolong	100,078,074.85	—	—	100,078,074.85
a group of assets of Molong Electromechanical	27,895,308.36	—	—	27,895,308.36
a group of assets of Maolong new material	15,000,000.00	—	—	15,000,000.00
Total	142,973,383.21	—	—	142,973,383.21



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V. Notes to the Consolidated Financial Statements (continued)

17. Goodwill (continued)

(2) Provision for Impairment of goodwill

Unit: RMB

Name of the investee and item resulting in goodwill	Balance at the beginning of the period	Increase during the period	Decrease during the year	Balance at the end of the period
a group of assets of Weihai Baolong	82,790,000.00	—	—	82,790,000.00
a group of assets of Molong Electromechanical	21,500,000.00	—	—	21,500,000.00
a group of assets of Maolong new material	12,000,000.00	—	—	12,000,000.00
Total	116,290,000.00	—	—	116,290,000.00

Explanation for the process of goodwill impairment test, parameters and recognition method of goodwill impairment:

- (1) The Goodwill is generated from the acquisition shares of Maolong New Materials Company Limited not under common control in 2007. The acquisition constitutes a business combination not under common control.
- (2) The Group performs the impairment test on goodwill as stated in Note V.21.

The Group has performed impairment test. Carrying amount of goodwill has been allocation to three relevant asset groups that operate casting-forging business, representing three cash generating units. The recoverable amount of each cash-generating unit is the higher of the asset group's fair value less costs to sell and its future cash flow. The recoverable amount of asset groups is recognized based on a valuation carried out on 31 December 2017 (being evaluation base date) by a professional appraisal association engaged by the Group.

- ① The main assumptions in the asset group that use the present value of estimated future cash flows as their recoverable amount are summarized as follows:

For the purposes of impairment testing for asset group, the projection is based on financial budgets of the most recent five years approved by management while the future cash flows for the fifth year onwards is projected based on zero growth rate and at the discount rate of 12.42%. Other key assumption for the future cash flows is the estimated gross margin, such estimation is based on the past performance of cash generating unit for relevant asset group and Management's expectations for the market development.

- ② The main assumptions in the asset group that the net amount of fair value less disposal expenses is recognised as its recoverable amount are summarized as follows:

For the purposes of impairment testing for asset group, the valuation techniques required by the "Accounting Standard for Business Enterprises No. 39 — Fair Value Measurement" are based on the recoverable amount determined by the professional evaluation agency as the basis for the fair value of the asset group.

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V. Notes to the Consolidated Financial Statements (continued)

18. Deferred income tax assets/deferred income tax liabilities

(1) Deferred income tax assets not yet eliminated

Unit: RMB

Items	Balance at the end of the period		Balance at the beginning of the period	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Unrealized profits arisen from intra-group transactions	17,693,205.19	3,737,354.03	11,553,616.05	2,888,404.01
Deductible losses	2,617,927.46	654,481.87	2,308,109.89	577,027.47
Total	20,311,132.65	4,391,835.90	13,861,725.94	3,465,431.48

(2) Deferred tax liabilities not yet eliminated

Unit: RMB

Items	Balance at the end of the period		Balance at the beginning of the period	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Long-term equity investments	15,237.51	3,809.38	15,237.51	3,809.38
Fixed assets	1,779,420.98	444,855.25	2,248,390.84	562,097.71
Intangible assets	27,509,018.73	6,877,254.67	28,252,782.84	7,063,195.70
Total	29,303,677.22	7,325,919.30	30,516,411.19	7,629,102.79

(3) Deferred income tax assets or liabilities presented on a net basis after off setting

Unit: RMB

Items	The balance of		The balance of	
	Offsetting between deferred income tax assets and liabilities at the end of the period	deferred income tax assets or liabilities after offsetting at the end of the period	Offsetting between deferred income tax assets and liabilities at the beginning of period	deferred income tax assets or liabilities after offsetting at the beginning of period
Deferred income tax assets	—	4,391,835.90	—	3,465,431.48
Deferred income tax liabilities	—	7,325,919.30	—	7,629,102.79



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

18. Deferred income tax assets/deferred income tax liabilities (continued)

(4) Breakdown of unrecognized deferred income tax assets

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Deductible temporary differences	426,612,207.97	574,553,587.03
Deductible losses	771,031,678.17	774,977,903.44
Total	1,197,643,886.14	1,349,531,490.47

(5) Deductible losses of unrecognised deferred income tax assets will be expired by the year as specified below

Unit: RMB

Years	Amount at the end of the period	Amount at the beginning of the period	Notes
2018	21,332,080.12	44,289,763.04	—
2019	50,006,328.18	72,276,795.51	—
2020	135,433,959.60	261,203,047.19	—
2021	385,442,052.02	397,208,297.70	—
2022	178,817,258.25	—	—
Total	771,031,678.17	774,977,903.44	—

Other notes:

As at 31 December 2017, Our Company and some of its subsidiaries were unable to anticipate that whether the forthcoming taxable income will be sufficient to deductive from the deductible loss. Hence, in compliance with prudence concept, the Company and some of its subsidiaries were not recognised deferred income tax assets for the deductible temporary differences and deductible losses in current period.

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

19. Other non-current assets

Items	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Prepayments for land use right	45,485,934.15	45,485,934.15
Prepayments for equipment	7,919,009.43	1,322,250.00
Prepayments for construction	3,708,200.00	1,658,174.80
Total	57,113,143.58	48,466,358.95

20. Short-term borrowings

(1) Classification of short-term borrowings

Items	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Guaranteed borrowings	585,342,000.00	149,370,000.00
Credit borrowings	706,744,600.02	1,364,921,489.30
Pledged borrowings	28,000,000.00	28,000,000.00
Notes discounted and borrowings for letters of credit	821,000,000.00	794,550,628.00
Others	—	100,000,000.00
Total	2,141,086,600.02	2,436,842,117.30

Notes for classification of short-term borrowings:

Details of the interest rate: During the year of 2017, the weighted average interest rate for the Group is 5.003% (2016: 3.615%).

The guaranteed borrowings of RMB480,000,000.00 are provided by subsidiary, being MaoLong New Material to our Company. The guaranteed borrowings of RMB40,000,000.00 are provided by subsidiary, being Shouguang Baolong to our Company. The guaranteed borrowings of RMB65,342,000.00 are provided by subsidiary, being MPM Limited to our Company.



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1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

20. Short-term borrowings (continued)

(1) Classification of short-term borrowings (continued)

The guaranteed borrowings represent the certificate of right to use sea areas (Certificate No.: National sea certificate 2014B37078305659) that pledged to the Industrial and Commercial Bank of China, Shouguang Branch by the Shouguang Maolong New Materials Company Limited due to the Company's borrowings. As at 31 December 2017, the carrying value of this certificate of right to use sea areas were RMB74,226,254.85, and the remaining borrowings of the Company were RMB28 million.

(2) Details of the outstanding overdue short-term borrowing

There is no outstanding overdue short-term borrowing at the end of the year.

As at the date of this financial statements, the Group has repaid RMB231 million of the RMB short-term borrowings at the end of the period, while US\$15 million of the US Dollars borrowings has been repaid.

21. Bills payable

Types	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Bank acceptance notes	213,984,811.00	241,427,907.86
Total	213,984,811.00	241,427,907.86

At the end of the period, the Group has outstanding overdue bills payable of Nil.

22. Accounts payable

(1) Details of accounts payable

Items	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Amounts due to suppliers	843,834,731.51	901,601,597.75
Total	843,834,731.51	901,601,597.75

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

22. Accounts payable (continued)

(2) The significant accounts payable with aging for more than one year

Unit: RMB

Items	Balance at the end of the period	Reasons for outstanding or carrying forward
Unit 1	28,646,058.06	Project funds
Unit 2	20,992,000.00	equipment funds
Unit 3	13,582,051.27	Project funds
Unit 4	12,480,447.00	Project funds
Unit 5	11,905,744.35	Delivery expenses
Total	87,606,300.68	—

Other notes:

The below sets out the aging analysis of amounts payable:

Items	Amounts at the end of the year	Amounts at the beginning of the year
Within two months	281,923,087.32	249,203,295.53
2–3 months	45,823,044.32	23,518,988.59
3–4 months	58,391,569.44	49,462,003.58
4 months – 1 year	125,996,973.86	238,866,042.37
1–2 years	136,440,231.05	241,559,300.14
2–3 years	127,134,872.00	61,737,920.98
Over 3 years	68,124,953.52	37,254,046.56
Total	843,834,731.51	901,601,597.75



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

23. Receipts in Advance

(1) Details of Receipts in advance

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Sales Income	68,937,156.42	73,674,754.30
Total	68,937,156.42	73,674,754.30

(2) Significant Receipts in advance aging over one year

Unit: RMB

Items	Balance at the end of the period	Reasons for outstanding or carrying forward
Unit 1	1,299,088.48	Not yet shipped by contract provision
Total	1,299,088.48	—

24. Employee remuneration payables

(1) Presentation of employee remuneration payables

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
I. Short-term remuneration	30,194,232.47	162,043,349.72	140,991,990.98	51,245,591.21
II. Retirement Benefit — Defined Contribution Plan	—	12,126,264.84	12,126,264.84	—
Total	30,194,232.47	174,169,614.56	153,118,255.82	51,245,591.21

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

24. Employee remuneration payables (continued)

(2) Presentation of short-term remuneration

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
1. Salaries, bonuses, allowance and subsidies	21,752,521.20	142,922,763.75	125,378,214.81	39,297,070.14
2. Staff welfare	—	6,241,578.60	6,241,578.60	—
3. Social insurance	—	6,290,866.39	6,290,866.39	—
Including: Medical insurance	—	4,724,445.31	4,724,445.31	—
Work injury insurance	—	958,549.27	958,549.27	—
Birth insurance	—	607,871.81	607,871.81	—
4. Housing provident fund	—	2,703,372.90	2,703,372.90	—
5. Union fund and staff education fund	8,441,711.27	3,884,768.08	377,958.28	11,948,521.07
Total	30,194,232.47	162,043,349.72	140,991,990.98	51,245,591.21

(3) Presentation of defined contribution plan

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
1. Basic pension insurance	—	11,677,642.45	11,677,642.45	—
2. Unemployment insurance	—	448,622.39	448,622.39	—
Total	—	12,126,264.84	12,126,264.84	—

Other notes:

The Group participated in the social insurance plan established by the government agencies. According to the plan, the Group deposited the fees in accordance with the relevant rules of the local government. In addition to the above deposit, the Group no longer undertook further payment obligations. The corresponding expenses recognized in the current profit and loss or related asset costs at the time of occurrence.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

25. Taxes Payable

Items	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Value-added tax	9,474,251.14	782,369.90
Enterprise income tax	2,103,702.96	1,702,488.31
Individual income tax	819,448.82	1,878,228.74
Urban maintenances and construction tax	827,699.15	464,919.37
Property tax	1,452,796.67	1,505,878.61
Land use tax	2,435,727.50	2,435,727.49
Educational surcharges	591,213.72	332,085.26
Local water conservancy construction funds	59,058.29	66,417.05
Stamp duty	862,723.35	610,280.50
Others	289,735.77	127,325.77
Total	18,916,357.37	9,905,721.00

Other notes:

At the end of the year, there is no Hong Kong Profits Tax payable included in taxes payable.

26. Interests Payable

Items	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Interests for long-term borrowings repayable with interests accrued in installments	3,100,384.51	220,973.96
Short-term borrowings interests payable	2,358,434.48	3,495,141.95
Total	5,458,818.99	3,716,115.91

As of 31 December 2017, the Group has no overdue unsettled interest.

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

27. Other payables

(1) Presentation of other payables by nature

Items	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Accrued energy charges	20,395,174.98	21,423,905.52
Deposits	5,603,591.64	7,869,545.87
Others	6,519,753.51	135,759.90
Total	32,518,520.13	29,429,211.29

(2) Significant other payables aging over one year

The Group has no significant other payables aging over one year.

28. Non-current liabilities due within one year

Items	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Long-term borrowings expired within one year	155,946,611.23	—
Total	155,946,611.23	—



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

29. Long-term borrowing

(1) Classification of Long-term borrowing

Items	Balance at the end of the period	Unit: RMB	
		Balance at the beginning of the period	
Pledged borrowing	577,259,900.98	—	
Credit borrowing	—	145,000,000.00	
Shareholders borrowing	160,000,000.00	—	
Total	737,259,900.98	145,000,000.00	

The notes for long-term borrowing:

The long-term borrowings expired within one year has been reclassified to “Non-current liabilities expired within one year”.

Other notes, including interest rate interval:

Interest rate detail: The Group's annual interest rate for the 2017 long-term borrowing is 4.988%–9.398%.

30. Estimated liabilities

Items	Balance at the end of the period	Unit: RMB	
		Balance at the beginning of the period	Forming reasons
Pending litigations	8,000,000.00	—	—
Total	8,000,000.00	—	—

Other notes, including the material assumptions, estimation notes related to the key estimated liabilities:

As of 31 December 2017, the Company received an amount of 33 claims on false statement by the investors. The cases have been accepted by the Intermediate People's Court of Jinan City. The amount involved was RMB12.5 million. At present, 9 trials have been held and the amount involved is RMB1,999,857.00. No judgment has been issued yet. According to the cases that have already been heard, as the court has not determined the exposing date and systematic risk factors, the investor's compensation scope is not determinable. And as the transaction records provided by the investors are incomplete, the Company believes that it is less possible for the court to judge the Company's full compensation according to the amount of investor prosecution with a reference to other types of cases and considering the usual defense factors. Following the principle of prudence, the Company evaluated an estimated accrued liabilities of RMB8 million.

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to the Consolidated Financial Statements (continued)

31. Deferred income

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Forming reasons
Government grants	6,954,855.00	—	—	6,954,855.00	—
Total	6,954,855.00	—	—	6,954,855.00	—

Involving government grant items:

Unit: RMB

Liabilities items	Balance at the beginning of the period	Addition Grant during the period	Amount recognized in non-operating income during the period	Amount recognized in other income during the period	Amount charged against cost expenses	Other Changes	Balance at the end of the period	Related to assets/Related to revenue
Government grants	6,954,855.00	—	—	—	—	—	6,954,855.00	Related to assets
Total	6,954,855.00	—	—	—	—	—	6,954,855.00	—

Other notes:

According to Notice on Finance of Shouguang Molong Logistic Company Limited's Subsidy Funds for Infrastructure (Shangzhengfa [2016] No.3) issued by the People's government of Shangkou town, the Group received subsidy funds for infrastructure of RMB6,954,855.00 on 24 February 2016, and recognized the government grant as the government grant related to assets. The Group has not amortized yet during the period since the relevant infrastructure has not been completed.



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1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

32. Share Capital

Unit: RMB

	Balance at the beginning of the period	Movement for the period (increase/decrease) (+, -)					Balance at the end of the period
		New shares issued	Bonus issue	Shares Converted from reserves	Others	Sub-total	
Total shares	797,848,400.00	—	—	—	—	—	797,848,400.00

33. Capital Reserves

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Capital premium (share capital premium)	849,481,990.92	—	—	849,481,990.92
Other capital reserves	236,167.50	10,799,300.00	—	11,035,467.50
Total	849,718,158.42	10,799,300.00	—	860,517,458.42

Other notes, including explanations of changes during the period and the reasons for changes:

Zhang En Rong, the chairman of the company, waived this year's remuneration and provided interest-free loans to the company. Zhang Yun San, the former vice chairman and general manager provided interest-free loans to the company. According to relevant regulations, relevant remuneration and borrowing interest will recognize as capital reserves.

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

34. Other comprehensive income

Unit: RMB

Items	Balance at the beginning of the period	Amount incurred during the period			Less: Income tax expense	Attributable to the parent company after tax	Attributable to the minority shareholders after tax	Balance at the end of the period
		Amount incurred before income tax during the period	comprehensive income transferred to profit or loss in current period	Less: amount of previously recognized as other				
II. Other comprehensive income to be reclassified into profit and loss subsequently	(3,092,433.84)	1,785,088.16	—	—	1,689,685.59	95,402.57	(1,402,748.25)	
Difference in the translation of foreign currency financial statements	(3,092,433.84)	1,785,088.16	—	—	1,689,685.59	95,402.57	(1,402,748.25)	
Total other comprehensive income	(3,092,433.84)	1,785,088.16	—	—	1,689,685.59	95,402.57	(1,402,748.25)	

35. Special Reserve

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Production safety fee	—	9,548,336.43	9,548,336.43	—
Total	—	9,548,336.43	9,548,336.43	—

Other notes, including explanations of changes during the period and the reasons for changes:

According to the Measures on the Withholding and Usage of Safety Production Fees of Enterprises (企業安全生產費用提取和使用管理辦法) (Caiqi [2012] No.16) jointly issued by the Ministry of Finance and the State Administration of Work Safety, the Group withholds the production safety fee in accordance with the relevant requirement.

36. Surplus Reserve

Unit: RMB

Items	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Statutory surplus reserve	176,686,903.51	—	—	176,686,903.51
Total	176,686,903.51	—	—	176,686,903.51



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

37. General risk reserve

Items	Amount at the beginning of the year	Increase during the year	Decrease during the year	Amount at the end of the year
General risk reserve	11,236.91	—	—	11,236.91
Total	11,236.91	—	—	11,236.91

The Company's subsidiary, Shouguang Mao Tong Micro-Credit Company shall make appropriation to general risk reserve in accordance with the relevant requirement of Notice on Strengthening Loan Classification Management for Micro-Credit Company to Improve Risk Provision (Lujinbanfa [2013] No.11) jointly issued by the Finance Bureau of Shandong Province and the Finance Office of Shandong Province on 15 March 2013.

38. Undistributed profit

Unit: RMB

Items	For the period	For the last period
Undistributed profit before adjustment at the end of last period	(2,104,173.06)	610,372,203.12
Undistributed profits after adjustment at the beginning of the period	(2,104,173.06)	610,372,203.12
Add: Net profit attributable to the owners of the Parent Company for the period	38,038,484.18	(612,476,376.18)
Undistributed profit at the end of the period	35,934,311.12	(2,104,173.06)

Adjustments breakdown of undistributed profits at the beginning of the period:

- 1). The effect of the retrospective adjustments arising from Accounting Standards for Business Enterprises and their new related requirements on the undistributed profits as at the beginning of the period amounted to Nil.
- 2). The effect of changes in accounting policies on the undistributed profits as at the beginning of the period amounted to Nil.
- 3). The effect of corrections of significant accounting errors on the undistributed profits as at the beginning of the period amounted to Nil.
- 4). The effect of the change of the scope of combination under common control on the undistributed profits as at the beginning of the period amounted to Nil.
- 5). The effect of other adjustments on the undistributed profits as at the beginning of the period amounted to Nil.

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V. Notes to Items in Consolidated Financial Statements (continued)

39. Equity of minority shareholders

Equity of minority shareholders attributable to minority shareholders in each subsidiary

Name of subsidiaries	Minority shareholders Proportion (%)	Amount at the end of the year	Amount at the beginning of the year
Shouguang Baolong	30.00	(13,215,702.21)	(10,460,069.53)
Maolong Micro-credit	50.00	75,133,308.87	77,254,114.25
Other companies	—	(180,073.99)	(194,911.27)
Total	—	61,737,532.67	66,599,133.45

40. Operating Revenue and Operating Costs

Unit: RMB

Items	Amounts incurred in the period		Amounts incurred in the last period	
	Income	Revenue	Income	Revenue
Main operation	2,921,860,892.91	2,696,934,158.81	1,519,203,811.97	1,636,758,798.09
Other operation	43,355,829.46	39,793,328.47	11,914,563.21	5,042,023.44
Total	2,965,216,722.37	2,736,727,487.28	1,531,118,375.18	1,641,800,821.53



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

41. Taxes and Surcharges

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period
Urban maintenances and construction tax	3,598,680.40	3,568,696.82
Educational surcharges	2,570,485.94	2,549,069.19
Real estate tax	5,078,065.16	3,406,760.83
Land use tax	9,742,910.01	6,582,253.70
Business tax	—	230,608.44
Local water conservancy construction funds	334,455.71	509,813.85
Other taxes	2,097,078.44	1,102,054.71
Total	23,421,675.66	17,949,257.54

42. Selling Expenses

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period
Delivery expenses	54,686,816.40	24,389,442.75
Staff salaries	3,616,331.69	3,440,218.42
Agency fees	1,043,354.76	13,492,743.03
Depreciation expenses	1,292,279.90	1,296,715.50
Travelling expenses	999,603.92	521,017.93
Entertainment expenses	2,693,969.52	1,988,394.62
Others	1,349,996.40	5,852,085.28
Total	65,682,352.59	50,980,617.53

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1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

43. Administrative expenses

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period
Amortisation of intangible assets	25,153,652.65	69,663,883.55
Research and development fees of new products	29,265,348.19	32,698,570.14
Depreciation expenses	41,046,196.92	20,138,286.66
Staff salaries	21,979,501.32	15,356,850.99
Taxes	—	5,063,509.20
Machinery material consumption	9,194,284.46	2,553,614.85
Entertainment expenses	1,298,122.17	1,119,309.66
Board of directors' expenses	2,445,444.17	1,425,468.70
Utilities	12,477,663.22	1,168,557.68
Intermediate fees	6,519,912.89	1,861,231.41
Repair charge	6,951,804.63	978,396.57
Others	5,759,953.21	5,092,993.78
Total	162,091,883.83	157,120,673.19

44. Finance Costs

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period
Interest expenses	126,199,311.38	56,337,667.95
Interest income	(7,998,827.35)	(10,996,409.07)
Foreign exchange loss	8,564,948.50	3,036,452.49
Other expenses	4,476,081.96	4,130,095.85
Total	131,241,514.49	52,507,807.22



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

45. Loss on impairment of assets

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period
I. Bad debt loss	19,460,062.58	62,434,811.41
II. Loss on impairment of inventories	(4,286,615.76)	47,419,652.59
VII. Loss on impairment of fixed assets	—	60,810,000.00
XIII. Loss on impairment of goodwill	—	41,800,000.00
XIV. Others	4,102,041.83	4,153,436.36
Total	19,275,488.65	216,617,900.36

46. Investment income

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period
Gain from long-term equity investments accounted for using the equity method	18,748.91	(76,330.30)
Investment income from the disposal of available-for-sale financial assets	—	259.63
Others	428,801.77	126,695.59
Total	447,550.68	50,624.92

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

47. Revenue from the disposal of assets

Unit: RMB

Sources of revenue from the disposal of assets	Amounts incurred in the period	Amounts incurred in the last period
Revenue from the disposal of non-current assets classified as held-for-sale	—	—
Included: revenue from the disposal of fixed assets	24,044,510.45	—
Revenue from the disposal of intangible assets	34,768,899.22	—
Revenue from the disposal of non-current assets unclassified as held-for-sale	—	—
Included: revenue from the disposal of fixed assets	3,274,889.28	270,348.71
Revenue from the disposal of intangible assets	—	—
Total	62,088,298.95	270,348.71

48. Other revenue

Unit: RMB

Sources of other revenue incurred	Amounts incurred in the period	Amounts incurred in the last period
Incentives and subsidies for energy conservation and emission reduction	150,000,000.00	—
Tax returns from added-value tax	5,640,168.00	—
Stable post subsidies and social security subsidies	453,084.23	—
Incentives and subsidies of the patented technology and intellectual property rights	182,600.00	—
Total	156,275,852.23	—



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

49. Non-operating Income

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period	Amounts credited to non-recurring profit or loss in the current period
Government grants	—	4,188,016.16	—
Others	5,781,343.10	2,884,412.21	5,781,343.10
Total	5,781,343.10	7,072,428.37	5,781,343.10

50. Non-operating Expenses

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period	Amounts credited to non-recurring profit or loss in the current period
Donations to external party	70,000.00	66,000.00	70,000.00
Scrap loss of non-current assets loss	289,924.70	88,185.70	289,924.70
Estimated liabilities	8,000,000.00	—	8,000,000.00
Loss on disposal of creditor's rights	7,400,012.25	—	7,400,012.25
Fine	600,000.00	—	600,000.00
Others	521,773.13	866,533.83	521,773.13
Total	16,881,710.08	1,020,719.53	16,881,710.08

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

51. Income Tax Expenses

(1) Income tax expenses list

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period
Current income tax expenses	635,761.83	714,256.58
Deferred income tax expenses	(1,229,587.91)	50,505,423.43
Total	(593,826.08)	51,219,680.01

(2) Adjustment process between accounting profit and income tax expenses

Unit: RMB

Items	Amounts incurred in the period
Total profit	34,487,654.75
Income tax expense calculated at statutory/the applicable tax rate	5,173,148.21
Effect of different tax rates applicable to subsidiaries	(13,722,352.63)
Effect of non-taxable income	(81,350.58)
Effect of non-deductible costs, expenses and loss	283,871.80
Effect of utilisation of previously unrecognised deductible loss on deferred income tax assets	(39,377,545.75)
Effect of deductible temporary differences or deductible losses on deferred income tax assets unrecognized in the period	49,290,893.28
Effect of research and development costs plus deductions	(2,160,490.41)
Income tax expenses	(593,826.08)

52. Other comprehensive income

Refer to note VII.34 for details.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

53. Items of cash flow statements

(1) Other cash received relating to operating activities

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period
Government grants	150,635,684.23	2,153,072.32
Interest income	10,166,407.49	11,277,985.90
Decrease in deposits for letter of credit	12,000,000.00	—
Bank deposits unfroze	1,450,000.00	—
Increase in limited time deposits	—	91,939,764.30
Others	7,405,662.63	58,044,902.33
Total	181,657,754.35	163,415,724.85

(2) Other cash paid relating to operating activities

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period
Delivery expenses	55,321,467.96	24,416,635.23
Machinery material consumption	9,312,764.61	2,840,642.70
Intermediate fees	7,646,898.15	17,107,794.71
Commission charges	5,219,682.26	5,207,609.18
Travelling expenses	1,403,936.51	755,316.39
Repair charge	6,963,835.47	993,180.25
Utilities	18,859,224.35	1,168,557.68
Entertainment expenses	3,968,972.69	3,107,704.28
Increase in bill deposits	58,675,000.00	119,883,016.31
Bank deposits frozed	1,800,000.00	1,450,000.00
Others	25,234,681.21	15,368,088.31
Total	194,406,463.21	192,298,545.04

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

53. Items of cash flow statements (continued)

(3) Other cash received relating to financing activities

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period
Borrowings from shareholders and other entities	219,552,865.10	100,000,000.00
Government grants	—	6,954,855.00
Total	219,552,865.10	106,954,855.00

(4) Other cash paid relating to financing activities

Unit: RMB

Items	Amounts incurred in the period	Amounts incurred in the last period
Increase in deposit for letter of guarantee and letter of credit	—	10,050,000.00
Borrowings from shareholders and other entities	159,552,865.10	—
Total	159,552,865.10	10,050,000.00



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

54. Additional information to cash flow statement

(1) Additional information to cash flow statement

Unit: RMB

Additional information	Amounts of the period	Amounts of the last period
1. Reconciliation of net profit to cash flows from operating activities:	—	—
Net profit	35,081,480.83	(650,705,699.73)
Add: Provision for impairment of asset	19,275,488.65	216,617,900.36
Depreciation of fixed assets, consumption of oil and gas assets, depreciation of productive biological assets	241,325,477.09	181,195,121.07
Amortisation of intangible assets	25,153,652.65	69,663,883.55
Loss on disposal of fixed assets, intangible assets and other long-term assets ("—" denotes gain)	(62,088,298.95)	(270,005.71)
Loss on retirement of fixed assets ("—" denotes gain)	289,924.70	87,842.70
Finance costs ("—" denotes gain)	128,155,484.59	69,932,129.64
Investment loss ("—" denotes gain)	(447,550.68)	(50,624.92)
Decrease in deferred income tax assets ("—" denotes increase)	(926,404.42)	57,453,235.51
Increase in deferred tax income liabilities ("—" denotes decrease)	(303,183.49)	(6,947,812.08)
Decrease in inventories ("—" denotes increase)	(152,196,477.63)	87,630,463.05
Decrease in operating receivables ("—" denotes increase)	(207,455,467.19)	117,481,710.62
Increase in operating payables ("—" denotes decrease)	6,636,828.02	(34,413,011.34)
Other	—	(3,258,000.00)
Net cash flows generated from operating activities	32,500,954.17	104,417,132.72
2. Significant investing and financing activities not involving cash receipt and payment:	—	—
3. Net changes in cash and cash equivalents:	—	—
Balance of cash at the end of the period	661,396,103.17	508,498,755.91
Less: Balance of cash at the beginning of the period	508,498,755.91	218,309,025.51
Net increase in cash and cash equivalents	152,897,347.26	290,189,730.40

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

54. Additional information to cash flow statement (continued)

(2) Composition of cash and cash equivalents

Unit: RMB

Items	Balance as at the end of the period	Balance as at the beginning of the period
I. Cash	661,396,103.17	508,498,755.91
Including: Treasury cash	80,063.78	52,907.41
Bank deposits available for payments at any moment	358,337,889.58	141,547,137.90
Other monetary funds available for payments at any moment	302,978,149.81	366,898,710.60
III. Balance of cash and cash equivalents at the end of the period	661,396,103.17	508,498,755.91
Including: Cash and cash equivalents restricted for the use of parent company and its' subsidiaries	217,975,000.00	170,950,000.00

55. Assets with ownership or right to use restrictions

Unit: RMB

Items	Book value at the end of period	Reasons for restriction
Monetary fund	217,975,000.00	Security deposit and judiciary freeze
Bill receivable	54,374,481.00	Bill pledged
Fixed assets	134,948,064.38	Pledged borrowing
Intangible assets	209,315,714.42	Pledged/secured borrowing
Total	616,613,259.80	—



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

V. Notes to Items in Consolidated Financial Statements (continued)

56. Foreign Currency Items

(1) Foreign Currency Items

Unit: RMB

Items	Balance of foreign currency at the end of the period	Exchange rate	Equivalent to RMB at the end of the period
Including:USD	15,978,083.03	6.5342	104,403,990.13
EUR	1,775.15	7.8023	13,850.25
HKD	2,803.83	0.83591	2,343.75
Including:USD	18,885,151.83	6.5342	123,399,359.09
EUR	228,263.45	7.8023	1,780,979.92
Other receivables	—	—	—
Including:USD	5,101,891.59	6.5342	33,336,780.03
Short-term borrowings	—	—	—
Including:USD	23,000,000.00	6.5342	150,286,600.00
Payables	—	—	—
Including:USD	1,066,125.07	6.5342	6,966,274.43
Receivables in advance	—	—	—
Including:USD	2,035,544.41	6.5342	13,300,654.28
Other payables	—	—	—
Including:USD	25,230.08	6.5342	164,858.39
Interest payable	—	—	—
Including:USD	61,924.10	6.5342	404,624.45

- (2) Descriptions of foreign operating (including those that are considered important) should include disclosure of: the overseas principal place of business of the foreign entities, the reporting currency and the basis for selecting that currency; the reason(s) for the changes of the reporting currency.

Applicable Not applicable

The registered and principal operating place of MPM Limited, a subsidiary which is owned by the Company as to 90% of its shareholdings and voting rights, is in Hong Kong; its reporting currency is USD.

57. Others

No

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

VI. Changes in the scope of consolidation

1. Others

There is no changes in the scope of consolidation compared with the last year.

VII. Interests in other entities

1. Interests in subsidiaries

(1) Composition of enterprise groups

Name of subsidiaries	Principal place of operation	Place of registration	Nature of business	Proportion of shareholding		Method of acquisition
				Direct	Indirect	
MPM Limited	Hong Kong	Hong Kong	Trade Manufacturing	90.00%	0.00%	Business mergers under the uncommon control
Maolong New Materials	Shouguang	Shouguang	Manufacturing	100.00%	0.00%	Business mergers under the uncommon control
Molong Electro-mechanical Equipment	Shouguang	Shouguang	Trade	0.00%	100.00%	Business mergers under the uncommon control
Baolong Recyclable Resource	Weihai	Weihai	Trade Manufacturing	0.00%	100.00%	Business mergers under the uncommon control
Maolong Recycle	Shouguang	Shouguang	Manufacturing	10.00%	90.00%	Business mergers under the uncommon control
Shouguang Baolong	Shouguang	Shouguang	Manufacturing	70.00%	0.00%	Investment and establishment
Weihai Baolong	Weihai	Weihai	Manufacturing	61.54%	38.46%	Business mergers under the uncommon control
Molong Logistic Company	Shouguang	Shouguang	Service	100.00%	0.00%	Investment and establishment
Molong Import & Export	Shouguang	Shouguang	Import and export	100.00%	0.00%	Investment and establishment
Maolong Micro-Credit	Shouguang	Shouguang	Financial industry	0.00%	50.00%	Business mergers under the uncommon control

For the significant structured entities included in the scope of consolidation, the basis for control is:

The Company holds 50% equity of Maolong Micro-Credit as the largest shareholder, and the other 6 shareholders hold 10% and 6.67% equity, respectively. The Company can control the production and operation of Maolong Micro-Credit, and then which is included in the scope of consolidation.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

VII. Interests in other entities (continued)

1. Interests in subsidiaries (continued)

(2) Significant Non-wholly Owned Subsidiaries

Unit: RMB

Name of subsidiaries	Minority shareholders Proportion	Profits and losses attributable to minority shareholders for the period	Dividends declared to minority shareholders for the period	Balance of equity to minority shareholders at the end of the period
Shouguang Baolong	30.00%	(2,755,632.68)	—	(13,215,702.21)
Maolong Micro-credit	50.00%	(120,805.38)	2,000,000.00	75,133,308.87

(3) Principal Financial Information of Significant Non-wholly Owned Subsidiaries

Unit: RMB

Name of subsidiaries	Balance at the end of the period					Balance at the beginning of the period						
	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	1,077,301,904.90	530,467,596.99	1,607,769,501.89	1,572,640,741.33	—	1,572,640,741.33	1,102,559,128.93	440,668,048.66	1,543,227,177.59	1,529,107,933.59	—	1,529,107,933.59
Maolong Micro-credit	139,261,564.27	11,519,480.61	150,781,044.88	514,427.14	—	514,427.14	150,013,433.80	11,502,326.12	161,515,759.92	7,007,531.41	—	7,007,531.41

Unit: RMB

Name of subsidiaries	Amount incurred in the period				Amount incurred in the last period			
	Turnover	Net profit	Total comprehensive revenue	Cash flow of operating activities	Turnover	Net profit	Total comprehensive revenue	Cash flow of operating activities
Shouguang Baolong	1,364,142,502.08	23,009,516.56	23,009,516.56	—	726,791,301.10	(121,352,942.15)	(121,352,942.15)	69,325,405.81
Maolong Micro-credit	3,928,742.84	(241,610.77)	(241,610.77)	—	7,015,146.88	433,807.40	433,807.40	(3,224,234.80)

(4) Significant restrictions on use of assets and settlement of debts of enterprise group

Nil

(5) Provision of financial or other support for structured entity that brought into the scope of consolidated financial statement

Nil

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Transactions with changes in equities attributable to owners of subsidiaries and still control over it

(1) Details of changes in equities attributable to owners of subsidiaries

Nil

3. Interests in joint venture arrangements or associates

(1) Significant joint ventures or associates

Name of joint ventures or associates	Principal place of business	Place of registration	Business nature	Proportion of shareholding		Accounting treatment for investment of joint ventures or associates
				Direct	Indirect	
Karamay Yalong Petroleum Machinery Co., Ltd	Karamay	Karamay	Manufacturing	0.00%	30.00%	1,920,000.00

(2) Key financial information of significant associates

Unit: RMB

	Balance at the end of the period/ Amount for the period	Balance at the beginning of the period/ Amount for the prior period
Current assets	14,522,917.91	12,422,030.48
Non-current assets	9,615,398.80	8,811,820.26
Total assets	24,138,316.71	21,233,850.74
Current liabilities	8,752,753.95	5,620,784.34
Non-current liabilities	6,716,731.88	6,716,731.88
Total liabilities	15,469,485.83	12,337,516.22
Attributable to the parent company shareholders' equity	8,668,830.88	8,896,334.52
Net asset calculated by proportion of shareholding	2,600,649.26	2,668,900.36
Book value of the equity investment to associates	2,639,321.48	2,707,572.57
Turnover	12,677,187.00	10,446,491.74
Net profits	62,496.36	(254,434.34)
Total comprehensive revenue	62,496.36	(254,434.34)
Dividends received from the associates for the year	87,000.00	—



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1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

VII. INTERESTS IN OTHER ENTITIES (continued)

3. Interests in joint venture arrangements or associates (continued)

(3) Description of the major restrictions on the capacity of joint ventures or associates transferred capital to the Company

There is no material restrictions on the capacity of an associate to transfer capital to the Company.

(4) Excessive losses incurred by joint ventures or associates

Associates did not incur any excessive losses.

(5) Contingent liabilities relating to the investment of joint ventures or associates

There is no contingent liabilities of the Group relating to the investment of associates.

4. Equity in structured entities not included in the scope of consolidated financial statement

The Group does not have any structured entity that are not included in the scope of consolidated financial statement.

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

Major financial instruments of the Group include borrowings, accounts receivable, accounts payable and so on. Detailed descriptions of these financial instruments are set out in Note IV.10. The risks associated with these financial instruments and the risk management policies adopted by the Group to mitigate such risks are described below. The management of the Group manages and monitors these risk exposures to ensure such risks are contained within a prescribed scope.

1. Objectives and policies of various risk management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and revenue, where the negative effects of risks against the Group's operating results are minimised, with a view to maximise the benefits of shareholders and other stakeholders. Based on such objective of risk management, the underlying strategy of the Group's risk management is to ascertain and analyse all types of risks exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

(1) Market risks

1) Foreign exchange risk

Foreign exchange risk represents risks of loss incurred as a result of changes in exchange rate. The Group is mainly exposed to foreign exchange risks in connection with USD, HKD and EUR, except for the parent company and its subsidiaries MPM of the Group which entered purchases and sales in USD, EUR and HKD, other principal operating activities of the Group are settled in RMB. As at 31 December 2017, except for the USD balances in assets and liabilities, odd monies in EUR and HKD balances as set out below, all balances of assets and liabilities of the Group were denominated in RMB. The foreign exchange risk arising from these assets and liabilities in USD balances may affect the operating results of the Group.

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

VIII. Risks associated with financial instruments (continued)

1. Objectives and policies of various risk management (continued)

(1) Market risks (continued)

1) Foreign exchange risk (continued)

Items	31 December 2017	31 December 2016
Monetary capital — USD	104,403,990.13	178,686,828.26
Monetary capital — EUR	13,850.25	12,970.66
Monetary capital — HKD	2,343.75	8,089.80
Monetary capital — JPY	—	105,920,725.17
Accounts receivable — USD	123,399,359.09	189,446,631.66
Accounts receivable — EUR	1,780,979.92	1,667,875.38
Other receivables — USD	33,336,780.03	35,391,821.96
Short-term borrowing — USD	150,286,600.00	463,322,230.00
Accounts payable — USD	6,966,274.43	4,507,985.79
Other payable — USD	164,858.39	175,021.06
Receipts in advance — USD	13,300,654.28	26,282,523.44
Interests payable — USD	404,624.45	2,068,651.21

The Group closely monitors the effect of changes in foreign exchange rates to the Group's exposure in foreign exchange risk.

The Group has always placed its concern on the research of foreign exchange risk management policies and strategies, maintain close co-operation with financial institutions engaging in foreign exchange business, and arrange favourable settlement terms in contracts to reduce foreign exchange risk. Meanwhile, with the continuous increase in the proportion of international market, if risks beyond the control of the Group, such as the appreciation of RMB, the Group will mitigate such risk via suitable adjustment of sales strategies.

2) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the changes in market interest rate. The Group's interest rate risk arises from interest-bearing liabilities, such as bank borrowings and bond payable. Financial liabilities issued at floating rate expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2017, the Group's interest-bearing liabilities were mainly floating-rate loan contracts amounting to RMB770,086,600.00(31 December 2016: RMB765,026,880.00) and fixed-rate loan contracts denominated in RMB and USD amounting to RMB2,107,011,942.60(31 December 2016: RMB1,716,815,237.28).

The Company designs rationally credit lines, various credit types and the term of credit lines through the establishment of good relations between banks and enterprise to ensure sufficient bank line of credit and meet the Company's various types of needs for short-term financing. Meanwhile, the Company reduce rationally risk of interest rate fluctuations by shortening the duration of a single borrowing and special agreement on early repayment terms.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

1. Objectives and policies for various risk management (continued)

(1) market risk (continued)

3) Price risk

The Group sells metal products at market price so as to be influenced by fluctuation in selling price.

(2) Credit risk

As at 31 December 2017, the biggest credit risk exposure that may cause financial loss to the Group mainly derived from the fact that the other party of the contract, to which the Company is also a party, could not fulfil their obligations and caused loss to the Group's financial assets, which includes:

The book value of the financial asset which has been recognised in the consolidated balance sheet; in respect of financial instruments that are measured by fair value, the book value reflects its risk exposure, but not its biggest risk exposure, the biggest risk exposure will change as the future fair value changes.

In order to minimise the credit risk, the Group conducts a review on the determination and approval of credit limits, and carries out other monitoring procedures to ensure that followup action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Company considers that the Group's credit risk is significantly reduced.

The Group maintains its working capital with reputable banks. Therefore, the credit risk for such is minimal.

The Group has adopted necessary policies to ensure that all the trade customers have good credit history. Apart from the top five accounts receivable, the Group has no other significant concentration of credit risk. The aggregate sum of the top five accounts receivable amount to RMB281,695,787.98 .

(3) Liquidity risk

The liquidity risk is the Group's impossibility to perform its financial obligations after the maturity date. In the management of the liquidity risk, the Group monitors and maintains a level of working capital deemed adequate by the management to perform the Group's obligations, thus will not cause loss or damage to the reputation of the Group. Moreover, the Group analyses its debt structure and deadline regularly and maintains sufficient fund. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. Meanwhile, the management keeps in touch with financial institutions and makes consultations on financing issues, to maintain enough credit limits and mitigate liquidity risk.

The Group's main capital source is from bank borrowing. As at 31 December 2017, the unused credit limit of bank loan of the Group was RMB668,500,000 (31 December 2016: RMB987,220,000), of which the short-term unused credit limit of bank loan of the Group was RMB 668,500,000 (31 December 2016: RMB987,220,000).

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1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

1. Objectives and policies for various risk management (continued)

(3) Liquidity risk (continued)

The following table demonstrates the financial assets and financial liabilities held by the Group according to the maturity of undiscounted remaining contractual obligations:

Amount as at 31 December 2017

Items	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets					
Monetary fund	879,371,103.17	—	—	—	879,371,103.17
Bills receivable	94,525,409.69	—	—	—	94,525,409.69
Accounts receivable	378,729,615.88	—	—	—	378,729,615.88
Loans and advances	88,102,411.40	—	—	—	88,102,411.40
Interests receivable	4,220,913.66	—	—	—	4,220,913.66
Other receivable	44,428,243.02	—	—	—	44,428,243.02
Financial liabilities					
Short-term					
borrowings	2,141,086,600.02	—	—	—	2,141,086,600.02
Bills receivable	213,984,811.00	—	—	—	213,984,811.00
Accounts receivable	843,834,731.51	—	—	—	843,834,731.51
Other payables	32,518,520.13	—	—	—	32,518,520.13
Interests payable	5,458,818.99	—	—	—	5,458,818.99
Long-term borrowings	155,946,611.23	402,166,596.40	335,093,304.58	—	893,206,512.21

Amount as at 31 December 2016

Items	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets					
Monetary fund	679,448,755.91	—	—	—	679,448,755.91
Bills receivable	23,403,982.45	—	—	—	23,403,982.45
Accounts receivable	304,148,614.98	—	—	—	304,148,614.98
Loans and advances	142,887,708.94	—	—	—	142,887,708.94
Interests receivable	8,196,910.73	—	—	—	8,196,910.73
Other receivables	55,703,355.24	—	—	—	55,703,355.24
Financial liabilities					
Short-term					
borrowings	2,436,842,117.30	—	—	—	2,436,842,117.30
Bills receivable	241,427,907.86	—	—	—	241,427,907.86
Accounts receivable	901,601,597.75	—	—	—	901,601,597.75
Other payables	29,429,211.29	—	—	—	29,429,211.29
Interests payable	3,716,115.91	—	—	—	3,716,115.91
Long-term borrowings	—	145,000,000.00	—	—	145,000,000.00



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1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis

The Group applies sensitivity to analyze the rationality of technical risk variables and the effects of possible changes on profit and loss or owner's equity. As any risk variable seldom varies, and correlation among variables will play a major role in the ultimate amount of a special risk variable. Therefore, the followings are carrying out on the assumed condition that each variable changes independently.

(1) Sensitivity analysis of foreign exchange

Foreign exchange risk sensibility analysis hypothesis: all the foreign operations and investments and cash flows are highly effective.

Based on the above assumption, on the basis that all other variables are held constantly, the effects of reasonable changes in exchange rate that may arise on the profit and loss and equity for the period are set out below:

Items	Changes in exchange rate	For the Year 2017		For the Year 2016	
		Effect to net profit	Effect to owners' equity	Effect to net profit	Effect to owners' equity
All foreign currencies	5% appreciation against RMB	3,910,710.62	3,910,710.62	628,087.58	628,087.58
All foreign currencies	5% depreciation against RMB	(3,910,710.62)	(3,910,710.62)	(628,087.58)	(628,087.58)

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(Unless otherwise indicated, all figures are stated in RMB)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis (continued)

(2) Sensitivity analysis of interest rate risk

Sensitivity analysis of interest rate risk is based on the following assumptions:

Changes in market interest rate affect the interest income or expense of financial instruments at variable interest rate;

For fixed rate financial instruments measured at fair value, the changes in market interest rates only affect its interest income or expenses;

The changes in fair value of derivative financial instrument and other financial assets and liabilities were calculated by the discounted cash flow method with the market interest rate at the balance sheet date.

Based on the above assumptions, on the basis that all other variables are held constant, the effect of reasonable changes in interest rate that may arise on the profit and loss and equity for the period after tax are set out below:

Items	Changes in exchange rate	For the year 2017		For the year 2016	
		Effect to net profit	Effect to owners' equity	Effect to net profit	Effect to owners' equity
Loans at floating rate	Increase 1%	(4,463,849.81)	(4,463,849.81)	(3,122,953.80)	(3,122,953.80)
Loans at floating rate	Decrease 1%	4,463,849.81	4,463,849.81	3,122,953.80	3,122,953.80



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IX. DISCLOSURE OF FAIR VALUE

During the reporting period, the Group does not have assets and liabilities measured at fair value.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Parent company of the Group

The ultimate controlling party of the Company is Zhang En Rong.

As at 31 December 2017, Mr. Zhang En Rong owned 29.53% voting shares in the Company, and was the controlling shareholder and the ultimate controlling party of the Company.

2. Subsidiaries of the Group

For details of subsidiaries of the Group, please refer to related information in note IX.1.

3. Joint venture and associates

For details of joint ventures or associates that are important to the Group, please refer to related information in note IX.3.

4. Other related party

Name of other related party	Relationship with the Company
Shouguang Molong Cultural Transmission Limited Company	Other enterprise under common control of controlling shareholder

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(Unless otherwise indicated, all figures are stated in RMB)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

5. Related party transactions

(1) Related party transactions regarding the purchase and sale of goods and provision and receipt of services

Purchase of goods/receipt of services

Unit: RMB

Related party	Related party transaction	Amount for the period	Amount for the last period
Karamay Yalong Petroleum Machinery Co., Ltd	Oil well pumping and accessories	2,560,611.88	272,124.97
Shouguang Molong Cultural Transmission Limited Company	Switch cabinets, casing pipe and accessories	—	815,025.11

(2) Related guarantees

The company as guarantor

Unit: RMB

Guarantee	Amount Guaranteed	Commencement Date of the Guarantee	Expiry of the Guarantee Date	Fulfillment of the Guarantee
MPM Limited	65,342,000.00	16 January, 2017	10 January, 2018	NO



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1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

5. Related party transactions (continued)

(2) Related guarantees (continued)

The company as a guarantee

Unit: RMB

guarantor	Amount Guaranteed	Commencement Date of the Guarantee	Expiry of the Guarantee Date	Fulfillment of the Guarantee
Zhang En Rong	50,011,900.00	9 October 2017	8 October 2020	No
Zhang En Rong	300,000,000.00	30 November 2017	29 December 2020	No
Shouguang Baolong	40,000,000.00	24 March 2017	13 March 2018	No
Maolong New Materials	60,000,000.00	14 April 2017	13 April 2018	No
Maolong New Materials	70,000,000.00	21 April 2017	20 April 2018	No
Maolong New Materials	80,000,000.00	5 May 2017	4 May 2018	No
Maolong New Materials	30,000,000.00	10 May 2017	09 May 2018	No
Maolong New Materials	80,000,000.00	10 July 2017	6 July 2018	No
Maolong New Materials	30,000,000.00	24 July 2017	23 July 2018	No
Maolong New Materials	30,000,000.00	24 July 2017	23 July 2018	No
Maolong New Materials	36,000,000.00	15 September 2017	13 September 2018	No
Maolong New Materials	64,000,000.00	31 October 2017	30 October 2018	No
Maolong New Materials	43,000,000.00	15 November 2017	15 March 2018	No

(3) Borrowings/loans with related parties

Unit: RMB

Related party	Borrowed amount	Commencement Date	Expiry Date	Notes
Borrowed from				
Zhang En Rong	9,952,865.10	22 January 2017	24 January 2017	Interest Free
Zhang En Rong	50,000,000.00	18 January 2017	1 December 2017	Interest Free
Zhang En Rong	100,000,000.00	18 January 2017	18 January 2020	Interest Free
Zhang En Rong	60,000,000.00	5 April 2017	18 January 2020	Interest Free
Zhang Yun San	60,000,000.00	1 December 2016	26 October 2017	Interest Free
Lend to				

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1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

5. Related party transactions (continued)

(4) Compensation of Key Management Personnel

Unit: RMB

Item	Amount for the period	Amount for the last period
Zhang Enrong	520,000.00	701,945.00
Zhang Yun San	34,732.73	603,302.55
Guo Huanran	529,335.80	413,202.77
Yang Jin	440,678.28	351,616.05
Lin Fu Long	—	165,004.32
Guo Hong Li	34,986.67	34,986.67
Wang Chun Hua	34,986.67	34,986.67
Qin Xue Chang	74,986.67	74,986.67
Ji Yan Song	74,986.67	37,493.33
Quan Yu Hua	74,986.67	37,493.33
John Paul Cameron	—	49,605.71
Hao Liang	84,271.02	55,421.35
Zheng Jian Guo	10,100.00	5,050.00
Fan Renyi	—	5,050.00
Zhang Jiuli0	10,100.00	10,100.00

(5) Other related party transactions

Nil



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

6. Amounts due from and due to related parties

(1) Accounts receivable

Unit: RMB

Items	Related party	Balances at the end of the period		Balances at the beginning of the period	
		Carrying balance	Provision of bad debts	Carrying balance	Provision of bad debts
Accounts receivable	Karamay Yalong Petroleum Machinery Co., Ltd	1,943,491.45	—	1,836,430.15	—

(2) Accounts payable

Unit: RMB

Items	Related party	Carrying balance at the end of the period	Carrying balance at the beginning of the period
Short-term Borrowings	Zhang Yun San	—	60,000,000.00
Long-term Borrowings	Zhang Enrong	160,000,000.00	—
Accounts payable	Karamay Yalong Petroleum Machinery Co., Ltd	—	17,044.57

XI. Share-based payment

1. General condition of Share-based payment

Applicable Not applicable

2. Condition of equity-settled share-based payment

Applicable Not applicable

3. Condition of cash-settled share-based payment

Applicable Not applicable

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

XII. Commitments and contingencies

1. Major commitments

Major commitments at balance sheet date

The capital expenditure commitments that have been contracted for but not recognised in the financial statements.

Item	Amounts at the end of the year	Amounts at the beginning of the year
Commitment for acquisition and construction of long-term assets that have been contracted for but not recognised in the financial statements	1,416,467.48	—
Total	1,416,467.48	—

2. Contingencies

(1) Material contingencies at balance sheet date

1. Jinan Water Treatment Equipment Co., Ltd. (hereinafter referred to as "Jinan Water Treatment Company") and Mao Long New Materials Company entered into contract in respect of seawater desalination equipment supply, hereafter Jinan Water Treatment Company is failed to perform the delivery and installation work as required by the contract. Due to the dispute between the two sides on the termination of the contract and the existence of liability for breach of contract, Jinan Water Treatment Company prosecuted Mao Long New Materials Company and the Company repaired the payment of goods of RMB6,715,700 and related losses of RMB508,100. Mao Long New Materials Company and the Company counterclaimed Jinan Water Treatment Company to return the payment of goods paid more and compensate for the losses. In November 2017, the Shouguang People's Court made the first-instance judgment: the two parties canceled the contract; Jinan Water Treatment Company issued a special value-added tax invoice in accordance with the amount already paid; and rejected other lawsuit requests. In December 2017, Jinan Water Treatment Company filed an appeal against the first-instance ruling, and the second trial is still under review. The company judged that the Jinan Water Treatment Company was very unlikely to win, so no estimated liabilities were accrued. Jinan Water Treatment Company applied to the court for property preservation and the company provided pledge guarantee to the court with the unexpired banker's acceptance bill of RMB5.90 million. So the court did not seal up the Company's other property.
2. Deer Group Co., Ltd. (hereinafter referred to as "Deere") and Mao Long New Materials Company entered into a contract about waste heat power generation installation project construction. As Deere did not perform the contract on schedule, and there is a blast accident when hot commissioning, which lead to damage and the construction is delayed. Therefore, Mao Long New Materials Company initiated legal proceedings to the Shouguang People's Court requesting the cancellation of the contract between the parties and compensation for the relevant losses. Deere Company counterclaimed to Weifang Intermediate People's Court requesting Mao Long New Materials Company to pay construction costs of RMB5,989,300 and interest, and compensate for the delay of the project loss of RMB25,269,100. Until now, the cases with Deere are in the process of the first instance and the Group believes that the possibility of winning the lawsuit on Mao Long New Materials Company is very high. The possibility of winning on counterclaim of Deere is smaller, so no estimated liabilities were accrued.



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

XII. Commitments and contingencies (continued)

2. Contingencies (continued)

(1) Material contingencies at balance sheet date (continued)

3. As of 31 December 2017, the Company received a total of 33 claims from investors for false statement of securities. These cases have been accepted by the Intermediate People's Court of Jinan City. The amount involved was RMB12.5 million. At present, 9 trials have been held and the amount involved is RMB1.9999 million. No judgment has been issued yet. According to the cases that have already been heard, as the court has not determined the exposing date and systematic risk factors, the investor's compensation scope is not determinable. And as the transaction records provided by the investors are partially incomplete, the Company believes that it is less possible for the court to judge the Company's full compensation according to the amount of investor prosecution with a reference to other types of cases and considering the usual defense factors. Following the principle of prudence, the Company provided an estimated liabilities of RMB8 million.

(2) Material contingency is not required to be disclosed, but need to explain

There is no other material contingency to be disclosed.

XIII. Events Subsequent to Balance Sheet Date

1. Profit Distribution

Unit: RMB

Proposed profit distribution or dividend	0.00
Considered and approved profit distribution or dividend	0.00

2. Sales Return

Nil

3. Other events subsequent to balance sheet date

(1) Borrowing after year

As of the date of this financial statement issued, the Group had borrowed RMB295 million and USD7 million from bank.

(2) Profit Distribution Plan

On 29 March 2018, the annual profit distribution plan is approved on eighth meeting of the fifth Board of Directors of the Company, no final dividend is distributed for this year ended 31 December 2017. The profit distribution plan is subject to approval in the shareholder meeting.

- (3) Apart from events subsequent to balance sheet date above, the Group has no significant subsequent events to be disclosed.

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

XIV. Other significant items

1. Segment Information

(1) Basis for determining segments and accounting policies

(1) Basis for determining segments

According to the internal organization structure, management requirements and internal reporting system of the Group, the Group's operating segments are divided into 4 reportable segments. The Group identifies the operating segments according to the internal organization structure, management requirements and internal reporting system. The Group's management regularly evaluates the operating results of these reportable segments to determine the resources to be allocated and its results to be evaluated. The main products provided by each of the Group's reportable segments includes casing, tubing, three kinds of pumping units, petroleum machinery and others.

(2) Accounting policies of reporting segment

Segment reporting information is disclosed in accordance to the accounting policies and measurement standards adopted for reporting to the management by each segment, which are consistent with the accounting policies and measurement basis for preparing financial statements.

(2) Financial Information of Reporting Information

Unit: RMB

Items	Casing and Tubing	Three kinds of pumping units	Petroleum machinery plant	Other	Unallocated Items	Inter-segment elimination	Total
Operation revenue							
External income	2,832,615,688.73	33,364,743.00	45,504,510.14	53,731,780.50	—	—	2,965,216,722.37
Inter-segment income	—	—	—	—	—	—	—
Total segment income	2,832,615,688.73	33,364,743.00	45,504,510.14	53,731,780.50	—	—	2,965,216,722.37
Total report operating income	2,832,615,688.73	33,364,743.00	45,504,510.14	53,731,780.50	—	—	2,965,216,722.37
Segment costs	2,730,273,542.37	30,959,927.17	35,895,716.20	47,977,818.44	—	—	2,845,107,004.18
Segment operating profit	102,342,146.36	2,404,815.83	9,608,793.94	5,753,962.06	—	—	120,109,718.19
Adjusting items:	—	—	—	—	—	—	—
Administrative expenses	—	—	—	—	162,091,883.83	—	162,091,883.83
Finance costs	—	—	—	—	131,241,514.49	—	131,241,514.49
Investment income	—	—	—	—	447,550.68	—	447,550.68
Asset disposal income	—	—	—	—	62,088,298.95	—	62,088,298.95
Other revenue	—	—	—	—	156,275,852.23	—	156,275,852.23
Report operating profit	102,342,146.36	2,404,815.84	9,608,793.94	5,753,962.05	(74,521,696.46)	—	45,588,021.73
Non-operating income	—	—	—	—	5,781,343.10	—	5,781,343.10
Non-operating expenses	—	—	—	—	16,881,710.08	—	16,881,710.08
Total profit	102,342,146.36	2,404,815.84	9,608,793.94	5,753,962.05	(85,622,063.44)	—	34,487,654.75
Income tax	—	—	—	—	(593,826.08)	—	(593,826.08)
Net profit	102,342,146.36	2,404,815.84	9,608,793.94	5,753,962.05	(85,028,237.36)	—	35,081,480.83
Total segment assets	5,306,811,657.47	99,616,562.19	241,858,587.67	187,516,077.38	387,000,082.83	—	6,222,802,967.54
Total segment liabilities	2,148,650,899.31	28,208,645.44	25,557,579.07	60,171,523.27	2,028,881,226.07	—	4,291,469,873.16



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1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

XIV. Other significant items (continued)

2. Other significant transaction and item effect on the decision of investor

(1) List of gross foreign trade revenues in China and other countries and regions

In 2017 and 2016, all of the Group's external transaction income was from the PRC and overseas, while all assets were located in the PRC, hence the external transaction income by location of income source is disclosed as follows:

External transaction income	Incurred during the year	Incurred during the previous year
PRC (except Hong Kong)	2,587,861,072.58	1,198,770,210.20
Hong Kong	—	—
Other overseas regions	377,355,649.79	332,348,164.98
Total	2,965,216,722.37	1,531,118,375.18

(2) Asset Mortgage

- 1) According to the relevant loan agreements and mortgage agreements entered between the Company and Evergrowing Bank Weifang Branch Shouguang Sub-branch (恒豐銀行濰坊分行壽光支行), the company's own identification number is used by Shouguo (2009) No. 0203, Shouguo (2009) No. 0204. The land use rights of Shou Guoguo (2010) No. 0082 and Shouguo (2010) No. 0083 and related ground-based buildings provide collateral for the long-term borrowings of the company at Evergrowing Bank Weifang Branch Shouguang Sub-branch. As of 31 December 2017, the book value of the mentioned above land use rights used for mortgage was RMB38.4064 million, the book value of construction was RMB67.5298 million, and the amount of loans under the relevant contracts of the company was RMB241 million. The due date of asset mortgage is 14 April 2019.
- 2) Pursuant to the financing agreement and the relevant mortgage contract signed by the Company and related subsidiaries and China Great Wall Asset Management Co., Ltd. Shandong Branch (中國長城資產管理股份有限公司山東省分公司) (hereinafter referred to as Great Wall Asset Management), the Company's subsidiary Shouguang Baolong and Molong Logistic provide collateral for the Company's finance in Great Wall Asset Management by its own license number of land use rights of Shou Guoyong (2007) No. 02704 and Shou Guoyong (2013) No. 00352 and related ground construction, and by its own license number of sea area use rights of Guohai No.2016B37078313748, respectively. As of 31 December 2017, the book value of the above-mentioned land use rights and sea area use rights was RMB86.7547 million, and the book value of the construction was RMB25.4562 million. The financing amount of the Company under this contract is RMB50.0119 million. Meanwhile, Zhang En Rong, the controlling shareholder of the Company, and Great Wall Asset Management signed a Joint Liability Guarantee Contract (《連帶責任擔保合同》) to provide joint guarantee liability for the financing agreement. The above mortgage guarantee, pledge guarantee and warrant guarantee is expired on 8 October 2020.



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(Unless otherwise indicated, all figures are stated in RMB)

XIV. Other significant items (continued)

2. Other significant transaction and item effected on the decision of investor (continued)

(2) Asset Mortgage (continued)

- 3) Pursuant to the financing agreement and the relevant mortgage contract signed by the Company, the Company's subsidiary Shouguang Maolong New Materials and Great Wall Asset Management, the Company provide collateral for the financing of the Company and its subsidiary Shouguang Maolong New Materials and Great Wall Asset Management by the Company's own license number of land use rights of Shouguang Maolong (2005) No. 1027 and related ground construction. As of 31 December 2017, the book value of the above-mentioned mortgaged land use rights was RMB42.762 million, and the book value of constructions was RMB9.9284 million. The financing amount of the Company under this contract is RMB300 million. Meanwhile, Zhang En Rong, the controlling shareholder of the Company, and Great Wall Asset Management entered into the Contract on Pledge of the Listed Shares (《上市公司股票質押合同》), and provide collateral to the financing agreement by its 85 million shares owned in the Company; Zhang En Rong, the controlling shareholder of the Company, and Great Wall Asset Management signed a guarantee of Joint Liability Guarantee Contract (《連帶責任擔保合同》) to provide joint guarantee liability for the financing agreement. The above mortgage guarantee, pledge guarantee and warrant guarantee is expired on 29 December 2020.



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XV. Notes to principal items in the financial statements of the parent Company

1. Accounts Receivable

(1) Accounts receivable by category are disclosed below

Unit: RMB

Categories	Balances at the end of the period					Balances at the beginning of the period				
	Book balance		Provision of bad debts		Book value	Book balance		Provision of bad debts		Book value
	Amount	Ratio	Amount	Proportion		Amount	Ratio	Amount	Proportion	
Accounts receivable individually significant for which provision for bad debts has been individually made	142,754,267.39	25.64%	80,798,083.62	56.60%	61,956,183.77	112,268,032.58	17.17%	67,648,771.75	60.26%	44,619,260.83
Accounts receivable for which provision for bad debts has been made on group basis by credit risk characteristics	404,124,371.20	72.58%	—	—	404,124,371.20	529,952,133.72	81.04%	—	—	529,952,133.72
Accounts receivable individually insignificant but for which provision for bad debts has been individually made	9,887,621.60	1.78%	4,847,985.28	49.03%	5,039,636.32	11,699,773.50	1.79%	9,414,581.16	80.47%	2,285,192.34
Total	556,766,260.19	100.00%	85,646,068.90	—	471,120,191.29	653,919,939.80	100.00%	77,063,352.91	—	576,856,586.89

Accounts receivable individually significant for which provision for bad debts has been individually made at the end of the period:

Applicable Not applicable

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the Company (continued)

1. Accounts Receivable (continued)

(1) Accounts receivable by category are disclosed below (continued)

Unit: RMB

Account receivables (By Company)	Balances at the end of the period			
	Accounts receivable	Provision of bad debts	Proportion	Reasons for provision
Peak Pipe and Supply, LLC	43,382,829.73	25,757,036.86	59.37%	Long outstanding and little refund with greater risk of recovery
Shandong Coal Machinery Equipment Co., Ltd.	25,411,133.71	24,952,138.32	98.19%	Long outstanding and bad business condition of client with greater risk of recovery
Fairmont International Oil Companies	15,671,792.49	9,403,075.49	60.00%	Long outstanding and little refund with greater risk of recovery
Wenlai Jinlong Investment Company Limited, Beijing Office	7,777,809.66	7,777,809.66	100.00%	Long outstanding and difficult to recover
HeBei ZhongTai Steel Pipe Manufacture Co., Limited	30,516,256.93	1,850,000.00	6.06%	Long outstanding, and the pledged debt and guarantees can't ensure the possibility of recovery
UNIX Technology Company	12,766,316.55	3,829,894.97	30.00%	Long outstanding and little refund with greater risk of recovery
SBI Company (USA)	4,066,180.19	4,066,180.19	100.00%	Long outstanding with lower possibility of recovery
Samasu International Oil Corporation	3,161,948.13	3,161,948.13	100.00%	Long outstanding with lower possibility of recovery
Total	142,754,267.39	80,798,083.62	—	—

Other receivables using ageing analysis for making bad debt provision in the portfolio:

Applicable Not applicable

Other receivables using the balance percentage method for making bad debt provision in the portfolio:

Applicable Not applicable



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(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the Company (continued)

1. Accounts Receivable (continued)

(1) Accounts receivable by category are disclosed below (continued)

Other receivables using other methods for making bad debt provision in the portfolio:

Receivable individually insignificant for which provision for bad debts has been individually made at the end of the year

Company name	Book balance	Amount for Bad debt	Provision proportion (%)	Provision reason
China Petroleum Technology Development Corporation	594,152.90	594,152.90	100.00	Long aging overdue with lower possibility of recovery
Imex Amy, Canadian Companies	169,889.20	101,933.52	60.00	Long aging overdue and little refund with greater risk of recovery
Hanting Energy Resource Private Service Company Limited	95,686.82	95,686.82	100.00	Long aging overdue with lower possibility of recovery
South China Petrochemical Group	1,127,700.99	1,127,700.99	100.00	Long aging overdue with lower possibility of recovery
Metal One Corporation	1,069,319.41	1,069,319.41	100.00	Long aging overdue with lower possibility of recovery
PetroChina Company Limited Huabei Oil Field	148,580.00	44,574.00	30.00	Aging overdue with recovery at risk
Liaocheng Development Zone Yongfa Materials Co., Ltd.(聊城市開發區永發物資有限公司)	1,998,442.41	5,898.54	0.30	Aging overdue with recovery at risk
Linyi Zhongkuang Jinding Electromechanical Manufacturing Co., Ltd.(臨沂中礦金鼎機電製造有限公司)	1,288,095.20	949,055.10	73.68	Long aging overdue and little refund with the most risk of recovery
Hubei Maikaeqi New Energy Technology Co., Ltd.(湖北邁科亞奇新能源科技有限公司)	1,306,390.07	391,917.02	30.00	Long aging overdue and little refund with greater risk of recovery
Shandong Fenglong High Pressure Gas Bottle Co., Ltd.(山東豐龍高壓氣瓶有限公司)	911,138.60	273,341.58	30.00	Long aging overdue and little refund with greater risk of recovery
Zhucheng Chuanghui Container Technology Co., Ltd.(諸城市創惠容器科技有限公司)	1,178,226.00	194,405.40	16.50	Long aging overdue with recovery at risk
Total	9,887,621.60	4,847,985.28	—	—

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the Company (continued)

1. Accounts Receivable (continued)

(2) Provision, recovery or reversal of the provision for bad debts during the period

The amount of provision for bad debts during the period amounted to RMB19,301,475.99; and the amount of recovery or reversal of the provision for bad debts during the period amounted to RMB10,718,760.00,

Of which significant amounts of provision for bad debts recovered or reversed for the period:

Unit: RMB

Companies	Recovery or reversal amount	Recovery method
Dong 'e Lianxing Metal Products Co., Ltd.	10,718,760.00	Acceptance
Total	10,718,760.00	—

(3) Accounts receivable actually written off in the period

There is no accounts receivable without written off during the year.

(4) Accounts receivable with top five balances at the end of the period as collected as per the debtors

The total amount of accounts receivable with top five balances at the end of the year as collected as per the debtors amounted to RMB342,872,322.68, representing proportion 61.58% to the amount of balance at the end of the year of accounts receivable, the total amount of balance at the end of the year for corresponding bad debt provision amounted to RMB25,801,610.86.

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

Nil

(6) Assets or liabilities formed by its continuous involvement of transferring accounts receivable

Nil



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the Company (continued)

1. Accounts Receivable (continued)

(7) Aging analysis of accounts receivable

Aging	Amount at the end of the year	Amount at the Beginning of the year
Within 1 year	403,185,322.10	159,166,353.18
1–2 years	15,933,371.87	387,428,562.21
2–3 years	38,424,632.23	27,581,981.50
Over 3 years	13,576,865.09	2,679,690.00
Net amounts	471,120,191.29	576,856,586.89

2. Other receivables

(1) Disclosure of other receivables by category

Unit: RMB

Category	Balances at the end of the period					Balances at the beginning of the period				
	Book balance		Bad debt provision			Book balance		Bad debt provision		
	Amount	proportion	Amount	Proportion of accrual	Book Value	Amount	proportion	Amount	Proportion of accrual	Book Value
Single item with significant other receivables and provided for bad debts in individual assessment for impairment	33,336,780.03	6.11%	21,235,093.18	63.70%	12,101,686.85	35,391,821.96	10.13%	10,617,546.59	30.00%	24,774,275.37
Single item with insignificant accounts receivable and single item with significant other receivable but not impaired under individual assessment for impairment loss	511,811,954.05	93.87%	—	—	511,811,954.05	313,872,004.26	89.84%	—	—	313,872,004.26
Single item with insignificant accounts receivable but provided for bad debts individually	122,119.25	0.02%	122,119.25	100.00%	—	122,119.25	0.03%	122,119.25	100.00%	—
Total	545,270,853.33	100.00%	21,357,212.43	—	523,913,640.90	349,385,945.47	100.00%	10,739,665.84	—	338,646,279.63

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the Company (continued)

2. Other receivables (continued)

(1) Disclosure of other receivables by category (continued)

Other receivables that are individually significant and for which bad debt provision has been assessed individually at the end of the period:

Applicable Not applicable

Unit: RMB

Other receivables (by Company)	Balances at the end of the period			
	Other receivables	Bad debt provision	Proportion of accrual	Reasons for accrual
JESORO OIL LTD	33,336,780.03	21,235,093.18	63.70%	Overdue with recovery at risk
Total	33,336,780.03	21,235,093.18	—	—

Other receivables using ageing analysis for making bad debt provision in the portfolio:

Applicable Not applicable

Other receivables using the balance percentage method for making bad debt provision in the portfolio:

Applicable Not applicable

Other receivables using other methods for making bad debt provision in the portfolio:

Applicable Not applicable



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the Company (continued)

2. Other receivables (continued)

(1) Disclosure of other receivables by category (continued)

Other receivables that are individually significant and for which bad debt provision has been assessed individually at the end of the year

Company name	Book balance	Amount of bad debt	Proportion of accruals(%)	Reasons for accrual
Wang Li Xue	40,000.00	40,000.00	100.00	Not recoverable due to long outstanding
Other companies	14,220.00	14,220.00	100.00	Not recoverable due to long outstanding
Other individuals	67,899.25	67,899.25	100.00	Not recoverable due to long outstanding
Total	122,119.25	122,119.25	—	—

(2) Provision, recovery or reversal of bad debt provision during the period

Bad debt provision during the current year amounted to RMB10,617,546.59. The amount for bad debt provision recovered or reversed during the current year was RMB0.00.

(3) Other receivables actually written off during the period

There is no other receivable written off as uncollectible during this year.

(4) Other receivables classified by the nature

Unit: RMB

Nature of payment	Book balance at the end of the period	Book balance at the beginning of the period
Dealings between companies	527,685,255.19	331,259,856.83
Security, deposits	16,768,786.14	17,000,290.14
Dealings between individuals	816,812.00	1,125,798.50
Total	545,270,853.33	349,385,945.47

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the Company (continued)

2. Other receivables (continued)

(5) Other receivables with top five balances at the end of the period as collected as per the debtors:

Unit: RMB

Name of company	Nature of payment	Balances at the end of the period	Aging	Proportion to the total amount of closing balance of other receivable	The balance of provision for bad debts as at the end of year
Maolong New Materials	Intercourse Funds	337,984,497.41	Within 1 year	61.98%	—
Molong Logistic Company	Intercourse Funds	87,576,960.75	Within 1 year	16.06%	—
Molong Logistic Company	Intercourse Funds	1,692,830.89	1–2 years	0.31%	—
Molong Logistic Company	Intercourse Funds	31,544,324.55	4–5 years	5.79%	—
Shouguang Baolong Petroleum Material Company Limited	Intercourse Funds	34,097,512.00	4–5 years	6.25%	—
JESORO OIL LTD	Intercourse Funds	33,336,780.03	2–3 years	6.11%	21,235,093.18
Shouguang City, Yangkou Finance	Construction deposit	14,530,000.00	3–4 years	2.66%	—
Total	—	540,762,905.63	—	99.16%	21,235,093.18

(6) Accounts receivable involving government grant

Nil

(7) Other receivables derecognised due to transfer of financial assets

Nil

(8) Assets or liabilities formed by its continuous involvement of transferring other receivables

Nil



Notes to the Financial Statements

1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the Company (continued)

2. Other receivables (continued)

Other notes:

Aging of other receivables

Aging	Amount at the end of the year	Amount at the beginning of the year
Within 1 year	464,372,956.76	218,571,291.96
1–2 years	5,226,354.43	37,748,851.48
2–3 years	9,638,579.08	205,290.61
Over 3 years	44,675,750.63	82,120,845.58
Net amounts	523,913,640.90	338,646,279.63

3. Long-term equity investment

Unit: RMB

Items	Balances at the end of the period			Balances at the beginning of the period		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	1,352,069,921.73	208,000,000.00	1,144,069,921.73	1,352,069,921.73	208,000,000.00	1,144,069,921.73
Total	1,352,069,921.73	208,000,000.00	1,144,069,921.73	1,352,069,921.73	208,000,000.00	1,144,069,921.73

(1) Investment in subsidiaries

Unit: RMB

Investee Companies	Balances at the beginning of the period	Increase during the period	Decrease during the period	Balances at the end of the period	Provision of impairment for the period	Provision of impairment at the end of the period
Maolong New Materials	1,006,743,691.73	—	—	1,006,743,691.73	—	—
Weihai Baolong	220,000,000.00	—	—	220,000,000.00	—	103,000,000.00
MPM Limited	7,276,230.00	—	—	7,276,230.00	—	—
Shouguang Baolong	105,000,000.00	—	—	105,000,000.00	—	105,000,000.00
Molong Logistic Company	3,000,000.00	—	—	3,000,000.00	—	—
Maolong Recycle	50,000.00	—	—	50,000.00	—	—
Molong Import &Export	10,000,000.00	—	—	10,000,000.00	—	—
Total	1,352,069,921.73	—	—	1,352,069,921.73	—	208,000,000.00

Notes to the Financial Statements



1 January 2017 to 31 December 2017

(Unless otherwise indicated, all figures are stated in RMB)

XV. Notes to principal items in the financial statements of the Company (continued)

3. Long-term equity investment (continued)

(2) Other description

Due to the normal operation to subsidiaries' production at the end of the year, there is no need of provision for impairment, thus no further provision for impairment of accrual long-term equity investments.

The ability of the investee of the long-term equity investment held by the company on December 31, 2017 to transfer funds to the investment enterprise is not limited.

4. Operating revenue and cost of operation

Unit: RMB

Item	Amount incurred in the period		Amount incurred in the last period	
	Revenue	Cost	Revenue	Cost
Principal businesses	2,573,630,238.74	2,299,508,674.00	1,326,547,290.27	1,330,168,724.49
Other businesses	142,006,387.92	139,859,964.77	76,993,249.73	73,075,780.50
Total	2,715,636,626.66	2,439,368,638.77	1,403,540,540.00	1,403,244,504.99

5. Gain on investments

Unit: RMB

Items	Amount incurred in the period	Amount incurred in the last period
Gain on investment on disposal of available-for-sale financial assets	—	259.63
Total	—	259.63



Financial Statements

1 January 2017 to 31 December 2017

(these notes to financial statements are presented in RMB unless otherwise specified)

1. NON-RECURRING PROFIT (LOSS) FOR The period

Applicable Not applicable

Unit: RMB

Items	Amount	Description
Profit or loss on disposal of non-current assets	61,798,374.25	—
Ultra vires or no formal approval documents for approval or incidental tax refunds or relief	5,640,168.00	—
Government grants credited to profit for the period except for those closely relevant to normal business of the company, conformed to requirements of State policy, granted on fixed amount basis or enjoyed on continuous fixed amount basis subject to certain standards	150,635,684.23	—
Profit or loss arising from contingencies unrelated to the normal business operations of the Company	(8,000,000.00)	—
Write-back of provision for receivables subject to individual impairment test	10,718,760.00	—
Net non-operating income and expenses other than the above items	(2,810,442.28)	—
Less: affected income tax amount	1,407,291.50	—
Affected minority interests	325,981.53	—
Total	216,249,271.17	—

Reasons should be given if the Company has classified any non-recurring profit and loss items (as defined and listed in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — non-recurring Profit and Loss) as recurring gain and loss items.

Applicable Not applicable

2. RETURNS ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average returns on net assets	Earnings per share	
		Basic earnings per share (RMB/share)	Diluted earnings per share (RMB/share)
Profit for the reporting period			
Net profit attributable to the ordinary share of shareholders of the Company	2.07%	0.05	0.05
Net profit attributable to the ordinary share of shareholders of the Company (excluding non-recurring profit and loss)	-9.70%	(0.22)	(0.22)

Financial Statements



1 January 2017 to 31 December 2017

(these notes to financial statements are presented in RMB unless otherwise specified)

3. Differences between the PRC and other Countries Accounting Standards

(1) The difference in net profit and net assets in the financial reports disclosed in accordance with both IAS (國際會計準則) and CAS (中國會計準則)

Applicable Not applicable

(2) The difference in net profit and net assets in the financial reports disclosed in accordance with both other Countries Accounting Standards and CAS

Applicable Not applicable



XIV. Documents Available for Inspection

1. The financial statements which were signed and sealed by the legal representative, financial controller and head of the financial department of the Company.
2. The original copy of the auditors' report which was sealed by the accounting firm and signed by a certified public accountant.
3. Original copies of all of the documents and announcements of the Company which have been publicly disclosed in the designated newspaper and website as approved by China Securities Regulatory Commission during the reporting period.

Shandong Molong Petroleum Machinery Company Limited
29 March 2018

