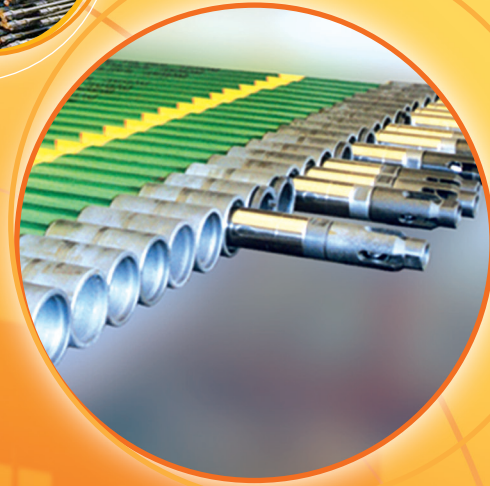




山東墨龍石油機械股份有限公司

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)



2018
Annual
Report

* For identification purpose only

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.

Liu Yun Long, 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.

All Directors attended the Board meeting for considering this report.

The Company has described in details the risks it may encounter and the related measures in “IX. Prospects for future development of the Company” under the section titled “IV. Discussion and Analysis of Operations” of this annual report. Investors are advised to read carefully the contents thereof.

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

Contents

I.	Important, Contents and Definitions	1
II.	Company Profile and Major Financial Indicators	3
III.	Summary of the Company Business	8
IV.	Discussion and Analysis of Operations	10
V.	Directors' Report	30
VI.	Material Matters	37
VII.	Changes in Share Capital and Shareholders	48
VIII.	Preferred Stock	55
IX.	Directors, Supervisors, Senior Management and Employees	56
X.	Corporate Governance	65
XI.	Corporate Bonds	99
XII.	Financial Statements	100
XIII.	Documents Available for Inspection	262



I. Important, Contents and Definitions

Definitions

Definition Items	Definition content
"Company", "parent company", "the Company", and "Shandong Molong"	Shandong Molong Petroleum Machinery Company Limited
"the Group"	Collectively, the Company and its subsidiaries
"SZSE"	The Shenzhen Stock Exchange
"SEHK"	The Stock Exchange of Hong Kong Limited
"CSRC"	China Securities Regulatory Commission
"Shouguang Baolong"	壽光寶隆石油器材有限公司 (Shouguang Baolong Petroleum Equipment Company Limited)
"Weihai Baolong"	威海市寶隆石油專材有限公司 (Weihai Baolong Special Petroleum Materials Co., Ltd)
"Shouguang Maolong"	壽光懋隆新材料技術開發有限公司 (Shouguang Maolong New Materials Technology Development Company Limited)
"reporting period", "Year"	1 January 2018 to 31 December 2018
"beginning of year", "beginning of period"	1 January 2018
"end of year", "end of period"	31 December 2018
"last year"	1 January 2017 to 31 December 2017

II. Company Profile and Major Financial Indicators



I. Company Information

Stock Name Abbreviation	山東墨龍	Stock Code	002490
Stock Exchange of Listed Securities	Shenzhen Stock Exchange		
Stock Name Abbreviation	山東墨龍	Stock Code	00568
Stock Exchange of Listed Securities	Hong Kong Stock Exchange		
Chinese Name of the Company	山東墨龍石油機械股份有限公司		
Abbreviation of the Chinese Name	山東墨龍		
English Name of the Company (if any)	Shandong Molong Petroleum Machinery Company Limited		
Abbreviation of the English Name (if any)	Shandong Molong		
Legal Representative of the Company	Liu Yun Long		
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

	Secretary to the Board	Securities Affairs Representative
Name	Liu Min	Zhao Xiaotong
Office Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province	No. 999 Wen Sheng Street, Shouguang City, Shandong Province
Telephone	0536-5100890	0536-5100890
Facsimile	0536-5100888	0536-5100888
Email Address	lm@molonggroup.com	dsh@molonggroup.com



II. Company Profile and Major Financial Indicators

III. Information Disclosure and Places for Inspection

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

IV. Registry Changes

Organization No.	No change
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

	2018	2017	Increase/Decrease in this year as compared with last year	2016
Operating Revenue (RMB)	4,452,014,810.12	2,965,216,722.37	50.14%	1,531,118,375.18
Net profit attributable to shareholders of listed company (RMB)	92,476,375.01	38,038,484.18	143.11%	(612,476,376.18)
Net profit after deduction of extraordinary gains or losses attributable to shareholders of listed company (RMB)	76,871,118.68	(178,210,786.99)	143.13%	(621,542,167.29)
Net cash flows from operating activities (RMB)	369,589,596.32	32,500,954.17	1,037.17%	104,417,132.72
Basic earnings per Share (RMB)	0.1159	0.05	131.80%	(0.77)
Diluted earnings per Share (RMB)	0.1159	0.05	131.80%	(0.77)
Weighted average rate of return on net assets (%)	4.82%	2.07%	2.75%	-28.80%
	End of year 2018	End of year 2017	Increase/decrease in this year-end as compared with last year-end	End of year 2016
Total assets (RMB)	6,607,536,593.37	6,222,802,967.54	6.18%	5,772,042,841.06
Net assets attributable to shareholders of listed Company (RMB)	1,944,091,288.19	1,869,595,561.71	3.98%	1,819,068,091.94



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

	First quarter	Second quarter	Third quarter	Fourth quarter
Operation revenue	842,583,183.58	1,157,498,386.25	1,298,211,391.38	1,153,721,848.91
Net profit attributable to shareholders of listed company	10,667,578.43	21,907,716.37	46,975,568.39	12,925,511.82
Net profit after deduction of extraordinary gains or losses attributable to shareholders of listed company	8,650,090.71	15,332,925.54	45,765,001.44	7,123,100.99
Net cash flows from operating activities	(161,410,159.29)	16,070,710.78	298,384,729.65	216,544,315.18

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

Item	2018 Amount	2017 Amount	2016 Amount	Note
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	3,472,397.69	61,798,374.25	182,163.01	—
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)	29,456,919.93	150,635,684.23	4,188,016.16	—
Profit or loss arising from contingencies unrelated to the normal operation of the Company	(9,489,704.33)	(8,000,000.00)	—	—
Gain or loss arising from changes in fair value of financial assets held for trading, derivative financial assets, financial liabilities held for trading and derivative financial liabilities, and disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading and derivative financial liabilities and investment income from other debt investments, other than the effective hedging business related to the normal operation of the Company	1,346,581.79	Not applicable	Not applicable	—
Write-back of provision for receivables subject to individual impairment test	Not applicable	10,718,760.00	3,284,636.96	—
Non-operating gain and loss other than the above items	1,558,301.01	(2,810,442.28)	1,951,878.38	—
Other profit or loss items which fall within the definition of extraordinary profit or loss	—	—	126,955.22	—
Less: Affected income tax amount	8,669,151.99	1,407,291.50	30,984.97	—
Affected minority interests amount (after tax)	2,070,087.77	325,981.53	636,873.65	—
Total	15,605,256.33	216,249,271.17	9,065,791.11	—

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

(1) Main business engaged by the Company during the reporting period

During the reporting period, the Company was mainly engaged in research and development, production and sales of products for the energy equipment industry. The main products include pipes for petroleum and gas extraction, fluid and structural pipes, petroleum pumping machine, petroleum pump, petroleum pumping rods, cylinder liners for drilling rigs, valve parts and large castings and forgings. The Company's products are mainly used in petroleum, natural gas, coalbed methane, shale gas and other energy drilling, machinery processing, urban pipe network, etc. The sales of pipe products exceed 80% of our revenue, which is the main source of the revenue and profit of the Company. During the reporting period, there was no material change in the Company's main business structure.

The Company's business model is to arrange the production planning based on the customer's order demand. The Company's products, especially pipe products, are divided into API standard products and non-standard products (i.e. specially customised products on demand). Generally, customers, according to their own needs, determine the product specifications, model and order quantity. The Company's production system organises production delivery according to customer orders.

(2) Basic information of the Company's industry during the reporting period

The energy equipment industry in which the Company is located covers petroleum, natural gas, shale gas, coal, coalbed methane, etc. In the medium and long term, the demand for petroleum and coal will peak and the demand for natural gas will also increase significantly, so the market growth potential is large. The industry is more affected by cyclical changes in economic development, cyclical changes in market consumption demand, cyclical changes in crude oil price cycles, and cyclical changes in raw materials price. In 2018, affected by fluctuations in crude oil prices and changes in the economic situation, the market for pipe products has improved. The demand and prices of major oilfield use products have increased in varying degrees compared with the same period of last year. During the reporting period, the Company continued to strengthen its business cooperation with domestic and foreign oil companies, causing our business performance continuing to improve.

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	Decreased by 79.01% from the beginning of year, mainly attributable to the transfer of projects under construction of the Company to fixed assets upon completion.

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

For domestic market, the Group's major customers for OCTG products were PetroChina, Sinopec, CNOOC and Yanchang Petroleum. Customers for other social pipes engage in sectors including machining, shipbuilding, high-pressure boilers, gas cylinder tubes and automotive pipes. The Group has been extending its market reach. During the reporting period, products such as non-API destruction resistant case pipes, special casings, gas well casings, 20MnTiB hydraulic prop tubes were supplied to customers in bulk quantities.

For overseas market, the Company continued to consolidate its presence in the developed markets and its relationship with customers, and focused its effort on promoting its new products and boosting sales of oil casing, line pipe, sucker rod, casting and forging and other products. The Company tapped into markets including Australia, Tanzania, Angola and Gerab in the Middle East. During the reporting period, the Group's export business accounted for approximately 8.27% of its revenue from principal business.

As for new product development, during the reporting period, the Group successfully developed and sold new products such as high-resistance compressed gas sealed casings, high-toughness line pipes and various types of special oil pumps. The Company invested a relatively large amount of funds to carry out research and development of new products. It obtained 5 utility model patents, and added 5 utility model patent applications and 1 invention patent application.

In line with its established business strategy, the Company will deepen internal tapping and increase internal technology upgrade for better quality control, and thereby continuously enhancing its core competitiveness.



IV. Discussion and Analysis of Operations

I. Overview

In 2018, driven by factors such as stable macroeconomic condition and fluctuations in crude oil prices, the demand for OCTGs by domestic and international oil companies increased significantly. The Company continuously increased its production capacity through internal tapping and increasing technological innovation and equipment improvement. Meanwhile, the Company actively explored new markets domestically and internationally, and continuously improved its product quality and brand awareness. The Company achieved a substantial growth in operating results year-on-year and maintained a stable and healthy operation.

During the reporting period, the Company achieved an operating revenue of RMB4,452,014,810.12, representing a growth of 50.14% year-on-year. Operating profit grew by 51.63% to RMB69,122,996.22. Net profit attributable to shareholders of the listed company amounted to RMB92,476,375.01, representing an increase of 143.11% year-on-year. Compared to 2017, there was significant increase in the Company's total operating revenue, operating profit, total profit and net profit attributable to shareholders of the listed company.

To review the work done in 2018, the Company made the following achievements:

(1) Grasped market opportunities and adjusted sales strategy

In response to the sophisticated and dynamic market situation, management of the Company defined a “casing production-focused” sales strategy according to its own circumstances together with the changes of domestic and international markets. It strengthened the cooperation with PetroChina, Sinopec, CNOOC and Yanchang Petroleum, and also furthered its effort to develop new customers, new markets and new sectors, which resulted in a steady increase in market share.

(2) Enhanced technological improvement and fully unlocked production capacity

Management of the Company changed their management mindset towards boldly “going global and attracting foreign investment”. They improved certain of the Company equipment to the advanced level among peers. A stable unlock of production capacity was thus ensured. In 2018, the Company produced 802,200 tonnes of tube and pipe products, representing an increase of 25.05% compared to last year.

(3) Embraced market challenges and prioritised technology innovation

Technology research and development is fundamental to the survival and development of enterprises. In 2018, the Company successfully developed and sold new products such as high-resistance compressed gas sealed casings, high-toughness line pipes and various types of special oil pumps. The Company obtained 5 utility model patents, and added 5 new utility model patent applications and 1 invention patent application. To date, the Company has 76 patents. In 2018, the Company was recognised as a “National Intellectual Property Competitive Enterprise” by the National Intellectual Property Administration.

(4) Cared for employees and committed to social responsibilities

As always, the Company put its “people-oriented” management philosophy into practice by striving to enable employees to fully share bonus as the Company develops. In 2018, the Company further improved the employees' salary increment mechanism, under which it increased employees' income, and offered them welfare benefits such as holidays, five insurances and one fund, free physical examinations and various subsidies, so as to ensure that the salary of its employees is maintained at a higher level in local area. Besides, the Company actively responded to the requirements under national security and environmental protection policy. The initiatives included establishing a dual system for park areas, promoting clean production and greening in park areas, strengthening safety education, providing employees with a safe, clean, stable and harmonious workplace, and increasing employees' a sense of belonging and identity. The Company paid concern to the living and working conditions of employees and solved their practical problems through workers' union and by means of suggestion box, WeChat and otherwise. These fully embodied the Company's people-oriented management philosophy concept, and strengthened the cohesiveness of the Company.

IV. Discussion and Analysis of Operations



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

	2018		2017		Year-on-year Increase/ Decrease
	Amount	Percentage of operating income	Amount	Percentage of operating income	
Total operating revenue	4,452,014,810.12	100%	2,965,216,722.37	100%	50.14%
By industry					
Special equipment manufacturing	4,452,014,810.12	100.00%	2,965,216,722.37	100.00%	50.14%
By product					
Pipe products	3,919,305,934.10	88.03%	2,602,300,097.09	87.76%	50.61%
Three kinds of pumping units	46,384,863.25	1.04%	33,364,743.00	1.13%	39.02%
Petroleum Machinery parts	58,383,638.50	1.31%	45,504,510.14	1.53%	28.30%
Tube blanks	295,857,663.73	6.65%	230,315,591.64	7.77%	28.46%
Others	132,082,710.54	2.97%	53,731,780.50	1.81%	145.82%
By region					
PRC	4,083,930,871.08	91.73%	2,629,703,696.31	88.69%	55.30%
Abroad	368,083,939.04	8.27%	335,513,026.06	11.31%	9.71%



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	3,919,305,934.10	3,251,303,908.67	17.04%	50.61%	35.14%	9.50%
By product						
Pipe products	3,919,305,934.10	3,251,303,908.67	17.04%	50.61%	35.14%	9.50%
By region						
PRC	3,612,494,426.40	2,961,818,312.92	18.01%	56.05%	35.24%	12.61%
Abroad	306,811,507.70	289,485,595.75	5.65%	6.79%	34.06%	-19.19%

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	Item	Unit	2018	2017	Year-on-year Increase/Decrease
Special equipment manufacturing	Sales volume	10,000 tonnes	77.55	67.02	15.71%
	Production volume	10,000 tonnes	80.22	64.15	25.05%
	Stock volume	10,000 tonnes	10.16	7.49	35.65%

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



Stock volume increased by 35.65% from the beginning of year, mainly attributable to the increased product turnover as a result of a higher production and sales volume of the Company.

(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

Product type	Item	2018		2017		Year-on-year Increase/Decrease
		Amount	Percentage of operating costs	Amount	Percentage of operating costs	
Pipe products	Materials	2,251,527,956.75	69.25%	1,692,779,544.06	70.36%	-1.11%
Pipe products	Depreciation	258,478,660.73	7.95%	189,255,994.50	7.87%	0.08%
Pipe products	Labour cost	263,355,616.60	8.10%	186,574,192.78	7.75%	0.35%
Pipe products	Expenses	477,941,674.59	14.70%	337,302,647.04	14.02%	0.68%
Three kinds of pumping units	Materials	27,708,716.04	65.68%	19,537,012.32	65.22%	0.46%
Three kinds of pumping units	Depreciation	3,415,580.29	8.10%	2,666,201.92	8.90%	-0.80%
Three kinds of pumping units	Labour cost	8,415,122.90	19.95%	5,598,571.52	18.69%	1.26%
Three kinds of pumping units	Expenses	2,649,714.91	6.27%	2,155,539.14	7.20%	-0.93%
Petroleum Machinery parts	Materials	36,470,549.85	70.81%	24,605,015.06	71.26%	-0.45%
Petroleum Machinery parts	Depreciation	4,812,625.08	9.34%	3,276,046.71	9.49%	-0.15%
Petroleum Machinery parts	Labour cost	7,234,863.70	14.05%	4,398,460.90	12.74%	1.31%
Petroleum Machinery parts	Expenses	2,985,693.49	5.80%	2,048,794.27	5.93%	-0.13%
Tube blanks	Materials	233,619,249.19	80.62%	172,123,610.44	78.25%	2.37%
Tube blanks	Depreciation	11,359,308.56	3.92%	8,468,701.60	3.85%	0.07%
Tube blanks	Labour cost	10,345,084.58	3.57%	7,368,870.22	3.35%	0.22%
Tube blanks	Expenses	34,454,637.49	11.89%	32,005,093.06	14.55%	-2.66%
Others	Materials	88,309,643.35	70.25%	4,581,520.25	69.74%	0.51%
Others	Depreciation	12,769,385.87	10.16%	695,091.53	10.58%	-0.42%
Others	Labour cost	18,039,051.70	14.35%	928,828.23	14.14%	0.21%
Others	Expenses	6,589,596.44	5.24%	364,423.26	5.55%	-0.31%

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)	2,695,388,395.32
Proportion of total sales of the top 5 customers over total sales for the year	60.54%
Proportion of sales of connected parties in the top 5 customers over total sales for the year	0.00%

Information on top 5 customers

No.	Name of customer	Sales amount (RMB)	Percentage over the annual total amount of sales
1	Unit A	1,079,414,473.79	24.25%
2	Unit B	987,678,216.57	22.18%
3	Unit C	280,473,290.71	6.30%
4	Unit D	235,479,286.12	5.29%
5	Unit E	112,343,128.13	2.52%
Total		2,695,388,395.32	60.54%

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)	514,207,827.78
Proportion of total purchases attributable to the top 5 suppliers over total purchases for the year	15.87%
Proportion of purchases of connected parties in the top 5 suppliers over total purchases for the year	0.00%

Information on the Company's top 5 suppliers

No.	Name of the suppliers	Purchases amount (RMB)	Percentage over the annual total purchase
1	Unit A	216,976,072.68	6.70%
2	Unit B	78,762,277.97	2.43%
3	Unit C	77,824,927.49	2.40%
4	Unit D	70,524,639.89	2.18%
5	Unit E	70,119,909.75	2.16%
Total		514,207,827.78	15.87%

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

	2018	2017	Year-on-year Increase/ Decrease	Description of significant change
Selling expenses	113,969,714.60	65,682,352.59	73.52%	Mainly attributable to the increase in sales volume of the Company's products during the period, which resulted in an increased transportation costs accordingly.
Management expenses	178,822,233.92	132,826,535.64	34.63%	Mainly attributable to the increase in overhaul costs of the Company and its subsidiaries during the period.
Finance expenses	204,107,335.81	131,241,514.49	55.52%	Mainly attributable to the increase in finance costs of the Company.
Research and development costs	71,979,056.24	29,265,348.19	145.95%	Mainly attributable to the greater investment in new product and new technology development by the Company.
Business tax and surcharges	39,442,851.14	23,421,675.66	68.40%	Mainly attributable to the increase in the Company's realised tax for the period.
Asset impairment losses	10,603,105.42	19,275,488.65	-44.99%	Mainly attributable to the reclassification of impairment losses on trade receivables from asset impairment losses to credit impairment losses during the period according to the new accounting standard for financial instruments.
Credit impairment losses	37,813,973.27	—	—	Mainly attributable to the inclusion of impairment losses on accounts receivable during the period according to the new accounting standard for financial instruments.

4. R&D expenditures

Applicable Not Applicable

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

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

	2018	2017	Change
Number of R&D personnel	342	305	12.13%
Proportion of R&D personnel	10.58%	11.33%	-0.75%
R&D expenses (RMB)	82,935,128.76	41,473,476.41	99.97%
R&D expenses accounts for operation revenue	1.86%	1.40%	0.46%
R&D expenses capitalized amount (RMB)	10,956,072.52	12,208,128.22	-10.26%
Capitalized R&D expenses accounts for R&D expenses	13.21%	29.44%	-16.23%



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 flows

Unit: RMB

Item	2018	2017	Year-on-year Increase/decrease
Cash inflow subtotals from operating activities	4,226,608,551.60	2,730,238,766.93	54.81%
Cash outflow subtotals from operating activities	3,857,018,955.28	2,697,737,812.76	42.97%
Net cash flows from operating activities	369,589,596.32	32,500,954.17	1,037.17%
Cash inflow subtotals from investment activities	31,353,735.50	73,600,056.84	-57.40%
Cash outflow subtotals from investment activities	369,483,853.30	293,984,014.58	25.68%
Net cash flow from investment activities	(338,130,117.80)	(220,383,957.74)	-53.43%
Cash inflow subtotals from financing activities	4,659,333,700.00	4,134,161,407.70	12.70%
Cash outflow subtotals from financing activities	4,772,446,798.68	3,782,628,659.13	26.17%
Net cash flow from financing activities	(113,113,098.68)	351,532,748.57	-132.18%
Net increase in cash and cash equivalent	(82,471,620.97)	152,897,347.26	-153.94%

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 increased by 54.81% compared with the same period of last year, mainly attributable to the increase in operating revenue for the period.
- (2) Cash outflow from operating activities increased by 42.97% compared with the same period of last year, mainly attributable to the increase in operating revenue for the period, which resulted in an increase in cash outflow from operating activities accordingly.
- (3) Net cash flow from operating activities increased by 1,037.17% compared with the same period of last year, mainly attributable to the significant year-on-year increase in both of the Company's operating revenue and profit for the period, which led to an increase in net cashflow generated from operating activities accordingly.

IV. Discussion and Analysis of Operations



- (4) Cash inflow from investing activities decreased by 57.40% year-on-year, mainly attributable to the cash proceeds from the disposal of idle lands last year.
- (5) Net cashflows from investing activities decreased by 53.43% year-on-year, mainly attributable to the increase in payments for construction equipment.
- (6) Net cashflows from financing activities decreased by 132.18% year-on-year, mainly attributable to the increase in cash repayments for debts during the 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

There was a significant difference between the Company's net cashflow generated from operating activities and net profit for reporting period, the main reasons of which were the provision for its fixed assets and impairment of intangible assets.

III. Analysis of non-principal business

Applicable Not Applicable

Unit: RMB

	Amount	Percentage of the total profit	Explanation	Sustainability
Investment income	1,370,779.21	2.24%	Mainly attributable to the income generated from the investment and wealth management by the Company.	No
Impairment of assets	10,603,105.42	17.34%	Resulted from the provisions for impairment of inventories, goodwill and other assets according to the ASBE.	No
Non-operating income	6,366,554.82	10.41%	Mainly attributable to the increase in income from claims during the year.	No
Non-operating expenses	14,327,049.92	23.42%	Mainly attributable to the provision for claims by small and medium investors during the year.	No
Credit impairments	37,813,973.27	61.83%	Due to the provisions for impairment of accounts receivable, loan advances and other assets by the Company according to the new accounting standards for financial instruments.	No
Gains on disposal of assets	3,501,489.47	5.72%	Mainly attributable to the gains arising from the disposal of idle lands during the year.	No
Other gains	29,456,919.93	48.16%	Mainly attributable to the receipts of subsidies and funds for recycling resources enterprises during the year.	No



IV. Discussion and Analysis of Operations

IV. Analysis of Assets and liabilities condition

1. Significant changes in assets

Unit: RMB

	End of year 2018		Beginning of year 2018		Percentage change	Explanation on the major changes
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Monetary funds	892,452,274.76	13.51%	879,371,103.17	14.18%	-0.67%	—
Amounts receivable	536,199,939.96	8.11%	361,576,300.70	5.83%	2.28%	Mainly attributable to the increase in revenue for the year.
Inventories	1,042,761,257.01	15.78%	925,772,719.28	14.93%	0.85%	Mainly attributable to the increased product turnover as a result of a higher business volume.
Long-term equity investments	2,663,518.90	0.04%	2,639,321.48	0.04%	—	—
Fixed assets	2,915,815,731.99	44.13%	2,891,875,882.19	46.63%	-2.50%	Mainly attributable to the transfer of construction in progress of subsidiaries to fixed assets upon completion.
Construction in process	35,871,296.86	0.54%	170,880,899.68	2.76%	-2.22%	Mainly attributable to the transfer of construction in progress of subsidiaries to fixed assets upon completion.
Short-term loans	2,390,918,560.77	36.18%	2,141,086,600.02	34.52%	1.66%	—
Long-term loans	426,219,050.90	6.45%	737,259,900.98	11.89%	-5.44%	Mainly attributable to the reclassification of long-term loans due within one year to "non-current liabilities due within one year".

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

Item	Book value at the end of the year	Reason
Monetary funds	313,527,792.56	Cash deposit and judicial freezing
Bills receivable	238,685,684.20	Pledge of bills
Accounts receivable	18,061,545.11	Loans from accounts receivable factoring
Other current assets	101,000,000.00	Pledge of loans
Fixed assets	156,568,348.15	Security of loans
Intangible assets	93,266,698.50	Pledge/ security of loans
Total	921,110,068.52	—

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. Utilisation of proceeds from fund raising activities

Applicable Not Applicable

The Company did not utilise any proceeds from fund raising activities during the reporting period.



IV. Discussion and Analysis of Operations

VI. Disposal of significant assets and stock rights

1. Disposal of significant assets

Applicable Not Applicable

The Company did not dispose of any significant assets during the reporting period.

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 capital	Total assets	Net assets	Operation revenue	Operating Profit	Net Profit
Shouguang Baolong	Subsidiary	Production and sales of oil equipment	150 million	1,423,387,503.26	34,149,815.55	2,295,923,282.10	(66,905.38)	1,435,174.78
Weihai Baolong	Subsidiary	Oil special metal materials manufacturing and sales	26 million	287,627,784.90	180,578,868.74	690,551,339.95	10,527,553.66	10,634,023.01
Shouguang Maolong	Subsidiary	Research of the new materials for energy equipment; production and sales of metal casting and forging; sea water desalination; waste heat and gas power generation.	712.38 million	1,490,547,559.59	520,558,058.11	1,093,696,673.15	(55,075,291.35)	(53,337,230.79)

Acquisition and disposal of subsidiaries during the reporting period

Applicable Not Applicable

Particulars of major controlled and invested companies

The Company did not acquire or dispose of any subsidiaries during the reporting period.

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 of the Company and the strategic plans for the Company's future development:

In 2018, the uncertainty of the external environment of the PRC's economic development has increased. Sino-US trade conflict and tightening of monetary policies in developed countries have challenged the stability of the PRC's energy market and prices. However, with continuous effort of structural reforms on the supply side, the PRC's economic adaptability and ability to withstand risks will be further enhanced. Under the circumstances of expectedly stable economy under policies of maintaining economic stability, the development of the energy sector is basically controllable.

According to the World Energy Outlook report published by the International Energy Agency (IEA), petroleum and natural gas will continue to account for a significant share of global energy demand by 2040; income growth and growing populations concentrated in urban areas of developing economies will drive global energy demand to more than a quarter in 2040. The booming development of electricity, renewable energy and improved energy efficiency will curb the growth of demand for coal, and the profound shift in energy consumption to Asia will be reflected in various fuels, technologies and energy investments. By 2030, natural gas will surpass coal as the second largest demanded fuel in the global energy composition. Vehicle fuel consumption will peak in mid-2020, but the petrochemical, truck, aircraft and shipbuilding industries will continue to increase the petroleum demand overall. The petrochemical industry is the largest source of growth in petroleum consumption. Under the new policy, the overall growth in oil demand will reach 106 million barrels per day. In the medium and long term, the scale of the oil drilling and mining special equipment industry will continue to expand and the market prospect is expected to be good.

At present, the demand for crude oil and the amount of extraction are basically stable. As the pillar industry of China's economy, the 13th Five-Year Plan of the PRC government clearly states the government needs to promote the development of the energy industry, support the development of high-end equipment industry and new energy industry, and support the transformation and upgrading of traditional industries. Under the influence of the national policies, the energy industry will maintain steady growth, and the energy equipment industry in which the Company is located will be also benefited. In the future, the Company will invest more resources in the research and development of high-end product technology and production technique to ensure product quality, reserve high-end technology, expand supporting production capacity, and actively expand the international market on the premise of ensuring the stability of the domestic market.



IV. Discussion and Analysis of Operations

(2) The Company's business plan for 2019:

The Company will adhere to the overall tone of steady progress, closely focus on the "new and old kinetic energy conversion" and "supply side structural reform", adhere to the promotion of quality control as the main line of our plan, based on a new starting point, demonstrate new actions, and promote enterprise development.

(1) Strengthen management and strengthen market operation

In 2019, the Company will adhere to the sales strategy of "mainly selling petroleum casings and supplemented by general pipe", selecting and maintaining high-quality customers and developing end-user customers, increasing the promotion of new products, especially development and promotion of special buckles, high steel grades and special materials products. The Company will implement biddings to PetroChina, Sinopec, CNOOC and Yanchang Petroleum, and continue to strengthen the expansion and development of foreign markets.

(2) Strictly grasp production management, promote quality and efficiency

In 2019, the Company will strictly observe safety and environmental protection, constantly improve the safety production management system, implement safety education and training for all employees, improve employees' awareness and ability of safety precautions, and implement hidden dangers investigation and rectification with zero tolerance. The Company will strictly manage quality control, implement quality control training, enhance the quality awareness of all employees, determine to improve quality and efficiency; increase technological innovation, introduce high-level technical talents, enhance cooperation in production, education and research, and accelerate the introduction and learning of foreign advanced technologies for efficient production, environmental protection and energy conservation.

(3) Promote supply chain construction and increase business value

The Company will strengthen the supply chain basic work management, focus on the development of material resources, strictly control the review process, and further improve the supplier network building and procurement mode optimization, so as to improve the timeliness and efficiency of procurement work; the Company will also comprehensively improve the procurement information management, strengthen the control of supplier and business processes, optimize supplier teams and procurement pipelines, strengthen our market analysis to timely grasp market conditions and to reduce procurement costs.

(4) Strengthen financial management to prevent business risks

The Company will strengthen financial management, broaden financing channels, further reduce financial expenses, ensure Company's funds security; strengthen business knowledge training for financial personnel, improve financial skills; the Company will also continue to strengthen accounting auditing and supervision, organize and improve risk management systems, strength financial analytical functions to provide an accurate basis for Company management decisions.

(5) Strengthen enterprise management and enhance enterprise efficiency

The Company will continuously improve the corporate governance structure, further adjust and optimize the organizational structure and management processes, and continuously improve the corporate governance standards. The Company will combine the Company's actual situation, optimize the internal control system through modern information management methods, so as to reduce business risks. The Company will also continuously optimize the human resources system, absorb excellent management talents, marketing talents and scientific and technological talents, improve the level of human resources management, further enhance the Company's sustainable development capabilities, create a corporate culture that adapts to the Company's development, and enhance the Company's manpower cohesiveness.

IV. Discussion and Analysis of Operations



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

(1) Market risk

In the energy equipment and service industry of the Company, the development of the energy industry and the degree of prosperity of the industry are directly relevant to the development of the industry in which the company operates. The fluctuations of crude oil price would be affected by many factors, such as global economic growth rate and regional, political, financial, supply and demand, and has strong cyclicity and volatility. During the period of low oil prices, oil and gas companies would reduce capital expenditures, reduce exploration and development investment, weakening demand for equipment and services in the oil and gas industry. The Company will adjust its product structure and market plan in a timely manner according to market changes.

(2) Raw material price fluctuation risk

Fluctuations in raw material prices will directly affect product manufacturing costs and have a direct impact on product prices. The Company will pay close attention to fluctuations in raw material prices, control product manufacturing costs by locking in raw material prices, and adjust product prices and product mix in a timely manner.

(3) Policy risk

In recent years, the PRC has continuously raised environmental protection requirements, and environmental protection policies have become more frequently issued and stricter. Environmental protection supervision has been continuously implemented. The improvement of emission standards is bound to increase the Company's environmental protection related costs. The Company has always been aiming at "energy saving, emission reduction and harmonious development", vigorously pursuing economy by recycling, maximizing resource utilization, and increasing environmental protection investment to help ensure that all types of wastes of the Company meet the relevant standards.

(4) Exchange rate risk

Changes in the RMB exchange rate have an impact on the Company's operating results. The Company will pay close attention to exchange rate changes and take timely measures to avoid the risks caused by changes in the RMB exchange rate.

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 revenue and the financial positions of the Group and of the Company for 2018 are set out in the financial statement contained in the "Financial Statements" section of this report.

2. Financial Highlights

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

Results

	2018 RMB'000	For the year ended 31 December			
		2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total revenue from operation	4,452,015	2,965,217	1,531,118	1,613,918	2,522,102
(Loss)/profit from operations	69,123	45,588	(605,808)	(323,778)	15,594
Total (loss)/profit	61,163	34,488	(599,486)	(298,473)	21,489
Net (loss)/profit	102,406	35,081	(650,706)	(286,499)	14,257
Minority interests	9,930	(2,957)	(38,229)	(26,934)	(5,977)
Net (loss)/profit attributable to shareholders of the parent Company	92,476	38,038	(612,476)	(259,565)	20,233
Basic (loss)/earnings per share (RMB)	0.12	0.05	(0.77)	(0.33)	0.03

Assets and Liabilities

	2018 RMB'000	For the year ended 31 December			
		2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	6,607,537	6,222,803	5,772,043	5,851,181	6,044,501
Total liabilities	4,593,377	4,291,470	3,886,376	3,313,096	3,294,253
Net assets	2,014,160	1,931,333	1,885,667	2,538,085	2,750,247

3. Changes in Share Capital

Details of changes in the share capital of the Company for 2018 are set out in note VII to the financial statements.

4. Reserves and Distributable Reserves

Details of changes in the reserves and distributable reserves of the Group for 2018 are set out in note VII to financial statements.

5. Property, Plant and Equipment

Details of changes in the property, plant and equipment of the Group for 2018 are set out in note VII to the financial statements.

IV. Discussion and Analysis of Operations



6. Capitalised Interest

For 2018, 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 Committees

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

9. Continuing Connected Transactions

The Company did not conduct any connected transaction during the reporting period.

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

As at 31 December 2018, 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
Liu Yun Long	Beneficial interest	2,500	0.00%	0.00%
Wang Quan Hong	Beneficial interest	139,500	0.03%	0.02%

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.



IV. Discussion and Analysis of Operations

11. Annual Compensations of the Directors, Supervisors and Senior Management

For details of compensations of the current directors, supervisors and senior management paid by the Company in 2018, please refer to the “Directors, Supervisors, Senior Management and Employees” section of this 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 2018.

13. Share Option Scheme

The Company does not operate any share option scheme.

14. Substantial Shareholders

Details are set out in the “Changes in Share Capital and Shareholders” section 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 2018 or at any time in 2018.

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. Repurchase, Sale or Redemption of Securities

None of the Company or any of its subsidiaries has repurchased, sold or redeemed any listed securities of the Company in 2018.

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.

19. Corporate Governance

The principal Codes on Corporate Governance adopted by the Company are set out in the “Corporate Governance” section of this 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.

IV. Discussion and Analysis of Operations



21. Gearing Ratio

The Group's gearing ratio was approximately 69.52% (2017: approximately 68.96%) which is calculated based on the Group's total liabilities of RMB4,593.38 million (2017: approximately RMB4,291.47 million) and total assets of approximately RMB6,607.54 million (2017: approximately RMB6,222.80 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 analysis 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 are described in the "Financial Statements" section of this report. 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 2018 are set out in the "Management Discussion and Analysis" section of this annual report.

The Board of the Company does not recommend the payment of dividend 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 achieved an operating revenue of RMB4,452 million, representing a growth of 50.14% year-on-year. Net profit attributable to shareholders of the listed company amounted to RMB92.48 million, representing an increase of 143.11% year-on-year. Basic earnings per share was RMB0.12 per share, representing a year-on-year increase of 131.80%. The Group's financial review for the year ended 31 December 2018 is set out in the "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 2018 are set out in the "Financial Statements" section of this report.

Long-term Equity Investments and Fixed Assets

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

Share Capital and Share Options

The movements in the Company's authorised and issued shares during the Year are set out in the "Changes in Share Capital and Shareholders" section and the "Financial Statements" section of this report.

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

Pre-emptive Rights

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

Repurchase, Sale or Redemption of Securities

None of the Company or any of its subsidiaries has repurchased, sold or redeemed any listed securities of the Group in 2018.

Reserves and Distributable Reserves

Details of changes in the reserves and distributable reserves of the Group for 2018 are set out in the "Financial Statements" section of this report.



V. Directors' Report

Major Customers and Suppliers

During the year under review, sales to the Group's five largest customers accounted for approximately 60.54% of the Group's total sales for the Year. Of which, sales to the largest customer accounted for approximately 24.25% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 15.87% of the Group's total purchases for the Year. Of which, purchases from the largest supplier accounted for approximately 6.70% 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. During the Year, the Group spent more than RMB1,029,800 on charitable donations and financial assistance to staff in need.

Directors

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

Executive Directors:

Mr. Liu Yun Long
Mr. Liu Min
Mr. Li Zhi Xin
Mr. Zhang Yu Zhi



Non-executive Directors:

Mr. Yao You Ling
Mr. Wang Quan Hong

Independent non-executive Directors:

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

Supervisors:

Mr. Wei Zhao Qiang
Mr. Wang Ming Hua
Mr. Liu Bo

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)
Liu Yun Long	563,586.32
Guo Huan Ran	525,573.86
Li Zhi Xin	480,486.38
Zhang Yu Zhi	426,039.99
Liu Min	417,193.85



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 2018 or at any time in 2018.

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 2018, 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 2018, interests of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Company and to the Stock Exchange, were as follows:

Long positions in the shares of the Company

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total registered capital
Liu Yun Long	Beneficial interest	2,500	0.00%	0.00%
Wang Quan Hong	Beneficial interest	139,500	0.03%	0.02%

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

Directors' and Supervisors' Rights to Acquire Shares or Debentures

None of the Directors or Supervisors or their respective associates (as defined under the Rule 1.01 of the Listing Rules) was granted by the Company or its subsidiaries any rights to acquire any shares in or debentures of the Company or had exercised any such rights in 2018.



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

As at 31 December 2018, 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 Company did not conduct any connected transaction during the reporting period.

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.

Corporate Governance

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



V. Directors' Report

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2018. 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

Save for the above-mentioned subsequent event, the Group had no other substantial events.

On behalf of the Board

Shandong Molong Petroleum Machinery Company Limited

Chairman

Liu Yun Long

Shandong, the PRC, 22 March 2019

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

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)

The Company has no plan to distribute cash dividend, issue bonus shares or increase share capital by transfer of reserve funds.

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

Unit: RMB

Year of distribution	Amount of cash dividends (including tax)	Net profit attributable to ordinary shareholders of the listed Company per consolidated statement for the year of distribution	Percentage of	Amount of cash dividends in other forms (such as repurchases of shares)	Percentage of	Amount of cash dividends (including other forms)	Percentage of
			amount of cash dividends to net profit attributable to ordinary shareholders of the listed company per consolidated statements		amount cash dividends in other forms to net profit attributable to ordinary shareholders of the listed company per consolidated statements		amount of cash dividends (including other forms) to net profit attributable to ordinary shareholders of the listed company per consolidated statements
2018	0.00	92,476,375.01	0.00%	0.00	0.00%	0.00	0.00%
2017	0.00	38,038,484.18	0.00%	0.00	0.00%	0.00	0.00%
2016	0.00	(612,476,376.18)	0.00%	0.00	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

Reasons for not proposing cash dividend distribution for ordinary shares despite of the profit for the reporting period and the positive profits distributable to ordinary shareholders of the parent company

As the production capacity of the Company continues to ramp up, the requirement for liquidity of the Company will increase in the future. To ensure a normal operation and stable development of the Company, pursuant to the requirements under the Articles of Association and other relevant regulations, the Board of the Company proposed not to make any profit appropriation or any dividend distribution for 2018.

Use and planned utilisation of undistributed profits of the Company

The Company's undistributed profits will mainly used to meet the capital demand in the ordinary course of production and business of the Company.

II. 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.

VI. Material Matters



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

Applicable Not applicable

Changes of accounting policies, accounting estimates and accounting methods compared to the financial statements of last year are described in the “Financial Statements” section of this report.

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

Applicable Not applicable

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

Applicable Not applicable

There is no change of the consolidated statements range.



VI. Material Matters

IX. Appointment, dismissal of accounting firm

Appointed accounting firm

Name of the domestic accounting firm	Shinewing Certified Public Accountants Ltd. (Special General Partner)
Compensation of the domestic accounting firm (Unit: RMB'0,000)	135
Continued term of service of the domestic accounting firm	6
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	2, 4
Name of the foreign accounting firm (if any)	Not applicable
Continued term of service of the foreign accounting firm (if any)	Not applicable
Name of certified public accountant of the foreign accounting firm (if any)	Not applicable
Continued term of service of certified public accountant of the domestic 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

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.

VI. Material Matters



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
Investor lawsuits	3,825.88	Yes	67 cases have been judged or settled, the rest is now pending.	The Company has made provisions for the lawsuits.	The Company is in the process of paying claims in respect of the closed cases.	—	—

XIII. Punishment and rectification

Applicable Not applicable

There was no punishment or rectification during the reporting period.

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.



VI. Material Matters

XVI. Significant related party transaction

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

Applicable Not applicable

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

2. Related party 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. Amounts due from/to related parties

Applicable Not applicable

Any non-trade amounts due from/to related parties

Yes No

The Company did not have any non-trade amounts due from/to related parties during the reporting period.

5. Other significant related party transaction

Applicable Not applicable

The Company did not have any other significant related party transaction during the reporting period.



XVII. Significant contract and its performance

1. Trusteeship, Contracting and lease condition

(1) Trusteeship condition

Applicable Not applicable

The Company had no trusteeship during the reporting period.

(2) Contracting condition

Applicable Not applicable

The Company had no contracting during the reporting period.

(3) Lease condition

Applicable Not applicable

The Company had no lease during the reporting period.

2. Significant guarantee

Applicable Not applicable

The Company had no guarantee during the reporting period.



VI. Material Matters

3. Entrust others to manage cash assets

(1) Entrust to manage money matters condition

Applicable Not applicable

Particulars of entrusted wealth management during the reporting period

Unit: RMB'0,000

Specific type	Source of funds for entrusted wealth management	Number for entrusted wealth management	Outstanding balance	The amount due but not received
Wealth management products of banks	Self-owned capital	28,340	10,490	0
Total		28,340	10,490	0

Particulars of high-risk entrusted wealth management with individually significant or low-security, low-liquidity and non-principal protected products

Applicable Not applicable

Expected irrecoverable principal or other potential impairment in entrusted wealth management

Applicable Not applicable

(2) Particulars of entrusted loans

Applicable Not applicable

The Company had no entrusted loans during the reporting period.

4. Other significant contracts

Applicable Not applicable

There was no significant contract during the reporting period.



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

2. Safeguarding employees' interest

The Company highly 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 participating 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. In August 2018, Shouguang City was hit by a major flood disaster. The Company actively organised a voluntary rescue team to take part in flood relief operation, and raised RMB1 million for the disaster relief and post-disaster reconstruction of Shouguang City.

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.



VI. Material Matters

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

Yes

The Company or name of subsidiary	Name of major pollutant and specific pollutant	Discharge method	Number of discharge outlets	Distribution of discharge outlets	Discharge concentration	Implemented standards for		Approved total volume of discharge	Excessive discharge
						pollutant discharge	Total volume of discharge		
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	2mg/m ³	100 mg/m ³	0.33 tonne	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	30.9mg/m ³	150 mg/m ³	3.77 tonnes	—	No
Shandong Molong	Fine dust	Organised	1	Production complex	6.9 mg/m ³	15 mg/m ³	1.5 tonnes	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	4.33 mg/m ³	100 mg/m ³	1.75 tonnes	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	60 mg/m ³	150 mg/m ³	24.5 tonnes	—	No
Shandong Molong	Fine dust	Organised	1	Production complex	6.67mg/m ³	15 mg/m ³	2.63 tonnes	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	4mg/m ³	100 mg/m ³	0.29 tonne	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	126mg/m ³	150 mg/m ³	8.64 tonnes	—	No
Shandong Molong	Fine dust	Organised	1	Production complex	6.8mg/m ³	15 mg/m ³	0.484 tonne	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	7mg/m ³	100 mg/m ³	0.35 tonne	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	99mg/m ³	150 mg/m ³	5.3 tonnes	—	No
Shandong Molong	Fine dust	Organised	1	Production complex	8.4mg/m ³	15 mg/m ³	0.45 tonne	—	No
Shandong Molong	Benzene	Organised	1	Production complex	0	5mg/m ³	0	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0	25mg/m ³	0	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0.039mg/m ³	40mg/m ³	0.4 kilogram	—	No
Shandong Molong	Non-methane total hydrocarbons	Organised	1	Production complex	17mg/m ³	50mg/m ³	174 kilograms	—	No
Shandong Molong	Benzene	Organised	1	Production complex	0	5mg/m ³	0	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0	25mg/m ³	0	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0.0078mg/m ³	40mg/m ³	0.11 kilogram	—	No
Shandong Molong	Non-methane total hydrocarbons	Organised	1	Production complex	21.5mg/m ³	50mg/m ³	306 kilograms	—	No
Shandong Molong	Benzene	Organised	1	Production complex	1.30mg/m ³	5mg/m ³	12.2 kilograms	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0.0251mg/m ³	25mg/m ³	0.24 kilogram	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0	40mg/m ³	0	—	No
Shandong Molong	Non-methane total hydrocarbons	Organised	1	Production complex	2.34mg/m ³	50mg/m ³	22 kilograms	—	No
Shouguang Maolong	Sulfur dioxide	Organised	1	Production complex	5.0 mg/m ³	80 mg/m ³	4 tonnes	—	No
Shouguang Maolong	Nitrogen oxides	Organised	1	Production complex	11.0 mg/m ³	300 mg/m ³	9.5 tonnes	—	No
Shouguang Maolong	Fine dust	Organised	1	Production complex	6.1mg/m ³	15 mg/m ³	5 tonnes	—	No

VI. Material Matters



Construction and Operation of Pollution Prevention and Control Facilities

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

Exhaust treatment facilities: The Company has equipped production lines in all production complexes with denitration and electrostatic/electric precipitator and fabric filter, to ensure effective treatment and discharge of exhausts and fine dusts generated from the production process.

Environmental Impact Assessment of Construction Projects and Other Administrative Permissions for Environmental Protection

The Company has strictly complied with the requirements of the environmental laws and regulations to carry out environmental impact assessment of contraction project. The construction projects have all passed the environmental impact assessment procedures and been accepted by the relevant competent authorities, where filing procedures have been carried out. The Company's pollutants discharge permits were all valid.

Emergency Plans for Sudden Environmental Incidents

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

Environmental Self-monitoring Program

During the reporting period, the Company and its subsidiaries worked closely with local environmental inspection departments on periodic supervisory inspections, and engaged third party inspection firms to monitor their discharge statistics on an irregular basis, with an aim to meet industry standards and requirements of local environmental authorities. Monthly sample testing on the related environmental statistics, supervision on stable operation of wastewater and exhaust treatment facilities are conducted to effectively ensure sound management of internal discharge of wastewater and exhaust.

Other discloseable environmental information

The Company had no other discloseable environmental information.

Other environmentally related information

The Company had no other environmentally related information.

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	252,948,000	31.70%	—	—	—	(58,797,750)	(58,797,750)	194,150,250	24.33%
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. Domestic legal person	—	—	—	—	—	—	—	—	—
3. Other domestic shares	252,948,000	31.70%	—	—	—	(58,797,750)	(58,797,750)	194,150,250	24.33%
In which : Domestic legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	252,948,000	31.70%	—	—	—	(58,797,750)	(58,797,750)	194,150,250	24.33%
4. Foreign Shares	—	—	—	—	—	—	—	—	—
In which : Overseas legal person shares	—	—	—	—	—	—	—	—	—
Overseas natural person shares	—	—	—	—	—	—	—	—	—
II. Shares not subject to lock-up	544,900,400	68.30%	—	—	—	58,797,750	58,797,750	603,698,150	75.67%
1. RMB ordinary shares	288,774,000	36.20%	—	—	—	58,797,750	58,797,750	347,571,750	43.56%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares	256,126,400	32.10%	—	—	—	—	—	256,126,400	32.10%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	797,848,400	100.00%	—	—	—	—	—	797,848,400	100.00%

Reason for shareholding change

Applicable Not applicable

During the reporting period, Mr. Zhang En Rong, the former chairman of the company, resigned on 25 June 2018. Under the relevant requirements of the SZSE, 75% of shares held by him were locked for half a year from his resignation, being 176,712,750 locked-up shares. On 14 August 2017, Mr. Zhang Yun San, formal director and general manager of the Company, resigned from office. Under the relevant requirements of the SZSE, 75% of shares held by him were locked for the original term of office, being 17,331,000 locked-up shares. On 21 December 2018, 75% of shares held by the current directors of the Company were locked, being 106,500 locked-up shares.

Mr. Liu Yun Long, the chairman of the Company, held 2,500 A shares of the Company, 1,875 shares of which are locked up. After examination, the stock account of his shares has become dormant.

Approval for shareholding change

Applicable Not applicable

VII. Changes in Share Capital and Shareholders



Transfer of ownership for shareholding change

Applicable Not applicable

Status of share buy-backs

Applicable Not applicable

Status of reduction of repurchased shares through centralised bidding

Applicable Not applicable

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



VII. Changes in Share Capital and Shareholders

II. Change of restricted shares

Applicable Not applicable

Unit: share

Name of shareholder	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 En Rong	235,617,000	58,904,250	0	176,712,750	Locked up shares held by directors and senior management	Locked for the term of former directorship and released according to the relevant requirements.
Zhang Yun San	17,331,000	0	0	17,331,000	Locked up shares held by directors and senior management	Locked for the term of former directorship and released according to the relevant requirements.
Liu Yun Long	0	0	1,875	1,875	Locked up shares held by directors and senior management	Locked for the term of directorship and released according to the relevant requirements.
Wang Quan Hong	0	0	104,625	104,625	Locked up shares held by directors and senior management	Locked for the term of directorship and released according to the relevant requirements.
Total	252,948,000	58,904,250	106,500	194,150,250	—	—

II. Issuance and listing of securities

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

Applicable Not applicable

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

Applicable Not applicable

3. Existing internal staff shares 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	42,798	Total number of ordinary shareholders at last end of month before the annual report disclosure day	40,655	Total number of voted recovery preferred stockholder at the end of reporting period	0	Total number of voted recovery preferred stockholder at last end of month before the annual report disclosure day	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	30.93%	246,771,390	(9,047,200)	—	246,771,390	—	—
Zhang En Rong	Domestic natural person	29.53%	235,617,000	—	176,712,750	58,904,250	Pledge	235,617,000
Zhang Yun San	Domestic natural person	4.03%	32,168,400	—	17,331,000	14,837,400	—	—
Lin Fu Long	Domestic natural person	3.28%	26,162,000	—	—	26,162,000	—	—
Central Huijin Asset Management Co., Ltd	State-owned legal person	1.70%	13,536,100	—	—	13,536,100	—	—
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-owned legal person	0.47%	3,781,552	(46,000)	—	3,781,552	—	—
Xiong Yun Xian	Domestic natural person	0.15%	1,201,200	310,100	—	1,201,200	—	—
Li Xing Yuan	Domestic natural person	0.15%	1,196,000	1,196,000	—	1,196,000	—	—
Chen Wei	Domestic natural person	0.14%	1,100,000	1,100,000	—	1,100,000	—	—
Sun Xiao Ou	Domestic natural person	0.13%	1,074,600	1,074,600	—	1,074,600	—	—



VII. Changes in Share Capital and Shareholders

Remarks on strategic investor or ordinary legal person becoming top 10 shareholders after placing of new shares	Not applicable
Connected relationship or concert-party relationship among the above shareholders	Zhang En Rong 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	246,771,390	Overseas listed foreign shares	246,771,390
Zhang En Rong	58,904,250	RMB ordinary shares	58,904,250
Lin Fu Long	26,162,000	RMB ordinary shares	26,162,000
Zhang Yun San	14,837,400	RMB ordinary shares	5,777,000
		Overseas listed foreign shares	9,060,400
Central Huijin Asset Management Co., Ltd	13,536,100	RMB ordinary shares	13,536,100
Ronghe Phase II private securities investment fund of Shenzhen Qianhai Jingwei Ronghe Asset Management Co., Ltd.	3,781,552	RMB ordinary shares	3,781,552
Xiong Yun Xian	1,201,200	RMB ordinary shares	1,201,200
Li Xing Yuan	1,196,000	RMB ordinary shares	1,196,000
Chen Wei	1,100,000	RMB ordinary shares	1,100,000
Sun Xiao Ou	1,074,600	RMB ordinary shares	1,074,600

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 En Rong 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

Chen Wei, a shareholder of the Company, held 1,100,000 shares of the Company through a customer credit transaction secured stock account of Changjiang Securities Co., Ltd.

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		Not applicable
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. De facto controllers and the persons acting in concert with them

Nature of de facto controller: Domestic natural person

Type of de facto controller: natural person

Name of de facto controller	Relationship with de facto controller	Citizenship	Whether obtained the residential right from other countries or districts
Zhang En Rong	Self	China	No
Zhang Yun San	Acting in concert (including by agreement, as a relative, and under common control)	China	No
Main occupation and position			Not applicable
Companies listed domestically or overseas in the past 10 years			Not applicable

Change of the de facto controller during the reporting period

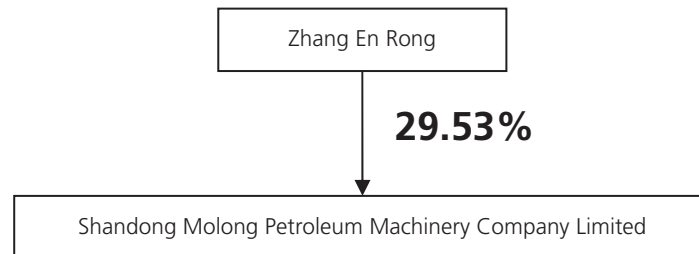
Applicable Not applicable

There is no change of the de facto 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:



De facto 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, de facto controller, party to restructuring and other commitment entity

Applicable Not applicable

VIII. Preferred Stock



Applicable Not applicable

The Company had 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	Office status	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	Departed	Male	79	29 June 2016	25 June 2018	235,617,000	0	0	0	235,617,000
Liu Yun Long	Chairman	Incumbent	Male	50	21 December 2018	20 December 2021	2,500	0	0	0	2,500
Liu Min	General manager Executive director Deputy general manager Financial controller Secretary to the board	Incumbent	Male	44	21 December 2018	20 December 2021	0	0	0	0	0
Li Zhi Xin	Executive director Deputy general manager	Incumbent	Male	42	21 December 2018	20 December 2021	0	0	0	0	0
Zhang Yu Zhi	Executive director Deputy general manager	Incumbent	Male	61	21 December 2018	20 December 2021	0	0	0	0	0
Yao You Ling	Non-executive director	Incumbent	Male	57	21 December 2018	20 December 2021	0	0	0	0	0
Wang Quan Hong	Non-executive director	Incumbent	Male	51	21 December 2018	20 December 2021	139,500	0	0	0	139,500
Tang Qing Bin	Independent director	Incumbent	Male	56	21 December 2018	20 December 2021	0	0	0	0	0
Song Zhi Wang	Independent director	Incumbent	Male	56	21 December 2018	20 December 2021	0	0	0	0	0
Cai Zhong Jie	Independent director	Incumbent	Male	57	21 December 2018	20 December 2021	0	0	0	0	0
Wei Zhao Qiang	Chairman of supervisory board	Incumbent	Male	48	21 December 2018	20 December 2021	0	0	0	0	0
Wang Ming Hua	Supervisor	Incumbent	Male	45	21 December 2018	20 December 2021	0	0	0	0	0
Liu Bo	Supervisor	Incumbent	Male	44	21 December 2018	20 December 2021	0	0	0	0	0
Guo Huan Ran	Executive director Deputy general manager	Departed	Male	52	29 June 2016	21 December 2018	0	0	0	0	0
Guo Hong Li	Non-executive director	Departed	Male	63	29 June 2016	21 December 2018	0	0	0	0	0
Wang Chun Hua	Non-executive director	Departed	Female	66	29 June 2016	21 December 2018	0	0	0	0	0
Qin Xue Chang	Independent director	Departed	Male	54	29 June 2016	21 December 2018	0	0	0	0	0
Quan Yu Hua	Independent director	Departed	Female	63	29 June 2016	21 December 2018	0	0	0	0	0
Ji Yan Song	Independent director	Departed	Male	51	29 June 2016	21 December 2018	0	0	0	0	0
Hao Liang	Chairman of supervisory board	Departed	Male	38	29 June 2016	21 December 2018	0	0	0	0	0
Zhang Jiu Li	Supervisor	Departed	Male	54	29 June 2016	21 December 2018	0	0	0	0	0
Zheng Jian Guo	Supervisor	Departed	Male	61	29 June 2016	21 December 2018	0	0	0	0	0
Zhao Hong Feng	Deputy general manager	Departed	Male	40	29 June 2016	21 December 2018	0	0	0	0	0
Yang Jin	Director Deputy general manager	Departed	Male	55	29 June 2016	25 June 2018	0	0	0	0	0
Total	—	—	—	—	—	—	235,759,000	0	0	0	235,759,000

IX. Directors, Supervisors, Senior Management and Employees



II. Changes of the Directors, Supervisors and Senior Management

✓ Applicable □ Not Applicable

Name	Position	Type	Date	Reason
Zhang En Rong	Chairman	Departure	25 June 2018	Resigned from the office of chairman of the Company for the reasons of his age and health.
Yang Jin	Executive director, deputy general manager	Departure	25 June 2018	Resigned from the offices of executive director and deputy general manager of the Company for the reason of his health and other development considerations.
Guo Huan Ran	Executive director, deputy general manager	Departure	21 December 2018	Retired from office upon change of board session.
Guo Hong Li	Non-executive director	Departure	21 December 2018	Retired from office upon change of board session.
Wang Chun Hua	Non-executive director	Departure	21 December 2018	Retired from office upon change of board session.
Qin Xue Chang	Independent director	Departure	21 December 2018	Retired from office upon change of board session.
Quan Yu Hua	Independent director	Departure	21 December 2018	Retired from office upon change of board session.
Ji Yan Song	Independent director	Departure	21 December 2018	Retired from office upon change of board session.
Hao Liang	Chairman of supervisory board	Departure	21 December 2018	Retired from office upon change of board session.
Zhang Jiu Li	Supervisor	Departure	21 December 2018	Retired from office upon change of board session.
Zheng Jian Guo	Supervisor	Departure	21 December 2018	Retired from office upon change of board session.
Zhao Hong Feng	Deputy general manager	Departure	21 December 2018	Dismissed upon change of board session.
Zhao Hong Feng	Secretary to the board	Dismissal	8 February 2018	Dismissed by the board.
Liu Min	Secretary to the board	Removal	21 April 2018	Appointed to the board of the Company.
Liu Yun Long	Chairman, general manager	Removal	21 December 2018	Elected at the general meeting and appointed to the board of the Company.
Liu Min	Executive director, deputy general manager, financial controller, secretary to the board	Removal	21 December 2018	Elected at the general meeting and appointed to the board of the Company.
Li Zhi Xin	Executive director, deputy general manager	Removal	21 December 2018	Elected at the general meeting and appointed to the board of the Company.
Zhang Yu Zhi	Executive director, deputy general manager	Removal	21 December 2018	Elected at the general meeting and appointed to the board of the Company.
Yao You Ling	Non-executive director	Removal	21 December 2018	Elected at the general meeting of the Company.
Wang Quan Hong	Non-executive director	Removal	21 December 2018	Elected at the general meeting of the Company.
Tang Qing Bin	Independent director	Removal	21 December 2018	Elected at the general meeting of the Company.
Song Zhi Wang	Independent director	Removal	21 December 2018	Elected at the general meeting of the Company.
Cai Zhong Jie	Independent director	Removal	21 December 2018	Elected at the general meeting of the Company.
Wei Zhao Qiang	Chairman of supervisory board	Removal	21 December 2018	Elected at the general meeting and the supervisory board of the Company.
Wang Ming Hua	Supervisor	Removal	21 December 2018	Elected at the general meeting of the Company.
Liu Bo	Supervisor	Removal	21 December 2018	Elected at the general meeting of the Company.



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. Liu Yun Long, male, Han ethnicity, born in May 1969, is a CPC party member and holds an Executive Master of Business Administration (EMBA) degree from School of Continuing Education, Tsinghua University. He is one of the founders of the Company. He joined Shouguang Petroleum Machinery Factory in March 1990, and held the posts of workshop supervisor, factory branch manager and general manager of the subsidiary successively; from 2001 to 2013, he was the branch production director, general manager of Weihai Baolong, general manager of Shouguang Baolong and deputy general manager of the Company successively. He has extensive experience in production management of oil extraction machinery. He is currently the chairman and general manager of the Company.

Mr. Liu Min, male, Han ethnicity, born in February 1975, graduated from Shandong University and holds the professional title of accountant. Joining the Company in 2003, he has successively held the posts of director of the information center, audit director and finance director of the Company. He has over 10 years of experience in finance management. He is currently an executive director, deputy general manager, chief financial officer, and secretary to the Board of the Company.

Mr. Li Zhi Xin, male, Han ethnicity, born in June 1977, is a CPC party member and holds an EMBA degree from the School of Continuing Education, Tsinghua University. Joining the Company in 1994, he served as the branch production director and the person in charge of the production control center successively. He is currently an executive director and deputy general manager of the Company, in charge of the safety, environmental protection and overall production of group companies.

Mr. Zhang Yu Zhi, male, Han ethnicity, born in November 1958, is a CPC party member and holds an EMBA degree from the School of Continuing Education, Tsinghua University. Joining the Company in October 1994, he has successively held the posts of manager of the Xinjiang representative office of the Company, general manager of the marketing company, deputy general manager of the Company and chairman of the labor union. He is currently an executive director and deputy general manager of the Company, in charge of the sales of group companies.

Non-executive Directors

Mr. Yao You Ling, male, Han ethnicity, born in July 1962, is a CPC party member, a graduate student with a doctoral degree in engineering, and a researcher of engineering technology application. He was the deputy factory manager of Laigang Steel Rolling Plant (萊鋼軋鋼廠), the deputy chief of the command department for the technical transformation project of Laigang Steel and later the chief of the same department, a director and the deputy general manager of Luyin Investment Group Co., Ltd. He is currently a member of the CPC party committee and deputy general manager of Luyin Investment Group Co., Ltd.

Mr. Wang Quan Hong, male, Han ethnicity, born in December 1968, is an economist with a junior college degree. Mr. Wang was an officer of the planning office at Agricultural Bank of China Shandong Branch, a senior staff member and a principal staff member of the capital and finance department of China Great Wall Asset Management Jinan Office, and the project manager, business director and deputy senior manager of China Great Wall Asset Management Jinan Office (presiding over work). He is currently the deputy senior manager of the second asset management department of China Great Wall Asset Management Co., Ltd. Shandong Branch (presiding over work).

IX. Directors, Supervisors, Senior Management and Employees



Independent Directors

Mr. Tang Qing Bin, male, Han ethnicity, born in October 1963, is a CPC party member and a certified public accountant with a college degree. Mr. Tang has extensive practical experience in corporate restructuring, risk management and control, and corporate auditing. Mr. Tang was a teacher of Shandong University of Finance and Economics, the chief accountant of Qilu Futures Brokerage Co., Ltd. (齊魯期貨經紀公司), and the director of Dongfang Junhe Certified Public Accountants Co., Ltd. He is currently a senior partner of Beijing Zhongzheng Tiantong Certified Public Accountants Co., Ltd.

Mr. Song Zhi Wang, male, Han ethnicity, born in September 1963, is a senior economist with a master's degree in business administration. Mr. Song was a teacher at the School of Finance of Qilu University of Technology, a financial supervisor at the financial management office of the People's Bank of China (Shandong Branch), and the deputy general manager of Ping An Property & Casualty Insurance Company of China, Ltd. (Shandong Branch). Mr. Song is currently the chairman and general manager of Shandong Jiuan Insurance Broker Co., Ltd. (山東九安保險經紀股份有限公司), a deputy-director member of Shandong Insurance Industry Reform and Development Expert Advisory Committee (山東保險業改革發展專家諮詢委員會), a vice president of Shandong Insurance Society (山東省保險學會) and a supervisor of Shandong Insurance Intermediary Association.

Mr. Cai Zhong Jie, male, Han ethnicity, born in November 1962, is a CPC party member and holds a master's degree in law of China University of Political Science and Law. Starting his career as a lawyer in 1985, Mr. Cai has been recognized as an Outstanding Provincial Lawyer and an Outstanding National Lawyer successively. He was also recognized as an Advanced Worker by the Department of Justice of Shandong Province for several times. In addition, Mr. Cai has been selected as a member of the Legal Expert Database of Shandong Provincial People's Government, the Legal Expert Database of Shandong Provincial Party Committee, and the Legal Advisory Committee of Shandong Provincial State-owned Assets Supervision and Administration Commission. He is currently the director, senior lawyer, and senior partner of Jincheng Tongda & Neal (Jinan) Law Firm (金誠同達(濟南)律師事務所) and an independent director of Jinneng Science and Technology Company Limited.

(2) Members of the Supervisory Board

Mr. Wei Zhao Qiang, male, Han ethnicity, born in April 1971, holds a junior college degree. Joining the Company in May 1995, Mr. Wei has successively served as a technician and director of Maolong Company (懋隆公司), and the chief of the electro-mechanical section of Shouguang Baolong. He is currently the chief electrical engineer and the Casting and Forging Company and the director of the equipment office of the smelting reduction department, and chairman of the Supervisory Board.

Mr. Wang Ming Hua, male, Han ethnicity, born in October 1974, is a CPC party member and a graduate student with a doctoral degree in law. Mr. Wang served as an associate chief judge for No.2 Civil Court of the Intermediate People's Court of Jinan City. He has been engaged in the trial of civil and commercial cases as well as business guidance for a long period of time, and has conducted in-depth research on corporate law, insurance law and securities law. Mr. Wang is currently the program director for the master's degree in law at Shandong Normal University Law School, a supervisor and professor for the master's degree in law, and a part-time lawyer with Grandall Law Firm (Jinan).

Mr. Liu Bo, male, Han ethnicity, born in April 1975, is a CPC party member and holds a master's degree in business administration. Mr. Liu worked for the Financial Ombudsman's Office of the Ministry of Finance in Shandong (財政部駐山東省財政監察專員辦事處), served as a project manager of Shandong Xinyuan Limited Liability Accounting Firm (山東信源有限責任會計師事務所), the deputy director and later the director of Shandong Zhongda Accounting Firm. Mr. Liu is currently the director of Mazars Certified Public Accountants LLP. (Shandong Branch). He is also a fellow member of the Chinese Institute of Certified Public Accountants, a Premium Industry Talent of Certified Public Accountants in Shandong (山東省註冊會計師行業高端人才), a financial expert for the World Bank Shandong Project, and a distinguished financial expert for the Department of Finance, Department of Commerce, and Economic and Information Technology Committee of Shandong Province.



IX. Directors, Supervisors, Senior Management and Employees

(3) Senior Management

For the biographical details of Mr. Liu Yun Long, the general manager of the Company, and Mr. Liu Min, Mr. Li Zhi Xin and Mr. Zhang Yu Zhi, the deputy general managers of the Company, please refer to “(1) Members of the Board” of this section.

(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 Wing Nang, Billy graduated from the University of Newcastle upon Tyne, United Kingdom with a bachelor degree in Civil Engineering in 1986. He also received a master degree in business administration from the University of Warwick, United Kingdom. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan Wing Nang, Billy has over 20 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 Wing Nang, Billy joined the Group on 13 December 2004.

Positions held at shareholders' entities

Applicable Not applicable

Positions held at other entities

Applicable Not applicable

Name of employee	Name of other entity	Position held at other entity	Commencement date of the term	Termination date of the term	Entitlement to compensation and allowances from other entity
Yao You Ling	Luyin Investment Group Co., Ltd.	Deputy general manager	January 2010	—	Yes
Wang Quan Hong	Great Wall Asset Management Co., Ltd., Shandong Province Branch	Senior manager	February 2000	—	Yes
Tang Qing Bin	Beijing Zhongzheng Tiantong Certified Public Accountants Co., Ltd. (Special General Partnership)	Senior partner	October 2010	—	Yes
Song Zhi Wang	Shandong Jiuan Insurance Broker Co., Ltd.	Chairman	March 2003	—	Yes
Cai Zhong Jie	Jincheng Tongda & Neal (Jinan) Law Firm	Senior partner	September 2014	—	Yes
Cai Zhong Jie	Jinneng Science and Technology Company Limited	Independent director	November 2017	—	Yes
Wang Ming Hua	Shandong Normal University	Professor	July 2015	—	Yes
Liu Bo	Union Power Certified Public Accountants (Special General Partnership)	Director of Shandong Branch	May 2017	—	Yes

IX. Directors, Supervisors, Senior Management and Employees



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, 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 of directors and supervisors of the Company is proposed by the Board of the Company. After consent by the Board, the proposal will then be 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. External directors and supervisors receive their remuneration semi-annually.

Pursuant to a resolution passed at the first 2018 extraordinary general meeting held on 21 December 2018, the Company has held a general election for the sixth session of the board and the supervisory board. Since 21 December 2018, the commencement date of the term, and up to the end of the reporting period, the directors and supervisors of the new session of the Board have not actually been paid any directors' and supervisors' remuneration. Therefore, the compensation received from the Company by the directors and supervisors concerned was RMB nil for the reporting period.



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	Male	79	Departed	26	No
Liu Yun Long	Chairman, general manager	Male	50	Incumbent	0	No
Liu Min	Executive director, deputy general manager, financial controller, secretary to the board	Male	44	Incumbent	41.72	No
Li Zhi Xin	Executive director, deputy general manager	Male	42	Incumbent	0	No
Zhang Yu Zhi	Executive director, deputy general manager	Male	61	Incumbent	42.6	No
Yao You Ling	Non-executive director	Male	57	Incumbent	0	No
Wang Quan Hong	Non-executive director	Male	51	Incumbent	0	No
Tang Qing Bin	Independent director	Male	56	Incumbent	0	No
Song Zhi Wang	Independent director	Male	56	Incumbent	0	No
Cai Zhong Jie	Independent director	Male	57	Incumbent	0	No
Wei Zhao Qiang	Chairman of supervisory board	Male	48	Incumbent	0	No
Wang Ming Hua	Supervisor	Male	45	Incumbent	0	No
Liu Bo	Supervisor	Male	44	Incumbent	0	No
Guo Huan Ran	Executive director, deputy general manager	Male	52	Departed	52.56	No
Guo Hong Li	Non-executive director	Male	63	Departed	3.68	No
Wang Chun Hua	Non-executive director	Female	66	Departed	3.68	No
Qin Xue Chang	Independent director	Male	54	Departed	7.79	No
Ji Yan Song	Independent director	Male	51	Departed	7.79	No
Quan Yu Hua	Independent director	Female	63	Departed	7.79	No
Hao Liang	Chairman of supervisory board	Male	38	Departed	10.28	No
Zhang Jiu Li	Supervisor	Male	54	Departed	1.19	No
Zheng Jian Guo	Supervisor	Male	61	Departed	1.19	No
Zhao Hong Feng	Deputy general manager, secretary to the board	Male	40	Departed	36.04	No
Yang Jin	Executive director, deputy general manager	Male	55	Departed	22.13	No
Total	—	—	—	—	264.44	—

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)	1,965
Number of staffs on active duty in major (persons)	1,268
Total number of staffs on active duty (persons)	3,233
Total number of paid staffs in the current period (persons)	3,140
Number of retired staffs that parent company and major subsidiaries need to bear the their expenses (persons)	0

Professional structure type	Professional structure	Number of individuals
Production personnel		2,966
Sales personnel		53
Technicist		30
Financial staff		34
Administrative staff		150
Total		3,233

Type of education degree	Degree of education	Number of individuals
Master and above		34
Bachelor		171
Junior college		543
Technical secondary school (high school) qualifications and below		2,485
Total		3,233

2. Remuneration policy

The Company provides stabilized and competitive remuneration for staffs. Staffs' remuneration includes wages, living allowances, seniority allowances, and social insurance premiums consisting of insurance premium of pay medical treatment, industrial injury insurance and birth insurance premium etc. In 2018, the Company raised the remuneration of technicians and production staff at frontline to fully mobilize their positive initiative and creativity, and constantly improve their satisfaction and loyalty.



IX. Directors, Supervisors, Senior Management and Employees

3. Training plan

In order to improve the overall staff quality and their job operation skills, the human resources department has formulated an annual training programme of the Company based on the criteria of the Training Management System. The programme covers topics such as quality, environmental safety and skills improvement. Trainings are delivered by various ways, which mainly include talks by internal trainers, lectures by external speakers, and site visit and learning.

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. In 2018, there were no irregularities in corporate governance such as disclosure of unpublished information to major shareholders and de facto controllers.
- (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.

X. Corporate Governance



III. Peer competition

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
2017	Annual general meeting	29.67%	29 June 2018	30 June 2018	http://www.cninfo.com.cn
First in 2018	Extraordinary general meeting	32.90%	21 December 2018	22 December 2018	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	5	1	4	0	0	No	1	
Quan Yu Hua	5	1	4	0	0	No	1	
Ji Yan Song	5	1	4	0	0	No	1	
Tang Qing Bin	1	1	0	0	0	No	0	
Song Zhi Wang	1	1	0	0	0	No	0	
Cai Zhong Jie	1	1	0	0	0	No	0	

Explanation for the two consecutive absences from board meeting by person

Not applicable



X. Corporate Governance

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

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

Yes No

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

3. Other descriptions of duty performance by independent directors

Whether independent director's suggestions for the Company were accepted

Yes No

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

Not applicable

VI. Duty performance by the special committees of the Board during the reporting period

The Board of the Company has established the Strategy Committee, the Audit Committee, the Remuneration and Evaluation Committee, and the Nomination Committee.

1. Duty performance by the Strategy Committee

During the reporting period, the Strategy Committee of the Board of Directors discussed and analysed the current business situation, development prospects, risks and opportunities arising in the industry it operates in, based on the domestic and international economic landscape and the characteristics of the industry it operates in, and provided valuable recommendations on the implementation of the Company's development strategy. That ensured the scientific nature of the Company's development planning and strategic decision-making, and provided strategic support for the company's continuous and sound development.

2. Duty performance by the Audit Committee

During the reporting period, the Audit Committee of the Board of the Company performed its duties in accordance with relevant requirements, which included to understand in detail the financial position and business operations of the Company, to review the Company's periodic reports and the daily audit by the internal audit department, etc., and to examine the formulation and implementation of the Company's internal control system. These enabled the committee to give effective guidance and supervision to the financial position and business operations of the Company.



3. Duty performance by the Remuneration and Evaluation Committee

During the reporting period, the Remuneration and Evaluation Committee of the Board considered and verified the salaries and wages, allowances and other payments of the directors and senior management of the Company, and provided guiding opinions on the management of remuneration of directors and senior management of the Company.

4. Duty performance by the Nomination Committee

During the reporting period, the Nomination Committee of the Board of the Company performed its duties in accordance with the relevant requirements, which included to discuss matters such as the change of board session and the qualification of assuming the office of senior management, and took active part in recommending candidates for appointment and election as directors and senior management of the Company.

VII. Works of the Supervisory Board

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

Yes No

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

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.



X. Corporate Governance

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	23 March 2019
Index of full disclosure of self-assessment report on internal controls	cninfo.com (巨潮資訊網) (www.cninfo.com.cn)
The percentage of total assets included in the scope of evaluation to the total assets in combined financial statement of the Company.	97.02%
The percentage of operation revenue included in the scope of evaluation to the total assets in combined financial statement of the Company.	95.68%

Type	Standard of affirming defect	
	Financial reports	Non-financial reports
Qualitative standard	Signs of financial reporting great defect include: fraud of the company directors, supervisors and senior management personnel, the correction of the published financial report, current report material misstatement is found by intra-company control, the invalid audit committee and audit function to the Company's external financial reports and financial reporting internal control supervision. Financial reporting important defect signs include: not in accordance with generally accepted accounting principles to select and apply appropriate accounting policies, procedures and control measures of 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.	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.

X. Corporate Governance



Type	Standard of affirming defect	
	Financial reports	Non-financial reports
Quantitative criterion	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).	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.
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		2



X. Corporate Governance

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 2018 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 23 March 2019

Index of full disclosure of Auditors' report on internal control cninfo.com (巨潮資訊網) (www.cninfo.com.cn)

Auditors' report on internal control Opinion type Standard with unqualified opinion

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. 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 2018.

3. 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 December 2018, the Company held a general election for the Board. The new session of the Board is comprised of nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. Biographical details of the Directors are set out in the “Directors, Supervisors, Senior Management and Employees” section of this annual report. Pursuant to Rule 3.13 of the Listing Rules, 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. There is no financial, business and relative relationship among members of the Board.

In 2018, the Board convened six 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 (Departed)	2/2
Guo Huan Ran	Executive director (Departed)	5/5
Yang Jin	Executive director (Departed)	2/2
Guo Hong Li	Non-executive director (Departed)	5/5
Wang Chun Hua	Non-executive director (Departed)	5/5
Qin Xue Chang	Independent non-executive director (Departed)	5/5
Ji Yan Song	Independent non-executive director (Departed)	5/5
Quan Yu Hua	Independent non-executive director (Departed)	5/5
Liu Yun Long	Chairman and executive director	1/1
Liu Min	Executive director	1/1
Zhang Yu Zhi	Executive director	1/1
Li Zhi Xin	Executive director	1/1
Yao You Ling	Non-executive director	1/1
Wang Quan Hong	Non-executive director	1/1
Tang Qing Bin	Independent non-executive director	1/1
Song Zhi Wang	Independent non-executive director	1/1
Cai Zhong Jie	Independent non-executive director	1/1



X. Corporate Governance

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.

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.

X. Corporate Governance



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

Name	Type of trainings (Note 1)	Training matters (Note 2)
Mr. Zhang En Rong (<i>Chairman</i>) (Departed)	a, b	i, ii, iii, iv
Mr. Guo Huan Ran (Departed)	a, b	i, ii, iii, iv
Mr. Yang Jin (Departed)	a, b	i, ii, iii, iv
Mr. Guo Hong Li (Departed)	a, b	i, ii, iii, iv
Mr. Qin Xue Chang (Departed)	a, b	i, ii, iii, iv
Mr. Ji Yan Song (Departed)	a, b	i, ii, iii, iv
Ms. Quan Yu Hua (Departed)	a, b	i, ii, iii, iv
Ms. Wang Chun Hua (Departed)	a, b	i, ii, iii, iv
Mr. Liu Yun Long (Chairman)	a, b	i, ii, iii, iv
Mr. Liu Min	a, b	i, ii, iii, iv
Mr. Zhang Yu Zhi	a, b	i, ii, iii, iv
Mr. Li Zhi Xin	a, b	i, ii, iii, iv
Mr. Yao You Ling	a, b	i, ii, iii, iv
Mr. Wang Quan Hong	a, b	i, ii, iii, iv
Mr. Tang Qing Bin	a, b	i, ii, iii, iv
Mr. Song Zhi Wang	a, b	i, ii, iii, iv
Mr. Cai Zhong Jie	a, b	i, ii, iii, iv

Note 1:

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

Note 2:

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

The Company also 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.



X. Corporate Governance

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 2018, 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 Year, Mr. Liu Yun Long was both the chairman and general manager of the Company, responsible for the overall operation of the Company, which deviated from the principles and code provisions under the Corporate Governance Practices as contained in Appendix 14 to the Hong Kong Listing Rules. Despite of this, the Directors of the Company believe that the performance of both roles of chairman and general manager by Mr. Liu Yun Long allows the Company to plan and implement business strategy in a more effective manner, and in turn, to grasp business opportunities effectively and promptly. As all major decisions are made after consultation with other members of the Board, the Company believes that a balance of power and authority can be maintained under the supervision of the Board and independent non-executive directors.

8. Term of appointment of Directors

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service contract or appointment letter with the Company. In respect of the term of appointment, please refer to 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 term of the sixth session of the Board of the Company ends in December 2021.

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

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

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

The financial statements for the 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 "Financial Statements" section of 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. Liu Yun Long, Mr. Tang Qing Bin, Mr. Song Zhi Wang and Mr. Cai Zhong Jie, with Mr. Liu Yun Long 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. Tang Qing Bin, Mr. Song Zhi Wang and Mr. Cai Zhong Jie, with Mr. Tang Qing Bin 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 2018:
 - ① It conducted pre-audit communication with auditing institution engaged by the Company in respect of the 2017 financial report auditing on pre-auditing work, and reviewed the 2017 auditing report and financial report and submitted such reports to the Board of the Company.
 - ② It reviewed the 2018 first quarter financial report ended 31 March 2018, which was passed to the Board for approval.
 - ③ It reviewed the 2018 interim financial report ended 30 June 2018, which was passed to the Board for approval.
 - ④ It reviewed the 2018 third quarter financial report ended 30 September 2018, 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.



X. Corporate Governance

- (3) Auditing work conducted on the 2018 financial report of the Company was as follows:
- ① It reviewed the 2018 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 2018 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 2018.

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 (Departed)	4/4
Ji Yan Song	Independent non-executive Director (Departed)	4/4
Quan Yu Hua	Independent non-executive Director (Departed)	4/4
Tang Qing Bin	Committee chairman and independent non-executive director	0/0
Song Zhi Wang	Independent non-executive director	0/0
Cai Zhong Jie	Independent non-executive director	0/0

X. Corporate Governance



(C) The Nomination Committee

The Nomination Committee was established on 18 January 2005 and its current members are Mr. Song Zhi Wang, Mr. Liu Yun Long, Mr. Tang Qing Bin and Mr. Cai Zhong Jie, with Mr. Song Zhi Wang as the chairman of the Nomination Committee. In the reporting period, the nomination committee held two meetings 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 (Departed)	2/2
Zhang En Rong	Chairman and executive Director (Departed)	1/1
Qin Xue Chang	Independent non-executive Director (Departed)	2/2
Ji Yan Song	Independent non-executive Director (Departed)	2/2
Song Zhi Wang	Committee chairman and independent non-executive director	0/0
Liu Yun Long	Chairman and executive director	0/0
Tang Qing Bin	Independent non-executive director	0/0
Cai Zhong Jie	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, diversity policy and composition (including the skills, knowledge and experience, sex, age, cultural and education background) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (c) to assess the independence of the independent non-executive Directors; and
- (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.

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

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.



X. Corporate Governance

(D) The Remuneration and Assessment Committee

The Remuneration and Assessment Committee was established on 18 January 2005 and its current members are Mr. Cai Zhong Jie, Mr. Liu Yun Long, Mr. Tang Qing Bin and Mr. Song Zhi Wang, with Mr. Cai Zhong Jie as 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 once during 2018. 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/ Total number of meetings
Ji Yan Song	Committee Chairman and Independent non-executive Director (Departed)	1/1
Zhang En Rong	Chairman and executive Director (Departed)	1/1
Qin Xue Chang	Independent non-executive Director (Departed)	1/1
Quan Yu Hua	Independent non-executive Director (Departed)	1/1
Cai Zhong Jie	Committee chairman and independent non-executive director	0/0
Liu Yun Long	Chairman and executive director	0/0
Tang Qing Bin	Independent non-executive director	0/0
Song Zhi Wang	Independent non-executive director	0/0

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 2018, 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.

X. Corporate Governance



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.

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

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

12. Ability of Going Concern

As at 31 December 2018, 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

The Company amended the Articles of Association once during the reporting period. 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 :



X. Corporate Governance

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.



Purposes of general meetings

The Board values the general meetings as the principal opportunities for the Directors to meet shareholders of the Company and to develop a balanced understanding of the views of the shareholders. In 2018, the Company held two general meetings (one being the annual general meeting held on 29 June 2018 and the other being the first 2018 extraordinary general meeting held on 21 December 2018). 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>) (Departed)	0/0
Mr. Guo Huan Ran (Departed)	2/2
Mr. Yang Jin (Departed)	0/0
Mr. Guo Hong Li (Departed)	1/2
Ms. Wang Chun Hua (Departed)	1/2
Mr. Qin Xue Chang (Departed)	1/2
Mr. Ji Yan Song (Departed)	1/2
Ms. Quan Yu Hua (Departed)	1/2
Mr. Liu Yun Long (<i>Chairman</i>)	0/0
Mr. Liu Min	0/0
Mr. Zhang Yu Zhi	0/0
Mr. Li Zhi Xin	0/0
Mr. Yao You Ling	0/0
Mr. Wang Quan Hong	0/0
Mr. Tang Qing Bin	0/0
Mr. Song Zhi Wang	0/0
Mr. Cai Zhong Jie	0/0

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.

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

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

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.

In 2018, the auditors of the Company received a remuneration of RMB1.35 million for the provision of audit services and RMB475,000 for the provision of non-audit services.

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.



X. Corporate Governance

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 the Revised CG Code which is effective from 1 April 2012.

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

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

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

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

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

If the board of supervisors does not 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 (inclusive of 10%) shares may make the call and preside over the meeting.

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

X. Corporate Governance



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

The shareholders that individually or collectively hold more than 3% shares in the company, they can put forward proposals and submit to convener by written 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

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 2018 to achieve its environmental, social and governance goals and the work done to fully put its philosophy of sustainable development into practice 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 Board of the Company is responsible for the Group's ESG strategy and reporting. Every year, the Board reviews the implementation of the Group's ESG strategy and evaluates the Group's ESG risk management and internal control systems together with management of the Company, so as to ensure compliance with the relevant legal and regulatory requirements.

During the reporting period, 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.



X. Corporate Governance

A. Environmental

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 2018, 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.

A1 Policy for Reducing Emissions and Achievement

A1.1 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 tips to reduce carbon emission from transport tools (i.e. airplanes) taken for business tips.
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;
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 2018 were approximately 109,716 tonnes of carbon dioxide equivalent (2017: approximately 71,236 tonnes). Approximately 0.1367 tonne of carbon dioxide equivalent were produced for each tonne of products made (2017: approximately 0.114 tonne).

Compared with 2017, the total carbon dioxide equivalent of the Group's greenhouse gas emissions increased by approximately 54% in 2018, which was mainly attributable to the increased production volume of the Company and the increase in the unit energy consumption caused by subsequent intensive processing of products.

X. Corporate Governance



A1.2 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 2018 were approximately 84,000 tonnes (2017: approximately 60,700 tonnes). Compared to 2017, total volume of wastewater discharge by the Group in 2018 increased by approximately 38.4%, mainly attributable to the increase in the Company's production volume, which led to a higher water consumption and increased discharge of wastewater.

A1.3 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 2018 was approximately 12 tonnes (2017: approximately 40 tonnes). Compared to 2017, total volume of hazardous waste produced by the Group in 2018 decreased by approximately 70%, mainly attributable to the Company's greater investment in environmental facilities which significantly reduced the discharge of hazardous waste in the course of production, registering a good results of the Company's clean production.

The total non-hazardous waste produced in 2018 was approximately 48 tonnes (2017: approximately 50 tonnes). Approximately 0.059 kilogram of hazardous waste was produced for each tonne of products made. Compared to 2017, the total amount of non-hazardous waste produced by the Group in 2018 decreased by approximately 4%, registering a good result of the initiative in reducing the discharge of non-hazardous waste.



X. Corporate Governance

A2 Effective Use of Resources

A2.1 Green Office Policy

1. reducing the use of resources at office, such as setting the printer mode from single-sided printing to double-sided printing;
2. wholly achieves paperless office within the Group;
3. reminds employees and visitors to save water during daily operation;
4. using automatic faucets and LED energy-saving 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.

A2.2 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.

A2.3 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 2018 was approximately 72,467.91 tonnes of standard coal (2017: approximately 38,856 tonnes of standard coal) and the energy consumption per tonne of product was approximately 0.0903 tonne of standard coal (2017: approximately 0.061 tonne of standard coal).
2. Compared to 2017, the Group's total energy consumption volume increased in 2018 was mainly attributable to the increase in the Company's production volume.

A2.4 Description of Use of Water Resources and Achievement for Reducing Water Usage

1. The water source used by 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 2018.
2. The Group consumed a total of approximately 85000 cubic of water in 2018 (2017: approximately 60,700 cubic). The water consumption per tonne of products was 0.105 cubic (2017: approximately 0.095 cubic);
3. Compared to 2017, the Group's total water consumption volume increased in 2018, mainly attributable to the Company's increased production volume.

X. Corporate Governance



A2.5 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. In 2018, the Group consumed approximately 1,030,807 (2017: approximately 589,096) casing caps, approximately 1,122,139 (2017: 581,285) casing covers and 58,740 (2017: approximately 49,686) line pipe covers. The increased consumption of covers, caps and other materials was mainly attributable to the increase in production volume of the Company.

A3 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. To promote green environmental protection along the supply chain, and set environmental protection as a criterion when assessing suppliers.

B. Social

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 associates, supply chain partners and individual communities and cultures in the world.

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.

B1. 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.



X. Corporate Governance

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 2018, the Group had a total of 3,233 (2017: 2,680) employees and the ratio of male to female was 3.67 : 1 (2017: 4 : 1). The ratio of office management staff to production and operation staff was 1 : 11 (2017: 1 : 4). Approximately 99% of the employees were stationed in Shandong. Approximately 91.8% of the employees were 50 years old or below, and approximately 26.7% of employees were below 30 years old.

B2. 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 strictly implement safety measures and emergency plans in the course of production, 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.

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 2018, the Group did not experience any fatal work-related incidents or accidents involving serious injury.

X. Corporate Governance



B3. Training and Development

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 2018 was 100%. Internal trainings carried out in 2018 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 2018 include tax audit training, safety management training, performance management and compensation design training, lean production management training, etc.

B4. Labour 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.



X. Corporate Governance

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.

B5. *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 2018, the Group had approximately 350 qualified suppliers, all of them were located in the PRC.

B6. *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.

X. Corporate Governance



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, there were no disputes or related litigation threatened against the Group relating to product liability.

The Group encourages its employees to apply for patents and present papers. As at 31 December 2018, the Group had 11 invention patents, 65 utility model patents. In 2018, the Group applied for 1 invention patent and 5 utility model patents.

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 2018, the Group did not receive any complaints or involve in any proceedings relating to leakage of information.

B7. 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.

The Group strongly believes that ethical business practices and good corporate governance are crucial to enhancing competitiveness, and has no tolerance to bribery, extortion, fraud and money laundering. The Group has established an audit committee in the governance structure, with responsibilities to formulate, review and monitor the corporate governance policies and practices, ensure strict compliance with relevant laws and regulations in the course of business, establish an effective internal control system, and achieve better management. The Group had identified, among others, sales, finance, procurement and audit departments are those having potentially greater conflict of interests, and thus has established penalties with deterrent effect. The Group's audit department arranges annual audit, and during which, conducts site-visit to key departments of subsidiaries for audit. Due to the fact that certain projects involve substantial amount of money, in order to enhance the transparency of tendering, the tendering policy stipulates that all tender documents shall be disclosed on the Group's website, while the identity of shall be kept confidential manner to avoid jeopardising the fairness.



X. Corporate Governance

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 engagement of communities, 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 it operates in.

B8. Community Investment

The management 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. In January 2018, to support social welfare undertakings, the Company actively arranged its staff to participate in the voluntary blood donation activities for more than 60 times;
2. In August 2018, Shouguang City was hit by a major flood disaster. Being a domestic enterprise, the Company shouldered the responsibility by arranging approximately 150 staff members to take active part in voluntary rescue, flood relief and post-disaster clean-up activities. It also donated supplies for flood relief in a timely manner. The Company and its employees raised RMB1 million in total for the disaster relief and post-disaster reconstruction of Shouguang City. The Company was then well recognised by the Municipal Federation of Trade Unions for its efforts;
3. Echoing the government's poverty alleviation efforts, the Company cares about employees in need. In 2018, the Company made available mutual aid funds of over RMB40,000 to 7 employees, to give support and help for their families.

X. Corporate Governance



Annex: Index for ESG Reporting Guide of Shandong Molong for 2018

Aspect	Type	Index No.	Particulars	Location in this report
A Environmental	A1 Emissions Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	A1.1	The types of emissions and respective emissions data	A Environmental — Policy for Reducing Emissions and Achievement
		A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	A Environmental — Policy for Reducing Emissions and Achievement
		A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	A Environmental — Policy for Reducing Emissions and Achievement
		A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	A Environmental — Policy for Reducing Emissions and Achievement
		A1.5	Description of measures to mitigate emissions and results achieved	A Environmental — Policy for Reducing Emissions and Achievement
		A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	A Environmental — Policy for Reducing Emissions and Achievement
	A2 Use of Resources Policies on the efficient use of resources, including energy, water and other raw materials	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility)	A Environmental — Effective Use of Resources
		A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	A Environmental — Effective Use of Resources
		A2.3	Description of energy use efficiency initiatives and results achieved	A Environmental — Effective Use of Resources
		A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	A Environmental — Effective Use of Resources
		A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	A Environmental — Effective Use of Resources
	A3 The Environment and Natural Resources Policies on minimising the issuer's significant impact on the environment and natural resources.	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	A Environmental — Effective Use of Resources



X. Corporate Governance

Aspect	Type	Index No.	Particulars	Location in this report
B Social	B1 Employment Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	B1.1	Total workforce by gender, employment type, age group and geographical region.	B Social — Employment
		B1.2	Employee turnover rate by gender, age group and geographical region.	B Social — Employment
	relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.			
	B2 Health and Safety Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	B2.1	Number and rate of work-related fatalities.	B Social — Health and Safety
		B2.2	Lost days due to work injury.	B Social — Health and Safety
		B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	B Social — Health and Safety
	relating to providing a safe working environment and protecting employees from occupational hazards.			
	B3 Development and Training Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	B Social — Training and Development
		B3.2	The average training hours completed per employee by gender and employee category.	B Social — Training and Development

X. Corporate Governance



Aspect	Type	Index No.	Particulars	Location in this report
B Social	B4 Labour Standards Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	B4.1	Description of measures to review employment practices to avoid child and forced labour.	B Social — Labour Standards
		B4.2	Description of steps taken to eliminate such practices when discovered.	B Social — Labour Standards
	relating to preventing child and forced labour.			
	B5 Supply Chain Management Policies on managing environmental and social risks of the supply chain.	B5.1	Number of suppliers by geographical region.	B Social — Supply Chain Management
		B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	B Social — Supply Chain Management
	B6 Product Responsibility Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	B Social — Product Responsibility
		B6.2	Number of products and service related complaints received and how they are dealt with.	B Social — Product Responsibility
	relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	B6.3	Description of practices relating to observing and protecting intellectual property rights.	B Social — Product Responsibility
		B6.4	Description of quality assurance process and recall procedures.	B Social — Product Responsibility
		B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	B Social — Product Responsibility
		B6.2	Number of products and service related complaints received and how they are dealt with.	B Social — Product Responsibility
		B6.3	Description of practices relating to observing and protecting intellectual property rights.	B Social — Product Responsibility
		B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	B Social — Anti-corruption
	B7 Anti-corruption Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	B Social — Anti-corruption
			relating to bribery, extortion, fraud and money laundering.	



X. Corporate Governance

Aspect	Type	Index No.	Particulars	Location in this report
B Social	B8 Community Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	B Social – Community
		B8.2	Resources contributed (e.g. money or time) to the focus area.	B Social – Community

XI. Corporate Bonds



Whether the Company had any corporate bonds which were publicly issued and listed on a stock exchange, and which have not matured, or have matured but not fully repaid as at the date of publication of annual report

No



Auditor's Report

Type of audit opinions	Standard unqualified opinions
Date of signing of auditors report	22 March 2019
Name of auditors	Shinewing Certified Public Accountants(Special General Partnership)
Auditors report file number	XYZH/2019JNA30053
Names of the CPAs	Kan Jing Ping, Zhang Xiu Qin



Main text of the auditor's report

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"), which comprise the consolidated and parent company's balance sheet as at 31 December 2018, the consolidated and parent company's income statement, the consolidated and parent company's cash flow statement and the consolidated and parent company's statement of changes in shareholders' equity for 2018, 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 2018, as well as the consolidated and parent company's results of operations and cash flows for 2018.

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.27 and note VI.36 to the consolidated financial statements, Shandong Molong's 2018 operating revenue was RMB4.452 billion, a significant increase from the previous year with a growth rate of 50.14%, and the recognition of revenue has a great impact on the net profit.

There are inherent risks in revenue recognition. Shandong Molong adopted new revenue standards this year, 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;
- extracting samples and review sales and service contracts, understanding the performance obligations of Shandong Molong in respect of sales of goods and rendering of services, the terms and arrangements about customer obtaining control over goods or services, and assessing whether the policy for revenue recognition of Shandong Molong is in compliance with the requirements under the ASBEs;
- extracting samples from revenue transactions recorded for the year, conducting substantive test, checking invoices, sales contracts, delivery orders and customers' receipts, verifying the authenticity of revenue recognised, and assessing whether the related revenue recognition is in conformity with the accounting policy for revenue recognition of Shandong Molong;
- performing analytical procedures for revenue and costs, and comparing product revenue, costs and gross profit for this year with those of last year for analysis;
- 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;
- assessing the appropriateness of the accounting of revenue recognition by management of Shandong Molong and the presentation of and disclosures in the financial statements .



2. Impairment of accounts receivable

Key audit matter

As mentioned in Notes IV.11 and VI.2.2 and VI.43 to the consolidated financial statements of Shandong Molong, as at 31 December 2018, Shandong Molong had accounts receivables of RMB659,640 million and a balance of provision for bad debts of RMB123,440.1 million.

There may be risks in recovery of accounts receivables and the assessment of bad debts involves significant management judgment and estimates.

How the matter was addressed in the audit

We mainly performed the following audit procedures:

- Understanding and evaluating the design and operational effectiveness of the key internal control by management relating to impairment of accounts receivable;
- Reviewing the historical credit loss experience data used by management of Shandong Molong to calculate expected credit loss rates and the reasonableness of key assumptions by combining with debtor's credit history, historical default evidence and default rates, and the changes in observed financial credit status of debtors for the year, to determine whether the credit risk of receivables has increased significantly, thereby assessing the reasonableness of the credit risk assessment and identification of receivables by management;
- Obtaining the expected credit loss model of accounts receivable of Shandong Molong, checking management's assumptions and calculation process of expected credit losses, analysing whether the basis of bad debt provision for accounts receivable is sufficient and reasonable, and remeasuring to confirm if the bad debt provision amount is accurate;
- Analysing the payment of the accounts receivable and the occurrence of bad debts of Shandong Molong in the current and previous years by combining management's evaluation on the historical, current and subsequent payment, understanding the possible recovery risks, analysing the reasonableness of the provision for bad debts of receivables by management;
- assessing the appropriateness of the accounting of provision for accounts receivable by management of Shandong Molong and the presentation of and disclosures in the financial statements .

3. Impairment of Inventories

Key Audit Matter

As mentioned in Notes IV.13, VI.6 and VI.42 to the consolidated financial statements of Shandong Molong, as at 31 December 2018, Shandong Molong had a balance of inventories of RMB1,057.6997 million and a balance of provision for impairment of inventories of RMB14.9384 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 2018. 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;
- assessing the appropriateness of the accounting of provision for impairment of inventories by management of Shandong Molong and the presentation of and disclosures in the financial statements.



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 2018 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:

Beijing, China

22 March 2019



Consolidated Balance Sheet

Item	Unit: RMB	
	31 December 2018	31 December 2017
Current assets:		
Cash and deposits with central bank	—	—
Monetary funds	892,452,274.76	879,371,103.17
Settlement reserve	—	—
Deposits with banks	—	—
Precious metals	—	—
Lending funds	—	—
Financial assets held for trading	—	—
Financial assets at fair value through profit or loss for the current period	—	—
Derivative financial assets	—	—
Loans and advances	38,561,702.67	88,102,411.40
Bills and accounts receivable	919,101,636.26	473,255,025.57
Including: Bills receivable	382,901,696.30	94,525,409.69
Accounts receivable	536,199,939.96	378,729,615.88
Prepayments	30,978,235.20	91,643,819.19
Insurance receivables	—	—
Reinsurance receivables	—	—
Reinsurance contract reserve receivables	—	—
Other receivables	47,697,703.66	48,649,156.68
Including: Interests receivable	2,710,659.25	4,220,913.66
Dividend receivables	—	—
Financial assets purchased under resales agreement	—	—
Inventories	1,042,761,257.01	925,772,719.28
Contract assets	—	—
Assets held for sale	—	—
Non-current assets due within one year	—	—
Other current assets	144,802,505.41	118,436,141.88
Total current assets	3,116,355,314.97	2,625,230,377.17

Consolidated Balance Sheet



Unit: RMB

Item	31 December 2018	31 December 2017
Non-current assets:		
Loans and advances	—	—
Debt investments	—	—
Available-for-sale financial assets	—	20,000.00
Other debt investments	—	—
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	2,663,518.90	2,639,321.48
Investments in other equity instruments	—	—
Other non-current financial assets	—	—
Investment properties	—	—
Fixed assets	2,915,815,731.99	2,891,875,882.19
Construction-in-progress	35,871,296.86	170,880,899.68
Productive biological asset	—	—
Oil and nature gas assets	—	—
Intangible assets	452,046,844.13	443,968,124.33
Development expenditure	—	—
Goodwill	23,683,383.21	26,683,383.21
Long-term unamortized expenses	—	—
Deferred income tax assets	47,256,488.04	4,391,835.90
Other non-current assets	13,844,015.27	57,113,143.58
Total non-current assets	3,491,181,278.40	3,597,572,590.37
Total assets	6,607,536,593.37	6,222,802,967.54



Consolidated Balance Sheet

Unit: RMB

Item	31 December 2018	31 December 2017
Current liabilities:		
Short-term borrowings	2,390,918,560.77	2,141,086,600.02
Borrowings from the central bank	—	—
Deposits with banks and other financial institutions	—	—
Placements	—	—
Financial liabilities held for trading	—	—
Financial liabilities at fair value through profit or loss for the current period	—	—
Derivative financial liabilities	—	—
Proceeds from disposal of buy-back financial assets	—	—
Customer bank deposits	—	—
Bills and accounts payable	1,100,064,743.60	1,057,819,542.51
Receipts in advance	—	68,937,156.42
Contract liabilities	57,364,400.72	—
Bank charges and commission payable	—	—
Salaries payable	57,100,793.80	51,245,591.21
Taxes payable	81,227,045.72	18,916,357.37
Other payables	51,344,753.68	37,977,339.12
Including: Interests payable	8,691,627.11	5,458,818.99
Dividends payable	—	—
Reinsurance payable	—	—
Securities brokerage deposits	—	—
Securities underwriting brokerage deposits	—	—
Liabilities held for sale	—	—
Non-current liabilities due within one year	308,994,908.08	155,946,611.23
Other current liabilities	94,281,027.25	—
Total current liabilities	4,141,296,233.62	3,531,929,197.88

Consolidated Balance Sheet



Unit: RMB

Item	31 December 2018	31 December 2017
Non-current liabilities:		
Insurance contract reserves	—	—
Long-term borrowings	426,219,050.90	737,259,900.98
Bonds payable	—	—
Including: Preferred stock	—	—
Perpetual capital securities	—	—
Long-term payables	—	—
Long-term salaries payable	—	—
Provisions	12,780,330.57	8,000,000.00
Deferred income	6,954,855.00	6,954,855.00
Deferred income tax liabilities	6,126,499.96	7,325,919.30
Other non-current liabilities	—	—
Total non-current liabilities	452,080,736.43	759,540,675.28
Total liabilities	4,593,376,970.05	4,291,469,873.16
Owners' equity:		
Share capital	797,848,400.00	797,848,400.00
Other equity instruments	—	—
Including: Preferred stock	—	—
Perpetual capital securities	—	—
Capital reserve	863,169,158.42	860,517,458.42
Less: Treasury stock	—	—
Other comprehensive income	(2,792,011.13)	(1,402,748.25)
Special reserve	—	—
Surplus reserve	187,753,923.88	176,686,903.51
General risk reserve	11,236.91	11,236.91
Undistributed profits	98,100,580.11	35,934,311.12
Total equity attributable to shareholders of Company	1,944,091,288.19	1,869,595,561.71
Minority interests	70,068,335.13	61,737,532.67
Total shareholders' equity	2,014,159,623.32	1,931,333,094.38
Total liabilities and shareholders' equity	6,607,536,593.37	6,222,802,967.54

Legal representative:
Liu Yun Long

Comptroller principal:
Liu Min

Leading member of the accounting body:
Ding Zhi Shui



Parent Company's Balance Sheet

Item	Unit: RMB	
	31 December 2018	31 December 2017
Current assets:		
Cash and deposits with central bank	—	—
Monetary funds	824,263,679.90	773,947,067.08
Deposits with banks	—	—
Precious metals	—	—
Financial assets held for trading	—	—
Financial assets at fair value through profit or loss for the current period	—	—
Derivative financial assets	—	—
Bills and accounts receivable	1,037,651,352.65	544,044,670.98
Including: Bills receivable	418,945,086.30	72,924,479.69
Accounts receivables	618,706,266.35	471,120,191.29
Prepayments	463,225,881.58	505,965,265.70
Other receivables	461,207,511.04	528,134,554.56
Including: Interests receivable	2,710,659.25	4,220,913.66
Dividends receivable	—	—
Inventories	726,969,869.08	695,259,975.82
Contract assets	—	—
Assets held for sale	—	—
Non-current assets due within one year	—	—
Other current assets	—	—
Total current assets	3,513,318,294.25	3,047,351,534.14

Parent Company's Balance Sheet



Unit: RMB

Item	31 December 2018	31 December 2017
Non-current assets:		
Debt investments	—	—
Available-for-sale financial assets	—	20,000.00
Other debt investments	—	—
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	1,144,069,921.73	1,144,069,921.73
Investments in other equity instruments	—	—
Other non-current financial assets	—	—
Investment properties	—	—
Fixed assets	1,142,251,374.30	1,220,914,534.22
Construction-in-progress	2,417,822.63	—
Productive biological asset	—	—
Oil and nature gas assets	—	—
Intangible assets	131,541,997.90	145,039,514.50
Development expenditure	—	—
Goodwill	—	—
Long-term unamortized expenses	—	—
Deferred income tax assets	44,728,025.77	—
Other non-current assets	4,785,950.02	2,922,972.59
Total non-current assets	2,469,795,092.35	2,512,966,943.04
Total assets	5,983,113,386.60	5,560,318,477.18



Parent Company's Balance Sheet

Unit: RMB

Item	31 December 2018	31 December 2017
Current liabilities:		
Short-term borrowings	1,803,918,560.77	1,254,744,600.02
Deposits with banks and other financial institutions	—	—
Financial liabilities held for trading	—	—
Financial liabilities at fair value through profit or loss for the current period	—	—
Derivative financial liabilities	—	—
Customer bank deposits	—	—
Bills and accounts payable	1,160,447,899.07	1,344,994,649.78
Receipts in advance	—	62,536,928.81
Contract liabilities	27,434,932.72	—
Salaries payable	37,934,242.75	33,949,349.08
Taxes payable	39,143,651.71	9,956,505.15
Other payables	44,272,449.62	29,529,708.71
Including: Interests payable	6,444,772.42	2,704,194.54
Dividends payable	—	—
Liabilities held for sale	—	—
Non-current liabilities due within one year	170,652,590.80	148,403,413.66
Other current liabilities	94,281,027.25	—
Total current liabilities	3,378,085,354.69	2,884,115,155.21
Non-current liabilities:		
Long-term borrowings	272,104,565.75	444,803,098.55
Bonds payable	—	—
Including: Preferred stock	—	—
Perpetual capital securities	—	—
Long-term payables	—	—
Long-term salaries payable	—	—
Provisions	12,780,330.57	8,000,000.00
Deferred income	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
Total non-current liabilities	284,884,896.32	452,803,098.55
Total liabilities	3,662,970,251.01	3,336,918,253.76

Parent Company's Balance Sheet



Item	Unit: RMB	
	31 December 2018	31 December 2017
Owners' equity:		
Share capital	797,848,400.00	797,848,400.00
Other equity instruments	—	—
Including: Preferred stock	—	—
Perpetual capital securities	—	—
Capital reserve	863,150,490.92	860,498,790.92
Less: Treasury stock	—	—
Other comprehensive income	—	—
Special reserve	—	—
Surplus reserve	187,753,923.88	176,686,903.51
Undistributed profits	471,390,320.79	388,366,128.99
Total owners' equity	2,320,143,135.59	2,223,400,223.42
Total liabilities and owners' equity	5,983,113,386.60	5,560,318,477.18



Consolidated Income Statement

Unit: RMB

Item	2018	2017
I. Total income from operations	4,452,014,810.12	2,965,216,722.37
Including: Operating income	4,452,014,810.12	2,965,216,722.37
Interest income	—	—
Earned insurance premium	—	—
Brokerage and commission income	—	—
II. Total costs of operations	4,417,221,002.51	3,138,440,402.50
Including: Operating cost	3,760,482,732.11	2,736,727,487.28
Interest expenses	—	—
Brokerage and commission income	—	—
Surrenders	—	—
Net amount of compensation paid	—	—
Net amount of reserves for reinsurance contract	—	—
Insurance dividend payments	—	—
Reinsurance premium	—	—
Taxes and surcharges	39,442,851.14	23,421,675.66
Selling expenses	113,969,714.60	65,682,352.59
Administrative expenses	178,822,233.92	132,826,535.64
Research and development expenses	71,979,056.24	29,265,348.19
Finance costs	204,107,335.81	131,241,514.49
Including: Interest expenses	203,251,721.32	126,199,311.38
Interest income	7,381,164.96	7,998,827.35
Impairment losses of assets	10,603,105.42	19,275,488.65
Credit impairment losses	37,813,973.27	—
Add: other gains	29,456,919.93	156,275,852.23
Gains on investments	1,370,779.21	447,550.68
Including: Gains on investments in associates and joint ventures	24,197.42	18,748.91
Gains on derecognition of financial assets at amortised cost	—	—
Net gains on exposure hedges	—	—
Gains on fair value changes	—	—
Exchange gains	—	—
Gains on disposal of assets	3,501,489.47	62,088,298.95
III. Operating profit	69,122,996.22	45,588,021.73
Add: Non-operating income	6,366,554.82	5,781,343.10
Less: Non-operating expenses	14,327,049.92	16,881,710.08
IV. Total profit	61,162,501.12	34,487,654.75
Less: Income tax expenses	(41,243,965.51)	(593,826.08)

Consolidated Income Statement



Unit: RMB

Item	2018	2017
V. Net profit	102,406,466.63	35,081,480.83
(1) Net profit from continuing operation	102,406,466.63	35,081,480.83
(2) Net profit from discontinued operation	—	—
Net profit attributable to the owners of the Parent Company	92,476,375.01	38,038,484.18
Profit or loss attributable to minority interests	9,930,091.62	(2,957,003.35)
VI. Other comprehensive income, net of tax	(1,467,938.03)	1,785,088.16
Net amount of other comprehensive income after tax attributable to owners of the parent company	(1,389,262.88)	1,689,685.59
(1) Other comprehensive income that will not be reclassified to profit or loss	—	—
1. Changes on remeasurement of defined benefit plans	—	—
2. Other comprehensive income that may not be transferred to profit or loss under equity accounting	—	—
3. Fair value changes in investments in other equity instruments	—	—
4. Fair value changes in credit risk of the Company	—	—
5. Others	—	—
(2) Other comprehensive income that will be reclassified to profit or loss	(1,389,262.88)	1,689,685.59
1. Other comprehensive income that may be transferred to profit or loss under equity accounting	—	—
2. Fair value changes in other debt investments	—	—
3. Gains or losses on fair value changes in available-for-sale financial assets	—	—
4. Reclassification of financial assets to other comprehensive income	—	—
5. Gains or losses on reclassification of held-to-maturity investments to available-for-sale financial assets	—	—
6. Provision for credit loss on other debt investments	—	—
7. Cashflow hedge reserve	—	—
8. Exchange differences on translation of foreign financial statements	(1,389,262.88)	1,689,685.59
9. Others	—	—
Other comprehensive income attributable to minority shareholders, net of tax	(78,675.15)	95,402.57
VII. Total comprehensive income	100,938,528.60	36,866,568.99
Total comprehensive income attributable to owners of the parent company	91,087,112.13	39,728,169.77
Total comprehensive income attributable to minority shareholders	9,851,416.47	(2,861,600.78)
VIII. Earnings per share:	—	—
(1) Basic earnings per share	0.1159	0.05
(2) Diluted earnings per share	0.1159	0.05

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:
Liu Yun Long

Comptroller principal:
Liu Min

Leading member of the accounting body:
Ding Zhi Shui



Income Statements of the Parent Company

Unit: RMB

Item	2018	2017
I. Operating income	4,084,995,744.68	2,715,636,626.66
Less: Operating cost	3,553,305,766.86	2,439,368,638.77
Taxes and surcharges	25,384,758.52	15,338,122.52
Selling expenses	96,990,930.88	58,397,639.18
Administrative expenses	76,715,557.80	56,668,609.30
Research and development expenses	71,979,056.24	29,265,348.19
Finance costs	140,497,268.66	94,862,632.66
Including: Interest expenses	140,876,263.32	89,145,300.38
Interest income	6,379,989.85	7,561,725.16
Impairment losses of assets	6,074,363.45	13,551,904.93
Credit impairment losses	36,590,741.02	—
Add: other gains	622,983.37	150,563,303.22
Gains on investments	—	—
Including: Gains on investments in associates and joint ventures	—	—
Gains on derecognition of financial assets at amortised cost	—	—
Net gains on exposure hedges	—	—
Gains on fair value changes	—	—
Gains on disposal of assets	(175,829.57)	61,909,218.42
II. Operating profits	77,904,455.05	220,656,252.75
Add: Non-operating income	2,011,494.41	3,404,231.47
Less: Non-operating expenses	13,973,771.57	16,299,152.60
III. Total profit	65,942,177.89	207,761,331.62
Less: Income tax expenses	(44,728,025.77)	—
IV. Net profit	110,670,203.66	207,761,331.62
(i) Continuing operation net profits	110,670,203.66	207,761,331.62
(ii) Discontinued operation net profits	—	—

Income Statements of the Parent Company



Unit: RMB

Item	2018	2017
V. Net amount of other comprehensive income after tax	—	—
Other comprehensive income, net of tax		
(1) Other comprehensive income that will not be reclassified to profit or loss		
1. Changes on remeasurement of defined benefit plans	—	—
2. Other comprehensive income that may not be transferred to profit or loss under equity accounting	—	—
3. Fair value changes in investments in other equity instruments	—	—
4. Fair value changes in credit risk of the Company	—	—
5. Others	—	—
(2) Other comprehensive income that will be reclassified to profit or loss		
1. Other comprehensive income that may be transferred to profit or loss under equity accounting	—	—
2. Fair value changes in other debt investments	—	—
3. Gains or losses on fair value changes in available-for-sale financial assets	—	—
4. Reclassification of financial assets to other comprehensive income	—	—
5. Gains or losses on reclassification of held-to-maturity investments to available-for-sale financial assets	—	—
6. Provision for credit loss on other debt investments	—	—
7. Cashflow hedge reserve	—	—
8. Exchange differences on translation of foreign financial statements	—	—
9. Others	—	—
VI. Total comprehensive income	110,670,203.66	207,761,331.62
VII. Earnings per share:	—	—
(1) Basic earnings per share	—	—
(2) Diluted earnings per share	—	—



Consolidated Statement of Cash Flow

Unit: RMB

Item	2018	2017
I CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales of goods and rendering of services	4,069,356,982.68	2,480,391,727.98
Net increase in deposits from customers and deposits from other banks	45,619,111.92	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	70,000.00	6,016,324.71
Net increase in capital borrowed	—	—
Net increase in sales and repurchase business	—	—
Net cash proceeds from securities brokerage	—	—
Receipts of tax refunds	4,270,845.64	11,489,704.18
Cash received relating to other operating activities	107,291,611.36	181,657,754.35
Sub-total of cash inflows from operating activities	4,226,608,551.60	2,730,238,766.93
Cash paid for purchasing goods and receiving services	3,257,967,239.06	2,326,017,658.96
Net increase in customer loans and advances to customers	—	—
Net increase in deposit with central bank and other banks	—	—
Net increase in financial assets held for trading	—	—
Net increase in lending funds	—	—
Net increase in financial assets purchased under agreements to resell	—	—
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	247,832,855.17	141,869,811.02
Payments of taxes and surcharges	105,416,454.31	35,443,879.57
Cash paid relating to other operating activities	245,802,406.74	194,406,463.21
Sub-total of cash outflows from operating activities	3,857,018,955.28	2,697,737,812.76
NET CASH FLOWS FROM OPERATING ACTIVITIES	369,589,596.32	32,500,954.17

Consolidated Statement of Cash Flow



Unit: RMB

Item	2018	2017
II CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from disposal of investments	7,488,422.15	—
Cash received from returns on investments	1,346,581.79	515,801.77
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	22,518,731.56	73,084,255.07
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	31,353,735.50	73,600,056.84
Cash paid to acquisition and construction fixed assets, intangible assets and other long-term assets	264,583,853.30	293,984,014.58
Cash paid for investment	104,900,000.00	—
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	369,483,853.30	293,984,014.58
NET CASH FLOWS FROM INVESTING ACTIVITIES	(338,130,117.80)	(220,383,957.74)



Consolidated Statement of Cash Flow

Unit: RMB

Item	2018	2017
III CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from investment	—	—
Including: Cash received by subsidiaries from investment of minority shareholders	—	—
Cash received from borrowings	4,659,333,700.00	3,914,608,542.60
Cash received from issuing bonds	—	—
Cash received relating to other financing activities	0.00	219,552,865.10
Sub-total of cash inflows from financing activities	4,659,333,700.00	4,134,161,407.70
Cash paid for repaying debts	4,417,027,032.25	3,507,353,467.28
Cash paid for distributing dividends, profits or interest repayments	195,419,766.43	115,722,326.75
Including: Dividends and profits paid by subsidiaries to minority shareholders	—	—
Cash paid relating to other financing activities	160,000,000.00	159,552,865.10
Sub-total of cash outflows from financing activities	4,772,446,798.68	3,782,628,659.13
NET CASH FLOWS FROM FINANCING ACTIVITIES	(113,113,098.68)	351,532,748.57
IV Effect of changes in foreign exchange rate to cash and cash equivalents	(818,000.81)	(10,752,397.74)
V Net increase in cash and cash equivalents	(82,471,620.97)	152,897,347.26
Add: balance of cash and cash equivalents at the beginning of the period	661,396,103.17	508,498,755.91
VI Balance of cash and cash equivalents at the end of the period	578,924,482.20	661,396,103.17

Cash Flow Statement of the Parent Company



Unit: RMB

Item	2018	2017
I CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales of goods and rendering of services	3,460,156,929.50	2,633,003,483.02
Receipts of tax refunds	2,819,202.82	7,497,707.91
Net cash proceeds from securities brokerage	—	—
Cash received relating to other operating activities	81,644,794.00	418,507,012.65
Sub-total of cash inflows from operating activities	3,544,620,926.32	3,059,008,203.58
Cash paid for purchasing goods and receiving services	3,329,209,248.86	2,341,230,767.91
Net increase in financial assets held for trading	—	—
Net increase in lending funds	—	—
Net increase in financial assets purchased under agreements to resell	—	—
Cash paid to and for employees	152,421,242.68	91,506,762.82
Payments of taxes and surcharges	64,444,171.17	18,407,114.57
Cash paid relating to other operating activities	189,543,146.90	571,574,970.75
Sub-total of cash outflows from operating activities	3,735,617,809.61	3,022,719,616.05
Net cash flows from operating activities	(190,996,883.29)	36,288,587.53
II CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from disposal investments	—	—
Cash received from returns on investments	—	—
Cash received from disposal of fixed assets, intangible assets and other long-term assets	574,682.85	72,915,325.84
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	574,682.85	72,915,325.84
Cash paid to acquisition and construction of fixed assets, intangible assets and other long-term assets	57,896,288.73	32,268,016.80
Cash paid for investments	—	—
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	57,896,288.73	32,268,016.80
Net cash flows from investing activities	(57,321,605.88)	40,647,309.04



Cash Flow Statement of the Parent Company

Unit: RMB

Item	2018	2017
III Cash flows from financing activities:		
Cash received from investment	—	—
Cash received from borrowings	3,726,233,700.00	2,545,510,542.60
Cash received from issuing bonds	—	—
Cash received relating to other financing activities	—	219,552,865.10
Sub-total of cash inflows from financing activities	3,726,233,700.00	2,765,063,407.70
Cash paid for repaying debts	3,176,385,032.25	2,464,704,839.28
Cash paid for distributing dividends, profits or interest, repayment	133,193,341.10	79,590,690.14
Cash paid relating to other financing activities	160,000,000.00	159,552,865.10
Sub-total of cash outflows from financing activities	3,469,578,373.35	2,703,848,394.52
Net cash flows from financing activities	256,655,326.65	61,215,013.18
IV Effect of changes in foreign exchange rate on cash and cash equivalents	(1,053,017.22)	(10,326,273.40)
V Net increase in cash and cash equivalents	7,283,820.26	127,824,636.35
Add: Balance of Cash and cash equivalents at the beginning of the period	555,972,067.08	428,147,430.73
VI Balance of cash and cash equivalents at the end of the period	563,255,887.34	555,972,067.08

Consolidated Statements of Changes in Equity



Amount for the period

Unit: RMB

2018

Item	Attribute to owners of the Parent Company										Minority Shareholders interest	Total of owners' interest			
	Other equity instrument				Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for General Risk	Undistributed profits			Others	Sub-total	
	Share capital	Preferred share	Perpetual bonds	Others											Capital reserve
I. Balance at the end of last year	797,848,400.00	—	—	—	860,517,458.42	—	(1,402,748.25)	—	176,686,903.51	11,236.91	35,934,311.12	—	1,869,595,561.71	61,737,532.67	1,931,333,094.38
Add: Change in accounting policies	—	—	—	—	—	—	—	—	—	—	(19,243,085.65)	—	(19,243,085.65)	(1,520,614.01)	(20,763,699.66)
Correction of errors in prior period	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combinations under the common control	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the year	797,848,400.00	—	—	—	860,517,458.42	—	(1,402,748.25)	—	176,686,903.51	11,236.91	16,691,225.47	—	1,850,352,476.06	60,216,918.66	1,910,569,394.72
III. Changes for the year	—	—	—	—	2,651,700.00	—	(1,389,262.88)	—	11,067,020.37	0.00	81,409,354.64	—	93,738,812.13	9,851,416.47	103,590,228.60
(i) Total comprehensive income	—	—	—	—	—	—	(1,389,262.88)	—	11,067,020.37	0.00	92,476,375.01	—	91,087,112.13	9,851,416.47	100,938,528.60
(ii) Owners input and capital reduce	—	—	—	—	2,651,700.00	—	—	—	—	—	—	—	2,651,700.00	—	2,651,700.00
1. ordinary shares by owners	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. capital from other-equity-instrument holders	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Share based payments credited to owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	2,651,700.00	—	—	—	11,067,020.37	0.00	(11,067,020.37)	—	2,651,700.00	—	2,651,700.00
(iii) Profit distribution	—	—	—	—	—	—	—	—	11,067,020.37	11,067,020.37	(11,067,020.37)	—	—	—	—
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. Changes in defined benefit plans carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
5. Other comprehensive income carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Amount withdrawn in the period	—	—	—	—	—	—	—	—	—	—	—	—	20,348,646.62	—	20,348,646.62
2. Amount-utilized in the period	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the period	797,848,400.00	—	—	—	863,169,158.42	—	(2,792,011.13)	—	187,753,923.88	11,236.91	98,100,380.11	—	1,944,091,288.19	70,068,333.13	2,014,159,623.32



Consolidated Statements of Changes in Equity

Amount for last period

Unit: RMB

2017

Item	Attribute to owners of the Parent Company											Total of owners' interest			
	Other equity instrument				Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for General Risk	Undistributed profits	Others		Minority shareholders' interest		
	Share capital	Preferred share	Perpetual bonds	Other										Capital reserves	
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)	—	1,819,068,091.94	66,599,133.45	1,885,667,225.39
Add: Change in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Correction of errors in the early stage	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combinations under common control	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning 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)	—	1,819,068,091.94	66,599,133.45	1,885,667,225.39
III. Changes for the year	—	—	—	—	10,799,300.00	—	1,689,685.59	—	—	—	38,038,484.18	—	50,527,469.77	(4,861,600.78)	45,665,868.99
(i) Total comprehensive income	—	—	—	—	—	—	1,689,685.59	—	—	—	38,038,484.18	—	39,728,093.77	(2,861,600.78)	36,866,568.99
(ii) Owners input and capital reduce	—	—	—	—	10,799,300.00	—	0.00	—	—	—	—	—	10,799,300.00	—	10,799,300.00
1. Ordinary shares by owners	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital from other equity-instrument holders	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Share based payments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	10,799,300.00	—	—	—	—	—	—	—	10,799,300.00	—	10,799,300.00
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—	(2,000,000.00)	(2,000,000.00)
1. Appropriation to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Appropriation to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	(2,000,000.00)	(2,000,000.00)
(iv) Carrying forward within 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. Changes in defined benefit plans carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
5. Other comprehensive income carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserves	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Amount withdrawn in the period	—	—	—	—	—	—	—	—	—	—	—	—	—	—	9,548,336.43
2. Amount utilized in the period	—	—	—	—	—	—	—	—	—	—	—	—	—	—	9,548,336.43
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the period	797,848,400.00	—	—	—	860,517,458.42	0.00	(1,402,748.25)	—	176,686,903.51	11,236.91	35,934,311.12	—	1,869,595,561.71	61,737,532.67	1,931,333,094.38

Statement of Changes in Equity of the Parent Company



Amount for the period

Unit: RMB

2018

Item	Other equity instrument				Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Others	Total of owners' interest
	Share capital	Preferred share	Perpetual bond	Others								
I. Balance at the end of the last year	797,848,400.00	—	—	—	860,498,790.92	—	—	—	176,686,903.51	388,366,128.99	—	2,223,400,223.42
Add: Change in accounting policies	—	—	—	—	—	—	—	—	—	(16,578,991.49)	—	(16,578,991.49)
Correction of errors in the prior period	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the year	797,848,400.00	—	—	—	860,498,790.92	—	—	—	176,686,903.51	371,787,137.50	—	2,206,821,231.93
III. Changes for the period	—	—	—	—	2,651,700.00	—	—	—	11,067,020.37	99,603,183.29	—	113,321,903.66
(I) Total comprehensive income	—	—	—	—	—	—	—	—	—	110,670,203.66	—	110,670,203.66
(II) Owner's input and capital reduce	—	—	—	—	2,651,700.00	—	—	—	—	—	—	2,651,700.00
1. Ordinary shares by owners	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital from other equity – instrument holders	—	—	—	—	—	—	—	—	—	—	—	—
3. Share based payment credited to owners' equity	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	2,651,700.00	—	—	—	—	—	—	2,651,700.00
(III) Profit distribution	—	—	—	—	—	—	—	—	11,067,020.37	(11,067,020.37)	—	—
1. Appropriation to surplus reserve	—	—	—	—	—	—	—	—	11,067,020.37	(11,067,020.37)	—	—
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. Changes in defined benefit plans carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
5. Other comprehensive income carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
6. Others	—	—	—	—	—	—	—	—	—	—	—	—
(V) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—
1. Amount withdrawn in the period	—	—	—	—	—	—	—	—	—	—	—	—
2. Amount utilized in the period	—	—	—	—	—	—	—	—	—	—	—	—
(VI) Others	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the period	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	471,390,320.79	—	2,320,143,135.59



Statement of Changes in Equity of the Parent Company

Amount for last period

Unit: RMB

Item	2017					2016							
	Share capital	Preferred share	Perpetual bond	Other equity instrument	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Others	Total of owners' interest
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	—	—	—	—	—	—	—	—	—	—	—	—	0.00
Correction of errors in the prior period	—	—	—	—	—	—	—	—	—	—	—	—	0.00
Others	—	—	—	—	—	—	—	—	—	—	—	—	0.00
II. 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 (Decrease is 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 owners	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital from other equity-instrument holders	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Share based payments credited to owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(III) Profit distribution	—	—	—	—	—	10,799,300.00	—	—	—	—	—	—	10,799,300.00
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. Changes in defined benefit plans carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—
5. Other comprehensive income carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—
6. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(V) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Amount withdrawn in the period	—	—	—	—	—	—	—	—	4,008,900.94	—	—	—	4,008,900.94
2. Amount utilized in the period	—	—	—	—	—	—	—	—	4,008,900.94	—	—	—	4,008,900.94
(VI) Others	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. 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



1 January 2018 to 31 December 2018

(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).

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

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

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



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

I. General Information of the Company (continued)

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.

As at 31 December 2018, the Company had a registered capital of RMB797,848,400.00, divided into a total of 797,848,400 shares.

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

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).

The controlling shareholder and ultimate controller of the Company is Zhang En Rong, who is a natural person.

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 2018 to 31 December 2018

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

II. Basic of preparation to the Financial Statements

1. Basic of preparation

The financial statements of the Group 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 the disclosure requirements under the Listing Rules of 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

As at 31 December 2018, the Group's current liabilities exceeded its current assets by RMB1.025 billion. When preparing the financial statements, there were quite a lot of outstanding orders at the end of year. Having due regard to the source of funding required for production and operation, the management believes that the Group has sufficient funds to meet its debt obligations and requirements for capital expenditures in the future. Therefore, the financial statements have been prepared on a going concern basis.

III. Significant Accounting Policies and Accounting Estimate

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

No

Specific accounting policies and accounting estimates:

The 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 have prepared the financial statements in accordance with the Accounting Standards for Business Enterprises (the "ASBEs"), which gives a true and complete view of the financial position, trading results, cashflows and other information of the Company and of the Group.

2. Accounting Period

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



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(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 Group is RMB.

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 2018 to 31 December 2018

(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 2018 to 31 December 2018

(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.

(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 2018 to 31 December 2018

(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

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

A financial asset is classified as financial assets at amortised cost if it meets both of the following conditions: ① It is managed within a business model whose objective is to collect contractual cash flows. ② The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially measured at fair value, with the related transaction costs included in the amount initially recognised. The financial assets are subsequently measured at amortised cost. Except for those designated as hedged items, any difference between the initially recognised amount and the amount at maturity is amortised using effective interest method while the profit or loss on amortization, depreciation and currency exchange and the profit or loss incurred at the time of de-recognition shall be recorded in the profit or loss of the current period.

Financial assets are classified as financial assets at fair value through other comprehensive income if both of the following conditions are met: ① the assets are managed within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; and ② the contractual terms of the financial assets specify that cash flows arising on specified dates are solely payments of principal and interest on the outstanding principal. Financial assets of this kind are initially measured at fair value and relevant transaction costs are recorded in the initially recognized amount. Except for those designated as hedged items, other profit or loss on financial assets of this kind (excluding the credit impairment loss or gain, the profit or loss on currency exchange, interests on financial assets measured by effective interest method) shall be recorded in other comprehensive income. At the time of derecognition of financial assets, the cumulative profit or loss previously recorded in other comprehensive income shall be released from other comprehensive income and recorded in the profit or loss of the current period.

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



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(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)

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

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

When the Group changes the business model for managing financial assets, all financial assets being affected are reclassified.

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

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

Where the transfer of a financial asset in whole satisfies the criteria of derecognition, the difference between the carrying amount of the financial asset transferred and the sum of consideration received for the transfer and any cumulative gain or loss of fair value that has been recognized directly in other comprehensive income for the part derecognized (the contractual terms of the transferred financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding) is included in profit or loss for the current period.

Where the transfer of financial asset in part satisfies the criteria of derecognition, the carrying amount of the entire financial asset transferred is allocated between the part to be derecognised and the part not to be derecognised in proportion to their respective relative fair values, and the difference between the sum of the consideration received for the transfer and any cumulative gain or loss of fair value for the part derecognized that has been recognized directly in other comprehensive income for the part derecognized (the contractual terms of the transferred financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding) and the carrying amount of the entire financial asset abovementioned for allocation is included in profit or loss for the current period.

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial Instruments (continued)

(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. These financial liabilities are subsequently measured at fair value. The net gain or loss arising from changes in fair value; dividends and Interest expenditure related to such financial liabilities are recorded in profit or loss for the period in which they are incurred.

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method. Except for the following, the Group classifies financial liabilities as financial liabilities at amortised cost: ① Financial liabilities at fair value through profit or loss, including held-for-trading financial liabilities (including derivatives that are financial liabilities) and financial liabilities designated as at fair value through profit or loss. ② Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. ③ Financial guarantee contracts that do not fall into ① or ② above, and commitments to provide a loan at a below-market interest rate that do not fall into ① above.

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

2) *Conditions for derecognition of financial liabilities*

When the present obligations of financial liabilities are released in whole or in part, such financial liabilities are derecognized to the extent of the obligations released. Where the Group enters into an agreement with its creditor to replace existing financial liabilities by assuming new financial liabilities with contractual terms substantively differ from those of the existing financial liabilities, the existing financial liabilities are derecognized while the new financial liabilities are recognized. Where the Group substantively revises, in whole or in part, the contractual terms of existing financial liabilities, such existing financial liabilities are derecognized in whole or in part, while those financial liabilities with their terms revised are recognized as new financial liabilities. The difference between the carrying amount of the derecognised part and the consideration paid is included in the profit or loss for the current period.

(3) 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. The level of fair value measurement is determined by the lowest level of inputs which are significant to the measurement of fair value as a whole.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial Instruments (continued)

(3) Method for determination of fair values of financial assets and financial liabilities (continued)

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

(4) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities of the Group shall be presented separately in the balance sheet and shall not be offset. However, when all of the following conditions are met, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet: (1) the Group has a legal right that is currently enforceable to set off the recognized amount, and (2) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

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

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

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

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

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



1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

11. Bills and accounts receivable

Method for determining the expected credit losses of notes receivable and accounts receivable and accounting treatment.

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

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

Information considered by the Group includes:

- the issuer or debtor has significant financial difficulty;
- the debtor has a breach of the contract, such as default or delay in payment of interest or principal;
- after consideration for relevant economic or contractual conditions based on the debtor's financial difficulty, the creditor grants the debtor a concession which would not be granted for any other situation;
- the debtor will probably enter bankruptcy or financial restructuring;
- the issuer's or debtor's financial difficulty conduces to the disappearance of the active market of the financial asset;
- a financial asset is purchased or originated at a large discount and the discount reflects the occurrence of credit loss.

For bills and accounts receivable, the Group adopts expected credit loss approach to provide for allowances for bad debts. For bills and accounts receivable which have significant different credit risk, expected credit loss is determined on an individual basis. Apart from determining expected credit loss on bills and accounts receivable on an individual basis, the Group also adopts the expected credit loss model based on collective characteristics, and calculates the expected credit loss on bills and accounts receivable using the exposure to default risk and expected credit loss rate of on bills and accounts receivable, and determine the expected credit loss rate based on default probability and default loss rate.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

11. Bills and accounts receivable (continued)

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

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

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

12. Other receivables

Recognition and accounting methods for expected credit loss on other receivables

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

Assessment made on a combined basis: For other receivables, the Group is unable to obtain sufficient evidence for any significant increase in credit risk at reasonable cost for one instrument, but finds it feasible to assess whether there is any significant increase in credit risk on a combined basis, therefore, by taking the type of financial instruments, credit risk rating, collateral type, date of initial recognition, remaining periods of time to maturity under remaining contracts, industry the borrower operates in and loan pledge rate as the common characteristics of risk, the Group categorizes other receivables into different groups and considers and assesses whether there is any significant increase in credit risk on a combined basis. The Group categorises other receivables into groups by nature and assesses whether there is any significant increase in credit risk.



1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

12. Other receivables (continued)

Measurement of expected credit loss: Expected credit loss is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received, discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

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

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

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.

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. Contract assets

Method and criteria for recognition of contract assets

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

For the recognition and accounting treatment for expected credit losses on contract assets, please refer to the recognition and accounting treatment as set out in "11. Bills and accounts receivable" above.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

14. Contract assets (continued)

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

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

15. Contract costs

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

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

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

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

(2) Amortization of assets related to contract costs

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

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

15. Contract costs (continued)

(3) Impairment of assets related to contract costs

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

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

16. 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.

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.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

16. 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, 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. If the Company holds long-term equity investments acquired through debt restructuring, non-monetary asset exchange, etc., the method of recognition of investment cost should be determined according to the requirements of the relevant business accounting standards and the disclosure of the Company's actual conditions.

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

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.

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

16. Long-term equity investments (continued)

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.

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, electronic equipment, vehicles and other equipment.

(2) Depreciation method

Type	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 equipment	Straight-line method	3–5	5	31.67–19.00
Vehicles	Straight-line method	5	5	19.00
Other equipment	Straight-line method	5	5	19.00

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



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

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

19. Borrowing costs

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.



1 January 2018 to 31 December 2018

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

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.

Those without foreseeable period to bring economic benefits to the Group due to various reasons are recognised as intangible assets with indefinite useful life. 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

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

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

From early investigations to the applications after maturity, the new product R&D projects of the Group shall undergo 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.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

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.



1 January 2018 to 31 December 2018

(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. Contract liabilities

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

24. 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.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

24. Employee compensation (continued)

(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 treatment for post-employment benefits

The Group currently does not provide any post-employment benefits.

(4) Accounting treatment for other long-term staff benefits

The Group currently does not provide any other long-term staff benefits.

25. Provisions

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

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

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.



1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

26. 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.

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.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

27. Revenue

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

No

Accounting policy adopted for the recognition and measurement of revenue

The Group's operation revenue is mainly from sale of goods, provision of services and interest income.

(1) Principles of revenue recognition

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

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

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

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

1. the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.
2. the customer can control the asset created or enhanced during the Group's performance.
3. the Group's performance does not create an asset with an alternative use to it and the Group has an enforceable right to payment for performance completed to date.



1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

27. Revenue (continued)

(1) Principles of revenue recognition (continued)

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

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

1. the Group has a present right to payment for the goods or services.
2. the Group has transferred the legal title of the goods to the customer.
3. the Group has transferred physical possession of the goods to the customer.
4. the Group has transferred the significant risks and rewards of ownership of the goods to the customer.
5. the customer has accepted the goods or services.

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

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

① Contracts for sale of goods

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



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

27. Revenue (continued)

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

② Contracts for provision of services

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

The adoption of different business models for the same type of business will lead to different accounting policies for revenue recognition.

28. Government grants

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.

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.



1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimates (continued)

28. Government grants (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.

29. Deferred income tax assets/deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities of the Group are calculated and recognised based on the difference between tax bases and carrying amounts of assets and liabilities (temporary differences). Deferred income tax asset is recognized for the deductible losses that are deductible against taxable profit in subsequent years in accordance with the requirements under tax laws. No deferred tax liability is 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 are recognised to the extent that it is probable that future taxable profit will be available to deduct from the deductible temporary difference, deductible losses and tax credits.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

30. Leasing

(1) Accounting for operating lease

Where the Group is the lessee of an operating lease, the rents are included in the related asset costs or in profit or loss for the current period using straight line method over each period during the lease term.

(2) Accounting for finance lease

At the commencement of the lease, the Group, as the lessee of a financial lease, shall regard the lower of the fair value of the leased assets at the commencement date of the lease and the present value of the minimum lease payments as the value recorded for fixed assets held under financial leases, and the minimum lease payments are regarded as the value recorded for long-term payables. The difference between the two values recorded is accounted for as unrecognized finance cost.

31. Available-for-sale

- (1) The Group classifies non-current assets or disposal groups that meet both of the following criteria as available-for-sale: (1) readily disposable under current conditions based on normal practices for similar transactions of disposals of such assets or disposal groups; (2) it is very probable that disposal can occur, that is, a resolution has been made on a disposal plan and a commitment 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 initial classification of non-current assets or disposal groups as available-for sale by the Group, the carrying value of each asset and liability in the non-current assets or disposal groups is measured according to the requirements of the relevant accounting standards. On initial measurement or on remeasurement at the balance sheet date of available-for-sale non-current assets or disposal groups, where carrying value is higher than the net amount of fair value less disposal expenses, the carrying value is reduced to the net amount of fair value less disposal expenses, and the amount so reduced is recognised as asset impairment loss in profit or loss for the current period, and at the same time, provision is made for impairment of available-for-sale assets.
- (2) Non-current assets or disposal groups acquired by the Group specifically for disposal, if satisfy the requirement of "expected completion of disposal within one year" on the date of acquisition, and is probable to satisfy other conditions of classification as available-for-sale in the short term (usually within 3 months), they are classified as available-for-sale on the date of acquisition. On initial measurement, the initial measurement assuming that it is not classified as held-for-sale and the net amount of fair value less disposal expenses are compared, and the lower one shall be taken as the measurement. Other than non-current assets or disposal groups acquired in a business combination, the difference arising from initial measurement at the net amount of fair value of non-current assets or disposal groups less disposal expenses are recognised in profit or loss for the current period.
- (3) Where the Group loses control over a subsidiary due to reasons such as disposal of investment in the subsidiary, regardless of whether the Group retaining part of the equity investment after the disposal or not, upon the investment in subsidiary to be disposed of satisfying the conditions of classification as available-for-sale, the investment in subsidiary as a whole will be classified as available-for-sale in the parent's separate financial statements, and all assets and liabilities of the subsidiary will be classified as available-for-sale in the consolidated financial statements.
- (4) Where there is an increase in the net amount of fair value less disposal expenses of non-current assets held as available-for-sale on subsequent balance sheet dates, the previously charged amount should be restored and is reversed to the amount of asset impairment loss recognised after classification as available-for-sale, with the reversal amount recognised in profit or loss for the current period. Asset impairment loss recognised before classification as available-for-sale is not reversible.

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

31. Available-for-sale (continued)

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

Where there is an increase in net amount of fair value less disposal expenses of disposal groups held as available-for-sale in subsequent balance sheet dates, the previously charged amount should be restored and is reversed to the amount of asset impairment loss recognised for non-current assets according to the appropriate relevant measurement requirements after classification as available-for-sale investment, with the reversal amount recognised in profit or loss for the current period. Book value of goodwill that has been offset and asset impairment loss recognised for non-current assets before classification as available-for-sale is not reversible.

Amount subsequently reversed after recognition of asset impairment loss of disposal groups held as available-for-sale, other than goodwill in the disposal groups, should be added to the book values of non-current assets proportionally based on the share of book value of each non-current asset.

- (6) No provision for depreciation or amortisation is made for non-current assets held as available-for-sale or non-current assets in disposal groups, and interest on liabilities and other expenses of disposal groups held as available for sale continues to be recognised.
- (7) When non-current assets or disposal groups held for sale are no longer classified as available-for-sale as they cease to be qualified as such or non-current assets are removed from the disposal groups held as available-for-sale, measurement is performed based on the lower of the following: (1) for book value prior to classification as available-for-sale, adjusted by the amount otherwise should have been recognised for depreciation, amortisation or impairment if they are not classified as available-for-sale; (2) recoverable amount.
- (8) Upon derecognition of non-current assets or disposal groups held for sale, unrecognised gain or loss is recognised in profit or loss for the current period.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

32. Other Significant Accounting Policies and Accounting Estimate

(1) Accounting for income tax

Income tax is accounted for using liability method. Income tax expenses represent the sum of current tax and deferred tax. Current tax and deferred tax relating to the transactions or matters that are directly recorded in shareholders' equity are 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.

(2) Segment information

The Group's operating segments are identified based on internal organisation structure, management requirements and internal reporting system. The reportable segments are determined and disclosed based on the operating segments.

Operating segment is a component of the Group that satisfies the following criteria simultaneously: the component can generate revenue and expenses in business activities; the management of the Group can assess the operating performance of the component in order to allocate resources and assess performance; and the Group can acquire accounting information such as the financial position, operating performance and cash flow of the component. If two or more operating segments carry similar economic characteristics, and satisfy certain criteria, they are combined as one operating segment.

(3) Discontinued operations

Discontinued operations refer to components of the Group which satisfy any of the following conditions and can be individually distinguished, and such components have been disposed of or classified as available-for-sale: (1) the components represent an independent major business or a separate major region of operation; (2) the components are part of an intended disposal plan related to an independent major business or a separate major region of operation; (3) the components are subsidiaries acquired specifically for resale.

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

33. 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

Note

The Ministry of Finance of the PRC announced the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instrument (Cai Kuai [2017] No. 7), Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets (Cai Kuai [2017] No. 8), Accounting Standards for Business Enterprises No. 24 – Hedging Accounting (Cai Kuai [2017] No. 9) on 31 March 2017, and announced the Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instrument (Cai Kuai [2017] No. 14) on 2 May 2017. (the above accounting standards are collectively referred as the “New Financial Instrument Standard”), requiring enterprises which have dual listings in the PRC and overseas or which are listed in the PRC which adopts the International Financial Reporting Standard or corporate accounting standard in composing its financial reports to implement the New Financial Instrument Standard from 1 January 2018.

The relevant changes in accounting policies have been approved on the 9th meeting of the 5th Board.

The Group would make bridging adjustments in accordance with the New Financial Instruments Standard: The Group will not adjust inconsistencies between the previous comparative financial reports and the New Financial Instrument Standard requirements. The Group will reflect the difference between the original book value of financial instruments and the new value on the date of the implementation of the New Financial Instrument Standard (i.e. 1 January 2018) in the undistributed profit and other aggregate revenue of the beginning of 2018. Details of the adjustments are set out in Note V. 33(4)1.

The Ministry of Finance of the PRC announced the Accounting Standards for Business Enterprises No. 14 – Revenues (Cai Kuai [2017] No. 22) (the “New Revenue Standard”) (the above New Revenue Standard and New financial Instrument Standard are collectively referred as “New Revenue and Financial Instrument Standard”) on 5 July 2017, requiring enterprises which have dual listings in the PRC and overseas or which are listed in the PRC which adopts the International Financial Reporting Standard or corporate accounting standard in composing its financial reports to implement the New Revenue Standard from 1 January 2018.

The relevant changes in accounting policies have been approved on the 9th meeting of the 5th Board.

In order to implement the New Revenue Standard, the Company would re-evaluate material contracts in terms of the confirmation, quantification, audit and reporting etc. of revenue from contracts. Pursuant to the New Revenue Standard, the Company elects to only adjust the accumulated sum being affected of material contracts that have not been completed on 1 January 2018. Initial accumulative adjustments have been made the undistributed profits and other relevant project amounts as at the commencement of the initial period (i.e. 1 January 2018); no adjustments were made to the financial statements for the year 2017. Details of the adjustments are set out in Note V. 33(4)1.

The Ministry of Finance of the PRC announced the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for the Year 2018 (Cai Kuai [2018] No. 15) on 15 June 2018 (the “New Format of Financial Statements”)

The relevant changes in accounting policies have been approved on the 11th meeting of the 5th Board.

The Group has prepared its financial statements for the year ended 31 December 2018 in accordance with the abovementioned New Financial Reporting Standard; the comparative financial statements have been adjusted accordingly. Details of the adjustments are set out in Note V. 33(4)2.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

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

(2) Change in significant accounting estimates

Applicable Not applicable

(3) Financial statements items at the beginning of year of first implementation of the New Financial Instruments Standard or first implementation of adjustment to the New Revenue Standard

Applicable Not applicable

Consolidated balance sheet

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Current assets:			
Monetary funds	879,371,103.17	879,371,103.17	—
Bills and accounts receivable	473,255,025.57	456,101,710.39	—
Including: Bills receivable	94,525,409.69	94,525,409.69	—
Accounts receivable	378,729,615.88	361,576,300.70	(17,153,315.18)
Loans and advances	88,102,411.40	85,869,407.71	(2,233,003.69)
Prepayments	91,643,819.19	91,643,819.19	—
Other receivables	48,649,156.68	47,271,775.89	(1,377,380.79)
Including: Interests receivable	4,220,913.66	4,220,913.66	—
Inventories	925,772,719.28	925,772,719.28	—
Other current assets	118,436,141.88	118,436,141.88	—
Total current assets	2,625,230,377.17	2,604,466,677.51	—

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

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

(3) Financial statements items at the beginning of year of first implementation of the New Financial Instruments Standard or first implementation of adjustment to the New Revenue Standard (continued)

Consolidated balance sheet (continued)

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Non-current assets:			
Available-for-sale financial assets	20,000.00	Not applicable	(20,000.00)
Long-term equity investments	2,639,321.48	2,639,321.48	—
Investments in other equity instruments	Not applicable	20,000.00	20,000.00
Fixed assets	2,891,875,882.19	2,891,875,882.19	—
Construction in progress	170,880,899.68	170,880,899.68	—
Intangible assets	443,968,124.33	443,968,124.33	—
Goodwill	26,683,383.21	26,683,383.21	—
Deferred income tax assets	4,391,835.90	4,391,835.90	—
Other non-current assets	57,113,143.58	57,113,143.58	—
Total non-current assets	3,597,572,590.37	3,597,572,590.37	—
Total assets	6,222,802,967.54	6,202,039,267.88	—
Current liabilities:			
Short-term borrowings	2,141,086,600.02	2,141,086,600.02	—
Bills and accounts payable	1,057,819,542.51	1,057,819,542.51	—
Receipts in advance	68,937,156.42	—	(68,937,156.42)
Contract liabilities	Not applicable	68,937,156.42	68,937,156.42
Salaries payable	51,245,591.21	51,245,591.21	—
Taxes payable	18,916,357.37	18,916,357.37	—
Other payables	37,977,339.12	37,977,339.12	—
Including: Interests payable	5,458,818.99	5,458,818.99	—
Non-current liabilities due within one year	155,946,611.23	155,946,611.23	—
Total current liabilities	3,531,929,197.88	3,531,929,197.88	—



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

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

(3) Financial statements items at the beginning of year of first implementation of the New Financial Instruments Standard or first implementation of adjustment to the New Revenue Standard (continued)

Consolidated balance sheet (continued)

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Non-current liabilities:			
Long-term borrowings	737,259,900.98	737,259,900.98	—
Provisions	8,000,000.00	8,000,000.00	—
Deferred revenue	6,954,855.00	6,954,855.00	—
Deferred income tax liabilities	7,325,919.30	7,325,919.30	—
Total non-current liabilities	759,540,675.28	759,540,675.28	—
Total liabilities	4,291,469,873.16	4,291,469,873.16	—
Owners' equity:			
Share capital	797,848,400.00	797,848,400.00	—
Capital reserve	860,517,458.42	860,517,458.42	—
Other comprehensive income	(1,402,748.25)	(1,402,748.25)	—
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	16,691,225.47	(19,243,085.65)
Total equity attributable to owners of the parent company	1,869,595,561.71	1,850,352,476.06	—
Minority interests	61,737,532.67	60,216,918.66	(1,520,614.01)
Total owners' equity	1,931,333,094.38	1,910,569,394.72	—
Total liabilities and owners' equity	6,222,802,967.54	6,202,039,267.88	—

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

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

(3) Financial statements items at the beginning of year of first implementation of the New Financial Instruments Standard or first implementation of adjustment to the New Revenue Standard (continued)

Particulars of the adjustments

Except for those items that need to be adjusted as above, balances of other related financial statements items at 31 December 2017 and at 1 January 2018 remained the same.

Balance sheet of the parent company

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Current assets:			
Monetary funds	773,947,067.08	773,947,067.08	—
Bills and accounts receivable	544,044,670.98	527,379,362.42	—
Including: Bills receivable	72,924,479.69	72,924,479.69	—
Accounts receivable	471,120,191.29	454,454,882.73	(16,665,308.56)
Prepayments	505,965,265.70	505,965,265.70	—
Other receivables	528,134,554.56	528,220,871.63	86,317.07
Including: Interests receivable	4,220,913.66	4,220,913.66	—
Inventories	695,259,975.82	695,259,975.82	—
Total current assets	3,047,351,534.14	3,030,772,542.65	—
Non-current assets:			
Available-for-sale financial assets	20,000.00	Not applicable	(20,000.00)
Long-term equity investments	1,144,069,921.73	1,144,069,921.73	—
Investments in other equity instruments	Not applicable	20,000.00	20,000.00
Fixed assets	1,220,914,534.22	1,220,914,534.22	—
Intangible assets	145,039,514.50	145,039,514.50	—
Other non-current assets	2,922,972.59	2,922,972.59	—
Total non-current assets	2,512,966,943.04	2,512,966,943.04	—
Total assets	5,560,318,477.18	5,543,739,485.69	—



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

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

(3) Financial statements items at the beginning of year of first implementation of the New Financial Instruments Standard or first implementation of adjustment to the New Revenue Standard (continued)

Balance sheet of the parent company (continued)

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Current liabilities:			
Short-term borrowings	1,254,744,600.02	1,254,744,600.02	—
Bills and accounts payable	1,344,994,649.78	1,344,994,649.78	—
Receipts in advance	62,536,928.81	—	(62,536,928.81)
Contract liabilities	Not applicable	62,536,928.81	62,536,928.81
Salaries payable	33,949,349.08	33,949,349.08	—
Taxes payable	9,956,505.15	9,956,505.15	—
Other payables	29,529,708.71	29,529,708.71	—
Including: Interests payable	2,704,194.54	2,704,194.54	—
Non-current liabilities due within one year	148,403,413.66	148,403,413.66	—
Total current liabilities	2,884,115,155.21	2,884,115,155.21	—
Non-current liabilities:			
Long-term borrowings	444,803,098.55	444,803,098.55	—
Provisions	8,000,000.00	8,000,000.00	—
Total non-current liabilities	452,803,098.55	452,803,098.55	—
Total liabilities	3,336,918,253.76	3,336,918,253.76	—
Owners' equity:			
Share capital	797,848,400.00	797,848,400.00	—
Capital reserve	860,498,790.92	860,498,790.92	—
Surplus reserve	176,686,903.51	176,686,903.51	—
Undistributed profits	388,366,128.99	371,787,137.50	(16,578,991.49)
Total owners' equity	2,223,400,223.42	2,206,821,231.93	—
Total liabilities and owners' equity	5,560,318,477.18	5,543,739,485.69	—

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

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

(3) Financial statements items at the beginning of year of first implementation of the New Financial Instruments Standard or first implementation of adjustment to the New Revenue Standard (continued)

Particulars of the adjustments

Except for those items that need to be adjusted as above, balances of other related financial statements items at 31 December 2017 and at 1 January 2018 remained the same.

(4) First implementation of the New Revenue and Financial Instrument Standards and adjustments regarding new format of financial statements

1) The New Revenue and Financial Instrument Standards

At 1 January 2018, the Group implemented the New Revenue and Financial Instrument Standards and the effects of which on the consolidated balance sheet of the Group and the balance sheet of the parent company are as follows:

The Group

Statement item	Carrying amount as stated under the original standard 31 December 2017	Reclassification		Remeasurement		Carrying amount as stated under the new standard 1 January 2018
		The New Revenue Standard (Note 1)	The New Financial Instrument Standard (Note 2)	The New Revenue Standard	The New Financial Instrument Standard (Note 3)	
Bills and accounts receivables	473,255,025.57	—	—	—	(17,153,315.18)	456,101,710.39
Other receivables	48,649,156.68	—	—	—	(1,377,380.79)	47,271,775.89
Loans and advances	88,102,411.40	—	—	—	(2,233,003.69)	85,869,407.71
Available-for-sale financial assets	20,000.00	—	(20,000.00)	—	—	—
Investments in other equity instruments – financial assets at fair value through profit or loss for the period	—	—	20,000.00	—	—	20,000.00
Receipts in advance	68,937,156.42	(68,937,156.42)	—	—	—	0.00
Contract liabilities	—	68,937,156.42	—	—	—	68,937,156.42
Undistributed profits	35,934,311.12	—	—	—	(19,243,085.65)	16,691,225.47
Minority interests	61,737,532.67	—	—	—	(1,520,614.01)	60,216,918.66



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

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

(4) First implementation of the New Revenue and Financial Instrument Standards and adjustments regarding new format of financial statements (continued)

1) The New Revenue and Financial Instrument Standards (continued)

The parent company

Statement item	Carrying amount as stated under the original standard 31 December 2017	Reclassification		Remeasurement		Carrying amount as stated under the new standard 1 January 2018
		The New Revenue Standard (Note 1)	The New Financial Instrument Standard (Note 2)	The New Revenue Standard	The New Financial Instrument Standard (Note 3)	
Bills and accounts receivables	544,044,670.98	—	—	—	(16,665,308.56)	527,379,362.42
Other receivables	528,134,554.56	—	—	—	86,317.07	528,220,871.63
Available-for-sale financial assets	20,000.00	—	(20,000.00)	—	—	0.00
Investments in other equity instruments – financial assets at fair value through profit or loss for the period	—	—	20,000.00	—	—	20,000.00
Receipts in advance	62,536,928.81	(62,536,928.81)	—	—	—	0.00
Contract liabilities	—	62,536,928.81	—	—	—	62,536,928.81
Undistributed profits	388,366,128.99	—	—	—	(16,578,991.49)	371,787,137.50

Note 1: Due to the implementation of the New Revenue Standard, the Group reclassified the receipts in advance that related to sales of goods to contract liabilities.

Note 2: At 1 January 2018, available-for-sale financial assets of RMB20,000 were reclassified to investments in other equity instruments — financial assets at fair value through profit or loss for the period.

Note 3: As required by the New Financial Instrument Standard, since 1 January 2018, the Group has changed the measurement of impairment of financial assets from incurred loss model to expected credit loss model.

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

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

(4) First implementation of the New Revenue and Financial Instrument Standards and adjustments regarding new format of financial statements (continued)

2) New format of financial statements

According to the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for the Year 2018 (Cai Kuai [2018] No. 15), the Group has made the following adjustments to the items in the financial statements:

The Group

① Balance sheet

Statement item	Balance before changes in accounting policies	Reclassification	Balance after changes in accounting policies
Bills receivable	94,525,409.69	(94,525,409.69)	—
Accounts receivable	378,729,615.88	(378,729,615.88)	—
Bills and accounts receivable	—	473,255,025.57	473,255,025.57
Interests receivable	4,220,913.66	(4,220,913.66)	—
Other receivables	44,428,243.02	4,220,913.66	48,649,156.68

② Income statement

Statement item	Amount before changes in accounting policies	Reclassification	Amount after changes in accounting policies
Administrative expenses	162,091,883.83	(29,265,348.19)	132,826,535.64
Research and development expenses	—	29,265,348.19	29,265,348.19



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

III. Significant Accounting Policies and Accounting Estimate (continued)

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

(4) First implementation of the New Revenue and Financial Instrument Standards and adjustments regarding new format of financial statements (continued)

2) New format of financial statements (Continued)

The parent company

① Balance sheet

Statement item	Amount before changes in accounting policies	Reclassification	Amount after changes in accounting policies
Bills receivable	72,924,479.69	(72,924,479.69)	—
Accounts receivable	471,120,191.29	(471,120,191.29)	—
Bills and accounts receivable	—	544,044,670.98	544,044,670.98
Interests receivable	4,220,913.66	(4,220,913.66)	—
Other receivables	523,913,640.90	4,220,913.66	528,134,554.56

② Income statement

Statement item	Amount before changes in accounting policies	Reclassification	Amount after changes in accounting policies
Administrative expenses	85,933,957.49	(29,265,348.19)	56,668,609.30
Research and development expenses	—	29,265,348.19	29,265,348.19

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

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. According to the Notice of the Ministry of Finance and State Taxation Administration on the Adjustment to Value-Added Tax Rates" (Cai Shui [2018] No.32), effective from 1 May 2018, the applicable value-added tax rate of the Group has been adjusted to 16%. Export commodities are subject to taxation method of "exemption, reduction and rebate"	17%,16%
Consumption tax	—	—
City maintenance and construction tax	Value-added tax payable	7%
Corporate income tax	Income tax payable	15%–25%
Educational surcharge	Value-added tax payable	3%
Local education Surcharge	Value-added tax payable	2%



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(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 ("Molong Logistic")	25%
MPM International Limited ("MPM")	16.5%
Shouguang Baolong Petroleum Material Company Limited ("Shouguang Baolong")	25%
Shouguang Maolong New Materials Technology Development Company Limited ("Shouguang Maolong")	25%
Shouguang Molong Electro-mechanical Equipment Company Limited ("Shouguang Molong Electro-mechanical")	25%
Shouguang Maolong Old Metals Recycle Company Limited ("Shouguang Maolong Recycle")	25%
Weihai Baolong Special Petroleum Materials Company Limited ("Weihai Baolong")	25%
Wendeng Baolong Recyclable Resource Company Limited ("Baolong Resource")	10%
Shouguang Maolong Micro-Credit Company Limited ("Maolong Micro-Credit")	25%
Shandong Molong Import & Export Company Limited ("Shandong Molong I&E")	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 2018 to 31 December 2018

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

V. Notes to 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	506,001.34	80,063.78
Bank deposit	421,717,103.46	358,337,889.58
Other monetary funds	470,229,169.96	520,953,149.81
Total	892,452,274.76	879,371,103.17
Including: total amount deposited abroad	2,530,438.71	39,886,422.23

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, included in other monetary funds were bank acceptance security deposit of RMB455,487,432.73 (as at the beginning of the year: RMB498,553,149.81), loan deposits of RMB14,741,737.23 (as at the beginning of the year: RMB nil), and deposits for performance guarantee of RMB nil (as at the beginning of the year: RMB22,400,000.00).
- (3) The bank acceptance bill deposits with maturity date over 3 months amounted to RMB309,907,792.56 (as at the beginning of the year: RMB216,175,000.00).
- (4) As at the balance sheet date, RMB3.62 million of the Group's bank deposits was subject to judicial freezing for litigations. Up to the date of this financial statements, RMB650,000 of the frozen funds has not been released.

2. Derivative financial assets

Applicable Not applicable



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

3. Loans and advances

Unit: RMB

Item	Balance at end of year	Balance at beginning of year
Loans and advances, net	38,561,702.67	85,869,407.71
Total	38,561,702.67	85,869,407.71

(1) Breakdown of loans and advances

Unit: RMB

Item	31 December 2018	1 January 2018	31 December 2017
Loans and advances	62,882,698.08	108,971,810.00	108,971,810.00
Less: Provisions for loans	24,320,995.41	23,102,402.29	20,869,398.60
Loans and advances, net	38,561,702.67	85,869,407.71	88,102,411.40

(2) Loans and advances by guarantee

Unit: RMB

Loan type	31 December 2018	1 January 2018	31 December 2017
Pledged loans	12,213,436.00	15,865,372.00	16,205,324.00
Secured loans	6,539,234.63	9,447,075.00	9,586,045.00
Guaranteed loans	19,809,032.04	60,556,960.71	62,311,042.40
Total	38,561,702.67	85,869,407.71	88,102,411.40

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

3. Loans and advances (continued)

(3) Provisions for loans and advances

As at 31 December 2018, the Group had overdue loans of RMB62,882,698.08. the profile of the Group's loans based on their securities and guarantees and status using the expected credit loss model was as follows:

Overdue	Amount	Percentage to total amount of loans (%)	Balance of provisions for loans as at end of year
>360 days	56,882,698.08	90.46	22,280,995.41
180-360 days	6,000,000.00	9.54	2,040,000.00
90-180 days	—	—	—
<90 days	—	—	—
Total	62,882,698.08	100.00	24,320,995.41

(4) Loans and advances by borrower type

Type	31 December 2018				
	Book balance		Provision for loans		Net amount of loans
	Amount	Percentage (%)	Amount	Provision rate (%)	
Corporate loans	56,846,698.08	90.40	23,000,535.41	40.46	33,846,162.67
Personal loans	6,036,000.00	9.60	1,320,460.00	21.88	4,715,540.00
Total	62,882,698.08	100.00	24,320,995.41	—	38,561,702.67



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

3. Loans and advances (continued)

(4) Loans and advances by borrower type (continued)

Type	1 January 2018				
	Book balance		Provision for loans		Net amount of loans
	Amount	Percentage (%)	Amount	Provision rate (%)	
Corporate loans	66,246,810.00	60.79	14,964,652.29	22.59	51,282,157.71
Personal loans	42,725,000.00	39.21	8,137,750.00	19.05	34,587,250.00
Total	108,971,810.00	100.00	23,102,402.29	—	85,869,407.71

(5) Provision, recovery and reversal of provision for impairment of loans and advances for the year

Type	31 December 2017	Balance at		Movement in the year			31 December 2018
		Effect of changes in the New Financial Instrument Standard	1 January 2018 under the New Financial Instrument Standard	Recovery or Provision	reversal	Offset or write-off	
Provisions for impairment of loans and advances	20,869,398.60	2,233,003.69	23,102,402.29	1,218,593.12	—	—	24,320,995.41
Total	20,869,398.60	2,233,003.69	23,102,402.29	1,218,593.12	—	—	24,320,995.41

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

4. Bills and accounts receivable

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Bills receivable	382,901,696.30	94,525,409.69
Accounts receivable	536,199,939.96	361,576,300.70
Total	919,101,636.26	456,101,710.39

(1) Bills receivable

1) Presentation of bills receivable by type

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Bank acceptance bills	111,166,610.00	63,760,928.69
Trade acceptance bills	271,735,086.30	30,764,481.00
Total	382,901,696.30	94,525,409.69

If provision for bad debts of bills receivable was made using the general approach of expected credit loss, please disclose the information on provision for bad debts with reference to the disclosures of other receivables:

Applicable Not applicable



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

4. Bills and accounts receivable (continued)

(1) Bills receivable (continued)

2) Provision, recovery and reversal of provision for impairment of loans and advances for the period

Applicable Not applicable

3) Pledged bills receivable of the Company at end of period

Unit: RMB

Item	Pledged amount at end of period
Bank acceptance bills	89,740,000.00
Trade acceptance bills	148,945,684.20
<hr/>	
Total	238,685,684.20

4) Bill receivables that have been endorsed or discounted at the end of the period and have not yet expired at the balance sheet date:

Unit: RMB

Item	Amount derecognised as at end of period	Amount not derecognised as at end of period
Bank acceptance bills	896,963,373.45	—
Trade acceptance bills	—	94,281,027.25
<hr/>		
Total	896,963,373.45	94,281,027.25

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

4. Bills and accounts receivable (continued)

(1) Bills receivable (continued)

5) Bills transferred to accounts receivable due to non-performance of drawers at the end of the year

The Group had no bills transferred to accounts receivable due to non-performance of drawers at the end of year.

6) Other descriptions

As at the end of the period, the Group had bank acceptance bills of RMB89,740,000.00 which were pledged to Bank of Kunlun. The secured bills were all due by 28 March 2019. Trade acceptance bills of RMB148,945,684.20 were pledged to Bank of Kunlun and all are due by 25 June 2019.

The Group's bills receivable at the end of the year as mentioned above are all aged within 1 year.

7) Write-off of bills receivable for the period

Information on write-off of bills receivable:

As at the end of the year, The Group had no bills receivable that have been written off.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

4. Bills and accounts receivable (continued)

(2) Accounts receivable

1) Disclosure of accounts receivable by type

Unit: RMB

Type	Balance at end of period					Balance at beginning of period				
	Book balance		Provision for bad debts		Book value	Book balance		Provision for bad debts		Book value
	Amount	Percentage	Amount	Provision rate		Amount	Percentage	Amount	Provision rate	
Accounts receivable provided for bad debts on an individual basis	24,966,256.93	3.78%	9,986,502.77	40.00%	14,979,754.16	30,516,256.93	6.57%	1,850,000.00	6.06%	28,666,256.93
Including:										
Accounts receivable provided for bad debts on an individual basis due to significantly different credit risk	24,966,256.93	3.78%	9,986,502.77	40.00%	14,979,754.16	30,516,256.93	6.57%	1,850,000.00	6.06%	28,666,256.93
Accounts receivable provided for bad debts on a collective basis	634,673,769.99	96.22%	113,453,584.19	17.88%	521,220,185.80	434,104,223.36	93.43%	101,194,179.59	23.31%	332,910,043.77
Including:										
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	634,673,769.99	96.22%	113,453,584.19	17.88%	521,220,185.80	434,104,223.36	93.43%	101,194,179.59	23.31%	332,910,043.77
Total	659,640,026.92	100.00%	123,440,086.96	—	536,199,939.96	464,620,480.29	100.00%	103,044,179.59	—	361,576,300.70

Provision for bad debts on an individual basis: Accounts receivable provided for bad debts on an individual basis due to significantly different credit risk

Unit: RMB

Name	Balance at end of period			Reason for provision
	Book balance	Provision	Provision rate	
Hebei Zhongtai Steel Pipe Manufacture Company Limited (河北中泰鋼管製造有限公司)	24,966,256.93	9,986,502.77	40.00%	按照該客戶的預期信用損失金額計提
Total	24,966,256.93	9,986,502.77	—	—

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

4. Bills and accounts receivable (continued)

(2) Accounts receivable (continued)

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

Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics

Unit: RMB

Name	Balance at end of period		
	Book balance	Provision for bad debts	Provision rate
Within 1 year	507,268,066.12	5,072,680.67	1.00%
1–2 years	4,828,632.86	2,414,316.43	50.00%
2–3 years	13,640,571.89	10,230,428.92	75.00%
3–5 years	88,002,272.99	74,801,932.04	85.00%
Over 5 years	20,934,226.13	20,934,226.13	100.00%
Total	634,673,769.99	113,453,584.19	—

If provision for bad debts of accounts receivables was made using the general approach of expected credit loss, please disclose the information on provision for bad debts with reference to the disclosures of other receivables:

Applicable Not applicable



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

4. Bills and accounts receivable (continued)

(2) Accounts receivable (continued)

1) Disclosure of accounts receivable by type (continued)

Disclosure by age

Unit: RMB

Age	Balance at end of period
1 year (inclusive)	507,268,066.12
1 to 2 years	4,828,632.86
2 to 3 years	18,659,661.29
Over 3 years	128,883,666.65
Total	659,640,026.92

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

Provisions for bad debts for the period:

Unit: RMB

Type	Balance of beginning of period	Movement during the year			Balance of end of period
		Provision	Recovery or reversal	Write-off	
Provisions for bad debts of accounts receivable	103,044,179.59	20,395,907.37	—	—	123,440,086.96
Total	103,044,179.59	20,395,907.37	—	—	123,440,086.96

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

4. Bills and accounts receivable (continued)

(2) Accounts receivable (continued)

- 3) *Bills receivable written off during the period*
The Group did not write off any accounts receivable during the year.
- 4) *Balance of top five accounts receivable as at the end of the period by debtor*
This year, the aggregate balance of top five accounts receivable as at the end of the period by debtor amounted to RMB248,600,684.84, accounting for 37.69% of the balance of total accounts receivable as at the end of the year. The aggregate balance of corresponding provisions for bad debts as at the end of the year amounted to RMB40,762,434.12.
- 5) *Account receivables that were derecognized on transfer of financial assets*
Nil
- 6) *Amount of assets or liabilities for which accounts receivable have been transferred but involvement continues*
Nil

Other descriptions:

As at 31 December 2018, the Group had no account receivables that were derecognised due to the transfer of financial assets, and there were no assets or liabilities for which accounts receivable have been transferred but involvement continues.

As at 31 December 2018, accounts receivable of the Group amounting to RMB18,061,545.11 were restricted for use as they have been applied to the factoring of loans.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

5. 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	23,159,864.28	74.76%	79,154,406.20	86.37%
1 to 2 years	2,883,517.20	9.31%	12,478,729.38	13.62%
2 to 3 years	4,924,170.11	15.90%	—	—
Over 3 years	10,683.61	0.03%	10,683.61	0.01%
Total	30,978,235.20	—	91,643,819.19	—

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

As at the end of the year, the Group had no significant prepayments aged over one year.

(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	7,287,860.06	within 1 year	23.53
Unit II	4,290,498.91	2-3 years	13.85
Unit III	2,485,415.96	1-2 years	8.02
Unit IV	1,270,000.00	within 1 year	4.10
Unit V	1,182,499.30	within 1 year	3.82
Total	16,516,274.23	—	53.32

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

6. Other receivables

Item	Balance at end of period	Unit: RMB
		Balance at beginning of period
Interests receivable	2,710,659.25	4,220,913.66
Dividends receivable	—	—
Other receivables	44,987,044.41	43,050,862.23
Total	47,697,703.66	47,271,775.89

Note: In the table above, other receivables refer to the other receivables after deducting interests receivable and dividends receivable.

(1) Interest receivables

1) Category of interest receivables

Item	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Time deposits	2,710,659.25	4,220,913.66
Total	2,710,659.25	4,220,913.66

2) Significant overdue interest

The above interests of the Group are not overdue.

3) Provision for bad debts

Applicable Not applicable



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

6. Other receivables (continued)

(2) Other receivables (continued)

1) Other receivables by payment nature

Unit: RMB

Payment nature	Book balance at end of period	Book balance at beginning of period
Staff turnover loans	1,120,000.00	803,000.00
Deposits/ caution money	1,981,819.00	2,106,642.00
Amounts due from administrative entities	42,059,310.85	27,473,713.26
Other amounts due from individuals	28,032.00	28,032.00
Other amounts due from entities	38,991,748.56	35,633,868.19
Less: Provision for bad debts of other receivables	(39,193,866.00)	(22,994,393.22)
Total	44,987,044.41	43,050,862.23

2) Provision for bad debts

Unit: RMB

Provision for bad debts	Stage 1	Stage 2	Stage 3	Total
	Next 12-month expected credit loss	Lifetime expected credit loss (without credit impairment)	Lifetime expected credit loss (with credit impairment)	
Balance at 1 January 2018	161,364.46	2,548,709.49	20,284,319.27	22,994,393.22
Transfer to Stage 1 of balance at 1 January 2018 during the period	256,529.81	—	—	—
Provision for the period	186,274.52	999,963.92	15,013,234.34	16,199,472.78
Balance at 31 December 2018	347,638.98	3,548,673.41	35,297,553.61	39,193,866.00

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

6. Other receivables (continued)

(2) Other receivables (continued)

2) Provision for bad debts (continued)

Movement of book balance of significant change in provision for the period

Applicable Not applicable

Disclosure by age

Unit: RMB

Age	Balance at end of period
1 year (inclusive)	25,126,578.15
1 to 2 years	256,529.81
2 to 3 years	666,827.36
Over 3 years	58,130,975.09
Total	84,180,910.41

3) Provision, recovery or reversal of provision for bad debts for the period

Provisions for bad debts for the period:

Unit: RMB

Type	Balance of beginning of period	Movement during the period		Balance of end of period
		Provision	Recovery or reversal	
Provisions for bad debts of other receivables	22,994,393.22	16,199,472.78	—	39,193,866.00
Total	22,994,393.22	16,199,472.78	—	39,193,866.00



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

6. Other receivables (continued)

(2) Other receivables (continued)

- 4) *Other receivables written off during the period*
The Group did not write off any accounts receivable during the year.
- 5) *Balance of top five other receivables as at the end of the period by debtor*

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	Current amounts	35,015,302.36	3-4 years	41.60%	35,015,302.36
Shang Kou Station of Finance, Political, Economic and Management	Subsidies and grants for recycling resources enterprises	18,234,769.37	Within 1 year	21.66%	—
Shouguang City Yang Kou Town Office of Finance	Project construction deposit	14,530,000.00	Over 5 years	17.26%	1,743,600.00
Shougang City Yang Kou Town Statistic Center of Finance, Political, Economic and Management Affairs	Current amounts	7,250,941.48	Within 4 years	8.61%	1,281,749.07
People's Government of Gao Cun Town, Wendeng City	Government funds	1,500,000.00	Over 5 years	1.78%	450,000.00
Total	—	76,531,013.21	—	90.91%	38,490,651.43

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

6. Other receivables (continued)

(2) Other receivables (continued)

6) Accounts receivable involving governmental subsidy

Unit: RMB

Name of entity	Name of government grant	Balance at end of period	Age at end of period	Expected time and amount of receipts and its rationale
Shougang City Yang Kou Town Statistic Center of Finance, Political, Economic and Management Affairs	Subsidies and grants for recycling resources enterprises	18,234,769.37	Within 1 year	2019-4-30

Up to 22 March 2019, the Group has received subsidies and grants for recycling resources enterprises of RMB 12,455,000.00.

7) Other receivables derecognised due to transfer of financial assets

As at 31 December 2018, the Group had no other receivables that were derecognised due to transfer of financial assets.

8) Amount of assets and liabilities for which other receivables have been transferred but involvement continues

As at 31 December 2018, there were no assets or liabilities for which the other receivables have been transferred but involvement continues, and there were no other receivables that have been pledged.

7. Inventories

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

No



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

7. Inventories (continued)

(1) Category of inventories

Unit: RMB

Item	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for impairment of inventories or provision for devaluation of costs of contract performance	Book value	Book balance	Provision for impairment of inventories	Book value
Raw materials	444,194,514.71	6,495,298.33	437,699,216.38	364,667,996.09	7,307,395.94	357,360,600.15
Work in progress	211,490,453.03	3,397,807.05	208,092,645.98	189,262,234.99	5,120,938.40	184,141,296.59
Goods in stock	395,379,028.81	5,043,310.44	390,335,718.37	371,508,759.21	10,488,448.82	361,020,310.39
Sub-contracting materials	6,635,709.77	2,033.49	6,633,676.28	23,250,512.15	—	23,250,512.15
Total	1,057,699,706.32	14,938,449.31	1,042,761,257.01	948,689,502.44	22,916,783.16	925,772,719.28

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

Whether the Company needs to comply with the disclosure requirements under the Guidelines of the Shenzhen Stock Exchange for Industrial Information Disclosure No.11 — Listed companies engaged in jewelry-related business.

No

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

7. Inventories (continued)

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

Unit: RMB

Item	Balance at the beginning of the period	Increase 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	7,307,395.94	2,068,457.81	—	2,880,555.42	—	6,495,298.33
Work in progress	5,120,938.40	2,872,827.27	—	4,595,958.62	—	3,397,807.05
Goods in stock	10,488,448.82	4,115,533.27	—	9,560,671.65	—	5,043,310.44
Entrusted processing materials	—	2,033.49	—	—	—	2,033.49
Total	22,916,783.16	9,058,851.84	—	17,037,185.69	—	14,938,449.31

Impairment provision for inventories decreased by RMB15,581,439.28 of write-off and RMB1,455,746.41 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) Information on the amortised amount of cost of contract performance for the period

Nil



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

8. Other current assets

Item	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Costs of contract acquisition	—	—
Costs of returned goods receivable	—	—
Deductible input tax	36,490,388.84	115,388,999.62
Prepaid income tax	2,565,306.96	2,178,186.55
Prepaid other taxes	846,809.61	868,955.71
Bank financial products	104,900,000.00	—
Total	144,802,505.41	118,436,141.88

Notes:

1. The book value as at the end of the period of the debt investments acquired by the Company that are due within one year and measured at amortized cost is reflected as a line item in "other current assets".
2. The book value as at the end of the period of the debt investments acquired by the Company that are due within one year and measured at fair value through other comprehensive income is reflected as a line item in "other current assets".
3. For "costs of contract acquisition", it is determined by whether the amortization period of specific items in the "costs of contract acquisition" category at initial recognition is over one year or a normal business cycle. If it is not over one year or a normal business cycle, it is stated in "other current assets". If it has been provided for impairment, it is stated after deducting the amount of balance of the end of the period of the "costs of contract acquisition" category.
4. For "costs of returned goods receivable", it is determined by whether the goods in the "costs of contract acquisition" category are sold within one year or a normal business cycle. If it is sold within one year or a normal business cycle, it is stated in "other current assets".

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

9. Long-term Equity Investments

Unit: RMB

Investee	Balance at the beginning of the period	Increase/decrease during the period								Balance at the end of the period	Balance of provision for impairment at the end of the period	
		Addition	Reduction	Gain or loss on investments recognised under the equity method	Adjustment to other comprehensive income	Other changes in equity	Cash dividend or profits declared	Provision for impairment	Others			
I. Joint Venture	—	—	—	—	—	—	—	—	—	—	—	—
II. Associate	—	—	—	—	—	—	—	—	—	—	—	—
Karamay Yalong Petroleum Machinery Co., Ltd	2,639,321.48	—	—	24,197.42	—	—	—	—	—	—	2,663,518.90	—
Sub-total	2,639,321.48	—	—	24,197.42	—	—	—	—	—	—	2,663,518.90	—
Total	2,639,321.48	—	—	24,197.42	—	—	—	—	—	—	2,663,518.90	—

10. Investments in other equity instruments

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Equity interests in Shouguang Environmental Protection Association (壽光市環境保護協會股權)	—	20,000.00
Total	—	20,000.00

11. Fixed Assets

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Fixed assets	2,915,815,731.99	2,891,875,882.19
Total	2,915,815,731.99	2,891,875,882.19



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

11. Fixed Assets (continued)

(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	1,093,119,547.64	3,152,358,153.61	120,896,489.31	12,422,660.18	4,378,796,850.74
2. Additions for the period	8,669,400.16	280,388,289.20	7,226,170.63	6,166,223.11	302,450,083.10
(1) Purchase	5,937,372.46	18,485,198.75	5,115,186.79	1,595,401.17	31,133,159.17
(2) Transferred from construction in progress	2,732,027.70	261,903,090.45	2,110,983.84	4,570,821.94	271,316,923.93
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the period	13,105,680.47	129,268,699.34	4,073,626.13	1,202,346.53	147,650,352.47
(1) Disposal or retirement	13,105,680.47	112,782,076.92	3,216,952.20	1,202,346.53	130,307,056.12
(2) Other reductions	—	16,486,622.42	856,673.93	—	17,343,296.35
4. Balance at the end of the period	1,088,683,267.33	3,303,477,743.47	124,049,033.81	17,386,536.76	4,533,596,581.37
II. Accumulated depreciation					
1. Balance at the beginning 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
2. Additions for the period	51,618,891.47	180,868,464.85	4,848,931.84	1,531,164.03	238,867,452.19
(1) Provision	51,618,891.47	180,868,464.85	4,848,931.84	1,531,164.03	238,867,452.19
3. Reductions for the period	6,208,937.35	90,222,944.52	2,686,685.86	1,087,808.10	100,206,375.83
(1) Disposal or retirement	6,208,937.35	90,222,944.52	2,686,685.86	1,087,808.10	100,206,375.83
4. Balance at the end of the period	268,497,550.15	1,180,667,663.42	90,402,621.08	9,161,812.95	1,548,729,647.60
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	—	7,801,195.53	—	—	7,801,195.53
(1) Disposal or retirement	—	7,801,195.53	—	—	7,801,195.53
4. Balance at the end of the period	4,986,478.28	64,064,723.50	—	—	69,051,201.78
IV. Book value					
1. Book value at the end of the period	815,199,238.90	2,058,745,356.55	33,646,412.73	8,224,723.81	2,915,815,731.99
2. Book value at the beginning 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

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

11. Fixed Assets (continued)

(2) Fixed assets with pending out certificate of ownership

Unit: RMB

Item	Book value	Reasons for pending out certificate of ownership
140 rolled tube main workshop	7,501,124.54	Application in process
New dormitory building and staff dining hall in Weihai Building No. 7 of Molong Garden	4,327,954.46	Application in process
Logistics Park Plant	7,290,000.00	Application in process
Main electric-arc furnace plant and steel scrap plant in Beiluo	7,910,059.58	Application in process
Workshop plant, office building and staff canteen of Shouguang Maolong	62,420,586.03	Application in process
	266,898,119.94	Not handling
Total	356,347,844.55	

Other descriptions:

The Group had no temporarily idle fixed assets.

The Group had no fixed assets that were leased in under finance leases or leased out under operating leases.

12. Construction in Progress

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Construction in progress	35,871,296.86	170,880,899.68
Total	35,871,296.86	170,880,899.68



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

12. Construction in Progress (continued)

(1) Details of Construction in Progress

Unit: RMB

Project	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	22,296,180.78	—	22,296,180.78	21,541,097.42	—	21,541,097.42
90 tons electric-arc furnace project II	—	—	—	130,136,869.43	—	130,136,869.43
Electromechanical cast steel mill relocation project	185,294.56	—	185,294.56	10,931,962.65	—	10,931,962.65
Furnace rehabilitation and improvement and construction of new auxiliary and miscellaneous project	8,492,694.99	—	8,492,694.99	5,211,330.18	—	5,211,330.18
Other miscellaneous projects	4,897,126.53	—	4,897,126.53	3,059,640.00	—	3,059,640.00
Total	35,871,296.86	—	35,871,296.86	170,880,899.68	—	170,880,899.68

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

12. Construction in Progress (continued)

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

Unit: RMB

Name of project	Budget amount	Balance at the beginning of the period	Increase during the period	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: interest expenses during the period	Ratio of interest capitalised	Sources of fund
							to the		interest capitalised	period	interest capitalised	
Employee technical Development training centre	26,000,000.00	21,541,097.42	755,083.36	—	—	22,296,180.78	85.75%	90%	—	—	—	Other
Reduction and improvement of furnace and building of other supporting projects	50,000,000.00	5,211,330.18	4,892,957.07	1,575,475.76	36,116.50	8,492,694.99	103.49%	90%	—	—	—	Other
90 tons Arc furnace Phase II project	100,000,000.00	130,136,869.43	42,245,957.46	172,382,826.89	—	—	172.38%	100%	—	—	—	Other
Electromechanical cast steel mill relocation project	20,570,000.00	10,931,962.65	9,516,022.92	20,262,691.01	—	185,294.56	99.41%	100%	—	—	—	Other
Total	196,570,000.00	167,821,259.68	57,410,020.81	194,220,993.66	36,116.50	30,974,170.33	—	—	—	—	—	—

(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.

13. Oil and gas assets

Applicable Not applicable



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

14. Intangible assets

(1) Details of Intangible assets

Unit: RMB

Item	Land use right	Patent right	Non-patent technology	Software	Total
I. Original book value					
1. Balance at the beginning of the period	469,328,716.49	2,541,868.11	376,674,716.65	770,036.72	849,315,337.97
2. Additions for the period	34,635,757.00	344,380.08	10,956,072.52	—	45,936,209.60
(1) Acquisition	34,635,757.00	344,380.08	—	—	34,980,137.08
(2) Internal research and development	—	—	10,956,072.52	—	10,956,072.52
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the period	8,144,378.85	—	—	—	8,144,378.85
(1) Disposal	8,144,378.85	—	—	—	8,144,378.85
4. Balance at the end of the period	495,820,094.64	2,886,248.19	387,630,789.17	770,036.72	887,107,168.72
II. Accumulated amortization					
1. Balance at the beginning of the period	57,022,631.40	2,404,681.06	311,181,489.01	770,036.72	371,378,838.19
2. Additions for the period	9,535,490.91	222,686.19	21,886,124.53	—	31,644,301.63
(1) Provision	9,535,490.91	222,686.19	21,886,124.53	—	31,644,301.63
3. Reductions for the period	1,931,190.68	—	—	—	1,931,190.68
(1) Disposal	1,931,190.68	—	—	—	1,931,190.68
4. Balance at the end of the period	64,626,931.63	2,627,367.25	333,067,613.54	770,036.72	401,091,949.14
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	431,193,163.01	258,880.94	20,594,800.18	—	452,046,844.13
2. Book value at the beginning of the period	412,306,085.09	137,187.05	31,524,852.19	—	443,968,124.33

The internally generated intangible assets accounted for 4.56% of the balance of intangible assets as at the end of the period.

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

15. Research and Development expenditure

Unit: RMB

Item	Balance at beginning period	Increase during the period		Decrease during the period		Balance at end of period
		Internal R&D expenditure	Others	Recognised as intangible assets	Transferred to profit or loss for the period	
Project I	—	4,014,109.52	—	4,014,109.52	—	—
Project II	—	2,998,536.14	—	2,998,536.14	—	—
Project III	—	3,943,426.86	—	3,943,426.86	—	—
Project IV	—	10,169,902.89	—	—	10,169,902.89	—
Project V	—	9,718,214.80	—	—	9,718,214.80	—
Project VI	—	9,590,385.81	—	—	9,590,385.81	—
Project VII	—	9,135,748.72	—	—	9,135,748.72	—
Project VIII	—	7,264,803.96	—	—	7,264,803.96	—
Project IX	—	7,074,628.22	—	—	7,074,628.22	—
Project X	—	4,768,853.03	—	—	4,768,853.03	—
Project XI	—	3,930,096.25	—	—	3,930,096.25	—
Project XII	—	3,840,923.77	—	—	3,840,923.77	—
Project XIII	—	1,557,808.07	—	—	1,557,808.07	—
Others	—	29,928.46	—	—	29,928.46	—
Total	—	78,037,366.50	—	10,956,072.52	67,081,293.98	—

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 2018, all new products' research and development work has been completed.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

16. 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
Weihai Baolong Asset Group	100,078,074.85	—	—	100,078,074.85
Molong Electro-Mechanical Asset Group	27,895,308.36	—	—	27,895,308.36
Shouguang Maolong Asset Group	15,000,000.00	—	—	15,000,000.00
Total	142,973,383.21	—	—	142,973,383.21

(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 period	Balance at the end of the period
Weihai Baolong Asset Group	82,790,000.00	—	—	82,790,000.00
Molong Electro-Mechanical Asset Group	21,500,000.00	—	—	21,500,000.00
Shouguang Maolong Asset Group	12,000,000.00	3,000,000.00	—	15,000,000.00
Total	116,290,000.00	3,000,000.00	—	119,290,000.00

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

16. Goodwill (continued)

(2) Provision for Impairment of goodwill (continued)

Information on the asset groups to which goodwill belongs and grouping of asset groups

The goodwill of the Group was generated from the acquisition of equity interests of Shouguang Maolong not under common control by the Company in 2007. The acquisition constituted a business combination not under common control. At the time of acquisition, Shouguang Maolong held 95% equity interest of Weihai Baolong and also held 75% equity interest of Molong Electro-Mechanical, which in turn held 5% equity interest of Weihai Baolong. As the three newly acquired companies are independently operated and commenced business independently, three asset groups were developed upon acquisition. The Company allocated goodwill to the three asset groups in proportion to their fair value at the time of acquisition. The three asset groups of the Company have remained consistent since the acquisition.

Process of goodwill impairment test, key parameters (such as forecast growth rate, steady growth rate, profit margin, discount rate, forecast period, etc. in estimating the present value of future cashflows) and recognition of goodwill impairment are illustrated as follows:

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 2018 (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. The present value of future cash flows of the asset groups were estimated at a discount rate of 13.13% or 14.07% respectively. 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.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

17. Deferred income tax assets/deferred income tax liabilities

(1) Deferred income tax assets not yet eliminated

Unit: RMB

Item	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	10,113,849.13	2,528,462.27	17,693,205.19	3,737,354.03
Deductible losses	—	—	2,617,927.46	654,481.87
Accounts receivable	122,999,984.54	18,449,997.68	—	—
Other receivables	37,173,029.30	5,575,954.40	—	—
Provision for impairment of inventories	11,497,734.54	1,724,660.18	—	—
Difference in amortisation of intangible assets	113,735,759.42	17,060,363.92	—	—
Provisions	12,780,330.57	1,917,049.59	—	—
Total	308,300,687.50	47,256,488.04	20,311,132.65	4,391,835.90

(2) Deferred tax liabilities not yet eliminated

Unit: RMB

Item	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	838,979.53	209,744.88	1,779,420.98	444,855.25
Intangible assets	23,651,782.82	5,912,945.70	27,509,018.73	6,877,254.67
Total	24,505,999.86	6,126,499.96	29,303,677.22	7,325,919.30

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

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

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

Unit: RMB

Item	Offsetting between deferred income tax assets and liabilities at the end of the period	The balance of deferred income tax assets or liabilities after offsetting at the end of the period	Offsetting between deferred income tax assets and liabilities at the beginning of period	The balance of deferred income tax assets or liabilities after offsetting at the beginning of period
Deferred income tax assets	—	47,256,488.04	—	4,391,835.90
Deferred income tax liabilities	—	6,126,499.96	—	7,325,919.30

(4) Breakdown of unrecognized deferred income tax assets

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Deductible temporary differences	72,491,916.55	426,612,207.97
Deductible losses	770,932,603.43	771,031,678.17
Total	843,424,519.98	1,197,643,886.14



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

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

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

Unit: RMB

Year	Amount at the end of the period	Amount at the beginning of the period	Notes
2019	41,577,966.99	50,006,328.18	—
2020	135,433,959.60	135,433,959.60	—
2021	158,888,578.18	385,442,052.02	—
2022	175,804,216.53	178,817,258.25	—
2023	52,754,082.69	—	—
2024	—	—	—
2025	—	—	—
2026	206,473,799.44	—	—
Total	770,932,603.43	749,699,598.05	—

18. Other non-current assets

Unit: RMB

Item	Balance at end of period			Balance at beginning of period		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Prepayments for land premium	3,900,000.00	—	3,900,000.00	45,485,934.15	—	45,485,934.15
Prepayments for equipment	9,944,015.27	—	9,944,015.27	7,919,009.43	—	7,919,009.43
Prepayments for construction	—	—	—	3,708,200.00	—	3,708,200.00
Total	13,844,015.27	—	13,844,015.27	57,113,143.58	—	57,113,143.58

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

19. Short-term borrowings

(1) Classification of short-term borrowings

Item	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Pledged borrowings	216,896,960.75	28,000,000.00
Guaranteed borrowings	617,000,000.00	585,342,000.00
Credit borrowings	920,021,600.02	706,744,600.02
Notes discounted and borrowings for letters of credit	637,000,000.00	821,000,000.00
Total	2,390,918,560.77	2,141,086,600.02

Notes for classification of short-term borrowings:

Details of the interest rate: In 2018, the weighted average annual interest rate for the Group was 6.059% (2017: 5.003%).

As at the date of these financial statements, of the short-term borrowings as at the end of the period, the Group has repaid RMB419,826,960.80 RMB borrowings and USD5 million USD borrowings.

(2) Details of outstanding overdue short-term borrowings

There was no outstanding overdue short-term borrowing as at the end of the year.

20. Bills and accounts payable

Item	Balance at end of period	Unit: RMB
		Balance at beginning of period
Bills payable	278,902,047.79	213,984,811.00
Accounts payable	821,162,695.81	843,834,731.51
Total	1,100,064,743.60	1,057,819,542.51



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

20. Bills and accounts payable (continued)

(1) Presentation of bills payable by type

Unit: RMB

Type	Balance at the end of the period	Balance at the beginning of the period
Trade acceptance bills	12,882,699.61	—
Bank acceptance bills	266,019,348.18	213,984,811.00
Total	278,902,047.79	213,984,811.00

At the end of the period, the Group has outstanding overdue bills payable of Nil.

(2) Presentation of accounts payable

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Amounts due to suppliers	821,162,695.81	843,834,731.51
Total	821,162,695.81	843,834,731.51

(3) Significant accounts payable with aging over one year

Unit: RMB

Item	Balance at the end of the period	Reasons for outstanding or carrying forward
Unit 1	13,112,855.17	Not yet settled
Unit 2	10,157,819.70	Not yet settled
Unit 3	6,666,161.96	Not yet settled
Total	29,936,836.83	—

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

20. Bills and accounts payable (continued)

(3) Significant accounts payable with aging over one year (continued)

Presentation of the aging of accounts payable

The aging analysis of accounts payable (including amounts due from related parties) based on transaction dates is as follows:

Item	Amount at the end of the year	Amount at the beginning of the year
Within 2 months	477,281,725.26	281,923,087.32
2-3 months	67,234,067.73	45,823,044.32
3-4 months	33,004,652.49	58,391,569.44
4 months – 1year	102,116,941.78	125,996,973.86
1-2 years	56,642,182.97	136,440,231.05
2-3 years	37,055,057.30	127,134,872.00
Over 3 years	47,828,068.28	68,124,953.52
Total	821,162,695.81	843,834,731.51

21. Receipts in Advance

Nil

22. Contract liabilities

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Receipts in advance	57,364,400.72	68,937,156.42
Total	57,364,400.72	68,937,156.42



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

23. Employee remuneration payables

(1) Presentation of employee remuneration payables

Unit: RMB

Item	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	51,245,591.21	239,232,040.47	233,376,837.88	57,100,793.80
II. Retirement Benefit — Defined Contribution Plan	—	17,569,214.78	17,569,214.78	—
Total	51,245,591.21	256,801,255.25	250,946,052.66	57,100,793.80

(2) Presentation of short-term remunerations

Unit: RMB

Item	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, allowances and subsidies	39,297,070.14	212,232,247.81	208,504,104.51	43,022,733.44
2. Staff welfare	—	10,311,251.87	10,311,251.87	—
3. Social insurances	—	8,373,941.15	8,373,941.15	—
Including: Medical insurance	—	6,595,190.22	6,595,190.22	—
Work injury insurance	—	980,849.95	980,849.95	—
Maternity insurance	—	797,900.98	797,900.98	—
4. Housing provident fund	—	5,313,915.60	5,313,915.60	—
5. Union fund and staff education fund	11,948,521.07	3,000,684.04	873,624.75	14,078,060.36
Total	51,245,591.21	239,232,040.47	233,376,837.88	57,100,793.80

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

23. Employee remuneration payables (continued)

(3) Presentation of defined contribution plan

Unit: RMB

Item	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	—	16,919,047.02	16,919,047.02	—
2. Unemployment insurance	—	650,167.76	650,167.76	—
Total	—	17,569,214.78	17,569,214.78	—

Other descriptions:

Amount of employee remuneration payables of the Group as at the end of the year included accrued salaries, bonuses and allowances of RMB43,022,733.44, which are expected to be paid in the first half of 2019.

24. Taxes Payable

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Value-added tax	61,342,130.14	9,474,251.14
Enterprise income tax	8,926,968.92	2,103,702.96
Individual income tax	265,460.01	819,448.82
Urban maintenances and construction tax	3,636,991.65	827,699.15
Property tax	1,238,531.92	1,452,796.67
Land use tax	2,390,633.00	2,435,727.50
Educational surcharges	2,597,851.17	591,213.72
Local water conservancy construction funds	268,741.92	59,058.29
Stamp duty	428,207.87	862,723.35
Others	131,529.12	289,735.77
Total	81,227,045.72	18,916,357.37

Other descriptions:

As at the end of the year, taxes payable included Hong Kong Profit Tax payable of RMB nil.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

25. Other payables

Item	Balance at end of period	Unit: RMB
		Balance at beginning of period
Interests payable	8,691,627.11	5,458,818.99
Other payables	42,653,126.57	32,518,520.13
Total	51,344,753.68	37,977,339.12

(1) Interests Payable

Item	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Interests on borrowings	8,691,627.11	5,458,818.99
Total	8,691,627.11	5,458,818.99

Other information:

As of 31 December 2018, the Group had no overdue unsettled interest.

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

25. Other payables (continued)

(2) Other payables

1) Presentation of other payables by nature

		Unit: RMB
Items	Balance at the end of the period	Balance at the beginning of the period
Accrued energy charges	22,661,073.90	20,395,174.98
Deposits	9,675,864.78	5,603,591.64
Others	10,316,187.89	6,519,753.51
Total	42,653,126.57	32,518,520.13

2) Significant other payables aging over 1 year

As at the end of the year, the Group had no significant other payables aging over 1 year.

26. Non-current liabilities due within one year

		Unit: RMB
Item	Balance at the end of the period	Balance at the beginning of the period
Long-term borrowings due within one year	308,994,908.08	155,946,611.23
Total	308,994,908.08	155,946,611.23



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

27. Other current liabilities

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Trade acceptance bills that have been endorsed but not yet matured	94,281,027.25	—
Total	94,281,027.25	—

28. Long-term borrowings

(1) Classification of Long-term borrowings

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Secured borrowings	485,213,958.98	588,206,512.21
Credit borrowings	—	145,000,000.00
Shareholders' borrowings	—	160,000,000.00
Pledged and guaranteed borrowings	250,000,000.00	—
Less: Amounts due within one year	(308,994,908.08)	(155,946,611.23)
Total	426,219,050.90	737,259,900.98

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

28. Long-term borrowings (continued)

(1) Classification of Long-term borrowings (continued)

Profile of maturity dates of long-term borrowings

Item	Balance at end of period	Unit: RMB	
		Balance at beginning of period	
1 to 2 years	426,219,050.90	402,166,596.40	
2 to 5 years	—	335,093,304.58	
Total	426,219,050.90	737,259,900.98	

Note: Long-term borrowings due within one year have been reclassified to "non-current liabilities due within one year". See note VII.26.

Other descriptions, including interest rate intervals:

The interest rates of long-term borrowings of the Group for 2018 ranged between 8% to 11%.

29. Provisions

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period	Forming reason
Provision of external guarantees	—	—	
Pending litigations	12,780,330.57	8,000,000.00	See note XIV.2 for details
Warranty for product quality	—	—	
Restructuring obligations	—	—	
Loss contract to be executed	—	—	
Payables for returned goods	—	—	
Others	—	—	
Total	12,780,330.57	8,000,000.00	—

Note: For "payables for returned goods" that were recognised as provisions, it is determined by whether the specific item of "payables for returned goods" in the "provisions" is settled within one year or a normal business cycle. If it is not settled within one year or a normal business cycle, it is stated in "provisions".



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to the Consolidated Financial Statements (continued)

30. Deferred income

Unit: RMB

Item	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	Asset-related government grants
Total	6,954,855.00	—	—	6,954,855.00	

Items involving government grants:

Unit: RMB

Liabilities item	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	Asset-related/revenue-related
Grants for ancillary infrastructure	6,954,855.00	—	—	—	—	—	6,954,855.00	Asset-related

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.

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

31. Share Capital

Unit: RMB

	Movement for the period (increase/decrease) (+, -)						Balance at the end of the period
	Balance at the beginning 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

32. 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	11,035,467.50	2,651,700.00	—	13,687,167.50
Total	860,517,458.42	2,651,700.00	—	863,169,158.42

Other notes, including explanations of changes during the period and the reasons for changes:

Zhang En Rong, controlling shareholder and former chairman of the Company, waived this year's remuneration and 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 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

33. Other comprehensive income

Unit: RMB

Item	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	Less: amount of previously recognized as other comprehensive income transferred to profit or loss in current period	comprehensive income				
I. Other comprehensive income reclassified to profit or loss	(1,402,748.25)	(1,467,938.03)	—	—	(1,389,262.88)	(78,675.15)	(2,792,011.13)	
Exchange differences on translation of foreign financial statements	(1,402,748.25)	(1,467,938.03)	—	—	(1,389,262.88)	(78,675.15)	(2,792,011.13)	
Total other comprehensive income	(1,402,748.25)	(1,467,938.03)	—	—	(1,389,262.88)	(78,675.15)	(2,792,011.13)	

34. Special Reserve

Unit: RMB

Item	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	—	20,348,646.62	20,348,646.62	—
Total	—	20,348,646.62	20,348,646.62	—

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 provided for and utilised production safety fee in accordance with the relevant requirement.

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

35. Surplus Reserve

Unit: RMB

Item	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	11,067,020.37	—	187,753,923.88
Total	176,686,903.51	11,067,020.37	—	187,753,923.88

Information on surplus reserve, including the increase or decrease during the year and reason(s) for the movement:

The increase during the year because the Company made a provision for statutory surplus reserve at 10% of its net profit pursuant to the requirements of the Company.

36. General risk reserve

Item	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

Note: 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.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

37. Undistributed profit

Unit: RMB

Item	For the period	For the last period
Undistributed profit as at the end of prior period before adjustments	35,934,311.12	(2,104,173.06)
Aggregated amount of adjustments to undistributed profit as at the beginning of the period (upward +, downward -)	(19,243,085.65)	—
Undistributed profit as at the beginning of the period after adjustments	16,691,225.47	(2,104,173.06)
Add: Net profit attributable to owners of the parent company for the period	92,476,375.01	38,038,484.18
Less: Appropriations to statutory surplus reserve	11,067,020.37	—
Appropriations to discretionary surplus reserve	—	—
Appropriations to general risk reserve	—	—
Dividends payable for ordinary shares	—	—
Capitalised dividends for ordinary shares	—	—
Undistributed profit as at the end of the period	98,100,580.11	35,934,311.12

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 -RMB19,243,085.65.
- 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.

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

38. Minority interests

Equity of minority shareholders attributable to minority shareholders in each subsidiary

Unit: RMB

Name of subsidiary	Percentage of minority equity interest (%)	31 December	1 January	31 December
		2018	2018	2017
Shouguang Baolong	30.00	(3,902,896.17)	(13,604,987.60)	(13,215,702.21)
Maolong Micro-credit	50.00	74,162,577.52	74,016,807.03	75,133,308.87
Other companies	—	(191,346.22)	(194,900.77)	(180,073.99)
Total	—	70,068,335.13	60,216,918.66	61,737,532.67

39. Operating Revenue and Operating Costs

Unit: RMB

Item	Amounts incurred in the period		Amounts incurred in the last period	
	Income	Revenue	Income	Revenue
Main operation	4,348,992,106.97	3,658,166,181.40	2,921,860,892.91	2,696,934,158.81
Other operation	103,022,703.15	102,316,550.71	43,355,829.46	39,793,328.47
Total	4,452,014,810.12	3,760,482,732.11	2,965,216,722.37	2,736,727,487.28

Information on performance obligations:

The Group as primary obligor satisfy its obligations of supplying products customers in a timely manner by reference to the category, standard and time requested by the customer in accordance with the provisions of the contracts. There are different payments terms for different customers and different products: domestic customers of tubes are normally subject to payment in advance of distribution, and domestic customers of oil casing is normally subject to payment terms of 3-6 months after bill settlement. As to export business, payment terms are mainly payment upfront. As to oil casing products, most of the customers are subject to payment in advance, under which customers are to make full payment before distribution of products. As to petroleum machinery parts, the credit term is normally 2 months.

Information on transaction price allocated to remaining performance obligations:

The corresponding revenue from performance obligations that have been contracted but not yet performed or completed amounted to RMB697 million as at the end of the year, and is expected to be recognised as revenue in 2019.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

40. Taxes and Surcharges

Unit: RMB

Item	Amounts incurred in the period	Amounts incurred in the last period
Urban maintenances and construction tax	11,872,765.79	3,598,680.40
Educational surcharges	8,480,546.94	2,570,485.94
Real estate tax	4,743,148.36	5,078,065.16
Land use tax	9,652,721.02	9,742,910.01
Local water conservancy construction funds	871,777.80	334,455.71
Other taxes	3,821,891.23	2,097,078.44
Total	39,442,851.14	23,421,675.66

Other descriptions:

41. Selling Expenses

Unit: RMB

Item	Amounts incurred in the period	Amounts incurred in the last period
Delivery expenses	97,343,615.79	54,686,816.40
Staff salaries	4,317,227.70	3,616,331.69
Agency fees	1,564,818.61	1,043,354.76
Depreciation expenses	1,152,558.09	1,292,279.90
Travelling expenses	1,017,333.78	999,603.92
Entertainment expenses	3,895,549.54	2,693,969.52
Transportation fees	446,945.86	203,013.24
Office expenses	203,187.03	232,314.35
Others	4,028,478.20	914,668.81
Total	113,969,714.60	65,682,352.59

Other descriptions:

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

42. Administrative expenses

Unit: RMB

Item	Amounts incurred in the period	Amounts incurred in the last period
Amortisation of intangible assets	30,859,832.44	25,153,652.65
Depreciation expenses	27,206,886.03	41,046,196.92
Staff salaries	38,346,198.95	21,979,501.32
Machinery material consumption	19,850,968.92	9,194,284.46
Entertainment expenses	2,798,376.54	1,298,122.17
Board of directors' expenses	3,252,264.08	2,445,444.17
Utilities	8,329,969.17	12,477,663.22
Intermediate fees	7,292,244.15	6,519,912.89
Repair charge	28,396,646.03	6,951,804.63
Others	12,488,847.61	5,759,953.21
Total	178,822,233.92	132,826,535.64

Other descriptions:

Auditors' remuneration included in the intermediate fees under the administrative expenses of the Group for the year is specified below:

Item	Amount for the period	Amount for prior period
Auditors' remuneration	1,580,188.64	1,132,075.44
— Audit service fees	1,132,075.44	1,132,075.44
— Others	448,113.20	—
Total	1,580,188.64	1,132,075.44



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

43. Research and development expenses

Unit: RMB

Item	Amount for the period	Amount for prior period
Research and development of new products	71,979,056.24	29,265,348.19
Total	71,979,056.24	29,265,348.19

Other descriptions:

Details of the provision for research and development expenses for the year are provided in note VII.15.

44. Finance Costs

Unit: RMB

Item	Amount incurred in the period	Amount incurred in the last period
Interest expenses	203,251,721.32	126,199,311.38
Interest income	(7,381,164.96)	(7,998,827.35)
Foreign exchange loss	294,729.66	8,564,948.50
Other expenses	7,942,049.79	4,476,081.96
Total	204,107,335.81	131,241,514.49

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

45. Loss on impairment of assets

Items	Unit: RMB	
	Amount incurred in the period	Amount incurred in the last period
I. Bad debt loss	—	19,460,062.58
II. Loss on impairment of inventories and loss on impairment of costs of contract performance	7,603,105.42	(4,286,615.76)
XIII. Loss on impairment of goodwill	3,000,000.00	—
XIV. Others	—	4,102,041.83
Total	10,603,105.42	19,275,488.65

46. Credit impairment losses

Item	Unit: RMB	
	Amount for the period	Amount for prior period
Loss on bad debts of bills and accounts receivable	20,395,907.37	—
Loss on bad debts of other receivables	16,199,472.78	—
Loss on impairment of loans	1,218,593.12	—
Total	37,813,973.27	—



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

47. Other gains

	Unit: RMB	
Source of other gains	Amount for the period	Amount for prior period
Incentives and subsidies for energy conservation and emission reduction	—	150,000,000.00
Subsidies and grants for recycling resource enterprises	28,730,384.37	5,640,168.00
Stability subsidies and social insurance subsidies	722,535.56	453,084.23
Incentives and subsidies for patent technology and intellectual properties	4,000.00	182,600.00
Total	29,456,919.93	156,275,852.23

48. Investment income

	Unit: RMB	
Item	Amount incurred in the period	Amount incurred in the last period
Gain from long-term equity investments accounted for using the equity method	24,197.42	18,748.91
Others	1,346,581.79	428,801.77
Total	1,370,779.21	447,550.68

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

49. Gains on disposal of assets

Unit: RMB

Source of gains on disposal of assets	Amount incurred in the period	Amount incurred in the last period
Gains on disposal of non-current assets	3,501,489.47	62,088,298.95
Including: Gains on disposal of non-current assets classified as held-for-sale	—	58,813,409.67
Including: Gains on the disposal of fixed assets	—	24,044,510.45
Gains on disposal of intangible assets	—	34,768,899.22
Gains on disposal of non-current assets not classified as held-for-sale	3,501,489.47	3,274,889.28
Including: Gains on the disposal of fixed assets	2,054,677.64	3,274,889.28
Gains on disposal of intangible assets	1,446,811.83	—
Total	3,501,489.47	62,088,298.95

50. Non-operating Income

Unit: RMB

Item	Amount incurred in the period	Amount incurred in the last period	Amount credited to non-recurring profit or loss in the current period
Others	6,366,554.82	5,781,343.10	6,366,554.82
Total	6,366,554.82	5,781,343.10	6,366,554.82



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

51. Non-operating Expenses

Unit: RMB

Item	Amount incurred in the period	Amount incurred in the last period	Amount
			credited to non-recurring profit or loss in the current period
Donations to external party	1,029,816.00	70,000.00	1,029,816.00
Scrap loss of non-current assets loss	29,091.78	289,924.70	29,091.78
Estimated liabilities	9,489,704.33	8,000,000.00	9,489,704.33
Loss on disposal of creditor's rights	—	7,400,012.25	—
Fines	—	600,000.00	—
Default damages	2,745,268.11	—	2,745,268.11
Others	1,033,169.70	521,773.13	1,033,169.70
Total	14,327,049.92	16,881,710.08	14,327,049.92

52. Income Tax Expenses

(1) Income tax expenses list

Unit: RMB

Item	Amount incurred	Amount incurred in
	in the period	the last period
Current income tax expenses	2,820,105.97	635,761.83
Deferred income tax expenses	(44,064,071.48)	(1,229,587.91)
Total	(41,243,965.51)	(593,826.08)

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

52. Income Tax Expenses (continued)

(2) Adjustment process between accounting profit and income tax expenses

Unit: RMB

Item	Amount incurred in the period
Total profit	61,162,501.12
Income tax expense calculated at statutory/the applicable tax rate	9,174,375.17
Effect of different tax rates applicable to subsidiaries	(3,368,260.36)
Effect of adjustment to income tax for prior periods	24,503.78
Effect of non-taxable income	(99,496.86)
Effect of non-deductible costs, expenses and loss	997,229.98
Effect of utilisation of previously unrecognised deductible loss on deferred income tax assets	(47,998,935.11)
Effect of deductible temporary differences or deductible losses on deferred income tax assets unrecognized in the period	10,782,155.47
Effect of research and development costs plus deductions	(11,410,019.45)
Effect of adjustment to deferred tax recognised in prior periods	654,481.87
Income tax expenses	(41,243,965.51)

53. Other comprehensive income

Refer to note VII.33 for details.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

54. Items of cash flow statements

(1) Other cash received relating to operating activities

Unit: RMB

Item	Amount incurred in the period	Amount incurred in the last period
Government grants	13,265,416.57	150,635,684.23
Interest income	8,890,148.88	10,166,407.49
Decrease in deposits for letter of credit	—	12,000,000.00
Unfreezing of bank deposits	1,800,000.00	1,450,000.00
Refund of excess value-added tax paid	66,573,917.34	—
Refund of income tax overpaid	5,187,281.76	—
Others	11,574,846.81	7,405,662.63
Total	107,291,611.36	181,657,754.35

(2) Other cash paid relating to operating activities

Unit: RMB

Item	Amount incurred in the period	Amount incurred in the last period
Delivery expenses	99,523,174.84	55,321,467.96
Expenses of new product development	17,268,885.13	9,312,764.61
Consumables	9,114,028.43	7,646,898.15
Intermediate fees	6,871,791.58	5,219,682.26
Travelling expenses	1,577,205.99	1,403,936.51
Repair charge	24,346,231.86	6,963,835.47
Utilities	8,329,969.17	18,859,224.35
Entertainment expenses	6,693,926.08	3,968,972.69
Increase in bill deposits	43,732,792.56	58,675,000.00
Bank deposits frozed	3,620,000.00	1,800,000.00
Handling charges by financial institutions	7,942,049.79	5,219,682.26
Others	16,782,351.31	20,014,998.95
Total	245,802,406.74	194,406,463.21

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

54. Items of cash flow statements (continued)

(3) Other cash received relating to financing activities

Unit: RMB

Item	Amount incurred in the period	Amount incurred in the last period
Borrowings from shareholders and other entities	—	219,552,865.10
Total	0.00	219,552,865.10

(4) Other cash paid relating to financing activities

Unit: RMB

Item	Amount incurred in the period	Amount incurred in the last period
Borrowings from shareholders and other entities	160,000,000.00	159,552,865.10
Total	160,000,000.00	159,552,865.10



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

55. Additional information to cash flow statement

(1) Additional information to cash flow statement

Additional information	Amount of the period	Amount of the last period
Unit: RMB		
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	102,406,466.63	35,081,480.83
Add: Provision for impairment of asset	48,417,078.69	19,275,488.65
Depreciation of fixed assets, consumption of oil and gas assets, depreciation of productive biological assets	238,867,452.19	241,034,577.27
Amortisation of intangible assets	31,644,301.63	25,153,652.65
Loss on disposal of fixed assets, intangible assets and other long-term assets	(3,501,489.47)	(62,088,298.95)
Loss on retirement of fixed assets	29,091.78	289,924.70
Finance costs	211,630,031.54	128,508,544.12
Investment loss	(1,370,779.21)	(447,550.68)
Decrease in deferred income tax assets	(42,864,652.14)	(926,404.42)
Increase in deferred tax income liabilities	(1,199,419.34)	(303,183.49)
Decrease in inventories	(124,591,643.16)	(160,033,372.36)
Decrease in operating receivables	(334,124,806.32)	(208,424,329.77)
Increase in operating payables	244,247,963.50	15,380,425.62
Net cash flows generated from operating activities	369,589,596.32	32,500,954.17
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	578,924,482.20	661,396,103.17
Less: Balance of cash at the beginning of the period	661,396,103.17	508,498,755.91
Net increase in cash and cash equivalents	(82,471,620.97)	152,897,347.26

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

55. Additional information to cash flow statement (continued)

(2) Composition of cash and cash equivalents

Unit: RMB

Item	Balance as at the end of the period	Balance as at the beginning of the period
I. Cash	578,924,482.20	661,396,103.17
Including: Treasury cash	506,001.34	80,063.78
Bank deposits readily available for payments	421,717,103.46	358,337,889.58
Other monetary funds readily available for payments	156,701,377.40	302,978,149.81
III. Balance of cash and cash equivalents at the end of the period	578,924,482.20	661,396,103.17

Other descriptions:

The Company had security deposits for bank acceptance bills with maturity date over 3 months of RMB309,907,792.56 and bank deposits subject to judicial freezing of RMB3,620,000.00, the aggregate amount of both were RMB313,527,792.56.

56. Assets with ownership or right to use restrictions

Unit: RMB

Item	Book value at the end of period	Reasons for restriction
Monetary funds	313,527,792.56	Security deposit and judiciary freeze
Bills receivable	238,685,684.20	Pledge of bills
Accounts receivable	18,061,545.11	Borrowings from factoring of accounts receivables
Other current assets	101,000,000.00	Pledge of borrowings
Fixed assets	156,568,348.15	Security of borrowings
Intangible assets	93,266,698.50	Pledge/ security of borrowings
Total	921,110,068.52	



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

57. Foreign Currency Items

(1) Foreign Currency Items

Unit: RMB

Item	Balance of foreign currency at the end of the period	Exchange rate	Equivalent to RMB at the end of the period
Monetary funds			
Including: USD	4,579,701.16	6.8632	31,431,405.00
EUR	1,776.58	7.8473	13,941.36
HKD	—	—	—
Accounts receivable			
Including: USD	19,643,733.52	6.8632	134,818,871.89
EUR	140,822.95	7.8473	1,105,079.95
HKD	—	—	—
Other receivables			
Including: USD	5,103,391.59	6.8632	35,025,597.16
Prepayments			
Including: USD	100,800.00	6.8632	691,810.56
Short-term borrowings			
Including: USD	13,000,000.00	6.8632	89,221,600.00
Accounts payables			
Including: USD	485,891.52	6.8632	3,334,770.68
Other payables			
Including: USD	25,230.08	6.8632	173,159.09
Interests payable			
Including: USD	61,719.17	6.8632	423,591.01
Contract liabilities			
Including: USD	2,896,407.22	6.8632	19,878,622.03
EUR	672,983.61	7.8473	5,281,104.28
Long-term borrowings			
Including: USD	—	—	—
EUR	—	—	—
HKD	—	—	—

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

V. Notes to Consolidated Financial Statements (continued)

57. Foreign Currency Items (continued)

- (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.

58. Government grants

(1) General information of government grants

Unit: RMB

Type	Amount	Item presented	Amount included in profit or loss for the period
Subsidies and grants for recycling resource enterprises	28,730,384.37	Other gains	28,730,384.37
Stability subsidies and social insurance subsidies	722,535.56	Other gains	722,535.56
Incentives and subsidies for patent technology and intellectual properties	4,000.00	Other gains	4,000.00
Total	29,456,919.93		29,456,919.93

(2) Refund of government grants

Applicable Not applicable

Other descriptions:

The Group had no refund of government grants during the period.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(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
Shouguang Maolong	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

Descriptions of difference between proportions of shareholding and voting rights in subsidiaries:

Reason for control over investee can be retained with less than half of voting rights, and control over investee was lost with more than half of voting rights:

The Group was the largest shareholder of Maolong Micro-Credit holding 50% equity interest. The other six shareholders were all natural persons and the shareholdings were dispersed (at a percentage of 10% or 6.67%). As stipulated in the articles of association of Maolong Micro-Credit, for a resolution proposed at board meeting, each person can cast one vote. A board resolution shall be passed by a majority of directors. The company had 5 directors, three of them were appointed by Shandong Molong. The Group had de facto control over Maolong Micro-Credit, and therefore, it was included within the scope of consolidation.

Notes to the Financial Statements



1 January 2018 to 31 December 2018

(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%	9,702,091.43	—	(3,902,896.17)
Maolong Micro-Credit	50.00%	145,770.49	—	74,162,577.52
Total		9,847,861.92		70,259,681.35

Descriptions of difference between proportions of shareholding and voting rights of minority shareholders in subsidiaries:

Other descriptions:

(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	935,803,481.82	487,584,021.44	1,423,387,503.26	1,389,237,687.71	—	1,389,237,687.71	1,077,301,904.90	530,467,596.99	1,607,769,501.89	1,572,640,741.33	—	1,572,640,741.33
Maolong Micro-Credit	148,317,739.68	7,415.35	148,325,155.03	—	—	—	139,261,564.27	11,519,480.61	150,781,044.88	514,427.14	—	514,427.14

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	2,295,923,282.10	1,435,174.78	1,435,174.78	381,183,240.57	1,364,142,502.08	23,009,516.56	23,009,516.56	63,591,347.08
Maolong Micro-Credit	66,037.74	291,540.98	291,540.98	44,903,783.13	3,928,742.84	(241,610.77)	(241,610.77)	54,431,605.01

Other descriptions:



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

VII. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(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

As at 31 December 2018, none of the subsidiaries of the Company has issued any share capital or debt securities.

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%	Equity method

Descriptions of difference between proportions of shareholding and voting rights in associates or joint ventures:

Reason for having significant influence with less than 20% of voting rights, and not having significant influence with more than 20% of voting rights:

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

VII. INTERESTS IN OTHER ENTITIES (continued)

3. Interests in joint venture arrangements or associates (Continued)

(2) Key financial information of significant associates

	Balance at the end of the period/ Amount for the period Karamay Yalong Oil Pump Company Limited	Unit: RMB Balance at the beginning of the period/ Amount for the prior period Karamay Yalong Oil Pump Company Limited
Current assets	11,033,436.72	14,522,917.91
Non-current assets	2,868,257.16	9,615,398.80
Total assets	13,901,693.88	24,138,316.71
Current liabilities	5,152,204.93	8,752,753.95
Non-current liabilities	—	6,716,731.88
Total liabilities	5,152,204.93	15,469,485.83
Attributable to the parent company shareholders' equity	8,749,488.95	8,668,830.88
Net asset calculated by proportion of shareholding	2,624,846.69	2,600,649.26
Book value of the equity investment to associates	2,663,457.52	2,639,321.48
Turnover	14,070,801.75	12,677,187.00
Net profits	80,658.07	62,496.36
Total comprehensive revenue	80,658.07	62,496.36
Dividends received from the associates for the year	—	87,000.00



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(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

Descriptions of not consolidating structured entities into the consolidated financial statements:

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 VII. 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 2018, 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 2018 to 31 December 2018

(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)

Item	31 December 2018	31 December 2017
Monetary capital — USD	31,431,405.00	104,403,990.13
Monetary capital — EUR	13,941.36	13,850.25
Monetary capital — HKD	—	2,343.75
Accounts receivable — USD	134,818,871.89	123,399,359.09
Accounts receivable — EUR	1,105,079.95	1,780,979.92
Other receivables — USD	35,025,597.16	33,336,780.03
Prepayments — USD	691,810.56	—
Short-term borrowing — USD	89,221,600.00	150,286,600.00
Accounts payable — USD	3,334,770.68	6,966,274.43
Other payable — USD	173,159.09	164,858.39
Receipts in advance — USD	—	13,300,654.28
Contract liabilities — USD	19,878,622.03	—
Contract liabilities — EUR	5,281,104.28	—
Interests payable — USD	423,591.01	404,624.45

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 2018, the Group's interest-bearing liabilities were mainly floating-rate loan contracts amounting to RMB319,000,000.00 (31 December 2017: RMB384,342,000.00) and fixed-rate loan contracts denominated in RMB amounting to RMB2,168,758,402.29 (31 December 2017: RMB2,858,098,542.60).



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(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)

2) Interest rate risk (Continued)

The Group's risk of changes in fair value of financial instruments resulted from the changes in interest rates was mainly associated with fixed-rate bank loans. The Group aims at maintaining these fixed-rate bank loans at floating rates.

The Group's risk of changes in cash flow of financial instruments resulted from the changes in interest rates was mainly associated with floating-rate bank loans. The Group's policy is to maintain these loans at floating rates, so as to eliminate fair value risks arising from changes in interest rate.

The Company designs rationally credit lines, various credit types and the term of credit lines through 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.

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 2018, 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 RMB248,600,684.84 .

Notes to the Financial Statements



1 January 2018 to 31 December 2018

(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)

(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 2018, the unused credit limit of bank loan of the Group was RMB513,090,000.00 (31 December 2017: RMB668,500,000.00), of which the short-term unused credit limit of bank loan of the Group was RMB513,090,000.00 (31 December 2017: RMB668,500,000.00).

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 2018:

Items	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets					
Monetary fund	892,452,274.76	—	—	—	892,452,274.76
Bills receivable	382,901,696.30	—	—	—	382,901,696.30
Accounts receivable	536,199,939.96	—	—	—	536,199,939.96
Loans and advances	38,561,702.67	—	—	—	38,561,702.67
Other receivables	47,697,703.66	—	—	—	47,697,703.66
Financial liabilities					
Short-term					
borrowings	2,390,918,560.77	—	—	—	2,390,918,560.77
Bills receivable	278,902,047.79	—	—	—	278,902,047.79
Accounts payables	821,162,695.81	—	—	—	821,162,695.81
Other payables	51,344,753.68	—	—	—	51,344,753.68
Non-current liabilities					
due within one year	308,994,908.08	—	—	—	308,994,908.08
Other current					
liabilities	94,281,027.25	—	—	—	94,281,027.25
Long-term borrowings	—	426,219,050.90	—	—	426,219,050.90



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

2. 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 shareholders' equity. As any risk variable seldom varies, and correlation among variables will play a major role in the ultimate amount of a special risk variable. Therefore, the followings are carrying out on the assumed condition that each variable 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:

Item	Change in exchange rate	2018		2017	
		Effect on net profit	Effect on owners' equity	Effect on net profit	Effect on owners' equity
All foreign currencies	5% appreciation against RMB	3,602,889.00	3,602,889.00	3,910,710.62	3,910,710.62
All foreign currencies	5% depreciation against RMB	(3,602,889.00)	(3,602,889.00)	(3,910,710.62)	(3,910,710.62)

(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:

Item	Change in exchange rate	2018		2017	
		Effect on net profit	Effect on owners' equity	Effect on net profit	Effect on owners' equity
Loans at floating rate	Increase 1%	(1,424,080.56)	(1,424,080.56)	(1,352,538.89)	(1,352,538.89)
Loans at floating rate	Decrease 1%	1,424,080.56	1,424,080.56	1,352,538.89	1,352,538.89



1 January 2018 to 31 December 2018

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

IX. DISCLOSURE OF FAIR VALUE

1. Others

As at 31 December 2018, the Group does not have any assets and liabilities measured at fair value during the reporting period.

The Group's financial assets and liabilities not measured at fair value mainly included: accounts receivables, short-term borrowings, accounts payables and long-term borrowings. The difference between book value and fair value of financial assets and liabilities measured at fair value was immaterial.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Parent company of the Company

Descriptions of the parent company of the Company

The ultimate controller of the Company is Zhang En Rong.

Other descriptions:

As at 31 December 2018, 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 Company

For details of subsidiaries of the Company, please refer to related information in note IX.1.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

3. Joint venture and associates of the Company

For details of joint ventures or associates that are important to the Group, please refer to related information in note IX.3.

Below is the information on the joint ventures or associates which the Company conducted related party transactions with during the period, or those having balance with the Company in respect of the related party transactions during prior period:

Name of joint venture or associate	Relationship with the Company
Karamay Yalong Oil Pump Company Limited	Associate of the Company

4. Other related party

Name of other related party	Relationship between the related party and the Company
Shouguang Molong Cultural Transmission Limited Company	Other enterprise under common control of controlling shareholder

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	4,103,310.69	2,560,611.77

Notes to the Financial Statements



1 January 2018 to 31 December 2018

(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 date of the guarantee	Fulfillment of the guarantee
Zhang En Rong	50,011,942.60	9 October 2017	8 October 2020	No
Zhang En Rong	250,000,000.00	7 December 2018	7 December 2020	No
Maolong Micro-Credit	97,790,000.00	17 July 2018	25 July 2019	No
Shouguang Maolong	47,000,000.00	16 November 2018	16 November 2019	No
Shouguang Maolong	50,000,000.00	23 March 2018	21 March 2019	No
Shouguang Maolong	60,000,000.00	20 April 2018	9 April 2019	No
Shouguang Maolong	70,000,000.00	25 April 2018	23 April 2019	No
Shouguang Maolong	80,000,000.00	27 April 2018	1 April 2019	No
Shouguang Maolong	30,000,000.00	7 May 2018	6 May 2019	No
Shouguang Maolong	80,000,000.00	8 June 2018	4 June 2019	No
Shouguang Maolong	60,000,000.00	31 July 2018	23 July 2019	No
Shouguang Maolong	36,000,000.00	20 September 2018	16 September 2019	No
Shouguang Maolong	15,000,000.00	17 October 2018	15 October 2019	No
Shouguang Maolong	49,000,000.00	7 November 2018	15 October 2019	No

Descriptions of related guarantees

Details of the secured guarantees given by subsidiaries in favour of the Company are provided in note XVI.3.

(3) Borrowings/loans with related parties

Unit: RMB

Related party	Borrowed amount	Commencement Date	Expiry Date	Notes
Borrowed from				
Zhang En Rong	100,000,000.00	18 January 2017	18 January 2020	Interest free, the Company shall settle by the end of September 2018.
Zhang En Rong	60,000,000.00	5 April 2017	18 January 2020	Interest free, the Company shall settle by the end of September 2018.
Lend to				



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(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 En Rong	260,000.00	520,000.00
Guo Huanran	525,573.86	529,335.80
Yang Jin	221,339.62	440,678.28
Wang Chun Hua	36,842.11	34,986.67
Zhao Hong Feng	360,425.07	257,857.28
Zhang Yu Zhi	426,039.99	186,934.09
Liu Min	417,193.85	80,311.15
Guo Hong Li	36,842.11	34,986.67
Qin Xue Chang	77,941.18	74,986.67
Quan Yu Hua	77,941.18	74,986.67
Ji Yan Song	77,941.18	74,986.67
Hao Liang	102,802.25	84,271.02
Zhang Jiu Li	11,904.76	10,100.00
Zheng Jian Guo	11,904.76	10,100.00

(5) Other connected transactions

The Group had no other connected transactions or continuing connected transactions.

Notes to the Financial Statements



1 January 2018 to 31 December 2018

(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	2,443,087.15	24,430.87	1,943,491.45	19,434.91

(2) Accounts payable

Unit: RMB

Item	Related party	Carrying balance at the end of the period	Carrying balance at the beginning of the period
Long-term Borrowings	Zhang En Rong	—	160,000,000.00

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

4. Revision and termination of share-based payments

Nil

5. Others

The Group had no share-based payments during the Year.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(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	Amount at the end of the period	Amount at the beginning of the period
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

As at the date of these financial statements, the cases against the Company by investors regarding false statements about securities have been entertained by the intermediate people's court of Jinan, and the aggregate sum involved was RMB38,258,803.38. Currently, the total amount involved in cases that have been judged or closed through mediation was RMB11,864,046.64, with settlement amount of RMB4,709,373.76. For closed cases, the Company is performing its obligations according to the judgment results. For other outstanding cases, the Company made provisions of RMB6,817,623.04 for those cases that have been received first-instance judgment based on the first-instance judgment amount, and made provisions of RMB5,962,707.53 for those cases that have been heard but pending for judgment and those cases have not been heard based on the amount involved and the rate of non-systematic risk the Company shall bears of 72%.The Company made a total of provisions of RMB12,780,330.57 for such matter.

Note: Details of the contingent liabilities in relation to associates or joint ventures are provided in note IX. Interests in other entities.

(2) Material contingency was not required to be disclosed, but needed to explain

There was no material contingency to be disclosed.

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

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

As at the date of these financial statements, the Group had no sales return.

3. Descriptions of other subsequent events

Other than the subsequent event as disclosed above, the Group had no other material subsequent events.

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.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

XIV. Other significant items (continued)

1. Segment Information (continued)

(2) Financial Information of Reportable Segments

Unit: RMB

Item	Casing and Tubing	Three kinds of pumping units	Petroleum machinery plant	Tube blank	Others	Unallocated Items	Inter-segment elimination	Total
Operation revenue								
External income	3,919,305,934.10	46,384,863.25	58,383,638.50	295,857,663.73	132,082,710.54	—	—	4,452,014,810.12
Inter-segment income	—	—	—	—	—	—	—	—
Total segment income	3,919,305,934.10	46,384,863.25	58,383,638.50	295,857,663.73	132,082,710.54	—	—	4,452,014,810.12
Total report operating income	3,919,305,934.10	46,384,863.25	58,383,638.50	295,857,663.73	132,082,710.54	—	—	4,452,014,810.12
Segment costs	3,434,776,867.65	43,787,516.26	53,515,581.62	299,973,278.09	130,259,132.92	—	—	3,962,312,376.54
Segment operating profit	484,529,066.45	2,597,346.99	4,868,056.88	(4,115,614.36)	1,823,577.62	—	—	489,702,433.58
Adjusting items:								
Administrative expenses	—	—	—	—	—	178,822,233.92	—	178,822,233.92
Research and development costs	—	—	—	—	—	71,979,056.24	—	71,979,056.24
Finance costs	—	—	—	—	—	204,107,335.81	—	204,107,335.81
Investment income	—	—	—	—	—	1,370,779.21	—	1,370,779.21
Asset disposal income	—	—	—	—	—	3,501,489.47	—	3,501,489.47
Other revenue	—	—	—	—	—	29,456,919.93	—	29,456,919.93
Report operating profit	484,529,066.45	2,597,346.99	4,868,056.88	(4,115,614.36)	1,823,577.62	(420,579,437.36)	—	69,122,996.22
Non-operating income	—	—	—	—	—	6,366,554.82	—	6,366,554.82
Non-operating expenses	—	—	—	—	—	14,327,049.92	—	14,327,049.92
Total profit	484,529,066.45	2,597,346.99	4,868,056.88	(4,115,614.36)	1,823,577.62	(428,539,932.46)	—	61,162,501.12
Income tax	—	—	—	—	—	(41,243,965.51)	—	(41,243,965.51)
Net profit	484,529,066.45	2,597,346.99	4,868,056.88	(4,115,614.36)	1,823,577.62	(387,295,966.95)	—	102,406,466.63
Total segment assets	5,218,893,671.75	90,174,399.15	92,005,417.73	152,633,167.19	231,567,186.89	822,262,750.66	—	6,607,536,593.37
Total segment liabilities	2,709,924,038.72	16,102,523.75	35,791,071.48	111,370,310.83	31,744,777.07	1,688,444,248.20	—	4,593,376,970.05

2. Other significant transaction and item effect on the decision of investor

In 2018 and 2017, 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:

Unit: RMB

External transaction income	Incurred during the period	Incurred during the previous period
PRC (except Hong Kong)	4,083,930,871.08	2,629,703,696.31
Hong Kong	—	—
Other overseas regions	368,083,939.04	335,513,026.06
Total	4,452,014,810.12	2,965,216,722.37



1 January 2018 to 31 December 2018

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

XIV. Other significant items (continued)

3. Others

Asset Mortgage

- (1) According to the relevant loan agreements and mortgage agreements entered into 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 pledged its own land use rights with licence number Shouguo (2009) 0204 and the buildings erected thereon to secure the long-term borrowings granted to the Company by Evergrowing Bank Weifang Branch Shouguang Sub-branch. As at 31 December 2018, the book value of the above pledged land use rights was RMB30.6434 million and the book value of buildings and structures was RMB67.1475 million. The Company borrowed RMB149 million under the relevant contracts and the pledge of assets will be due by 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 2018, 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.
- (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 Shou Guoyong (2005) No. 1027 and related ground construction. As of 31 December 2017, the book value of the above-mentioned mortgaged land use rights was RMB96.8068 million, and the book value of buildings and structures was RMB24.4712 million. The Company has financed RMB300 million under the contract and repaid RMB36.4 million on 30 November 2018. 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.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

XV. Notes to principal items in the financial statements of the parent Company

1. Bills and Accounts Receivable

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Bills receivable	418,945,086.30	72,924,479.69
Accounts receivable	618,706,266.35	454,454,882.73
Total	1,037,651,352.65	527,379,362.42

(1) Bills receivable

1) Presentation of bills receivable by type

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Bank acceptance bills	147,210,000.00	42,159,998.69
Trade acceptance bills	271,735,086.30	30,764,481.00
Total	418,945,086.30	72,924,479.69

If provision for bad debts of bills receivable was made using the general approach of expected credit loss, please disclose the information on provision for bad debts with reference to the disclosures of other receivables:

Applicable Not applicable

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

XV. Notes to principal items in the financial statements of the parent Company (continued)

1. Bills and Accounts Receivable (continued)

(1) Bills receivable (continued)

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

Unit: RMB

Item	Pledged amount at end of period
Bank acceptance bills	89,740,000.00
Trade acceptance bills	148,945,684.20
Total	238,685,684.20

3) Bill receivables that have been endorsed or discounted at the end of the period and have not yet expired at the balance sheet date:

Unit: RMB

Item	Amount derecognised as at end of period	Amount not derecognised as at end of period
Bank acceptance bills	444,816,895.43	—
Trade acceptance bills	—	94,281,027.25
Total	444,816,895.43	94,281,027.25

4) Bills transferred to accounts receivable due to non-performance of drawers at the end of the year

The Company had no bills transferred to accounts receivable due to non-performance of drawers at the end of year.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

XV. Notes to principal items in the financial statements of the parent Company (continued)

1. Bills and Accounts Receivable (continued)

(2) Accounts receivable

1) Disclosures of Accounts receivable by category

Unit: RMB

Category	Balances at the end of the period					Balances at the beginning of the period				
	Book balance		Provision for bad debts			Book balance		Provision for bad debts		
	Amount	Percentage	Amount	Provision rate	Book value	Amount	Percentage	Amount	Provision rate	Book value
Accounts receivable provided for bad debts on an individual basis	24,966,256.93	3.37%	9,986,502.77	40.00%	14,979,754.16	30,516,256.93	5.48%	1,850,000.00	6.06%	28,666,256.93
Including:										
Accounts receivable provided for bad debts on an individual basis due to significantly different credit risk	24,966,256.93	3.37%	9,986,502.77	40.00%	14,979,754.16	30,516,256.93	5.48%	1,850,000.00	6.06%	28,666,256.93
Accounts receivable provided for bad debts on a collective basis	716,739,993.96	96.63%	113,013,481.77	15.77%	603,726,512.19	526,250,003.26	94.52%	100,461,377.46	19.09%	425,788,625.80
Including:										
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	633,359,987.09	85.39%	113,013,481.77	17.84%	520,346,505.32	416,640,328.78	74.83%	100,461,377.46	24.11%	316,178,951.32
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on associates under consolidation	83,380,006.87	11.24%	—	—	83,380,006.87	109,609,674.48	19.69%	—	—	109,609,674.48
Total	741,706,250.89	100.00%	122,999,984.54	—	618,706,266.35	556,766,260.19	100.00%	102,311,377.46	—	454,454,882.73

Provision for bad debts on an individual basis: Accounts receivable provided for bad debts on an individual basis due to significantly different credit risk

Unit: RMB

Name	Balance at end of period			
	Book balance	Provision for bad debts	Provision rate	Reason for provision
Hebei Zhongtai Steel Pipe Manufacture Company Limited (河北中泰鋼管製造有限公司)	24,966,256.93	9,986,502.77	40.00%	Provision was made based on the amount of expected credit loss of the customer
Total	24,966,256.93	9,986,502.77	—	—

Provision for bad debts on an individual basis

No

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

XV. Notes to principal items in the financial statements of the parent Company (continued)

1. Bills and Accounts Receivable (continued)

(2) Accounts receivable (continued)

1) Disclosures of Accounts receivable by category (continued)

Accounts receivable provided for bad debts on a collective basis: Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics

Unit: RMB

Name	Balance at end of period		
	Book balance	Provision for bad debts	Provision rate
Within 1 year	506,503,180.00	5,065,031.81	1.00%
1–2 years	4,813,838.56	2,406,919.28	50.00%
2–3 years	13,351,264.92	10,013,448.69	75.00%
3–5 years	87,757,477.48	74,593,855.86	85.00%
Over 5 years	20,934,226.13	20,934,226.13	100.00%
Total	633,359,987.09	113,013,481.77	—

Descriptions of basis for determining the group:

Provision for bad debts on a collective basis: Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on associates under consolidation

Unit: RMB

Name	Balance at end of period		
	Book balance	Provision for bad debts	Provision rate
Shouguang Maolong New Materials Technology Development Company Limited	63,368,897.49	—	0.00%
MPM INTERNATIONAL LIMITED	20,011,109.38	—	0.00%
Total	83,380,006.87	0.00	—



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

XV. Notes to principal items in the financial statements of the parent Company (continued)

1. Bills and Accounts Receivable (continued)

(2) Accounts receivable (continued)

1) Disclosures of Accounts receivable by category (continued)

Descriptions of basis for determining the group:

If provision for bad debts of accounts receivables was made using the general approach of expected credit loss, please disclose the information on provision for bad debts with reference to the disclosures of other receivables:

Applicable Not applicable

Disclosure by age

Unit: RMB

Age	Balance at end of period
1 year (inclusive)	570,178,196.70
1 to 2 years	24,518,828.73
2 to 3 years	18,370,354.32
Over 3 years	128,638,871.14
Total	741,706,250.89

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

Provisions for bad debts for the period:

Unit: RMB

Type	Balance of beginning of period	Movement during the period			Balance of end of period
		Provision	Recovery or reversal	Write-off	
Provisions for bad debts of accounts receivable	102,311,377.46	20,688,607.08	—	—	122,999,984.54
Total	102,311,377.46	20,688,607.08	—	—	122,999,984.54

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

No

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

XV. Notes to principal items in the financial statements of the parent Company (continued)

1. Bills and Accounts Receivable (continued)

(2) Accounts receivable (continued)

3) *Accounts receivables written off during the period*

Descriptions of written off of accounts receivable:

The Company did not write off any accounts receivable during the year.

4) *Balance of top five accounts receivable as at the end of the period by debtor*

This year, the aggregate balance of top five accounts receivable as at the end of the period by debtor amounted to RMB268,955,290.46, accounting for 36.26% of the balance of total accounts receivable as at the end of the year. The aggregate balance of corresponding provisions for bad debts as at the end of the year amounted to RMB40,332,291.20.

5) *Account receivables that were derecognized on transfer of financial assets*

As at 31 December 2018, the Group had no accounts receivable that were derecognised on transfer of financial assets.

6) *Amount of assets or liabilities for which accounts receivable have been transferred but involvement continues*

As at 31 December 2018, the Group had no assets or liabilities for which accounts receivable have been transferred but involvement continues.

2. Other receivables

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Interests receivable	2,710,659.25	4,220,913.66
Other receivables	458,496,851.79	523,999,957.97
Total	461,207,511.04	528,220,871.63



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

XV. Notes to principal items in the financial statements of the parent Company (continued)

2. Other receivables (continued)

(1) Interests receivable

1) Type of interests receivable

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Interests in security deposits	2,710,659.25	4,220,913.66
Total	2,710,659.25	4,220,913.66

2) Significant overdue interest

The above interests of the Group were not overdue.

(2) Other receivables

1) Other receivables by payment nature

Unit: RMB

Payment nature	Book balance at end of period	Book balance at beginning of period
Staff turnover loans	1,120,000.00	803,000.00
Deposits/ caution money	1,931,819.00	2,106,642.00
Amounts due from administrative entities	14,530,000.00	14,530,000.00
Other amounts due from entities	37,803,877.48	34,935,085.73
Related parties under consolidation	440,284,184.61	492,896,125.60
Less: Provision for bad debts of other receivables	(37,173,029.30)	(21,270,895.36)
Total	458,496,851.79	523,999,957.97

Notes to the Financial Statements



1 January 2018 to 31 December 2018

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

XV. Notes to principal items in the financial statements of the parent Company (continued)

2. Other receivables (continued)

(2) Other receivables (continued)

2) Provision for bad debts

Unit: RMB

Provision for bad debts	Stage 1	Stage 2	Stage 3	Total
	Next 12-month expected credit loss	Lifetime expected credit loss (without credit impairment)	Lifetime expected credit loss (with credit impairment)	
Balance at 1 January 2018	140,741.86	1,005,966.23	20,124,187.27	21,270,895.36
Transfer to Stage 2 of balance at 1 January 2018 during the period	11,002.69	—	—	—
Provision for the period	118,136.01	770,763.59	15,013,234.34	15,902,133.94
Balance at 31 December 2018	258,877.87	1,776,729.82	35,137,421.61	37,173,029.30

Movement of book balance of significant change in provision for the period

Applicable Not applicable

Disclosure by age

Unit: RMB

Age	Balance at end of period
1 year (inclusive)	6,276,855.48
1 to 2 years	412,136,627.41
2 to 3 years	1,933,125.69
Over 3 years	75,323,272.51
Total	495,669,881.09



Notes to the Financial Statements

1 January 2018 to 31 December 2018

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

XV. Notes to principal items in the financial statements of the parent Company (continued)

2. Other receivables (continued)

(2) Other receivables (continued)

3) Provision, recovery or reversal of provision for bad debts for the period

Provisions for bad debts for the period:

Unit: RMB

Type	Balance of beginning of period	Movement during the period		Balance of end of period
		Provision	Recovery or reversal	
Provisions for bad debts of other receivables	21,270,895.36	15,902,133.94	—	37,173,029.30
Total	21,270,895.36	15,902,133.94	—	37,173,029.30

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

No

4) Other receivables written off during the period

The Group did not write off any accounts receivable during the year.

Notes to the Financial Statements



1 January 2018 to 31 December 2018

(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)

(2) Other receivables (continued)

5) Balance of top five other receivables as at the end of the period by debtor

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
Shouguang Maolong New Materials Technology Development Company Limited	Amounts from related parties under consolidation	324,492,284.31	1–2 years	65.47%	—
Shouguang Molong Logistic Company Limited	Amounts from related parties under consolidation	866,257.76	Within 1 year	0.17%	—
Shouguang Molong Logistic Company Limited	Amounts from related parties under consolidation	87,576,960.75	1–2 years	17.67%	—
Shouguang Molong Logistic Company Limited	Amounts from related parties under consolidation	1,692,830.89	2–3 years	1.54%	—
Shouguang Molong Logistic Company Limited	Amounts from related parties under consolidation	25,655,850.90	Over 5 years	3.98%	—
JESORO OIL LTD	Amounts due from entities	35,015,302.36	3–4 years	7.06%	35,015,302.36
Shouguang City Yang Kou Town Office of Finance	Amounts due from administrative entities	14,530,000.00	Over 5 years	2.93%	1,743,600.00
Shouguang Social Insurance Management Centre	Amounts due from entities	1,383,915.94	Within 1 year	0.28%	138,391.59
Total		491,213,402.91		99.10%	36,897,293.95

(6) Accounts receivable involving government grant
Nil

(7) Other receivables derecognised due to transfer of financial assets
As at 31 December 2018, the Company had no other receivables that were derecognised on transfer of financial assets.

(8) Amount of assets or liabilities for which other receivables have been transferred but involvement continues
As at 31 December 2018, the Group had no assets or liabilities for which other receivables have been transferred but involvement continues.



Notes to the Financial Statements

1 January 2018 to 31 December 2018

(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 investments

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	
	Book balance	Provision for impairment	Book value			Book balance	Provision for impairment
Shouguang Maolong	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 2018 to 31 December 2018

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

XV. Notes to principal items in the financial statements of the Company (continued)

4. Operating revenue and operating cost

Unit: RMB

Item	Amount incurred in the period		Amount incurred in the last period	
	Revenue	Cost	Revenue	Cost
Principal businesses	3,928,624,271.41	3,398,005,243.21	2,573,630,238.74	2,299,508,674.00
Other businesses	156,371,473.27	155,300,523.65	142,006,387.92	139,859,964.77
Total	4,084,995,744.68	3,553,305,766.86	2,715,636,626.66	2,439,368,638.77

Information on revenue:

Information on performance obligations:

The Group as primary obligor satisfy its obligations of supplying products customers in a timely manner by reference to the category, standard and time requested by the customer in accordance with the provisions of the contracts. There are different payments terms for different customers and different products: domestic customers of tubes are normally subject to payment in advance of distribution, and domestic customers of oil casing is normally subject to payment terms of 3-6 months after bill settlement. As to export business, payment terms are mainly payment upfront. As to oil casing products, most of the customers are subject to payment in advance, under which customers are to make full payment before distribution of products. As to petroleum machinery parts, the credit term is normally 2 months.

Information on the transaction price allocated to remaining performance obligations:

The corresponding revenue from performance obligations that have been contracted but not yet performed or completed amounted to RMB697 million as at the end of the year, and is expected to be recognised as revenue in 2019.



Financial Statements

1 January 2018 to 31 December 2018

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

1. NON-RECURRING PROFIT (LOSS) FOR The period

Applicable Not applicable

Unit: RMB

Item	Amount	Description
Profit or loss on disposal of non-current assets	3,472,397.69	—
Ultra vires or no formal approval documents for approval or incidental tax refunds or relief	—	—
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	29,456,919.93	—
Profit or loss arising from contingencies unrelated to the normal business operations of the Company	(9,489,704.33)	—
Financial assets held for trading, derivative financial assets, financial liabilities held for trading, gains or losses on fair value changes arising from derivative financial liabilities other than effective hedging business related to normal operating business of the Company, and gains on disposal of investment in financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative liabilities and other equity investments	1,346,581.79	—
Other non-operating income and expenses other than the above	1,558,301.01	—
Less: Effect of income tax	8,669,151.99	—
Effect of minority interests	2,070,087.77	—
Total	15,605,256.33	—

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	4.82%	0.1159	0.1159
Net profit attributable to the ordinary share of shareholders of the Company (excluding non-recurring profit and loss)	4.00%	0.10	0.10



1 January 2018 to 31 December 2018

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

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

(3) Reason(s) for accounting difference between domestic and international accounting standards; if adjustment has been made to data audited by overseas audit firm, specify the name of the overseas audit firm

Not applicable

4. Others

No



XIII. Documents Available for Inspection

- (1) The financial statements which were signed and sealed by the responsible person, chief accountant and head of accounting department (person in charge of accounting matters) of the Company.
- (2) The original copy of the auditors' report which was sealed by the accounting firm and signed by a certified public accountant.
- (3) Announcements and documents disclosed in the cninfo.com during the reporting period.

