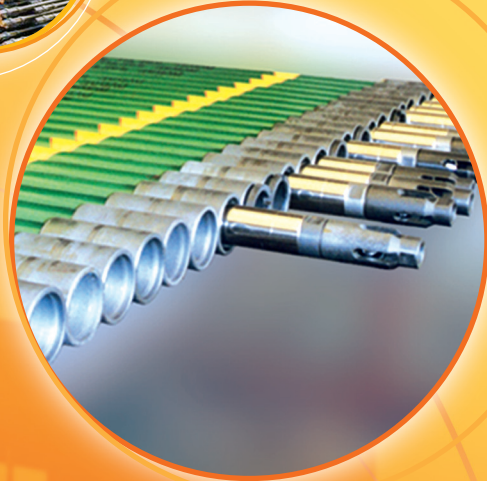




山東墨龍石油機械股份有限公司

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)



2019
Interim
Report

I. IMPORTANT, CONTENTS AND DEFINITIONS

The board of directors (the “Board”), the supervisory committee (the “Supervisory Committee”) and the directors (the “Directors”), supervisors (the “Supervisors”) and senior management (the “Senior Management”) of the Company hereby warrant that there are no false representations, misleading statements or material omissions contained in this interim 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 this interim report.

All Directors attended the Board meeting for considering this report.

The Company has described in detail the risks it may encounter in the section headed “IV. Discussion and Analysis of Operations” of this 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.

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Definitions

Defined term	Description
“Company”, “parent company” and “Shandong Molong”	Shandong Molong Petroleum Machinery Company Limited
“Group”	collectively, the Company and its subsidiaries
“SZSE”	The Shenzhen Stock Exchange
“SEHK”	The Stock Exchange of Hong Kong Limited
“CSRC”	China Securities Regulatory Commission
“Shouguang Baolong”	壽光寶隆石油器材有限公司 (Shouguang Baolong Petroleum Equipment Co., Ltd.)
“Weihai Baolong”	威海市寶隆石油專材有限公司 (Weihai Baolong Special Petroleum Materials Co., Ltd.)
“Shouguang Maolong”	壽光懋隆新材料技術開發有限公司 (Shouguang Maolong New Materials Technology Development Co., Ltd.)
“Molong Energy”	山東墨龍能源科技有限公司 (Shandong Molong Energy Technology Co., Ltd.)
“reporting period”	1 January 2019 to 30 June 2019
“RMB”, “RMB ten thousand”	Renminbi, ten thousand Renminbi

II. COMPANY PROFILE AND MAJOR FINANCIAL INDICATORS

I. Company Profile

Stock Name Abbreviation	山東墨龍	Stock Code	002490
Stock Exchange of Listed Securities	The Shenzhen Stock Exchange		
Stock Name Abbreviation	山東墨龍	Stock Code	00568
Stock Exchange of Listed Securities	The 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	Shandong Molong Petroleum Machinery Company Limited		
Abbreviation of the English Name	Shandong Molong		
Legal Representative of the Company	Liu Yun Long		

II. Contact Persons and Contact Information

	Secretary to the Board	Securities Affairs Representative
Name	Liu Min	Zhao Xiaotong
Contact 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

III. Other Information

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1. Company Contact Information

Any changes in the registered address, office address and zip code, web address, e-mail address of the Company during the reporting period

Applicable Not applicable

The registered address, office address and zip code, web address and e-mail address had no changes during the reporting period. For details, please see 2018 annual report.

2. Information Disclosure and Place for Inspection

Any changes in the information disclosure and place for inspection during the reporting period

Applicable Not applicable

The designated newspaper for information disclosure, the designated domestic website for the publication of interim report as approved by China Securities Regulatory Commission and the place for inspection of the interim report of the Company had no changes during the reporting period. For details, please see 2018 annual report.

IV. Major Accounting Data and Financial Indicators

Whether the Company should make retroactive adjustment to or restate accounting data for prior years

Yes No

	The reporting period	Same period last year	Year-on-year increase/decrease (%)
Operating revenue (RMB)	2,377,445,034.26	2,000,081,569.83	18.87%
Net profit attributable to shareholders of listed company (RMB)	18,012,923.36	32,575,294.80	-44.70%
Net profit after extraordinary gains or losses attributable to shareholders of listed company (RMB)	14,993,661.58	23,983,016.25	-37.48%
Net cash flows generated from operating activities (RMB)	273,711,631.80	(145,339,448.51)	288.33%
Basic earnings per Share (RMB)	0.0226	0.0408	-44.61%
Diluted earnings per Share (RMB)	0.0226	0.0408	-44.61%
Weighted average rate of return on net assets (%)	0.92%	1.73%	-0.81%
	As at the end of the reporting period	As at the end of last year	Year-on-year increase/decrease (%)
Total assets (RMB)	6,517,210,993.56	6,607,536,593.37	-1.37%
Net assets attributable to shareholders of listed company (RMB)	1,962,077,504.87	1,944,091,288.19	0.93%

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

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

Applicable Not applicable

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

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

Applicable Not applicable

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

VI. Extraordinary gain or loss items and amounts

Applicable Not applicable

Unit: RMB

Item	Amount	Description
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	(229,634.05)	—
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)	12,204,052.90	—
Profit or loss arising from contingencies unrelated to the normal operation of the Company	(7,132,168.72)	—
Non-operating income and loss other than the above items	(1,249,433.68)	—
Less: Affected income tax amount	70,196.78	—
Affected minority interest amount (after tax)	503,357.89	—
Total	3,019,261.78	—

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. Main business engaged by the Company during the 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 exceeded 70% of our revenue, which was 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. During the reporting period, affected by fluctuations in crude oil prices and changes in the economic situation, both of the sales volume and prices of the Company's pipe products were volatile. During the reporting period, the Company adhered to the sales strategy of focusing on casings, placed greater effort on developing new markets and new products, increased technological innovation and equipment improvement, so as to achieve a higher standard of corporate governance.

II. Significant changes in major assets

1. Significant changes in major assets

Major asset	Description of significant change
Equity assets	No significant change
Fixed assets	No significant change
Intangible assets	No significant change
Construction in process	No significant change

2. Condition of major overseas assets

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, the Group developed new markets in the PRC such as the Yumen Oilfield* (玉門油田), Tuha Oilfield* (吐哈油田), Western Drilling* (西部鑽探), and Zhejiang Oilfield* (浙江油田).

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 Group tapped into market in Tunis shipped out certain products. During the reporting period, the Group's export business accounted for approximately 12% of its revenue from principal businesses.

As for new product development, during the reporting period, the Group successfully developed the ML125V high-performance and high-strength casing for shale gas exploitation and bimetallic corrosion-resistant composite oil casing, and obtained three utility model patents. The Group was also in the process of one utility model patent application and one invention patent application.

In line with its established business strategy set at the beginning of the year, 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

During the reporting period, the Company will pursue its sales strategy of focusing on casings by increasing its effort on developing new markets and new products and by improving product quality and brand awareness. Through deepened internal tapping and refined management, the Company implemented strict safety production and environmental control to promote quality and efficiency. The Company strengthened technological innovation and equipment upgrade so as to achieve closer industry-university-institute cooperation and continuous improvement in production capacity and efficiency. The Company also optimised its management process, which raised the standard of its corporate governance.

During the reporting period, the Company achieved an operating revenue of RMB237,744.50 ten thousand, representing a growth of 18.87% year-on-year. Operating profit grew by 13.93% to RMB2,327.60 ten thousand. Due to factors such as rising raw material prices, volatile product prices and making provision for litigation claims by investors, net profit attributable to shareholders of the listed company of the Company dropped by 44.70% year-on-year. Cash flow generated from operating activities was RMB27,371 ten thousand, representing an increase of 288.33% year-on-year.

II. Analysis of principal business

Overview

See "I. Overview" under "Discussion and Analysis of Operations" for details.

Year-on-year changes in key financial data

Unit: RMB

	The reporting period	Same period last year	Year-on-year increase/decrease (%)	Reason(s) for the change
Operating revenue	2,377,445,034.26	2,000,081,569.83	18.87%	—
Operating costs	2,156,658,882.03	1,716,855,589.44	25.62%	Mainly attributable to the rising raw material prices of products.
Selling expenses	39,984,800.58	56,820,233.83	-29.63%	Mainly attributable to the increased proportion of sales for which transportation costs were borne by customers during the period, and the decrease in transportation costs borne by the Company which was resulted from the change by certain customers of their place of receipt.
Administrative expenses	55,293,610.81	62,665,742.77	-11.76%	—
Finance costs	79,893,627.95	105,796,355.30	-24.48%	Mainly attributable to the lesser discounting of acceptance bills during the period when compared with the same period last year.

	The reporting period	Same period last year	Year-on-year increase/decrease (%)	Reason(s) for the change
Income tax expense	3,410,375.68	1,872,724.25	82.11%	Mainly attributable to the increased deferred income tax expense recognised for the period.
R&D expenditures	38,695,846.55	39,824,335.15	-2.83%	—
Net cash flows generated from operating activities	273,711,631.80	(145,339,448.51)	288.33%	Mainly attributable to the increase in operating revenue for the period, and the increased effort in receivable collection during the period.
Net cash flows generated from investing activities	10,521,608.60	(97,536,341.81)	110.79%	Mainly attributable to the return of wealth management funds by banks on maturity during the period.
Net cash flows generated from financing activities	(343,263,655.30)	(45,760,615.27)	-650.13%	Mainly attributable to the increase in repayment of the debts due during the period.
Net increase in cash and cash equivalents	(62,237,349.04)	(286,375,649.62)	78.27%	—
Bills receivable	515,683,304.52	382,901,696.30	34.68%	Mainly attributable to the increase in bills pledged for bank facilities during the period.
Prepayments	52,746,837.01	30,978,235.20	70.27%	Mainly attributable to the increase in prepayments for materials during the period.
Other current assets	86,499,015.79	144,802,505.41	-40.26%	Mainly attributable to the return of wealth management funds by banks on maturity during the period.
Bills payable	476,629,551.98	278,902,047.79	70.89%	Mainly attributable to the increase in new bank acceptance bills during the period.
Tax payable	22,361,166.96	81,227,045.72	-72.47%	Mainly attributable to the payment of tax arising from the end of last year during the period.
Non-current liabilities due within 1 year	183,525,578.00	308,994,908.08	-40.61%	Mainly attributable to the repayment of long-term borrowings due within 1 year during the period.
Other current liabilities	49,056,505.40	94,281,027.25	-47.97%	Mainly attributable to the decrease in unmatured endorsed trade acceptance bills for goods payment.
Estimated liabilities	4,267,805.84	12,780,330.57	-66.61%	Mainly attributable to the transfer to other payables line item of the judged litigation claims of investors during the period for audit purpose.

Unit: RMB

	The reporting period	Same period last year	Year-on-year increase/decrease (%)	Reason(s) for the change
Long-term payables	145,209,090.00	—	100.00%	Mainly attributable to the commencement of financial leasing business during the period.

Significant change in composition or sources of the Group's profit during the reporting period

Applicable Not applicable

There were no significant change in the composition or sources of Group's profit during the reporting period.

Composition of operating revenue

Unit: RMB

	The reporting period		Same period last year		Year-on-year increase/decrease (%)
	Amount	Percentage of operating revenue	Amount	Percentage of operating revenue	
Total operating revenue	2,377,445,034.26	100.00%	2,000,081,569.83	100.00%	18.87%
By industry					
Special equipment manufacturing	2,377,445,034.26	100.00%	2,000,081,569.83	100.00%	18.87%
By product					
Pipe products	1,736,398,713.52	73.04%	1,788,034,148.98	89.40%	-2.89%
Three kinds of pumping units	22,554,354.70	0.95%	25,393,192.95	1.27%	-11.18%
Petroleum machinery parts	19,718,743.32	0.83%	22,258,061.24	1.11%	-11.41%
Tube blanks	528,281,779.05	22.22%	116,372,876.88	5.82%	353.96%
Others	70,491,443.67	2.96%	48,023,289.78	2.40%	46.79%
By region					
PRC	2,101,112,092.50	88.38%	1,770,628,086.11	88.53%	18.66%
Abroad	276,332,941.76	11.62%	229,453,483.72	11.47%	20.43%

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

Applicable Not applicable

Unit: RMB

	Operating revenue	Operating costs	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin
By industry						
Special equipment manufacturing	2,264,680,492.57	2,053,770,595.46	9.31%	18.92%	26.52%	-5.45%
By product						
Pipe products	1,736,398,713.52	1,517,166,137.66	12.63%	-2.89%	0.67%	-3.09%
Tube blanks	528,281,779.05	536,604,457.80	-1.58%	353.96%	361.66%	-1.70%
By region						
PRC	2,009,190,070.57	1,837,211,327.06	8.56%	18.19%	29.49%	-7.98%
Abroad	255,490,422.00	216,559,268.40	15.24%	25.00%	5.87%	15.31%

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

Applicable Not applicable

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

Applicable Not applicable

- ① Revenue from tube blanks for the reporting period increased by 353.96% from same period last year, mainly attributable to the higher production volume and increased export sales of tube blanks during the period.
- ② Revenue from other products increased by 46.79% from the same period last year, mainly attributable to the increase in sales of value-added products of the Company during the period, which led to the increase in operating revenue.

III. Analysis of non-principal business

✓ Applicable □ Not applicable

Unit: RMB

	Amount	Percentage of total profit	Description of the cause(s)	Sustainable or not
Gain on investment	1,170,164.41	5.31%	Mainly attributable to the gain generated from the wealth management by banks during the period.	No
Non-operating income	6,078,613.12	27.60%	Mainly attributable to the transfer of defaulted accounts payable to this line item during the period.	No
Non-operating expenses	7,328,046.80	33.27%	Mainly attributable to the provision for the litigation claims by investors during the period.	No
Credit impairment	(2,041,521.53)	-9.27%	Mainly attributable to the provision for credit impairment pursuant to the requirement of Accounting Standards for Business Enterprises (the "ASBEs") during the period.	No
Gain on disposal of assets	(229,634.05)	-1.04%	Mainly attributable to the receipt of subsidies and grants for recycling resources enterprises during the period.	No
Other gains	12,204,052.90	55.41%	Mainly attributable to the receipts of subsidies for recycling resources enterprises during the period.	No

IV. Analysis of assets and liabilities

1. Significant changes in assets

Unit: RMB

	As at the end of the reporting period		As at the end of same period last year		Increase/ decrease in percentage (%)	Description of the significant change(s)
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Monetary funds	725,002,035.16	11.12%	892,452,274.76	13.51%	-2.39%	—
Accounts receivable	664,185,521.79	10.19%	536,199,939.96	8.11%	2.08%	—
Inventories	1,006,688,718.31	15.45%	1,042,761,257.01	15.78%	-0.33%	—
Long-term equity investments	2,663,518.90	0.04%	2,663,518.90	0.04%	0.00%	—
Fixed assets	2,804,113,835.92	43.03%	2,915,815,731.99	44.13%	-1.10%	—
Construction-in- progress	46,382,671.96	0.71%	35,871,296.86	0.54%	0.17%	—
Short-term borrowings	2,214,838,910.00	33.98%	2,390,918,560.77	36.18%	-2.20%	—
Long-term borrowings	323,777,514.17	4.97%	426,219,050.90	6.45%	-1.48%	—
Long-term payables	145,209,090.00	2.23%	—	—	2.23%	Mainly attributable to the commencement of financial leasing business during the period.

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2. Assets and liabilities measured at fair value

Applicable Not applicable

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

Unit: RMB

Item	Book value as at the end of the period	Reason(s) for the restriction
Monetary funds	208,314,902.00	Security deposits maturing after three months
Bills receivable	359,009,949.13	Pledge of bills
Fixed assets	196,748,014.28	Charge for borrowings
Intangible assets	93,746,489.39	Pledge/charge for borrowings
Other current assets	45,000,000.00	Pledge for borrowings
Bills receivable	44,065,409.98	Pledge for borrowings
Total	946,884,764.78	—

V. Analysis of investments

1. General

Applicable Not applicable

2. Significant equity investments acquired during the reporting period

Applicable Not applicable

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

Applicable Not applicable

4. Financial assets measured at fair value

Applicable Not applicable

5. Investments in securities

Applicable Not applicable

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

6. Investments in derivatives

Applicable Not applicable

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

7. Use of raised funds

Applicable Not applicable

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

8. Major projects invested with non-raised funds

Applicable Not applicable

The Company did not invest in any major projects with non-raised funds during the reporting period.

VI. Material disposals of assets and equities

1. Disposal of significant assets

Applicable Not applicable

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

2. Disposal of major equities

Applicable Not applicable

VII. Analysis of major controlled and invested companies

Applicable Not applicable

Major subsidiaries and invested companies having impact on the Company's net profit by more than 10%

Unit: RMB

Name of company	Type of company	Principal business	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net Profit
Shouguang Baolong	Subsidiary	Production and sale of oil equipment	RMB150 million	1,389,642,794.32	40,358,806.36	1,398,621,860.04	4,070,970.78	6,208,990.81
Weihai Baolong	Subsidiary	Manufacture and sale of special oil metal materials	RMB26 million	279,906,547.91	167,015,281.56	412,253,308.29	(13,615,685.96)	(13,563,587.18)
Shouguang Maolong	Subsidiary	Research on new materials for energy equipment; production and sales of metal casting and forging; sea water desalination; waste heat and gas power generation.	RMB712.38 million	1,520,085,369.50	503,841,995.55	601,220,271.80	(17,233,752.44)	(16,716,062.56)

Acquisition and disposal of subsidiaries during the reporting period

Applicable Not applicable

Name of company	Method of acquisition and disposal of subsidiaries during the reporting period	Impact on overall production, operation and performance
Shandong Molong Energy Technology Co., Ltd.	Incorporation	Nil

Description of major controlled and invested companies

One controlled subsidiary, Shandong Molong Energy Technology Co., Ltd. (“Molong Energy”), was consolidated into the combined financial statements of the Company for the reporting period. Molong Energy was granted its business licence on 13 March 2019, with a registered capital of RMB10 million. It is interested by Shandong Molong as to 51% and by 山東鴻進能源管理有限公司 (Shandong Hongjin Energy Management Co., Ltd.) as to 49%. The business scope of Molong Energy covers: energy management services; new energy promotion, technical services and technical consultancy; investment and construction of gas pipeline network projects; supply of urban gas; sale of gas equipment; installation and repair of gas equipment; development and sale of real properties; property leasing. As at the date of this report, Molong Energy has not yet commenced any business.

VIII. Structured entities controlled by the Company

Applicable Not applicable

IX. Forecast of the operating results from January to September 2019

Applicable Not applicable

X. Risk exposures and contingency measures 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.

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

1. Results

The revenue of the Group and the financial position of the Group and of the Company for the first half of 2019 are set out in the financial statements contained in the section headed "Financial Report" of this interim report.

2. Financial Highlights

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

Results

	For the half year ended 30 June	
	2019	2018
	RMB'0,000	RMB'0,000
Total operating revenue	237,744.50	200,008.16
Operating profit	2,327.60	2,043.09
Total profit	2,202.66	2,255.77
Net profit	1,861.62	2,068.50
Minority interests	60.33	(1,189.03)
Net profit attributable to shareholders of the parent company	1,801.29	3,257.53
Basic earnings per share (RMB)	0.0226	0.0408

Assets and Liabilities

	For the half year ended 30 June	
	2019	2018
	RMB'0,000	RMB'0,000
Total assets	651,721.10	660,753.66
Total liabilities	448,446.49	459,337.70
Net assets	203,274.61	201,415.96

3. Changes in Share Capital

Details of changes in the share capital of the Company for the first half of 2019 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 the first half of 2019 are set out in note VII to the financial statements.

5. *Property, Plant and Equipment*

Details of changes in the property, plant and equipment of the Group for the first half of 2019 are set out in note VII to the financial statements.

6. *Capitalised Interest*

During the first half of 2019, the Group capitalised interest of RMB nil.

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 has entered into any service contracts with the Company which is not determinable by the Company within one year without payment compensation (other than statutory compensation).

8. *Continuing Connected Transactions*

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

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

As at 30 June 2019, the Directors, Supervisors and chief executives of the Company had the following (a) interests and short positions in the shares, underlying shares and 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 SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (b) interests and short positions which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) interests and short positions which were required pursuant to the Model Code, to be notified to the Company and to the SEHK:

Long positions in the Shares of the Company

Name	Type of interest	Number of A shares	Approximate percentage of A shares	Approximate 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%

Saved as disclosed above, as at 30 June 2019, to the best knowledge of any Directors, Supervisors or chief executive of the Company, none of the Directors, Supervisors or chief executive of the Company had any interests or short positions 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 (a) were required pursuant to section 352 of the SFO to be entered in the register referred to therein, or (b) which were required pursuant to the Model Code to be notified to the Company and the SEHK.

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

None of the Directors or Supervisors of the Company or any of their respective associates (as defined under the Rule 1.01 of the Listing Rules) was granted by the Company or its subsidiaries any right to acquire benefits by means of the acquisition of shares in or debentures of the Company or had exercised any such right to the first half of 2019.

11. Share Option Scheme

The Company does not operate any share option scheme.

12. Substantial Shareholders

Details are set out in the section headed "Changes in Share Capital and Shareholders" of this interim report.

13. Directors' and Supervisors' Interests in Contracts

There were no contracts of significance to the business of the Group and in which any of the Directors or Supervisors had a material interest, whether directly or indirectly, subsisted at 30 June 2019 or at any time in the first half of 2019.

14. Material Contracts

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

15. Purchase, Sale or Redemption of Securities

None of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the first half of 2019.

16. Pre-emptive Rights

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

17. Corporate Governance

The Company has strictly complied with requirements of laws, regulations and regulatory documents including the Company Law, the Securities Law, the Code of Corporate Governance of Listed Companies and the Guidelines for Articles of Association of Listed Companies since its establishment and continued to raise its corporate governance standards. During the reporting period, the Company continued to enhance its governance system and operation procedures in accordance with the work plan of the regulatory authorities and the latest regulatory requirements. There were no differences between the actual conditions of the Company's corporate governance and the requirements under the CSRC's related laws and regulations. The Company has adopted all code provisions set out in the Corporate Governance Code of Appendix 14 of the Listing Rules of the SEHK of Hong Kong.

During the reporting period, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") as contained in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited without any deviation. None of the Directors of the Company was aware of any information that would reasonably indicate that the Company was not in compliance with the Code at any time during the reporting period.

18. Sufficiency of Public Float

According to information available to the Company and to the best knowledge of the Directors of the Company, the Directors confirmed that the Company has maintained a sufficient public float as prescribed in the Listing Rules of the SEHK throughout the year and up to the date of this annual report.

19. Substantial Shareholders' Interests in Securities

As at 30 June 2018, so far as it is known to the Directors, Supervisors or chief executives of the Company, the following persons (other than a Director, Supervisor or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which were required to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register to be kept by the Company under section 336 of the SFO, or were directly or indirectly interested in 5% or above of the Shares of the Company:

Long positions in the A Shares of the Company

Substantial shareholder	Nature of interest	Number of A shares	Approximate percentage of A shares	Approximate percentage of total registered share capital
Zhang En Rong (Note 1) China Great Wall Asset Management Co., Ltd.	Beneficial interest	235,617,000	43.49%	29.53%
(Note 2) China Great Wall Asset Management Co., Ltd. Shandong Branch	Company interest Person having a security interest in shares	85,000,000	15.69%	10.65%
		85,000,000	15.69%	10.65%

Short positions in the A Shares of the Company

Substantial shareholder	Nature of interest	Number of A shares	Approximate percentage of A shares	Approximate percentage of total registered share capital
Shandong Guohui Investment Co. Ltd. (山東國惠投資有限公司)	Person having a security interest in shares	150,617,000	27.8%	18.88%

Notes:

1. The A Shares held by Mr. Zhang En Rong have been pledged.
2. China Great Wall Asset Management Co., Ltd. holds 100% equity interest in China Great Wall Asset Management Co., Ltd. Shandong Branch. Therefore, China Great Wall Asset Management Co., Ltd. is deemed to have 85,000,000 A Shares of the Company.

Save as disclosed above, as at 30 June 2019, no persons (other than being a Director, Supervisor or chief executive of the Company) had any interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company and the SEHK pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and which were required to be recorded in the register to be kept pursuant to section 336 of the SFO.

20. Liquidity and financial resources

As at 30 June 2019, the Group recorded a current ratio of 78.12%, quick ratio of 52.94%, receivable turnover ratio of 396.11% and inventory turnover ratio of 210.46%. The main source of the Group's capital is the cash inflow from operating activities, borrowings from financial institutions and others. The Group's capital needs do not have obvious seasonal pattern.

As at 30 June 2019, the Group had total borrowings of RMB2.867 billion (as at the end of last year, the Group had total borrowings of RMB3.126 billion). As at 30 June 2019, the Group had monetary funds of RMB725 million (monetary funds as at the end of last year: RMB892 million).

21. Gearing ratio

The Group's gearing ratio was approximately 68.81% (2018: approximately 69.52%) which is calculated based on the Group's total liabilities of approximately RMB448,446 ten thousand (2018: approximately RMB459,338 ten thousand) and total assets of approximately RMB651,721 ten thousand (2018: approximately RMB660,754 ten thousand).

22. Treasury Policy

The Group has established a sound and strict internal control system for cash and fund management so as to strengthen its financial management. Most of the Group's revenues are denominated in Renminbi. The Group's liquidity and solvency are in good condition.

23. Restricted Assets

As at 30 June 2019, the Group had restricted assets as follows:

Item	Book value as at the end of the period	Reason(s) for the restriction
Monetary funds	208,314,902.00	Security deposits maturing after three months
Bills receivable	359,009,949.13	Pledge of bills
Fixed assets	196,748,014.28	Charge for borrowings
Intangible assets	93,746,489.39	Pledge/charge for borrowings
Other current assets	45,000,000.00	Pledge for borrowings
Accounts receivable	44,065,409.98	Factoring borrowings
Total	946,884,764.78	—

24. Contingent Liabilities

As at 30 June 2019, the Group did not have any discloseable contingent liabilities.

25. Business Review

Key financial and business performance indicators

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

Risk Management

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

Sustainability Initiatives

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

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

26. Director's Securities Transactions

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 of the Listing Rules and requires the directors to follow the Model Code while conducting securities transactions. Such requirements also apply to the Company's management. The Company has made specific enquiries to all directors and has confirmed that all of the directors have complied with the required standard of securities transactions by the directors as set out in the Model Code for the six months ended 30 June 2019.

27. Audit Committee

The Audit Committee (its members include three independent non-executive directors) held two meetings during the six months ended 30 June 2019 to discuss matters, such as the accounting standards and practices adopted by the Group, internal control and financial reporting matters, and review the interim results for the six months ended 30 June 2019. Based on the discussions in the meetings, the Audit Committee was satisfied that the financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2019. The interim results for the six months ended 30 June 2019 have not been reviewed by the auditors of the Company.

28. Equity Fund Raising Activities

During the reporting period, the Company did not conduct any equity fund raising activities, nor did it incur any balance of proceeds from the issuance of any equity securities in the previous financial years.

V. MATERIAL MATTERS

I. Annual general meeting and extraordinary general meeting convened in the reporting period

1. General meetings during the reporting period

Session	Type	Attendance rate of investors	Convening date	Disclosure date	Disclosure index
2018 Annual General Meeting	Annual general meeting	30.06%	21 June 2019	22 June 2019	http://www.cninfo.com.cn

2. Extraordinary general meeting requested by preferred shareholders with voting rights restored

Applicable Not applicable

II. Profit distribution or conversion of capital reserves into share capital during the reporting period

Applicable Not applicable

The Company did not propose to distribute cash dividend or bonus share, or convert capital reserves into share capital for the interim period.

III. Undertakings fulfilled by the Company's de facto controllers, shareholders, connected persons, purchasers, the Company and other relevant parties during the reporting period and the outstanding undertakings as at the end of the reporting period

Applicable Not applicable

There was no undertaking fulfilled by the Company's de facto controllers, shareholders, connected persons, purchasers, the Company and other relevant parties during the reporting period, or outstanding undertakings as at the end of the reporting period.

IV. Appointment and dismissal of accounting firm

Whether the interim financial report has been audited

Yes No

The Company's interim financial report is unaudited.

V. Opinions of the Board and the Supervisory Committee regarding the "modified auditor's report" for the reporting period issued by accounting firm

Applicable Not applicable

VI. Opinions of the Board regarding the “modified auditor’s report” for the prior year

Applicable Not applicable

VII. Matters related to bankruptcy and reorganisation

Applicable Not applicable

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

VIII. Litigation

Significant litigations and arbitrations

Applicable Not applicable

Basic information of litigation (arbitration)	Amount involved (RMB'0,000)	Will estimated liability be incurred or not	Progress of litigation (arbitration)	Judgment result of the litigation (arbitration) and its effect	Judgment execution of the litigation (arbitration)	Disclosure date	Disclosure index
Investor lawsuit	4,951.53	Yes	259 cases have been judged or settled, the rest is now pending. (For details, please refer to “Contingencies” under section X and XIV.2 of this report)	The Company has made provisions of estimated liabilities for the lawsuits.	The Company is in the process of paying claims in respect of the closed cases.	—	—

Other litigations

Applicable Not applicable

IX. Media Allegations

Applicable Not applicable

The Company was not involved in any media allegations during the reporting period.

X. Punishment and rectification

Applicable Not applicable

There was no punishment or rectification during the reporting period.

XI. Integrity of the Company and its controlling shareholders and de facto controllers

Applicable Not applicable

During the reporting period, the Company and its controlling shareholders and de facto controllers were in good credit standing, and there were no failure to execute an effective court judgment, or any large amount of outstanding debts.

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

Applicable Not applicable

There was no stock incentive plan, employee shareholding plan or other employee incentive measure and its implementation during the reporting period. There has been no material change to the number of employees of the Company compared to 2018 as announced in the annual report for the year 2018 of the Company.

XIII. Significant related party transactions

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 in connection with purchase or sale of assets or equity interest during the reporting period.

3. *Related party transaction in connection with joint external investment*

Applicable Not applicable

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

4. *Amounts due from/to related parties*

Applicable Not applicable

Any non-trade amounts due from/to related parties

Yes No

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

There was no other significant related party transaction during the reporting period.

XIV. Significant contracts and their implementation

1. *Entrustment, Contracting and leasing*

(1) **Entrustment**

Applicable Not applicable

The Company had no entrustment during the reporting period.

(2) **Contracting**

Applicable Not applicable

The Company had no contracting during the reporting period.

(3) **Leasing**

Applicable Not applicable

The Company had no leasing during the reporting period.

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2. *Significant guarantee*

Applicable Not applicable

The Company had no guarantee during the reporting period.

3. *Other significant contracts*

Applicable Not applicable

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

XV. Social Responsibility

1. Major environmental issues

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

Yes

The Company or name of subsidiary	Name of major pollutant and specific pollutant	Method of discharge	Number of discharge outlet(s)	Distribution of discharge outlet(s)	Discharge concentration	Implemented standards for		Approved total	
						pollutant discharge	Total volume of discharge	volume of discharge	Excessive discharge
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	6 mg/m ³	100 mg/m ³	0.65 tonne	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	18 mg/m ³	150 mg/m ³	1.9 tonnes	—	No
Shandong Molong	Fine dust	Organised	1	Production complex	7.2 mg/m ³	15 mg/m ³	0.73 tonne	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	4 mg/m ³	100 mg/m ³	0.58 tonne	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	3 mg/m ³	150 mg/m ³	0.435 tonne	—	No
Shandong Molong	Fine dust	Organised	1	Production complex	5.1 mg/m ³	15 mg/m ³	0.77 tonne	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	11 mg/m ³	100 mg/m ³	0.72 tonne	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	115 mg/m ³	150 mg/m ³	7.3 tonnes	—	No
Shandong Molong	Sulfur dioxide	Organised	1	Production complex	13 mg/m ³	100 mg/m ³	0.69 tonne	—	No
Shandong Molong	Nitrogen oxides	Organised	1	Production complex	82 mg/m ³	150 mg/m ³	4.4 tonnes	—	No
Shandong Molong	Benzene	Organised	1	Production complex	0	5 mg/m ³	0	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0	25 mg/m ³	0	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0	40 mg/m ³	0	—	No
Shandong Molong	Non-methane total hydrocarbon	Organised	1	Production complex	11.3 mg/m ³	50 mg/m ³	202 kilograms	—	No
Shandong Molong	Benzene	Organised	1	Production complex	0	5 mg/m ³	0	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0	25 mg/m ³	0	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0	40 mg/m ³	0	—	No
Shandong Molong	Non-methane total hydrocarbon	Organised	1	Production complex	6.38 mg/m ³	50 mg/m ³	102 kilograms	—	No
Shandong Molong	Benzene	Organised	1	Production complex	0	5 mg/m ³	0	—	No
Shandong Molong	Toluene	Organised	1	Production complex	0	25 mg/m ³	0	—	No
Shandong Molong	Xylene	Organised	1	Production complex	0	40 mg/m ³	0	—	No
Shandong Molong	Non-methane total hydrocarbon	Organised	1	Production complex	5.61 mg/m ³	50 mg/m ³	87 kilograms	—	No
Shouguang Baolong	Fine dust	Organised	1	Production complex	2.13 mg/m ³	15 mg/m ³	5.25 tonnes	—	No
Shouguang Baolong	Fine dust	Organised	1	Production complex	1.1 mg/m ³	15 mg/m ³	713 kilograms	—	No
Shouguang Maolong	Sulfur dioxide	Organised	1	Production complex	43.6 mg/m ³	80 mg/m ³	23.74 tonnes	—	No
Shouguang Maolong	Nitrogen oxides	Organised	1	Production complex	9.15 mg/m ³	300 mg/m ³	4.242 tonnes	—	No
Shouguang Maolong	Fine dust	Organised	1	Production complex	1.89 mg/m ³	15 mg/m ³	1.046 tonnes	—	No

Construction and Operation of Pollution Prevention and Control Facilities

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

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

Exhaust treatment facilities: The Company has equipped production lines in all production complexes with the corresponding environmental facilities, including denitration and electrostatic/electric precipitator and fabric filter and new online monitoring devices, to ensure effective treatment and discharge of exhausts generated from the production process.

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

The Company strictly complied with the requirements of the environmental laws and regulations to carry out environmental impact assessment of contraction project. The construction projects have all passed the environmental impact assessment procedures and been accepted by the relevant competent authorities, where filing procedures have been 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 also organised trainings and drills on a regular basis to rectify the problems in the area of emergency management, so as to strengthen the control of environmental risks.

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 a regular 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.

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Other discloseable environmental information

The Company had no other discloseable environmental information.

Other environmentally related information

The Company had no other environmentally related information.

2. *Fulfillment of social responsibility regarding targeted poverty alleviation*

Applicable Not applicable

During the reporting period, the Company has not yet commenced any targeted poverty alleviation activity, and had no subsequent targeted poverty alleviation plan.

XVI. Description of other significant events

Applicable Not applicable

During the reporting period, the Company had no other significant events that need to be disclosed.

XVII. Significant events of subsidiaries of the Company

Applicable Not applicable

VI. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. Changes in Share Capital

1. Changes in Shares

Unit: share

	Prior to the change		Increase/decrease as a result of the change (+, -)					After the change	
	Number of shares	Percentage	New issue of shares	Bonus issue	Transfer from capital reserve	Others	Subtotal	Number of shares	Percentage
I. Shares subject to lock-up	194,150,250	24.33%	—	—	—	—	—	194,150,250	24.33%
1. State-owned shares	—	0.00%	—	—	—	—	—	—	0.00%
2. State-owned legal person shares	—	0.00%	—	—	—	—	—	—	0.00%
3. Other domestic shares	194,150,250	24.33%	—	—	—	—	—	194,150,250	24.33%
Including: Domestic legal									
person shares	—	0.00%	—	—	—	—	—	—	0.00%
Domestic natural									
person shares	194,150,250	24.33%	—	—	—	—	—	194,150,250	24.33%
4. Foreign shares	—	0.00%	—	—	—	—	—	—	0.00%
Including: Overseas legal									
person shares	—	0.00%	—	—	—	—	—	—	0.00%
Overseas natural									
person shares	—	0.00%	—	—	—	—	—	—	0.00%
II. Shares not subject to lock-up	603,698,150	75.67%	—	—	—	—	—	603,698,150	75.67%
1. RMB ordinary shares	347,571,750	43.56%	—	—	—	—	—	347,571,750	43.56%
2. Domestically-listed foreign shares	—	0.00%	—	—	—	—	—	—	0.00%
3. Overseas-listed foreign shares	256,126,400	32.10%	—	—	—	—	—	256,126,400	32.10%
4. Others	—	0.00%	—	—	—	—	—	—	0.00%
III. Total number of shares	797,848,400	100.00%	—	—	—	—	—	797,848,400	100.00%

Reason(s) for change in shares

Applicable Not applicable

Approval for the change in shares

Applicable Not applicable

Transfer for the change in shares

Applicable Not applicable

Status of share buy-backs

Applicable Not applicable

Status of reduction of repurchased shares through centralised bidding

Applicable Not applicable

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

Applicable Not applicable

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

Applicable Not applicable

2. *Changes in locked-up shares*

Applicable Not applicable

3. *Issuance and listing of securities*

Not applicable

II. Number of shareholders and their shareholdings

Unit: share

Total number of ordinary shareholders as at the end of the reporting period 37,935

Total number of preferred shareholders with restored voting right as at the end of the reporting period 0

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Shareholdings of ordinary shareholders holding shares of more than 5% of shares or top 10 ordinary shareholders

Name of shareholder	Nature of shareholder	Percentage of shareholding	Number of ordinary shares held as at the end of the reporting period	Change (increase or decrease) during the reporting period	Number of locked-up ordinary shares held	Number of non-locked up ordinary shares held	Pledged or locked	
							Status	Shares
Hong Kong Securities Clearing Company Limited	Overseas legal person	30.93%	246,775,390	4,000	0	246,775,390	—	—
Zhang En Rong	Domestic natural person	29.53%	235,617,000	0	176,712,750	58,904,250	Pledge	235,617,000
Zhang Yun San	Domestic natural person	4.03%	32,168,400	0	17,331,000	14,837,400	—	—
Lin Fu Long	Domestic natural person	3.28%	26,162,000	0	0	26,162,000	—	—
Central Huijin Asset Management Ltd.	State-owned legal person	1.70%	13,536,100	0	0	13,536,100	—	—
Shenzhen Qianhai Jingwei Ronghe Asset Management Co., Ltd. (深圳前海經緯融和資產管理有限公司) — Ronghe Phase II Private Securities Investment Fund	Domestic non-state owned legal person	0.47%	3,775,252	(6,300)	0	3,775,252	—	—
MORGAN STANLEY & CO. INTERNATIONAL PLC.	Overseas legal person	0.32%	2,570,399	2,570,399	0	2,570,399	—	—
Sun Xiao Ou	Domestic natural person	0.23%	1,836,000	761,400	0	1,836,000	—	—
JSAN ANNE MARIE	Overseas natural person	0.19%	1,500,000	1,500,000	0	1,500,000	—	—
Cai Jia Jun	Domestic natural person	0.17%	1,395,000	395,000	0	1,395,000	—	—

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Strategic investors or ordinary legal person becoming top 10 ordinary shareholders upon placing of new shares

Not applicable

Connected relationship or acting in concert among the above shareholders

Mr. Zhang En Rong is a controlling shareholder and de facto controller of the Company. Mr. Zhang En Rong is the father of Mr. Zhang Yun San. The Company is not aware of any connected relationships or acting in concert among other shareholders.

Shareholdings of top 10 ordinary shareholders holding non-locked up shares

Name of shareholder	Number of non-locked up ordinary shares held as at the end of the reporting period	Type of shares	
		Type	Shares
HKSCC Nominees Limited	246,775,390	Overseas listed foreign shares	246,775,390
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 Ltd.	13,536,100	RMB ordinary shares	13,536,100
Shenzhen Qianhai Jingwei Ronghe Asset Management Co., Ltd. (深圳前海經緯融和資產管理有限公司) — Ronghe Phase II Private Securities Investment Fund	3,775,252	RMB ordinary shares	3,775,252
MORGAN STANLEY & CO. INTERNATIONAL PLC.	2,570,399	RMB ordinary shares	2,570,399
Sun Xiao Ou	1,836,000	RMB ordinary shares	1,836,000
JSAN ANNE MARIE	1,500,000	RMB ordinary shares	1,500,000
Cai Jia Jun	1,395,000	RMB ordinary shares	1,395,000

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Connected relationship or acting in concert among the top 10 ordinary shareholders holding non-locked up shares, and between the top 10 ordinary shareholders holding non-locked up shares and the top 10 ordinary shareholders

Mr. Zhang En Rong is a controlling shareholder and de facto controller of the Company. Mr. Zhang En Rong is the father of Mr. Zhang Yun San. The Company is not aware of any connected relationships or acting in concert among other shareholders.

Involvement in securities margin trading by the top 10 ordinary shareholders

Not applicable

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

Yes No

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

III. Change of controlling shareholders or de facto controllers

Change of controlling shareholders during the reporting period

Applicable Not applicable

There was no change of controlling shareholders of the Company during the reporting period.

Change of de facto controllers during the reporting period

Applicable Not applicable

There was no change of de facto controllers of the Company during the reporting period.

VII.PREFERRED SHARES

Applicable Not applicable

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

VIII.DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Applicable Not applicable

There was no change in shareholdings of the Company's Directors, Supervisors and senior management during the reporting period. Details can be found in 2018 annual report.

II. Change of Directors, Supervisors and Senior Management

Applicable Not applicable

There was no change in Directors, Supervisors and Senior Management of the Company during the reporting period. Details can be found in 2018 annual report.

IX. CORPORATE BONDS

Whether the Company had any corporate bonds publicly issued and listed on a stock exchange which have not yet become due or has become due but not fully redeemed as at the date of approval of the interim report

No

X. FINANCIAL REPORT

I. Auditor's Report

Whether the interim report has been audited

Yes No

The Company's interim financial report is unaudited.

II. Financial Statements

Unit in the financial statements of the financial report: RMB

1. Consolidated Balance Sheet

Prepared by: Shandong Molong Petroleum Machinery Company Limited

Unit: RMB

Item	30 June 2019	31 December 2018
Current assets:		
Monetary funds	725,002,035.16	892,452,274.76
Settlement Deposits	—	—
Lending funds	—	—
Financial assets held for trading	—	—
Financial assets at fair value through profit or loss	—	—
Derivative financial assets	—	—
Bills receivable	515,683,304.52	382,901,696.30
Accounts receivable	664,185,521.79	536,199,939.96
Financing receivables	—	—
Loans and advances to customers	37,497,910.59	38,561,702.67
Prepayments	52,746,837.01	30,978,235.20
Insurance receivables	—	—
Reinsurance receivables	—	—
Reinsurance contract reserves receivable	—	—
Other receivables	34,965,227.54	47,697,703.66
Including: Interest receivables	1,817,971.48	2,710,659.25
Dividend receivables	—	—
Purchases of sell-back financial assets	—	—
Inventories	1,006,688,718.31	1,042,761,257.01
Contract assets	—	—
Assets held for sale	—	—
Non-current assets due within one year	—	—
Other current assets	86,499,015.79	144,802,505.41
Total current assets	3,123,268,570.71	3,116,355,314.97

Unit: RMB

Item	30 June 2019	31 December 2018
Non-current assets:		
Loans and advances to customers	—	—
Debt investments	—	—
Available-for-sales financial assets	—	—
Other debt investments	—	—
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investments	2,663,518.90	2,663,518.90
Investments in other equity instruments	—	—
Other non-current financial assets	—	—
Investment properties	—	—
Fixed assets	2,804,113,835.92	2,915,815,731.99
Construction-in-progress	46,382,671.96	35,871,296.86
Productive biological assets	—	—
Oil and gas assets	—	—
Right-of-use assets	—	—
Intangible assets	454,580,469.41	452,046,844.13
Development expenditure	11,399,147.89	—
Goodwill	23,683,383.21	23,683,383.21
Long-term deferred expenses	—	—
Deferred income tax assets	45,196,691.71	47,256,488.04
Other non-current assets	5,922,703.85	13,844,015.27
Total non-current assets	3,393,942,422.85	3,491,181,278.40
Total assets	6,517,210,993.56	6,607,536,593.37

Unit: RMB

Item	30 June 2019	31 December 2018
Current liabilities:		
Short-term borrowings	2,214,838,910.00	2,390,918,560.77
Borrowings from the central bank	—	—
Placements	—	—
Financial liabilities held for trading	—	—
Financial liabilities at fair value through profit or loss	—	—
Derivative financial liabilities	—	—
Bills payable	476,629,551.98	278,902,047.79
Accounts payable	891,345,884.09	821,162,695.81
Receipts in advance	—	—
Proceeds from disposal of buy-back financial assets	—	—
Customer bank deposits and due to banks and other financial institutions	—	—
Securities brokerage deposits	—	—
Securities underwriting brokerage deposits	—	—
Salaries payable	50,799,021.35	57,100,793.80
Taxes payable	22,361,166.96	81,227,045.72
Other payables	42,751,056.41	51,344,753.68
Including: Interests payable	6,760,660.95	8,691,627.11
Dividends payable	—	—
Brokerage and commission payable	—	—
Reinsurance payable	—	—
Contract liabilities	66,914,556.70	57,364,400.72
Liabilities held for sale	—	—
Non-current liabilities due within one year	183,525,578.00	308,994,908.08
Other current liabilities	49,056,505.40	94,281,027.25
Total current liabilities	3,998,222,230.89	4,141,296,233.62
Non-current liabilities:		
Insurance contract reserves	—	—
Long-term borrowings	323,777,514.17	426,219,050.90
Bonds payable	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Lease liabilities	—	—
Long-term payables	145,209,090.00	—
Long-term salaries payable	—	—
Estimated liabilities	4,267,805.84	12,780,330.57
Deferred revenue	6,954,855.00	6,954,855.00
Deferred income tax liabilities	6,033,362.49	6,126,499.96
Other non-current liabilities	—	—
Total non-current liabilities	486,242,627.50	452,080,736.43
Total liabilities	4,484,464,858.39	4,593,376,970.05

Unit: RMB

Item	30 June 2019	31 December 2018
Owners' equity:	—	—
Share capital	797,848,400.00	797,848,400.00
Other equity instruments	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Capital reserve	863,169,158.42	863,169,158.42
Less: Treasury shares	—	—
Other comprehensive income	(2,818,717.81)	(2,792,011.13)
Special reserve	—	—
Surplus reserve	187,753,923.88	187,753,923.88
General risk provision	11,236.91	11,236.91
Undistributed profits	116,113,503.47	98,100,580.11
Total equity attributable to owners of the parent company	1,962,077,504.87	1,944,091,288.19
Minority interests	70,668,630.30	70,068,335.13
Total owners' equity	2,032,746,135.17	2,014,159,623.32
Total liabilities and owners' equity	6,517,210,993.56	6,607,536,593.37

Legal representative: Liu Yun Long Accountant-in-charge: Liu Min Partner-in-charge: Ding Zhi Shui

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2. Balance Sheet of the Parent Company

Unit: RMB

Item	30 June 2019	31 December 2018
Current assets:		
Monetary funds	587,207,216.71	824,263,679.90
Financial liabilities held for trading	—	—
Financial assets at fair value through profit or loss	—	—
Derivative financial assets	—	—
Bills receivables	551,229,365.26	418,945,086.30
Accounts receivable	842,018,600.14	618,706,266.35
Financing receivables	—	—
Prepayments	377,937,161.59	463,225,881.58
Other receivables	462,748,475.31	461,207,511.04
Including: Interests receivable	1,817,971.48	2,710,659.25
Dividends receivable	—	—
Inventories	663,392,951.44	726,969,869.08
Contract assets	—	—
Assets held for sale	—	—
Non-current assets due within one year	—	—
Other current assets	—	—
Total current assets	3,484,533,770.45	3,513,318,294.25

Unit: RMB

Item	30 June 2019	31 December 2018
Non-current assets:		
Debt investments	—	—
Available-for-sales financial assets	—	—
Other debt investments	—	—
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investments	1,144,069,921.73	1,144,069,921.73
Investments in other equity instruments	—	—
Other non-current financial assets	—	—
Investment properties	—	—
Fixed assets	1,092,659,067.61	1,142,251,374.30
Construction-in-progress	10,721,504.85	2,417,822.63
Productive biological assets	—	—
Oil and gas assets	—	—
Right-of-use assets	—	—
Intangible assets	136,368,224.62	131,541,997.90
Development expenditure	11,399,147.89	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	42,746,364.65	44,728,025.77
Other non-current assets	378,107.60	4,785,950.02
Total non-current assets	2,438,342,338.95	2,469,795,092.35
Total assets	5,922,876,109.40	5,983,113,386.60
Current liabilities:		
Short-term borrowings	1,673,238,910.00	1,803,918,560.77
Financial liabilities held for trading	—	—
Financial liabilities at fair value through profit or loss	—	—
Derivative financial liabilities	—	—
Bills payable	908,888,323.98	883,985,816.54
Accounts payable	246,171,633.62	276,462,082.53
Receipts in advance	—	—
Contract liabilities	40,278,708.74	27,434,932.72
Salaries payable	33,497,926.98	37,934,242.75
Taxes payable	18,524,511.37	39,143,651.71
Other payables	153,451,048.12	44,272,449.62
Including: Interests payable	5,037,437.42	6,444,772.42
Dividends payable	—	—
Liabilities held for sale	—	—
Non-current liabilities due within one year	19,725,578.00	170,652,590.80
Other current liabilities	49,056,505.40	94,281,027.25
Total current liabilities	3,142,833,146.21	3,378,085,354.69

Unit: RMB

Item	30 June 2019	31 December 2018
Non-current liabilities:		
Long-term borrowings	263,277,987.64	272,104,565.75
Bonds payable	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Lease liabilities	—	—
Long-term payables	145,209,090.00	—
Long-term salaries payable	—	—
Estimated liabilities	4,267,805.84	12,780,330.57
Deferred revenue	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
Total non-current liabilities	412,754,883.48	284,884,896.32
Total liabilities	3,555,588,029.69	3,662,970,251.01
Owners' equity:		
Share capital	797,848,400.00	797,848,400.00
Other equity instruments	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Capital reserve	863,150,490.92	863,150,490.92
Less: Treasury shares	—	—
Other comprehensive income	—	—
Special reserve	—	—
Surplus reserve	187,753,923.88	187,753,923.88
Undistributed profits	518,535,264.91	471,390,320.79
Total owners' equity	2,367,288,079.71	2,320,143,135.59
Total liabilities and owners' equity	5,922,876,109.40	5,983,113,386.60

3. Consolidated Income Statement

Unit: RMB

Item	Interim 2019	Interim 2018
I. Total operating revenue	2,377,445,034.26	2,000,081,569.83
Including: Operating revenue	2,377,445,034.26	2,000,081,569.83
Interest income	—	—
Insurance premium earned	—	—
Brokerage and commission income	—	—
II. Total operating costs	2,365,272,100.70	1,977,008,000.54
Including: Operating costs	2,156,658,882.03	1,716,855,589.44
Interest expenses	—	—
Brokerage and commission expenses	—	—
Surrenders	—	—
Net amount of compensation paid	—	—
Net amount of reserves for reinsurance contract	—	—
Insurance dividend payments	—	—
Reinsurance premium	—	—
Taxes and surcharges	12,424,623.05	13,951,014.16
Selling expenses	39,984,800.58	56,820,233.83
Administrative expenses	55,293,610.81	62,665,742.77
Research and development expenses	21,016,556.28	20,919,065.04
Finance costs	79,893,627.95	105,796,355.30
Including: Interest expenses	82,551,261.56	102,480,111.07
Interest income	4,383,386.30	3,038,609.18
Add: Other gains	12,204,052.90	5,977,430.26
Investment income	1,170,164.41	—
Including: Gains on investment in associates and joint ventures	—	—
Gain on derecognition of financial assets measured at amortised cost	—	—
Exchange gains	—	—
Net gains on exposure hedges	—	—
Gain on fair value changes	—	—
Credit impairment losses	(2,041,521.53)	(9,792,451.04)
Asset impairment losses	—	—
Gains on disposal of assets	(229,634.05)	1,172,390.42
III. Operating profit	23,275,995.29	20,430,938.93
Add: Non-operating income	6,078,613.12	2,359,752.08
Less: Non-operating expenses	7,328,046.80	232,946.57
IV. Total profit	22,026,561.61	22,557,744.44
Less: Income tax expenses	3,410,375.68	1,872,724.25
V. Net profit	18,616,185.93	20,685,020.19
(I) By business continuity		
1. Net profit from continuing operations	18,616,185.93	20,685,020.19
2. Net profit from discontinued operations	—	—
(II) By attributable ownership		
1. Net profit attributable to the owners of the parent company	18,012,923.36	32,575,294.80
2. Minority shareholders	603,262.57	(11,890,274.61)

Unit: RMB

Item	Interim 2019	Interim 2018
VI. Other comprehensive income, net of tax	(29,674.09)	(370,858.44)
Other comprehensive income attributable to the owners of the parent company, net of tax	(26,706.68)	(350,833.29)
(I) Other comprehensive income that may not be reclassified to profit or loss	—	—
1. Changes on remeasurement of defined benefit plans	—	—
2. Other comprehensive income that may not be transferred to profit or loss under equity accounting	—	—
3. Fair value changes in investments in other equity instruments	—	—
4. Fair value changes in credit risk of the Company	—	—
5. Others	—	—
(II) Other comprehensive income that will be reclassified to profit or loss	(26,706.68)	(350,833.29)
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	(26,706.68)	(350,833.29)
9. Others	—	—
Other comprehensive income attributable to minority shareholders, net of tax	(2,967.41)	(20,025.15)
VII. Total comprehensive income	18,586,511.84	20,314,161.75
Total comprehensive income attributable to owners of the parent company	17,986,216.68	32,224,461.51
Total comprehensive income attributable to minority shareholders	600,295.16	(11,910,299.76)
VIII. Earnings per share:		
(I) Basic earnings per share	0.0226	0.0408
(II) Diluted earnings per share	0.0226	0.0408

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For the business combination under common control during the current period, net profit of the acquiree realised before business combination was RMB . Net profit of the acquiree realised after business combination was RMB .

Legal representative: Liu Yun Long Accountant-in-charge: Liu Min Partner-in-charge: Ding Zhi Shui

4. Income Statement of the Parent Company

Unit: RMB

Item	Interim 2019	Interim 2018
I. Operating revenue	1,863,766,772.19	1,842,276,536.34
Less: Operating costs	1,666,352,517.44	1,602,417,015.44
Taxes and surcharges	6,501,953.69	9,058,622.50
Selling expenses	33,316,813.69	48,030,758.62
Administrative expenses	24,319,269.43	29,270,417.32
Research and development expenses	21,016,556.28	20,932,395.65
Finance costs	54,724,964.66	59,246,173.35
Including: Interest expenses	58,738,760.26	55,801,060.19
Interest income	4,151,408.95	2,874,372.98
Add: Other gains	135,700.00	204,906.28
Investment income	—	—
Including: Gains on investment in associates and joint ventures	—	—
Gain on derecognition of financial assets measured at amortised cost	—	—
Net gains on exposure hedges	—	—
Gain on fair value changes	—	—
Credit impairment losses	(2,879,470.89)	(9,818,353.94)
Asset impairment losses	—	—
Gain on disposal of assets	(502,566.05)	(310,091.77)
II. Operating profit	54,288,360.06	63,397,614.03
Add: Non-operating income	2,124,692.99	1,107,638.61
Less: Non-operating expenses	7,232,951.30	68,900.00
III. Total profit	49,180,101.75	64,436,352.64
Less: Income tax expenses	2,035,157.63	—
IV. Net profit	47,144,944.12	64,436,352.64
(I) Net profit from continuing operations	47,144,944.12	64,436,352.64
(II) Net profit from discontinued operations	—	—
V. Other comprehensive income, net of tax	—	—
(I) Other comprehensive income that may not be reclassified to profit or loss	—	—
1. Changes on remeasurement of defined benefit plans	—	—
2. Other comprehensive income that may not be transferred to profit or loss under equity accounting	—	—
3. Fair value changes in investments in other equity instruments	—	—
4. Fair value changes in credit risk of the Company	—	—
5. Others	—	—

		Unit: RMB	
Item		Interim 2019	Interim 2018
(II)	Other comprehensive income that will be reclassified to profit or loss	—	—
1.	Other comprehensive income that may be transferred to profit or loss under equity accounting	—	—
2.	Fair value changes in other debt investments	—	—
3.	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	47,144,944.12	64,436,352.64
VII.	Earnings per share:		
(I)	Basic earnings per share	—	—
(II)	Diluted earnings per share	—	—

5. Consolidated Statement of Cash Flows

Unit: RMB

Item	Interim 2019	Interim 2018
I. CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales of goods and rendering of services	2,116,536,269.12	1,863,107,078.91
Net increase in customer bank deposits and due to banks and other financial institutions	—	—
Net increase in borrowings from the central bank	—	—
Net increase in placements from other financial institutions	—	—
Cash received from receiving insurance premium of original insurance contract	—	—
Net cash received from reinsurance business	—	—
Net increase in deposits from policyholders	—	—
Cash received of interest, fees and commission	—	—
Net increase in placements from banks and other financial institutions	—	—
Net increase in repurchase business capital	—	—
Net cash proceeds from securities brokerage	—	—
Receipts of tax refunds	5,759,604.17	2,819,202.82
Cash received relating to other operating activities	136,178,082.34	20,394,740.11
Sub-total of cash inflows from operating activities	2,258,473,955.63	1,886,321,021.84
Cash paid for purchasing goods and receiving services	1,639,138,471.52	1,767,567,693.50
Net increase in loans and advances to customers	(1,735,371.00)	(6,700,000.00)
Net increase in deposits with central bank and other financial institutions	—	—
Cash paid for indemnity of original insurance contract	—	—
Net increase in financial assets held for trading	—	—
Net increase in lending funds	—	—
Cash paid for interests, fees and commissions	—	—
Cash paid for policy dividends	—	—
Cash paid to and on behalf of employees	142,513,710.00	124,320,666.80
Cash paid for taxes	107,593,357.48	43,229,583.83
Other cash paid relating to operating activities	97,252,155.83	103,242,526.22
Sub-total of cash outflows from operating activities	1,984,762,323.83	2,031,660,470.35
NET CASH FLOWS FROM OPERATING ACTIVITIES	273,711,631.80	(145,339,448.51)

Unit: RMB

Item	Interim 2019	Interim 2018
II. CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from disposal of investments	58,000,000.00	—
Cash received from gains on investments	1,170,164.41	—
Net cash from disposal of fixed assets, intangible assets and other long-term assets	276,666.35	14,340,051.00
Net cash received from disposal of subsidiaries and other business units	—	—
Other cash received relating to investing activities	—	—
Sub-total of cash inflows from investing activities	59,446,830.76	14,340,051.00
Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets	48,925,222.16	111,876,392.81
Cash paid for acquisition of investments	—	—
Net increase in pledge loans	—	—
Net cash paid for acquisition of subsidiaries and other business units	—	—
Other cash paid relating to investing activities	—	—
Sub-total of cash outflows from investing activities	48,925,222.16	111,876,392.81
Net cash flows from investing activities	10,521,608.60	(97,536,341.81)
III. Cash flows from financing activities:		
Cash received from capital contributions	—	—
Including: Cash received from minority shareholder investment by subsidiary	—	—
Borrowings received	2,286,361,000.00	2,981,703,700.00
Cash received from bond issue	—	—
Other cash received relating to financing activities	—	—
Sub-total of cash inflows from financing activities	2,286,361,000.00	2,981,703,700.00
Cash repayments of amounts borrowed	2,540,847,926.67	2,872,472,300.00
Cash paid for dividend and profit distribution or interest payment	83,676,728.63	84,992,015.27
Including: Dividend and profit paid to minority shareholders by subsidiary	—	—
Other cash paid relating to financing activities	5,100,000.00	70,000,000.00
Sub-total of cash outflows from financing activities	2,629,624,655.30	3,027,464,315.27
Net cash flows from financing activities	(343,263,655.30)	(45,760,615.27)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	(3,206,934.14)	2,260,755.97
V. Net increase in cash and cash equivalents	(62,237,349.04)	(286,375,649.62)
Add: Balance of cash and cash equivalents at the beginning of the period	578,924,482.20	661,899,094.64
VI. Balance of cash and cash equivalents at the end of the period	516,687,133.16	375,523,445.02

6. Statement of Cash Flow of the Parent Company

Unit: RMB

Item	Interim 2019	Interim 2018
I. CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales of goods and rendering of services	1,739,496,343.88	1,537,168,297.40
Refunds of taxes received	1,967,431.10	2,819,202.82
Cash received relating to other operating activities	107,269,557.38	31,861,917.87
Sub-total of cash inflows from operating activities	1,848,733,332.36	1,571,849,418.09
Cash paid for purchasing goods and receiving services	1,566,486,172.49	1,723,218,519.11
Cash paid to and on behalf of employees	89,564,534.17	75,462,830.46
Cash paid for taxes	37,901,044.69	20,267,981.84
Other cash paid relating to operating activities	68,864,191.55	80,520,917.31
Sub-total of cash outflows from operating activities	1,762,815,942.90	1,899,470,248.72
NET CASH FLOWS FROM OPERATING ACTIVITIES	85,917,389.46	(327,620,830.63)
II. CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from disposal of investments	—	—
Cash received from gains on investments	—	—
Net cash from disposal of fixed assets, intangible assets and other long-term assets	—	—
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	—	—
Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets	11,570,982.16	13,791,167.61
Cash paid for acquisition of investments	—	—
Net cash paid for acquisition of subsidiaries and other business units	—	—
Other cash paid relating to investing activities	—	—
Sub-total of cash outflows from investing activities	11,570,982.16	13,791,167.61
Net cash flows from investing activities	(11,570,982.16)	(13,791,167.61)
III. Cash flows from financing activities:		
Cash received from capital contributions	—	—
Borrowings received	1,832,761,000.00	2,255,203,700.00
Cash received from bond issue	—	—
Cash received relating to other financing activities	—	—
Sub-total of cash inflows from financing activities	1,832,761,000.00	2,255,203,700.00
Cash repayments of amounts borrowed	1,973,690,650.77	2,048,806,300.00
Cash paid for dividend and profit distribution or interest payment	59,340,596.17	52,003,237.39
Other cash paid relating to financing activities	5,100,000.00	70,000,000.00
Sub-total of cash outflows from financing activities	2,038,131,246.94	2,170,809,537.39
Net cash flows from financing activities	(205,370,246.94)	84,394,162.61
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	(3,339,732.99)	2,260,755.97
V. Net increase in cash and cash equivalents	(134,363,572.63)	(254,757,079.66)
Add: Balance of cash and cash equivalents at the beginning of the period	563,255,887.34	555,972,067.08
VI. Balance of cash and cash equivalents at the end of the period	428,892,314.71	301,214,987.42

7. Consolidated Statement of Changes in Owners' Equity

Amounts for the current period

Unit: RMB

Interim 2019															
Equity attributable to owners of the parent company															
Item	Other equity instruments				Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Other	Sub-total	Minority interests	Total owners' equity
	Share capital	Preferred shares	Perpetual bonds	Others											
I. Balance at the end of the same period last year	797,848,400.00	—	—	—	863,169,158.42	—	(2,792,011.13)	—	187,753,923.88	11,236.91	98,100,580.11	—	1,944,091,288.19	70,068,335.13	2,014,159,623.32
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Correction of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	863,169,158.42	—	(2,792,011.13)	—	187,753,923.88	11,236.91	98,100,580.11	—	1,944,091,288.19	70,068,335.13	2,014,159,623.32
III. Changes in the current period	—	—	—	—	—	—	(26,706.68)	—	—	—	18,012,923.36	—	17,986,216.68	600,295.17	18,586,511.85
(i) Total comprehensive income	—	—	—	—	—	—	(26,706.68)	—	—	—	18,012,923.36	—	17,986,216.68	600,295.17	18,586,511.85
(ii) Owners' capital contribution and reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Ordinary shares contributed by owners	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital contributed by other equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Appropriations to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Conversion of capital reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Conversion of surplus reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserve making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Changes in defined benefit plans carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
5. Other comprehensive income carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Charge for the period	—	—	—	—	—	—	—	15,967,596.48	—	—	—	—	—	—	15,967,596.48
2. Utilised during the period	—	—	—	—	—	—	—	(15,967,596.48)	—	—	—	—	—	—	(15,967,596.48)
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	0.00	0.00	0.00	863,169,158.42	0.00	(2,818,717.81)	0.00	187,753,923.88	11,236.91	116,113,503.47	0.00	1,962,077,504.87	70,668,630.30	2,032,746,135.17

Amounts for the prior period

Unit: RMB

Interim 2018

Item	Equity attributable to owners of the parent company													Sub-total	Minority interests	Total owners' equity
	Other equity instruments				Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Other				
	Share capital	Preferred shares	Perpetual bonds	Others												
I. Balance at the end of the same period last year	797,848,400.00	—	—	—	860,517,458.42	—	(1,402,748.25)	—	176,686,903.51	11,236.91	36,934,311.12	—	1,869,595,561.71	61,737,532.67	1,931,333,094.38	
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Correction of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	860,517,458.42	—	(1,402,748.25)	—	176,686,903.51	11,236.91	36,934,311.12	—	1,869,595,561.71	61,737,532.67	1,931,333,094.38	
III. Changes in the current period	—	—	—	—	1,980,200.00	—	(350,833.29)	—	—	—	32,575,294.80	—	34,204,661.51	(11,910,299.76)	22,294,361.75	
(i) Total comprehensive income	—	—	—	—	—	—	(350,833.29)	—	—	—	32,575,294.80	—	32,224,461.51	(11,910,299.76)	20,314,161.75	
(ii) Owners' capital contribution and reduction	—	—	—	—	1,980,200.00	—	—	—	—	—	—	—	1,980,200.00	—	1,980,200.00	
1. Ordinary shares contributed by owners	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
2. Capital contributed by other equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
4. Others	—	—	—	—	1,980,200.00	—	—	—	—	—	—	—	1,980,200.00	—	1,980,200.00	
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
2. Appropriations to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
3. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
(iv) Transfer of owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1. Conversion of capital reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
2. Conversion of surplus reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
3. Surplus reserve making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
4. Changes in defined benefit plans carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
5. Other comprehensive income carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
6. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1. Charge for the period	—	—	—	—	—	—	7,586,725.93	—	—	—	—	—	7,586,725.93	1,095,120.00	8,681,845.93	
2. Utilised during the period	—	—	—	—	—	—	7,586,725.93	—	—	—	—	—	7,586,725.93	1,095,120.00	8,681,845.93	
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
IV. Balance at the end of the current period	797,848,400.00	—	—	—	862,497,658.42	—	(1,753,581.54)	—	176,686,903.51	11,236.91	68,509,605.92	—	1,903,800,223.22	49,827,232.91	1,953,627,456.13	

8. Statement of Changes in Owners' Equity of the Parent Company

Amounts for the current period

Unit: RMB

Item	Interim 2019											Total owners' equity
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Other	
		Preferred shares	Perpetual bonds	Others								
I. Balance at the end of the same period last year	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	471,390,320.79	—	2,320,143,135.59
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
Correction of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	471,390,320.79	—	2,320,143,135.59
III. Changes in the current period	—	—	—	—	—	—	—	—	—	47,144,944.12	—	47,144,944.12
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	47,144,944.12	—	47,144,944.12
(ii) Owners' capital contribution and reduction	—	—	—	—	—	—	—	—	—	—	—	—
1. Ordinary shares contributed by owners	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital contributed by other equity instrument holders	—	—	—	—	—	—	—	—	—	—	—	—
3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—
2. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of owners' equity	—	—	—	—	—	—	—	—	—	—	—	—
1. Conversion of capital reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—
2. Conversion of surplus reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserve making up of losses	—	—	—	—	—	—	—	—	—	—	—	—
4. Changes in defined benefit plans carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
5. Other comprehensive income carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
6. Others	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—
1. Charge for the period	—	—	—	—	—	—	—	4,737,945.91	—	—	—	4,737,945.91
2. Utilised during the period	—	—	—	—	—	—	—	4,737,945.91	—	—	—	4,737,945.91
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	863,150,490.92	—	—	—	187,753,923.88	518,535,264.91	—	2,367,288,079.71

Amounts for the prior period

Unit: RMB

Item	Interim 2018											Total owners' equity
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Other	
I. Balance at the end of the same period last year	797,848,400.00	—	—	—	860,498,790.92	—	—	—	176,686,903.51	388,366,128.99	—	2,223,400,223.42
Add: Changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
Correction of prior period errors	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	860,498,790.92	—	—	—	176,686,903.51	388,366,128.99	—	2,223,400,223.42
III. Changes in the current period	—	—	—	—	1,980,200.00	—	—	—	—	64,436,352.64	—	66,416,552.64
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	64,436,352.64	—	64,436,352.64
(ii) Owners' capital contribution and reduction	—	—	—	—	1,980,200.00	—	—	—	—	—	—	1,980,200.00
1. Ordinary shares contributed by owners	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital contributed by other equity instrument holders	—	—	—	—	—	—	—	—	—	—	—	—
3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	1,980,200.00	—	—	—	—	—	—	1,980,200.00
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—
2. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of owners' equity	—	—	—	—	—	—	—	—	—	—	—	—
1. Conversion of capital reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—
2. Conversion of surplus reserve into capital (or share capital)	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserve making up of losses	—	—	—	—	—	—	—	—	—	—	—	—
4. Changes in defined benefit plans carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
5. Other comprehensive income carried forward to retained earnings	—	—	—	—	—	—	—	—	—	—	—	—
6. Others	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—
1. Charge for the period	—	—	—	—	—	—	—	1,276,385.58	—	—	—	1,276,385.58
2. Utilised during the period	—	—	—	—	—	—	—	1,276,385.58	—	—	—	1,276,385.58
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	862,478,990.92	—	—	—	176,686,903.51	452,802,481.63	—	2,289,816,776.06

III. 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.

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 398,924,200 shares.

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

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 referred 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 comprised 11 companies including 壽光寶隆石油器材有限公司 (Shouguang Baolong Petroleum Equipment Co., Ltd.), 壽光懋隆新材料技術開發有限公司 (New Materials Technology Development Co., Ltd.) and 威海市寶隆石油專材有限公司 (Weihai Baolong Special Petroleum Material Co., Ltd.). During the reporting period, the Company consolidated the new 山東墨龍能源科技有限公司 (Shandong Molong Energy Technology Co., Ltd.).

For details of the Group's subsidiaries, please refer to the notes "8. Change in the consolidation" on consolidation in this note and "9. Interest in other entities" of this note.

IV. Basis of Preparation of 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 "ASBEs") 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 "V. Significant Accounting Policies and Accounting Estimates" of this note.

2. Going concern

As at 30 June 2019, the Group's current liabilities exceeded its current assets by RMB875 million. 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.

V. Significant Accounting Policies and Accounting Estimates

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

1. *Statement of compliance with the ASBEs*

The Company have prepared the financial statements in accordance with the 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.

3. *Business cycle*

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

4. *Reporting currency*

The reporting currency of the Group is Renminbi ("RMB").

5. *Accounting for business combinations under common and uncommon control*

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

The identifiable assets, liabilities and contingent liabilities acquired from the acquiree in a business combination not under common control shall be measured at fair value on the acquisition date. The combination costs shall be the aggregate of the fair value of cash or non-cash assets paid by the Group on the acquisition date to obtain control over the acquiree, the debts issued or undertaken by the Group and the equity securities issued as well as all relevant direct costs for the business combination (for a business combination 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.

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 in the consolidated financial statements. Adjustments shall be made to retained earnings in the event that capital reserves are not sufficient.

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

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.

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8. *Criteria for determination of cash and cash equivalents*

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

9. *Foreign currency operations and translation of foreign currency statements*

(1) *Foreign currency transactions*

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

(2) Translation of foreign currency financial statements

Assets and liabilities in foreign currency balance sheet are translated at the spot rate prevailing at the balance sheet date. Except for "undistributed profits", items under the owners' equity are translated at the spot exchange rate when they occur. Income and expenses in income statement are translated at the spot exchange rate on a trade-date basis. The resulting differences are presented under other comprehensive income. Cash flow dominated in foreign currency 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.

10. Financial instruments

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

(1) Financial assets

1) *Classification, recognition and measurement of financial assets*

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

A financial asset is classified as financial assets at amortised cost if it meets both of the following conditions: ① It is managed within a business model whose objective is to collect contractual cash flows. ② The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially measured at fair value, with the related transaction costs included in the amount initially recognised. The financial assets are subsequently measured at amortised cost. 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.

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.

(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 amortized 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) *Criteria 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.

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).

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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.

11. Bills receivables

The bills receivables held by the Company mainly comprise bank acceptance bills and trade acceptance bills. Bank acceptance bills are to be accepted by banks and have relatively low credit risk. Trade acceptance bills are drawn by major stated-owned enterprises and have good credit standing. The above receivables do not have material credit risk and therefore, no loss provision has been made.

12. Accounts receivables

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

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

The Group measures the expected credit loss on accounts receivable as of the balance sheet date. When the expected credit loss is greater than the carrying amount of loss allowance for the accounts receivable at that time, the Group recognizes the difference as loss allowance for the 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 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 "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.

13. *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.

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.

14. 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.

15. 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.

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.

16. 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) Amortisation of assets related to contract costs

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

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(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 recognise 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 recognised previously.

17. Assets held for sale

- (1) The Group classifies non-current assets or disposal group that meet the following criteria as held for sale: (1) can immediately be disposed of under the current conditions based on cases of disposals of such assets or disposal groups in similar transactions; (2) the disposal is highly probable that a decision has been made on a plan for the disposal and an undertaking to purchase has been obtained, and the disposal is expected to be completed within a year. Relevant approval is required for disposals requiring approval from the relevant authorities or regulators as required by the relevant regulations. Before the Group first classifies a non-current asset or disposal group as held for sale, the book value of the non-current asset or each asset and liability in the disposal group is measured according to the requirements of the relevant accounting standards. On initial measurement or remeasurement on the balance sheet date of a non-current asset or a disposal group held for sale, where the book value is higher than the fair value less cost of disposal, the book value is written down to the fair value less disposal. The amount of write-down is recognised as an impairment loss of the asset and charged to profit and loss of the period. At the same time, provision is made for impairment of assets held for sale.
- (2) Non-current assets or disposal groups which the Group acquired specifically for disposal, satisfy the criterion of "disposal is expected to be completed within one year" on the date of acquisition, and is probable to satisfy other criteria of classifying as held for sale shortly (usually within 3 months), are classified as held for sale on the date of acquisition. At initial measurement, the amount initially measured assuming it is not classified as held for sale and the fair value less cost of disposal are compared, and the lower of the two is measured. Other than non-current assets or disposal groups acquired in a business combination, the difference arising from recognising the fair value less cost of disposal of non-current assets or disposal groups as initial measurement is recognised in profit and loss in the period.
- (3) Where the Group has lost control of a subsidiary due to reasons such as disposal of investment in the subsidiary, regardless of the Group retains any part of equity investment after disposal, upon the investment in the subsidiary intended to be disposed satisfying the criterion for classification as held for sale, the investment in the subsidiary will be entirely classified as held for sale in the separate financial statements of the parent company, and all assets and liabilities of the subsidiary are classified as held for sale in the consolidated financial statements.
- (4) Where there is an increase in fair value less cost of disposal of a non-current asset held for sale on subsequent balance sheet dates, the amount previously written down should be recovered and reversed in the impairment loss of assets recognised after classification as held for sale, with the reversed amount recognised in profit and loss of the period. Asset impairment loss recognised before classification as held for sale is not reversible.

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

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

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

- (6) No provision for depreciation or amortisation of non-current assets or non-current assets in disposal groups held for sale is made, and the interest on liabilities and other expenses of disposal groups held for sale continues to be recognised.
- (7) When a non-current asset or a disposal group held for sale no longer satisfies the criteria of classification as held for sale and ceases to be classified as held for sale, or a non-current asset is removed from the disposal group held for sale, it is measured is based on the lower of the following: (1) the book value before classification as held for sale adjusted by recognition of depreciation, amortisation or impairment assuming there was no classification as held for sale; (2) the recoverable amount.
- (8) Upon derecognition of a non-current asset or a disposal group held for sale, the unrecognised gain or loss is accounted for in profit or loss of the period.

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18. Long-term equity investments

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

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

When the Group owns 20% 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 under uncommon control, consolidation cost will be treated as the initial investment cost.

For shareholding which obtained by different transactions in stages and become business combination finally, if it belongs to 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.

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.

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19. Investment Properties

Measurement model of investment properties

Not applicable

20. Fixed assets

(1) Criteria for recognition

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

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

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

21. Construction-in-progress

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

22. Borrowing costs

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

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

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

For intangible assets with definite 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 finalised.

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

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

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

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

24. Impairment of long-term assets

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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.

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

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

25. 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.

26. Contract liabilities

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

27. Employee compensations

(1) Accounting for short-term employee compensations

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

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

(2) Accounting for post-employment benefits

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

(3) Accounting for termination benefits

The Group has currently no termination benefits.

(4) Accounting for other long-term compensations

The Group has currently no other long-term compensations.

28. 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 provisions is expected to be compensated by the third party, the amount of compensation is separately recognised as an asset when it is basically determined to be recoverable, and the recognised amount of the compensation shall not exceed the carrying amount of the provisions.

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

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29. Production Safety Fee

The Group collects, utilises and reviews the production safety fee pursuant to the relevant requirements of Notice of the Ministry of Finance and the State Administration of Work Safety on Issuing the Administrative Measures for the Collection and 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 cost forming fixed asset. If the balance of "special reserve" is inadequate for offsetting purpose, the production safety fee will be recognised in profit and loss for the current period.

30. Revenue

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

No

Whether the new standard for revenue has been adopted or not

Yes 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.

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(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.

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.

② *Contracts for provision of services*

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

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

31. Government grants

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

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

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

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

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

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

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

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

32. *Deferred income tax assets/deferred income tax liabilities*

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

33. *Leases*

(1) Accounting for operating leases

Not applicable

(2) Accounting for finance leases

The Company recognises right-of-use assets and lease liabilities for all leases at the commencement date of the lease, except for short-term leases and leases of low-value assets for which the simplified approach is elected.

Right-of-use assets are rights of the Company to use lease assets over the lease period.

The commencement date of a lease period refers to the start date on which the lessor provides a leased asset for use by the Group. The lease period refers to the non-cancellable period during which the Group has a right to use the leased asset.

Right-of-use assets are rights to use the assets over the leased period. A right-of-use asset is initially measured at cost, which includes lease payments made at or before the commencement date of the lease period, less any lease incentives received, if any, the initial direct cost incurred by the lessee, the expected cost of the lessee to dismantle and remove the leased asset, restore the site on which it is located or resume it to the condition as required by the lease terms. The Company depreciates the right-of-use asset over its lease term on a straight-line basis.

A lease liability is measured at present value of the outstanding lease payments at the commencement date of the lease period. In calculating the present value of the lease payments, the Company uses the bank borrowing rate for the same period as the discount rate.

The Company presents the right-of-use asset and lease liability separately in the balance sheet. Specifically, the lease liability is typically presented under non-current assets and non-current liability due within one year.

In the income statement, the Company presents the interest expenses of lease liability and depreciation charge for right-of-use assets. Interest expenses on lease liability are presented under finance costs.

34. Other Significant Accounting Policies and Accounting Estimates

(1) Accounting for income tax

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

35. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

✓ Applicable □ Not applicable

Description of and reasons for the change of accounting policy	Approval procedure	Remark
On 7 December 2018, the Ministry of Finance revised ASBE 21 "Lease" (Cai Kuai [2018] No. 35), requiring enterprises listed domestically and overseas and enterprises listed overseas and applying the International Financial Reporting Standards (IFRSs) or ASBE to prepare financial statements, to apply the revised standard from 1 January 2019.	The change in the accounting policy has been approved at the 4th meeting of the 6th Board.	The adoption of the newly revised ASBE 21 "Lease" had no material impact on the financial statement or operating results of the Company.
On 30 April 2019, the Ministry of Finance issued the Circular on Revising and Issuing the Format of General Corporate Financial Statements for the Year of 2019 (《關於修訂印發2019年度一般企業財務報表格式的通知》) (Cai Kuai [2019] No. 6) (the "Revising Circular"), which revised the format of general corporate financial statements.	The change in the relevant accounting policy has been approved at the 4th meeting of the 6th Board.	Description ¹

Description:

1. In the balance sheet, (1) "bills and accounts receivable" item is divided into two items, namely "bills receivable" and "accounts receivable"; (2) "bills and accounts payable" item is divided into two items, namely "bills payable" and "accounts payable"; (3) "financing receivables" is added to reflect the bills receivable and accounts receivable measured at fair value through other comprehensive income at the balance sheet date.
2. In the income statement, (1) "Less: Asset impairment loss" is adjusted to "Add: Asset impairment loss"; (2) "Less: Credit impairment loss" is adjusted to "Add: Credit impairment loss"; (3) the "research and development expenses" item supplements the amortisation of self-developed intangible assets included in the administrative expenses; (3) "Derecognition of revenue from financial assets measured at amortised cost" item is added to reflect the gain or loss of the Company arising from the derecognition of financial assets measured at amortised cost due to transfer or others. The item shall be analysed and presented based on the amount of breakdown items under investment income.

3. Cash flow statement: it clarifies the presentation of government grants that all government grants actually received by the Company are presented in the “cash received relating to other operating activities” item, no matter it is asset-related or revenue-related.
4. Statement of Changes in Equity: it clarifies the presentation of “capital contributed by other equity instruments holders” item. The “capital contributed by other equity instruments holders” item reflects the amount of capital contributed by the holders of financial instruments issued by the Company classified as equity instruments other than ordinary shares.

(2) Changes 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, the New Revenue Standard, or the new adjustment to lease standard

Applicable Not applicable

(4) Description of comparative for prior period before retrospective adjustment for the initial adoption of the New Financial Instruments Standard and the New Lease Standard

Applicable Not applicable

VI. Taxation

1. Main tax types and tax rates

Type	Calculation basis	Rate
Value-added tax	Value-added tax payable is the balance after output tax minus import tax. Output tax is calculated at 16% of sales volume calculated under requirements of relevant tax laws. According to the Announcement of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs [2019] No. 39, effective from 1 April 2019, the applicable value-added tax rate of the Group has been adjusted to 13%. Export commodities are subject to taxation method of “exemption, reduction and rebate”.	16% · 13%
Urban maintenance and construction tax	Value-added tax and business tax payable	7%
Enterprise income tax	Taxable income	15%–25%
Education surcharge	Value-added tax and business tax payable	3%
Local education surcharge	Value-added tax and business tax payable	2%

Disclosures regarding taxpaying entities with different enterprise income tax rates

Name of tax-paying entity	Income tax rate
The Company	15%
Shouguang Molong Logistic Company Limited (壽光墨龍物流有限公司)	25%
MPM International Limited	16.5%
Shouguang Baolong Petroleum Material Company Limited (壽光寶隆石油器材有限公司)	25%
Shouguang Maolong New Materials Technology Development Company Limited (壽光懋隆新材料技術開發有限公司)	25%
Shouguang Molong Electro-mechanical Equipment Company Limited (壽光墨龍機電設備有限公司)	25%
Shouguang Maolong Old Metals Recycle Company Limited (壽光市懋隆廢舊金屬回收有限公司)	25%
Weihai Baolong Special Petroleum Materials Company Limited (威海市寶隆石油專材有限公司)	25%
Wendeng Baolong Recyclable Resource Company Limited (文登市寶隆再生資源有限公司)	10%
Shouguang Maolong Microcredit Loan Company Limited (壽光市懋隆小額貸款股份有限公司)	25%
Shandong Molong Import & Export Company Limited (山東墨龍進出口有限公司)	25%
Shandong Molong Energy and Technology Company Limited (山東墨龍能源科技有限公司)	25%

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2. Tax incentives

According to the Document Lu Ke Zi [2018] No. 37 (魯科字[2018]37號文件) of “Notice regarding the recognition of 2078 enterprises including Weihai TuoZhan Fibre Co., Ltd as high-tech enterprises in 2017” (《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》) issued by the Technology Office of Shandong Province, Finance Office of Shandong Province, State Administration of Taxation of Shandong Province and Local Taxation Bureau of Shandong Province, the Company has been recognised as a high-tech enterprise with the certificate of high-tech enterprise No. GR201737001253 dated on 28 December 2017 for a term of 3 years. The Company is enjoyed a preferential enterprise income tax rate for high-tech enterprises of 15% in the period between 1 January 2017 to 31 December 2019.

VII. Notes to the Consolidated Financial Statements

1. Monetary funds

	Unit: RMB	
Item	Balance at the end of the period	Balance at the beginning of the period
Cash on hand	317,685.31	506,001.34
Cash at banks	317,949,737.41	421,717,103.46
Other monetary funds	406,734,612.44	470,229,169.96
Total	725,002,035.16	892,452,274.76
Including: total deposits overseas	2,513,004.31	2,530,438.71

Other descriptions:

- (1) The Group's deposits overseas represented the monetary funds of MPM, a Hong Kong-based subsidiary.
- (2) The Group's other monetary funds as at the end of the period included bank acceptance security deposits of RMB401,626,232.32 (as at the beginning of the year: RMB455,487,432.73), security deposits for loans of RMB570,000.00 (as at the beginning of the year: RMB14,741,737.23), and fixed-rate security deposits of RMB4,538,380.12 (as at the beginning of the year: RMB nil).
- (3) The Group had security deposits for bank acceptance bills with maturity date over 3 months of RMB208,314,902.00 (as at the beginning of the year: RMB309,907,792.56).

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2. Bills receivable

(1) Presentation of bills receivable by type

	Unit: RMB	
Item	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	69,357,091.06	111,166,610.00
Trade acceptance bills	446,326,213.46	271,735,086.30
Total	515,683,304.52	382,901,696.30

(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 the end of the period
Trade acceptance bills	359,009,949.13
Total	359,009,949.13

(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 the end of the period	Amount not derecognised as at the end of the period
Bank acceptance bills	749,637,329.86	—
Trade acceptance bills	—	49,056,505.40
Total	749,637,329.86	49,056,505.40

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(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 the period.

(6) Write-off of bills receivable for the period

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

3. 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 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	23,966,256.93	3.03%	9,586,502.77	40.00%	14,379,754.16	24,966,256.93	3.78%	9,986,502.77	40.00%	14,979,754.16
Including:										
Accounts receivable provided for bad debts on an individual basis due to significantly different credit risk	23,966,256.93	3.03%	9,586,502.77	40.00%	14,379,754.16	24,966,256.93	3.78%	9,986,502.77	40.00%	14,979,754.16
Accounts receivable provided for bad debts on a collective basis	766,400,560.45	96.97%	116,594,792.82	15.21%	649,805,767.63	634,673,769.99	96.22%	113,453,584.19	17.88%	521,220,185.80
Including:										
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	766,400,560.45	96.97%	116,594,792.82	15.21%	649,805,767.63	634,673,769.99	96.22%	113,453,584.19	17.88%	521,220,185.80
Total	790,366,817.38	100.00%	126,181,295.59	15.96%	664,185,521.79	659,640,026.92	100.00%	123,440,086.96	18.71%	536,199,939.96

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 the end of the period			
	Book balance	Bad debt provision	Provision rate	Reason for provision
Hebei Zhongtai Steel Pipe Manufacture Company Limited (河北中泰鋼管製造有限公司)	23,966,256.93	9,586,502.77	40.00%	Provision was made based on the expected credit loss amount of the customer
Total	23,966,256.93	9,586,502.77	—	—

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 the end of the period		
	Book balance	Bad debt provision	Provision rate
Within 1 year	638,850,433.49	6,388,504.33	1.00%
1–2 years	4,742,010.81	2,371,005.40	50.00%
2–3 years	1,926,994.57	1,445,245.93	75.00%
3–5 years	96,607,229.48	82,116,145.06	85.00%
Over 5 years	24,273,892.10	24,273,892.10	100.00%
Total	766,400,560.45	116,594,792.82	—

Disclosure by age

Unit: RMB

Age	Balance at the end of the period
1 year (inclusive)	638,850,433.49
1 to 2 years	10,640,061.21
2 to 3 years	2,500,294.57
Over 3 years	138,376,028.11
3 to 4 years	29,547,193.17
4 to 5 years	84,554,942.84
Over 5 years	24,273,892.10
Total	790,366,817.38

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

Provisions for bad debts for the period:

Unit: RMB

Type	Balance at the beginning of period	Movement during the period			Balance at the end of the period
		Provision	Recovery or reversal	Write-off	
Provisions for bad debts of accounts receivable	123,440,086.96	2,741,208.63	—	—	126,181,295.59
Total	123,440,086.96	2,741,208.63	—	—	126,181,295.59

(3) Bills receivable written off during the period

The Group did not write off any accounts receivable during the period.

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

As at the end of the period, the aggregate balance of top five accounts receivable as at the end of the year by debtor amounted to RMB589,031,586.80, accounting for 74.53% 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 RMB44,378,879.23.

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(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 30 June 2019, 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 30 June 2019, accounts receivable of the Group amounting to RMB44,065,409.98 were restricted for use as they have been pledged for borrowings.

4. Loans and advances

Item	Balance at the end of the period	Balance at the beginning of the period
Loans and advances, net	37,497,910.59	38,561,702.67
Total	37,497,910.59	38,561,702.67

(1) Breakdown of loans and advances

Item	Balance at the end of the period	Balance at the beginning of the period
Loans and advances	60,388,804.08	62,882,698.08
Less: Provisions for loans	22,890,893.49	24,320,995.41
Loans and advances, net	37,497,910.59	38,561,702.67

(2) Loans and advances by guarantee

Loan type	Balance at the end of the period	Balance at the beginning of the period
Pledged loans	12,213,436.00	12,213,436.00
Secured loans	6,539,234.63	6,539,234.63
Guaranteed loans	18,745,239.96	19,809,032.04
Total	37,497,910.59	38,561,702.67

(3) Provisions for loans and advances

As at 30 June 2019, the Group had overdue loans of RMB60,388,804.08. 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 the end of the year
>360 days	54,388,804.08	90.46	20,850,893.49
180–360 days	6,000,000.00	9.54	2,040,000.00
90–180 days	—	—	—
<90 days	—	—	—
Total	60,388,804.08	100.00	22,890,893.49

(4) Loans and advances by borrower type

Type	As at the end of the period				
	Book balance		Provision for loans		Net amount of loans
	Amount	Percentage (%)	Amount	Provision rate (%)	
Corporate loans	54,352,804.08	90.40	21,570,433.49	40.46	32,782,370.59
Personal loans	6,036,000.00	9.60	1,320,460.00	21.88	4,715,540.00
Total	60,388,804.08	100.00	22,890,893.49	—	37,497,910.59

Type	As at the beginning of the period				
	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

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

Type	Balance at the beginning of the period	Movement during the year			Balance at the end of the period
		Provision	Recovery or reversal	Offset or write-off	
Provisions for impairment of loans and advances	24,320,995.41	—	684,578.92	745,523.00	22,890,893.49
Total	24,320,995.41	—	684,578.92	745,523.00	22,890,893.49

5. Prepayments

(1) Aging analysis of prepayments

Unit: RMB

Age	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Percentage	Amount	Percentage
Within 1 year	44,291,065.14	83.97%	23,159,864.28	74.76%
1 to 2 years	3,513,000.41	6.66%	2,883,517.20	9.31%
2 to 3 years	4,832,087.85	9.16%	4,924,170.11	15.90%
Over 3 years	110,683.61	0.21%	10,683.61	0.03%
Total	52,746,837.01	—	30,978,235.20	—

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

As at the end of the period, 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

Entity	Balance at the end of the year	Age	Percentage of total balance of payments at the end of the year (%)
Entity I	12,499,126.29	Within 1 year	23.70
Entity II	4,290,498.91	2–3 years	8.13
Entity III	3,669,087.64	Within 1 year	6.96
Entity IV	3,403,418.80	Within 1 year	6.45
Entity V	2,485,415.96	1–2 years	4.71
Total	26,347,547.60	—	49.95

6. Other receivables

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Interests receivable	1,817,971.48	2,710,659.25
Other receivables	33,147,256.06	44,987,044.41
Total	34,965,227.54	47,697,703.66

(1) Interest receivables

1) Category of interest receivables

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Time deposits	1,817,971.48	2,710,659.25
Total	1,817,971.48	2,710,659.25

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2) Significant overdue interest

The above interests of the Group were not overdue.

3) Provision for bad debts

Applicable Not applicable

(2) Other receivables

1) Other receivables by payment nature

Unit: RMB

Payment nature	Book Balance at the end of the period	Book Balance at the beginning of the period
Staff turnover loans	1,052,032.00	1,120,000.00
Deposits/caution money	3,676,196.75	1,981,819.00
Amounts due from administrative entities	28,590,310.85	42,059,310.85
Other amounts due from individuals	79,867.25	28,032.00
Other amounts due from entities	38,762,019.07	38,991,748.56
Less: Provision for bad debts of other receivables	39,013,169.86	39,193,866.00
Total	33,147,256.06	44,987,044.41

2) Provision for bad debts

Unit: RMB

Provision for bad debts	Stage 1	Stage 2	Stage 3	
	Next	Lifetime	Lifetime	
	12-month	expected credit	expected credit	
	expected	loss (without	loss (with	
	credit	credit	credit	
	loss	impairment)	impairment)	Total
Balance at 1 January 2019	347,638.98	3,548,673.41	35,297,553.61	39,193,866.00
Transfer of balance at 1 January 2019 during the period	—	—	—	—
Provision for the period	(99,647.03)	—	(78,097.11)	(177,744.14)
Write-off for the period	—	—	2,952.00	2,952.00
Balance at 30 June 2019	247,991.95	3,548,673.41	35,216,504.50	39,013,169.86

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

Applicable Not applicable

Disclosure by age

Unit: RMB

Age	Balance at the end of the period
1 year (inclusive)	14,413,497.48
1 to 2 years	3,055,196.00
2 to 3 years	2,517,164.27
Over 3 years	52,174,568.17
3 to 4 years	28,771,507.44
4 to 5 years	7,250,941.48
Over 5 years	16,152,119.25
Total	72,160,425.92

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

Provisions for bad debts for the period:

Unit: RMB

Type	Balance at the beginning of the period	Movement during the period		Balance at the end of the period
		Provision	Recovery or reversal	
Provisions for bad debts of other receivables	39,193,866.00	(177,744.14)	2,952.00	39,013,169.86
Total	39,193,866.00	(177,744.14)	2,952.00	39,013,169.86

4) *Other receivables written off during the period*

Unit: RMB

Item	Write-off amount
Other receivables	2,952.00

Significant write-off of other receivables:

Unit: RMB

Name of entity	Nature of other receivable	Write-off amount	Reason for write-off	Procedure for write-off	Whether the amount was incurred from connected transaction
Li Zuo Fu	Business turnover loan	1,632.00	Departed for years and unable to contact	—	No
Zibo Gas Corporation (淄博煤氣公司)	Security deposit	1,320.00	Deregistered	—	No
Total	—	2,952.00	—	—	—

Description of write-off of other receivables:

Nil

5) Balance of top five other receivables as at the end of the period by debtor

Unit: RMB

Name of entity	Nature of payment	Balance at the end of the period	Age	Percentage of the total amount of closing balance of other receivables	Balance of bad debt provision at the end of the period
JESORO OIL LTD	Current amounts	35,073,974.11	3–4 years	48.61%	35,015,302.36
Shouguang City Yang Kou Town Office of Finance	Project construction deposit	14,530,000.00	Over 5 years	20.14%	1,743,600.00
Shougang City Yang Kou Town Statistic Center of Finance, Political, Economic and Management Affairs	Current amounts	7,250,941.48	4–5 years	10.05%	1,281,749.07
Shang Kou Station of Finance, Political, Economic and Management	Subsidies and grants for recycling resources enterprises	4,695,969.37	Within 1 year	6.51%	—
Sinopec International Business Co., Ltd., Nanjing Bidding Centre (中國石化國際事業有限公司南京招標中心)	Security deposit for bidding	2,173,473.92	Within 1 year	3.01%	—
Total	—	63,724,358.88	—	88.31%	38,040,651.43

6) *Other receivables derecognised due to transfer of financial assets*

As at 30 June 2019, the Group had no other receivables that were derecognised due to transfer of financial assets.

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

As at 30 June 2019, 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.

Other description:

Nil

7. Inventories

Whether the new standard for revenue has been adopted

Yes No

(1) Category of inventories

Unit: RMB

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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 or provision for devaluation of costs of contract performance	Book value
Raw materials	396,496,453.29	5,401,025.56	391,095,427.73	444,194,514.71	6,495,298.33	437,699,216.38
Work in progress	201,176,262.19	2,951,121.54	198,225,140.65	211,490,453.03	3,397,807.05	208,092,645.98
Goods in stock	410,799,926.12	4,110,410.88	406,689,515.24	395,379,028.81	5,043,310.44	390,335,718.37
Sub-contracting materials	10,701,976.32	23,341.63	10,678,634.69	6,635,709.77	2,033.49	6,633,676.28
Total	1,019,174,617.92	12,485,899.61	1,006,688,718.31	1,057,699,706.32	14,938,449.31	1,042,761,257.01

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

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

Unit: RMB

Item	Balance at the beginning the period	Increase in the current period		Decrease in the current period		Balance at the end of the period
		Provision	Others	Reversal or write-off	Others	
Raw materials	6,495,298.33	—	—	1,094,272.77	—	5,401,025.56
Work in progress	3,397,807.05	—	—	446,685.51	—	2,951,121.54
Goods in stock	5,043,310.44	—	—	932,899.56	—	4,110,410.88
Entrusted processing materials	2,033.49	—	—	(21,308.14)	—	23,341.63
Total	14,938,449.31	—	—	2,452,549.70	—	12,485,899.61

Allowances for impairment of inventories

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

Nil

(4) Information on the amortised amount of cost of contract performance for the period

Nil

8. Other current assets

Whether the new standard for revenue has been adopted

Yes No

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Deductible input tax	36,215,110.14	36,490,388.84
Prepaid income tax	2,513,796.61	2,565,306.96
Prepaid other taxes	870,109.04	846,809.61
Bank financial products	46,900,000.00	104,900,000.00
Total	86,499,015.79	144,802,505.41

Other description:

Bank financial products are two-tiered structured deposits related to gold. However, as it is basically not probable that the movement in gold price exceeds the fixed probability, they are, in substance, a kind of principal guaranteed structured deposits. Based on the definition of financial assets measured at amortised cost, the Group accounts them as financial assets measured at amortised cost and presented them under other assets.

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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	2,663,518.90	—	—	—	—	—	—	—	—	2,663,518.90
Sub-total	2,663,518.90	—	—	—	—	—	—	—	—	2,663,518.90
Total	2,663,518.90	—	—	—	—	—	—	—	—	2,663,518.90

10. Fixed Assets

Item	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Fixed assets	2,804,113,835.92	2,915,815,731.99
Total	2,804,113,835.92	2,915,815,731.99

(1) Details of fixed assets

Item	Unit: RMB				
	Buildings	Machinery and equipment	Electronic and other equipment	Vehicles	Total
I. Original book value:					
1. Balance at the beginning 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
2. Additions during the period	104,361.16	20,073,123.03	2,136,114.89	1,000,474.18	23,314,073.26
(1) Purchase	104,361.16	20,022,664.82	2,136,114.89	1,000,474.18	23,263,615.05
(2) Transferred from construction in progress	—	50,458.21	—	—	50,458.21
(3) Additions from business combinations	—	—	—	—	—
3. Reductions during the period	—	28,751,862.40	2,071,340.25	1,464,814.14	32,288,016.79
(1) Disposal or retirement	—	28,751,862.40	2,071,340.25	1,464,814.14	32,288,016.79
(2) Other reductions	—	—	—	—	—
4. Balance at the end of the period	1,088,787,628.49	3,294,799,004.10	124,113,808.45	16,922,196.80	4,524,622,637.84
II. Accumulated depreciation					
1. Balance at the beginning 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
2. Additions during the period	25,561,549.98	88,116,100.13	2,687,225.47	1,064,801.59	117,429,677.17
(1) Provision	25,561,549.98	88,116,100.13	2,687,225.47	1,064,801.59	117,429,677.17
3. Reductions during the period	—	12,415,227.70	1,125,228.41	1,161,268.52	14,701,724.63
(1) Disposal or retirement	—	12,415,227.70	1,125,228.41	1,161,268.52	14,701,724.63
4. Balance at the end of the period	294,059,100.13	1,256,368,535.85	91,964,618.14	9,065,346.02	1,651,457,600.14
III. Impairment provision					
1. Balance at the beginning of the period	4,986,478.28	64,064,723.50	—	—	69,051,201.78
2. Additions during the period	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions during the period	—	—	—	—	—
(1) Disposal or retirement	—	—	—	—	—
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	789,742,050.08	1,974,365,744.75	32,149,190.31	7,856,850.78	2,804,113,835.92
2. Book value at the beginning 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) 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	7,231,179.68	Application in process
New dormitory building and staff dining hall in Weihai	4,159,150.58	Application in process
Building No. 7 of Molong Garden	7,111,565.22	Application in process
Logistics Park Plant	7,645,815.92	Application in process
Workshop plant, office building and staff canteen of Shouguang Maolong	261,573,047.01	Not yet applied
Total	287,720,758.41	—

Other description:

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.

11. Construction in Progress

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Construction in progress	46,382,671.96	35,871,296.86
Total	46,382,671.96	35,871,296.86

(1) Details of Construction in Progress

Unit: RMB

Item	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision	Book value	Book balance	Provision	Book value
		for impairment			for impairment	
Employee technical development training centre	20,776,671.64	—	20,776,671.64	22,296,180.78	—	22,296,180.78
Electromechanical cast steel mill relocation project	185,294.56	—	185,294.56	185,294.56	—	185,294.56
Furnace rehabilitation and improvement and construction of new auxiliary and miscellaneous projects	9,213,546.56	—	9,213,546.56	8,492,694.99	—	8,492,694.99
Other miscellaneous projects	16,207,159.20	—	16,207,159.20	4,897,126.53	—	4,897,126.53
Total	46,382,671.96	—	46,382,671.96	35,871,296.86	—	35,871,296.86

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

Unit: RMB

Item	Budget amount	Balance at the beginning of the period	Increase during the period	Transfer to fixed assets during the period	Other reduction during the period	Balance at the end of the period	Ratio of accumulated contribution to the construction to budget	Construction progress	Accumulated interest capitalised	Including: capitalized interest during the period	Capitalisation rate of interest for the period	Sources of fund
Employee technical development training centre	26,000,000.00	22,296,180.78	645,264.70	2,164,773.84	—	20,776,671.64	79.91%	90	—	—	—	Other
Furnace rehabilitation and improvement and construction of new auxiliary and miscellaneous projects	50,000,000.00	8,492,694.99	720,851.57	—	—	9,213,546.56	104.93%	90	—	—	—	Other
Electromechanical cast steel mill relocation project	20,570,000.00	185,294.56	—	—	—	185,294.56	99.41%	100	—	—	—	Other
Total	96,570,000.00	30,974,170.33	1,366,116.27	2,164,773.84	—	30,175,512.76	—	—	—	—	—	—

(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 period, therefore no provision for impairment is made for construction in progress. As at the end of the period, there is no restriction on the right to own or use construction in progress due to pledge, guarantee or any other reason.

12. 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	495,820,094.64	2,886,248.19	387,630,789.17	770,036.72	887,107,168.72
2. Additions during the period	2,164,773.84	—	10,267,533.98	—	12,432,307.82
(1) Acquisition	2,164,773.84	—	—	—	2,164,773.84
(2) Internal research and development	—	—	10,267,533.98	—	10,267,533.98
(3) Additions from business combinations	—	—	—	—	—
3. Reductions during the period	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the period	497,984,868.48	2,886,248.19	397,898,323.15	770,036.72	899,539,476.54
II. Accumulated amortisation					
1. Balance at the beginning of the period	64,626,931.63	2,627,367.25	333,067,613.54	770,036.72	401,091,949.14
2. Additions during the period	5,801,954.52	91,102.72	4,005,625.30	—	9,898,682.54
(1) Provision	5,801,954.52	91,102.72	4,005,625.30	—	9,898,682.54
3. Reductions during the period	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the period	70,428,886.15	2,718,469.97	337,073,238.84	770,036.72	410,990,631.68
III. Provision for Impairment					
1. Balance at the beginning of the period	—	—	33,968,375.45	—	33,968,375.45
2. Additions during the period	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions during 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	427,555,982.33	167,778.22	26,856,708.86	—	454,580,469.41
2. Book value at the beginning of the period	431,193,163.01	258,880.94	20,594,800.18	—	452,046,844.13

The internally generated intangible assets accounted for 5.91% of the balance of intangible assets as at the end of the period.

13. Development expenditure

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
		Internal development expenditure	Others	Recognised as intangible assets	Transfer to profit or loss for the period	
Project I	—	5,777,019.43	—	—	5,777,019.43	—
Project II	—	8,271,050.05	—	—	8,271,050.05	—
Project III	—	5,570,485.70	—	5,570,485.70	—	—
Project IV	—	4,697,048.28	—	4,697,048.28	—	—
Project V	—	4,393,987.22	—	—	—	4,393,987.22
Project VI	—	7,005,160.67	—	—	—	7,005,160.67
Total	—	35,714,751.35	—	10,267,533.98	14,048,069.48	11,399,147.89

Other description:

Please refer to V.23 of this note 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.

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14. 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	15,000,000.00	—	—	15,000,000.00
Total	119,290,000.00	—	—	119,290,000.00

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.

The Group performs the impairment test on goodwill as stated in Note V.24.

15. *Deferred income tax assets/deferred income tax liabilities*

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(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
Unrealised profits arisen from intra-group transactions	9,801,308.24	2,450,327.06	10,113,849.13	2,528,462.27
Accounts receivable	125,716,497.79	18,857,474.67	122,999,984.54	18,449,997.68
Other receivables	37,173,029.30	5,575,954.40	37,173,029.30	5,575,954.40
Allowance for impairment of inventories	9,162,382.45	1,374,357.37	11,497,734.54	1,724,660.18
Difference in amortisation of intangible assets	104,919,810.61	15,737,971.59	113,735,759.42	17,060,363.92
Provisions	8,004,044.15	1,200,606.62	12,780,330.57	1,917,049.59
Total	294,777,072.54	45,196,691.71	308,300,687.50	47,256,488.04

(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	826,217.09	206,554.27	838,979.53	209,744.88
Intangible assets	23,291,995.35	5,822,998.84	23,651,782.82	5,912,945.70
Total	24,133,449.95	6,033,362.49	24,505,999.86	6,126,499.96

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

Unit: RMB

Item	Offsetting between deferred income tax assets and liabilities at the end of the period	Balance of deferred income tax assets or liabilities after offsetting at the end of the period	Offsetting between deferred income tax assets and liabilities at the beginning of the period	Balance of deferred income tax assets or liabilities after offsetting at the beginning of the period
Deferred income tax liabilities	—	6,033,362.49	—	6,126,499.96

(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	72,374,718.94	72,491,916.55
Deductible losses	792,940,808.70	770,932,603.43
Total	865,315,527.64	843,424,519.98

- (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	Remark
2019	41,577,966.99	41,577,966.99	—
2020	135,433,959.60	135,433,959.60	—
2021	154,715,917.87	158,888,578.18	—
2022	174,867,534.26	175,804,216.53	—
2023	52,354,347.21	52,754,082.69	—
2024	30,279,649.74	—	—
2025	—	—	—
2026	203,711,433.03	206,473,799.44	—
Total	792,940,808.70	770,932,603.43	—

16. Other non-current assets

Whether the new standard for revenue has been adopted

Yes No

Unit: RMB

Item	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for impairment		Book balance	Provision for impairment	
		impairment	Book value		Book balance	impairment
Prepayments for land premium	4,386,531.00	—	4,386,531.00	3,900,000.00	—	3,900,000.00
Prepayments for equipment	1,536,172.85	—	1,536,172.85	9,944,015.27	—	9,944,015.27
Total	5,922,703.85	—	5,922,703.85	13,844,015.27	—	13,844,015.27

17. Short-term borrowings

(1) Category of short-term borrowings

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Pledged borrowings	88,065,409.98	216,896,960.75
Guaranteed borrowings	617,000,000.00	617,000,000.00
Credit borrowings	918,173,500.02	920,021,600.02
Bills discounted and borrowings for letters of credit	591,600,000.00	637,000,000.00
Total	2,214,838,910.00	2,390,918,560.77

(2) Details of outstanding overdue short-term borrowings

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

18. Bills payable

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	476,629,551.98	266,019,348.18
Total	476,629,551.98	278,902,047.79

At the end of the period, the Group had outstanding overdue bills payable of nil.

19. Accounts receivable

(1) Presentation of accounts payable

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Amounts due to suppliers	891,345,884.09	821,162,695.81
Total	891,345,884.09	821,162,695.81

(2) Significant accounts payable with aging over one year

Unit: RMB

Item	Balance at the end of the period	Reasons for outstanding or carrying forward
Entity 1	13,112,855.17	Not yet settled
Entity 2	6,666,161.96	Not yet settled
Entity 3	6,363,218.65	Not yet settled
Entity 4	6,157,819.70	Not yet settled
Entity 5	3,537,794.87	Not yet settled
Total	35,837,850.35	—

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	Balance at the end of the period	Reasons for outstanding or carrying forward
Within 2 months	479,966,477.52	477,281,725.26
2–3 months	72,931,306.10	67,234,067.73
3–4 months	33,426,947.96	33,004,652.49
4 months–1 year	162,563,741.34	102,116,941.78
1–2 years	47,005,060.12	56,642,182.97
2–3 years	25,072,309.12	37,055,057.30
Over 3 years	70,380,041.93	47,828,068.28
Total	891,345,884.09	821,162,695.81

20. Receipts in Advance

Whether the new standard for revenue has been adopted

Yes No

21. Contract liabilities

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Receipts in advance	66,914,556.70	57,364,400.72
Total	66,914,556.70	57,364,400.72

22. Salaries payable

(1) Presentation of salaries payable

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 salaries	57,100,793.80	137,876,481.15	144,178,253.60	50,799,021.35
II. Post-employment benefits — defined contribution plans	—	10,646,309.27	10,646,309.27	—
Total	57,100,793.80	148,522,790.42	154,824,562.87	50,799,021.35

(2) Presentation of short-term salaries

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. Wages, bonuses, allowances and subsidies	43,022,733.44	114,533,566.25	120,361,215.90	37,195,083.79
2. Staff welfare	—	3,514,235.52	3,514,235.52	—
3. Social insurances	—	15,594,843.31	15,594,843.31	—
Including: Medical insurance	—	4,057,717.39	4,057,717.39	—
Work injury insurance	—	409,413.95	409,413.95	—
Maternity insurance	—	481,402.70	481,402.70	—
4. Housing provident fund	—	3,274,324.56	3,274,324.56	—
5. Union fund and staff education fund	14,078,060.36	959,511.51	1,433,634.31	13,603,937.56
Total	57,100,793.80	137,876,481.15	144,178,253.60	50,799,021.35

(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	—	10,239,599.05	10,239,599.05	—
2. Unemployment insurance	—	406,710.22	406,710.22	—
Total	—	10,646,309.27	10,646,309.27	—

Other descriptions:

Salaries payables of the Group as at the end of the period included accrued wages, bonuses and allowances of RMB37,195,083.79, which were expected to be paid in the second half of 2019.

23. *Taxes Payable*

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Value-added tax	12,374,269.83	61,342,130.14
Enterprise income tax	6,245,322.59	8,926,968.92
Individual income tax	57,617.60	265,460.01
Urban maintenances and construction tax	442,231.02	3,636,991.65
Property tax	1,245,798.41	1,238,531.92
Land use tax	1,275,916.38	2,390,633.00
Educational surcharges	189,527.58	2,597,851.17
Local water conservancy construction funds	31,587.93	268,741.92
Stamp duty	297,148.81	428,207.87
Others	201,746.81	131,529.12
Total	22,361,166.96	81,227,045.72

Other description:

As at the end of the period, taxes payable included Hong Kong profit tax payable of RMB nil.

24. Other payables

Item	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Interests payable	6,760,660.95	8,691,627.11
Other payables	35,990,395.46	42,653,126.57
Total	42,751,056.41	51,344,753.68

(1) Interests Payable

Item	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Interests on borrowings	6,760,660.95	8,691,627.11
Total	6,760,660.95	8,691,627.11

Details of significant overdue and unpaid interests:

As of 30 June 2019, the Group had no overdue unpaid interest.

(2) Other payables

1) Presentation of other payables by nature

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Accrued energy charges	14,941,503.12	22,661,073.90
Deposits	11,893,580.04	9,675,864.78
Others	9,155,312.30	10,316,187.89
Total	35,990,395.46	42,653,126.57

2) Significant other payables aging over 1 year

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

25. Non-current liabilities due within one year

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Long-term borrowings due within one year	183,525,578.00	308,994,908.08
Total	183,525,578.00	308,994,908.08

26. Other current liabilities

Whether the new standard for revenue has been adopted

Yes No

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Trade acceptance bills that have been endorsed but not yet matured	49,056,505.40	94,281,027.25
Total	49,056,505.40	94,281,027.25

27. Long-term borrowings

(1) Category of long-term borrowings

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Secured borrowings	257,303,092.17	485,213,958.98
Pledged and guaranteed borrowings	250,000,000.00	250,000,000.00
Less: Amounts due within one year	183,525,578.00	308,994,908.08
Total	323,777,514.17	426,219,050.90

Profile of maturity dates of long-term borrowings

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
1 to 2 years	323,777,514.17	426,219,050.90
2 to 5 years	—	—
Total	323,777,514.17	426,219,050.90

Other descriptions, including interest rate intervals:

Note: Long-term borrowings due within one year have been reclassified to “non-current liabilities due within one year”. See note VII.25.

Other descriptions, including interest rate intervals

The interest rates of long-term borrowings of the Group for the first half of 2019 ranged between 8–9.22%.

28. Long-term payables

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Long-term payables	145,209,090.00	—
Total	145,209,090.00	—

The Group financed certain production equipment in favour of Cosco Shipping Leasing Co., Ltd. by way of sale and leaseback arrangement for a term of 3 years.

29. Provisions

Whether the new standard for revenue has been adopted

Yes No

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period	Cause
Pending litigations	4,267,805.84	12,780,330.57	See note XIV.2 for details
Total	4,267,805.84	12,780,330.57	—

Other description: It included the material assumptions, estimates for the significant provisions.

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	Cause
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

Liability item	Balance at the beginning of the period	Increase during the period	Amount	Amount	Amount charged against income expenses during the period	Other Changes	Balance at the end of the period	Asset-related/revenue-related
			included in non-operating income during the period	included in other income during the period				
Grants for ancillary infrastructure	6,954,855.00	—	—	—	—	—	6,954,855.00	Asset-related

Other description:

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.

31. Share Capital

Unit: RMB

	Balance at the beginning of the period	Movement for the period (increase/decrease) (+, -)					Balance at the end of the period
		Issue of new shares	Conversion Bonus issue into shares	Others	Sub-total		
Total shares	797,848,400.00	—	—	—	—	—	797,848,400.00

32. Capital Reserves

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
Capital premium (share capital premium)	849,481,990.92	—	—	849,481,990.92
Other capital reserves	13,687,167.50	—	—	13,687,167.50
Total	863,169,158.42	—	—	863,169,158.42

33. Other comprehensive income

Unit: RMB

Item	Balance at the beginning of the period	Amount for the period					Attributable to the parent company after tax	Balance at the end of the period
		Amount before income tax for the period	Less: Transfer of amount previously included in other comprehensive income to profit or loss for the current period	Less: Transfer of amount previously included in other comprehensive income to retained earnings for the current period	Less: Income tax expense	Attributable to the minority shareholders after tax		
II. Other comprehensive income to be reclassified to profit or loss	(2,792,011.13)	(29,674.09)	—	—	—	(26,706.68)	(2,967.41)	(2,818,717.81)
Exchange differences on translation of foreign financial statements	(2,792,011.13)	(29,674.09)	—	—	—	(26,706.68)	(2,967.41)	(2,818,717.81)
Total other comprehensive income	(2,792,011.13)	(29,674.09)	—	—	—	(26,706.68)	(2,967.41)	(2,818,717.81)

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
Safety production fee	—	15,967,596.48	15,967,596.48	—
Total	—	15,967,596.48	15,967,596.48	—

Other description, including the increase or decrease movements during the period and the reason(s) for such movement:

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.

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	187,753,923.88	—	—	187,753,923.88
Total	187,753,923.88	—	—	187,753,923.88

36. General risk reserve

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
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.

37. Undistributed profit

Unit: RMB

Item	For the period	For the last period
Undistributed profit as at the end of prior period before adjustments	98,100,580.11	—
Undistributed profit as at the beginning of the period after adjustments	98,100,580.11	—
Add: Net profit attributable to owners of the parent company for the period	18,012,923.36	—
Undistributed profit as at the end of the period	116,113,503.47	—

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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 the changes in accounting policies on the undistributed profits as at the beginning of the period amounted to nil.
- (3) The effect of corrections of significant accounting errors on the undistributed profits as at the beginning of the period amounted to nil.
- (4) The effect of the change of the scope of combination under common control on the undistributed profits as at the beginning of the period amounted to nil.
- (5) The effect of other adjustments on the undistributed profits as at the beginning of the period amounted to nil.

38. *Minority interests*

Equity of minority shareholders attributable to minority shareholders in each subsidiary

Unit: RMB

Name of subsidiary	Percentage of minority shareholding (%)	Balance at the end of the period	Balance at the beginning of the period
Shouguang Baolong	30.00	(4,139,210.17)	(3,902,896.17)
Maolong Micro-credit	50.00	74,980,875.03	74,162,577.52
Other companies	—	(173,034.56)	(191,346.22)
Total	—	70,668,630.30	70,068,335.13

39. *Operating Revenue and Operating Costs*

Unit: RMB

Item	Amount for the period		Amount for the last period	
	Revenue	Cost	Revenue	Cost
Main operations	2,336,044,685.01	2,118,045,769.31	1,968,240,807.49	1,681,174,651.71
Other operations	41,400,349.25	38,613,112.72	31,840,762.34	35,680,937.73
Total	2,377,445,034.26	2,156,658,882.03	2,000,081,569.83	1,716,855,589.44

Whether the new standard for revenue has been adopted

Yes No

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 RMB701,898,547.88 as at the end of the reporting period, in which RMB701,898,547.88 is expected to be recognised as revenue in 2019.

40. Taxes and Surcharges

Unit: RMB

Item	Amounts for the period	Amounts for the last period
Urban maintenances and construction tax	3,521,143.36	2,971,047.06
Educational surcharges	1,931,088.99	1,273,305.87
Resource tax	92,746.40	95,187.00
Property tax	2,484,330.33	2,315,481.96
Land use tax	2,555,167.08	4,856,423.52
Vehicle and vessel use tax	976.20	10,432.76
Stamp duty	773,650.44	1,182,527.38
Local water conservancy construction funds	251,510.24	212,217.67
Other taxes	814,010.01	1,034,390.94
Total	12,424,623.05	13,951,014.16

41. Selling Expenses

Unit: RMB

Item	Amounts for the period	Amounts for the last period
Delivery fees	32,462,350.19	49,347,230.32
Agency fees	137,977.95	331,676.17
Wages	2,036,093.97	1,791,673.85
Travelling expenses	255,690.92	249,633.20
Entertainment expenses	2,238,113.92	1,985,268.72
Office expenses	152,529.11	95,198.58
Commissions	445,625.49	671,551.39
Depreciation charges	123,542.61	661,534.33
Bidding service charges	213,396.23	922,481.48
Others	1,919,480.19	763,985.79
Total	39,984,800.58	56,820,233.83

42. Administrative expenses

Unit: RMB

Item	Amounts for the period	Amounts for the last period
Amortisation of intangible assets	5,911,290.94	10,907,374.71
Wages and staff welfare expenses	17,941,154.62	12,608,120.62
Depreciation charges	10,932,684.23	10,313,078.60
Machinery material consumables	3,806,688.56	1,005,285.75
Commissions	2,919,391.76	2,081,255.92
Electricity expenses	2,576,788.86	1,790,621.67
Entertainment expenses	1,713,298.80	934,106.88
Environmental expenses	383,767.38	337,995.21
Board of directors' expenses	677,067.92	1,766,109.99
Transportation fees	432,512.63	433,519.42
Repair charges	2,088,602.18	13,105,978.33
Delivery fees	442,745.67	373,530.37
Property insurance	128,461.67	100,943.41
Travelling expenses	254,218.82	266,810.51
Publicity expenses	125,364.73	39,523.31
Water charges	581,602.61	522,467.81
Safety production fees	1,725,677.73	748,343.66
Natural gas charges	1,760,889.36	1,418,966.17
Others	891,402.34	3,911,710.43
Total	55,293,610.81	62,665,742.77

43. Research and development expenses

Unit: RMB

Item	Amounts for the period	Amounts for the last period
Research and development of new products	21,016,556.28	20,919,065.04
Total	21,016,556.28	20,919,065.04

Other descriptions:

Details of the provision for research and development expenses for the year are provided in note VII.13.

44. Finance Costs

Unit: RMB

Item	Amounts for the period	Amounts for the last period
Interest expenses	82,551,261.56	102,480,111.07
Interest income	(4,383,386.30)	(3,038,609.18)
Foreign exchange loss	(3,211,118.44)	2,198,589.55
Other expenses	4,936,871.13	4,156,263.86
Total	79,893,627.95	105,796,355.30

45. Other income

Unit: RMB

Source of other income	Amounts for the period	Amounts for the last period
Subsidies and grants for recycling resource enterprises	10,685,367.00	5,756,761.96
Stability subsidies and social insurance subsidies	—	220,668.30
Incentives and subsidies for patent technology and intellectual properties	165,700.00	—
Reward for industrial recognition	633,900.00	—
Reward for project construction	719,085.90	—
Total	12,204,052.90	5,977,430.26

46. Investment income

Unit: RMB

Item	Amounts for the period	Amounts for the last period
Others	1,170,164.41	—
Total	1,170,164.41	—

47. Credit impairment losses

Unit: RMB

Item	Amounts for the period	Amounts for the last period
Loss on impairment of loans	731,332.89	25,902.90
Loss on bad debts of accounts receivable	(2,772,854.42)	(9,818,353.94)
Total	(2,041,521.53)	(9,792,451.04)

48. Gain on disposal of assets

Unit: RMB

Source of gain on disposal of assets	Amounts for the period	Amounts for the last period
Gain on disposal of fixed assets	(229,634.05)	(305,188.61)
Gain on disposal of intangible assets	—	1,477,579.03
Total	(229,634.05)	1,172,390.42

49. Non-operating Income

Unit: RMB

Item	Amount for the period	Amount for the last period	Amount credited to non-recurring profit or loss for the current period
Others	6,078,613.12	2,359,752.08	6,078,613.12
Total	6,078,613.12	2,359,752.08	6,078,613.12

50. Non-operating Expenses

Unit: RMB

Item	Amount for the period	Amount for the last period	Amount credited to non-recurring profit or loss for the current period
Estimated liabilities	7,132,168.72	—	7,132,168.72
Others	195,878.08	232,946.57	195,878.08
Total	7,328,046.80	232,946.57	7,328,046.80

51. Income Tax Expenses

(1) Income tax expenses list

Unit: RMB

Item	Amounts for the period	Amounts for the last period
Current income tax expenses	1,390,220.31	1,872,724.25
Deferred income tax expenses	2,020,155.37	—
Total	3,410,375.68	1,872,724.25

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(2) Reconciliations between accounting profit and income tax expenses

Unit: RMB

Item	Amount for the period
Total profit	22,026,561.61
Income tax expenses calculated at statutory/applicable tax rate	3,303,984.24
Effect of different tax rates applicable to subsidiaries	(546,645.16)
Effect of utilisation of previously unrecognised deductible losses on deferred income tax assets	2,035,157.63
Effect of deductible temporary differences or deductible losses on deferred income tax assets unrecognised in the period	3,492,937.52
Effect of additions and deductions in research and development expenditures	(4,875,058.55)
Income tax expenses	3,410,375.68

52. Other comprehensive income

Refer to note VII.33 for details.

53. Items of statement of cash flows

(1) Other cash received relating to operating activities

Unit: RMB

Item	Amounts for the period	Amounts for the last period
Government grants	25,607,152.90	5,977,430.26
Interest income	4,383,386.30	3,038,609.18
Decrease in security deposits for acceptance bills	102,692,890.56	7,675,000.00
Others	3,494,652.58	3,703,700.67
Total	136,178,082.34	20,394,740.11

(2) Other cash paid relating to operating activities

Unit: RMB

Item	Amounts for the period	Amounts for the last period
Delivery fees	32,905,095.86	49,720,760.69
Expenditures for research and development of new products	17,029,164.68	20,696,871.41
Consumables	3,966,598.08	1,257,437.81
Agency fees	137,977.95	331,676.17
Travelling expenses	942,422.37	516,443.71
Commissions	4,042,085.17	4,324,742.54
Repair charges	2,088,602.18	9,133,181.85
Utilities	4,919,280.83	3,732,055.65
Entertainment expenses	3,951,412.72	2,919,375.60
Handling charges by financial institutions	4,936,871.13	—
Provisions	16,617,828.90	—
Others	5,714,815.96	10,609,980.79
Total	97,252,155.83	103,242,526.22

(3) Other cash paid relating to financing activities

Unit: RMB

Item	Amounts for the period	Amounts for the last period
Borrowings from shareholders	—	70,000,000.00
Financing handling charges	5,100,000.00	—
Total	5,100,000.00	70,000,000.00

54. Supplemental information for statement of cash flows

(1) Supplemental information for statement of cash flows

Unit: RMB

Supplemental information	Amounts for the period	Amounts for the last period
1. Reconciliations of net profit to cash flows from operating activities:		
Net profit	18,616,185.93	20,685,020.19
Add: Provision for impairment of assets	2,041,521.53	9,792,451.04
Depreciation of fixed assets, oil and gas assets and productive biological assets	103,994,293.41	110,366,138.38
Amortisation of intangible assets	9,573,771.15	10,782,794.77
Loss on disposal of fixed assets, intangible assets and other long-term assets	—	(5,226,431.57)
Loss on retirement of fixed assets	(502,566.05)	333,066.74
Finance costs	82,679,729.81	104,680,058.18
Investment loss	(1,199,463.80)	—
Decrease in deferred income tax assets	2,059,796.33	—
Decrease in inventories	36,189,736.30	(71,525,476.96)
Decrease in trade receivables	(166,807,415.79)	(401,928,699.86)
Increase in trade payables	187,066,042.98	76,701,630.58
Net cash flows generated from operating activities	273,711,631.80	(145,339,448.51)
2. Significant investing and financing activities not involving cash receipt or payment:		
3. Net changes in cash and cash equivalents:		
Balance of cash at the end of the period	516,687,133.16	375,523,445.02
Less: Balance of cash at the beginning of the period	578,924,482.20	661,899,094.64
Net increase in cash and cash equivalents	(62,237,349.04)	(286,375,649.62)

(2) Composition of cash and cash equivalents

Unit: RMB

Item	Amounts for the period	Amounts for the last period
I. Cash	516,687,133.16	578,924,482.20
Including: Cash on hand	317,685.31	506,001.34
Bank deposits readily available for payments	317,949,737.41	421,717,103.46
Other monetary funds readily available for payments	198,419,710.44	156,701,377.40
III. Balance of cash and cash equivalents at the end of the period	516,687,133.16	578,924,482.20
Including: Cash and cash equivalents restricted for the use by the parent company and subsidiaries of the Group	208,314,902.00	313,527,792.56

Other description:

The Company had security deposits for bank acceptance bills with maturity date over 3 months of RMB208,314,902.00.

55. Assets with ownership or right to use restrictions

Unit: RMB

Item	Book value at the end of period	Reasons for restriction
Monetary funds	208,314,902.00	Security deposits with maturity over three months
Bills receivable	359,009,949.13	Pledge of bills
Fixed assets	196,748,014.28	Charge for borrowings
Intangible assets	93,746,489.39	Pledge/charge for borrowings
Other current assets	45,000,000.00	Pledge for borrowings
Accounts receivable	44,065,409.98	Pledge for borrowings
Total	946,884,764.78	—

56. Foreign currency monetary items

(1) Foreign currency monetary items

Unit: RMB

Item	Balance in foreign currency at the end of the period	Exchange rate	Balance converted in RMB at the end of the period
Monetary funds			
Including: USD	17,927,965.30	6.8747	123,249,383.05
EUR	1,774.41	7.817	13,870.56
HKD	23.04	0.87966	20.27
Accounts receivable			
Including: USD	26,126,608.82	6.8747	179,612,597.65
EUR	140,336.93	7.817	1,097,013.81
Other receivables			
Including: USD	5,103,391.50	6.8747	35,084,285.55
Short-term borrowings			
Including: USD	5,000,000.00	6.8747	34,373,500.00
Accounts payables			
Including: USD	939,166.37	6.8747	6,456,487.04
Other payables			
Including: USD	25,230.08	6.8747	173,449.23
Interests payable			
Including: USD	5,555.56	6.8747	38,192.81
Contract liabilities			
Including: USD	1,219,133.11	6.8747	8,381,174.39

(2) Information on foreign operating entities including (in case of significant foreign operating entities) the disclosures of their overseas principal place of business, reporting currency and basis for selection, and reasons for changes of the reporting currency.

Applicable Not applicable

MPM, a controlled subsidiary of the Company (having 90% of its shareholdings and voting rights) is domiciled and principally operated in Hong Kong and its reporting currency is USD.

57. 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	10,685,367.00	Other income	10,685,367.00
Incentives and subsidies for patent technology and intellectual properties	165,700.00	Other income	165,700.00
Reward for industrial recognition	633,900.00	Other income	633,900.00
Reward for project construction	719,085.90	Other income	719,085.90
Total	12,204,052.90	—	12,204,052.90

(2) Refund of government grants

Applicable Not applicable

Other description:

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

VIII. Changes in scope of consolidation

1. Changes in scope of consolidation due to other reasons

Describe the change in scope of consolidation due to other reasons (e.g. incorporate a new subsidiary, liquidate a subsidiary) and its details:

One controlled subsidiary, Shandong Molong Energy Technology Co., Ltd. (“Molong Energy”), was consolidated into the combined financial statements of the Company for the reporting period. Molong Energy was granted its business licence on 13 March 2019, with a registered capital of RMB10 million. It is interested by Shandong Molong as to 51% and by 山東鴻進能源管理有限公司 (Shandong Hongjin Energy Management Co., Ltd.) as to 49%. The business scope of Molong Energy covers: energy management services; new energy promotion, technical services and technical consultancy; investment and construction of gas pipeline network projects; supply of urban gas; sale of gas equipment; installation and repair of gas equipment; development and sale of real properties; property leasing. As at the date of this report, Molong Energy has not yet commenced any business.

IX. Interests in other entities

1. Interests in subsidiaries

(1) Structure of the business group

Name of subsidiary	Principal place of operation	Place of registration	Business nature	Percentage of shareholding		Method of acquisition
				Direct	Indirect	
MPM	Hong Kong	Hong Kong	Trading	90.00%	0.00%	Business consolidation under uncommon control
Shouguang Maolong	Shouguang	Shouguang	Manufacturing	100.00%	0.00%	Business consolidation under uncommon control
Molong Electromechanical	Shouguang	Shouguang	Manufacturing	0.00%	100.00%	Business consolidation under uncommon control
Baolong Resource	Weihai	Weihai	Trading	0.00%	100.00%	Business consolidation under uncommon control
Maolong Recycle	Shouguang	Shouguang	Trading	10.00%	90.00%	Business consolidation under uncommon control
Shouguang Baolong	Shouguang	Shouguang	Manufacturing	70.00%	0.00%	Establishment by investment
Weihai Baolong	Weihai	Weihai	Manufacturing	61.54%	38.46%	Business consolidation under uncommon control
Molong Logistic	Shouguang	Shouguang	Services	100.00%	0.00%	Establishment by investment
Molong Import & Export	Shouguang	Shouguang	Import and export	100.00%	0.00%	Establishment by investment
Maolong Microcredit	Shouguang	Shouguang	Finance	0.00%	50.00%	Business consolidation under uncommon control
Molong Energy	Shouguang	Shouguang	Trading	51.00%	0.00%	Establishment by investment

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:

Shouguang Baolong 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 Molong Company. Shouguang Baolong had de facto control over Maolong Micro-Credit, and therefore, it was included within the scope of consolidation.

(2) Significant non-wholly owned subsidiaries

Unit: RMB

Name of subsidiary	Shareholdings of minority shareholders	Profit and loss attributable to minority shareholders for the period	Dividends declared to minority shareholders for the period	Balance of minority shareholders at the end of the period
Shouguang Baolong	30.00%	(236,314.00)	—	(4,139,210.17)
Maolong Microcredit	50.00%	818,297.51	—	74,980,875.03
Molong Energy	51.00%	0.00	—	0.00
Total	—	581,983.51	—	70,841,664.86

(3) Key financial information of significant non-wholly owned subsidiaries

Unit: RMB

Name of subsidiary	Balance at the end of the period				Balance at the beginning of the period							
	Current assets	Non-current assets	Total assets	Non-current liabilities	Current liabilities	Total liabilities	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Total liabilities	
Shouguang	920,050,537.06	469,592,257.26	1,389,642,794.32	1,349,283,987.96	—	1,349,283,987.96	935,803,481.82	487,584,021.44	1,423,387,503.26	1,389,237,687.71	—	1,389,237,687.71
Baolong	149,954,334.70	7,415.35	149,961,750.05	—	—	—	148,317,739.68	7,415.35	148,325,155.03	—	—	—
Maolong	—	—	—	—	—	—	—	—	—	—	—	—

Unit: RMB

Name of subsidiary	Amount for the period			Cash flows			Amount for the last period		
	Operating revenue	Net profit	Total comprehensive income	Operating revenue	from operating activities	Total	Operating revenue	comprehensive income	Total
Shouguang	1,398,621,860.04	6,208,990.81	6,208,990.81	75,367,887.15	75,367,887.15	953,967,324.81	(30,968,154.76)	(30,968,154.76)	88,472,994.03
Baolong	—	—	—	—	—	—	—	—	—
Maolong	—	—	—	—	—	—	—	—	—
Microcredit	—	1,636,595.02	1,636,595.02	1,543,173.34	1,543,173.34	—	(71,514.16)	(71,514.16)	6,341,998.67

(4) Major restrictions on the use of assets and settlement of debts of the business group

Nil

(5) Provision of financial or other support for structured entity that is consolidated into the consolidated financial statements

As at 30 June 2019, none of the subsidiaries of the Company issued any equity or debt securities.

2. *Transactions with changes in share of owners' equity but retain control over subsidiary*

(1) Details of the change in owners' equities of the subsidiary

Nil

3. *Interests in joint venture arrangement or associate*

(1) Significant joint venture or associate

Name of joint venture or associate	Principal place of business	Place of registration	Business nature	Percentage of shareholding		Accounting treatment for investment in joint venture or associate
				Direct	Indirect	
Karamay Yalong Petroleum Machinery Co., Ltd	Karamay	Karamay	Manufacturing	0.00%	30.00%	Equity method

(2) Key financial information of the significant associate

Unit: RMB

	Balance at the end of the period/Amount for the current period	Balance at the beginning of the period/Amount for the last period
	Karamay Yalong Petroleum Machinery Co., Ltd.	Karamay Yalong Petroleum Machinery Co., Ltd.
Current assets	8,402,273.80	11,033,436.72
Non-current assets	2,944,584.06	2,868,257.16
Total assets	11,346,857.86	13,901,693.88
Current liabilities	2,927,081.74	5,152,204.93
Total liabilities	2,927,081.74	5,152,204.93
Equity attributable to shareholders of the parent company	8,419,776.12	8,749,488.95
Share of net assets in proportion to shareholdings	2,525,932.84	2,624,846.69
Book value of equity investment in associates	2,663,457.52	2,663,457.52
Operating revenue	4,060,204.32	1,173,681.89
Net profit	(329,712.83)	(984,428.33)
Total comprehensive income	(329,712.83)	(984,428.33)

(3) **Major restrictions on the ability of transferring funds to the Company of joint venture or associate**

There was no material restrictions on the capacity of an associate to transfer capital to the Company.

(4) **Excessive losses incurred by joint venture or associate**

None of the associate of the Company incurred any excessive losses.

(5) **Unrecognised commitment relating to investment in joint venture**

Nil

(6) **Contingent liabilities relating to investment of joint venture or associate**

The Group had no contingent liabilities relating to investment of joint venture.

4. *Interest in structured entity that is not included in the scope of consolidated financial statements*

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

The Group had no structured entity that is not included in the scope of consolidated financial statements.

X. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group's major financial instruments include borrowings, accounts receivable, accounts payable and others. Detailed descriptions of these financial instruments are set out in Note VII. 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.

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1. *Objectives and policies of risk management*

The Group engages in risk management with the aim of achieving an appropriate balance between risk and revenue, where the negative effects of risks against the Group's operating results are minimised, with a view to maximise the benefits of shareholders and other stakeholders. Based on such objective of risk management, the underlying strategy of the Group's risk management is to ascertain and analyse all types of risks exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

(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 30 June 2019, 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.

Item	30 June 2019	31 December 2018
Monetary funds — USD	123,249,383.05	31,431,405.00
Monetary funds — EUR	13,870.56	13,941.36
Monetary funds — HKD	20.27	—
Accounts receivable — USD	179,612,597.65	134,818,871.89
Accounts receivable — EUR	1,097,013.81	1,105,079.95
Other receivables — USD	35,084,285.55	35,025,597.16
Prepayments — USD	—	691,810.56
Short-term borrowings — USD	34,373,500.00	89,221,600.00
Accounts payable — USD	6,456,487.04	3,334,770.68
Other payables — USD	173,449.23	173,159.09
Contract liabilities — USD	8,381,174.39	19,878,622.03
Contract liabilities — EUR	8,381,174.39	5,281,104.28
Interests payable — USD	38,192.81	423,591.01

The Group closely monitors the effect of changes in foreign exchange rates to the Group.

The Group has always placed its concern on the research of foreign exchange risk management policies and strategies. It maintains close co-operation with financial institutions engaging in foreign exchange business, and arranges favourable settlement terms in contracts to reduce foreign exchange risk. Meanwhile, with the continuous increase in the proportion of international market, if risks beyond the control of the Group, such as the appreciation of RMB, the Group will mitigate such risk via suitable adjustment of sales strategies.

2. *Interest rate risk*

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the changes in market interest rate. The Group's interest rate risk arises from interest-bearing liabilities, such as 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 30 June 2019, the Group's interest-bearing liabilities were mainly floating-rate loan contracts amounting to RMB319,000,000.00 (31 December 2018: RMB319,000,000.00) and fixed-rate loan contracts denominated in RMB amounting to RMB1,956,751,092.17 (31 December 2018: RMB2,168,758,402.29).

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 30 June 2019, 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 RMB589,031,586.80.

(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 30 June 2019, the unused credit limit of bank loan of the Group was RMB533,090,000.00 (31 December 2018: RMB513,090,000.00), of which the short-term unused credit limit of bank loan of the Group was RMB533,090,000.00 (31 December 2018: RMB513,090,000.00).

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 30 June 2019:

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets					
Monetary funds	725,002,035.16	—	—	—	725,002,035.16
Bills receivable	515,683,304.52	—	—	—	515,683,304.52
Accounts receivable	664,185,521.79	—	—	—	664,185,521.79
Loans and advances	37,497,910.59	—	—	—	37,497,910.59
Other receivables	34,965,227.54	—	—	—	34,965,227.54
Financial liabilities					
Short-term borrowings	2,214,838,910.00	—	—	—	2,214,838,910.00
Bills receivable	476,629,551.98	—	—	—	476,629,551.98
Accounts payables	891,345,884.09	—	—	—	891,345,884.09
Other payables	42,751,056.41	—	—	—	42,751,056.41
Non-current liabilities					
due within one year	183,525,578.00	—	—	—	183,525,578.00
Other current liabilities	49,056,505.40	—	—	—	49,056,505.40
Long-term borrowings	—	323,777,514.17	—	—	323,777,514.17

1. 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 change 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	30 June 2019		2018	
		Effect on net profit	Effect on owners' equity	Effect on net profit	Effect on owners' equity
All foreign currencies	5% appreciation against RMB	14,481,718.37	14,481,718.37	3,602,889.00	3,602,889.00
All foreign currencies	5% depreciation against RMB	(14,481,718.37)	(14,481,718.37)	(3,602,889.00)	(3,602,889.00)

XI. Fair value disclosures

1. Others

As at 30 June 2019, 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.

XII. Related Party and Related Party Transactions

1. Parent company of the Company

Description of the parent company of the Company

The ultimate controlling party of the Company is Zhang En Rong.

Other description:

As at 30 June 2019, 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

Subsidiaries of the Company is detailed in note IX.1.

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3. Joint ventures and associates of the Company

Major joint ventures or associates of the Company are detailed in note IX.3.

The following joint venture or associate entered into related transactions with the Company during the period or had balances from related transactions with the Company for the prior period:

Name of joint venture or associate	Relationship with the Company
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Karamay Yalong Oil Pump Company Limited	Associate of the Company
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4. Other related party

Name of other related party	Relationship between other related party and the Company
------------------------------------	---

Shouguang Molong Cultural Transmission Co., Ltd.	Other enterprise controlled by controlling shareholder
--	--

5. Related party transactions

(1) Related party transactions regarding the purchase and sale of goods and provision and receipt of services

Sale of goods/rendering of services

Unit: RMB

Related party	Description of the related party transaction	Amount for the period	Amount for the last period
Karamay Yalong Petroleum Machinery Co., Ltd.	Oil well pumps and accessories	842,936.80	2,303,204.88

(2) Related leases

Nil

(3) Related guarantees

The Company as a guaranteed party

Unit: RMB

Guarantor	Amount guaranteed	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fulfilled
Zhang En Rong	50,011,942.60	9 October 2017	8 October 2020	No
Zhang En Rong	300,000,000.00	30 November 2017	29 December 2020	No
Zhang En Rong	250,000,000.00	7 December 2018	7 December 2020	No
Maolong Micro-Credit	44,000,000.00	27 July 2018	25 July 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
Shouguang Maolong	47,000,000.00	16 November 2018	16 November 2019	No
Shouguang Maolong	20,000,000.00	22 March 2019	20 March 2020	No
Shouguang Maolong	30,000,000.00	1 April 2019	20 March 2020	No
Shouguang Maolong	54,000,000.00	1 April 2019	1 April 2020	No
Shouguang Maolong	48,200,000.00	4 April 2019	4 April 2020	No
Shouguang Maolong	80,000,000.00	9 April 2019	7 April 2020	No
Shouguang Maolong	60,000,000.00	17 April 2019	16 April 2020	No
Shouguang Maolong	70,000,000.00	25 April 2019	23 April 2020	No
Shouguang Maolong	30,000,000.00	19 May 2019	12 May 2020	No
Shouguang Maolong	80,000,000.00	23 May 2019	22 May 2020	No

(4) Compensation of key management personnel

Unit: RMB

Item	Amount for the period	Amount for the last period
Liu Yun Long	317,792.21	332,095.73
Liu Min	209,583.94	191,648.54
Li Zhi Xin	234,000.80	276,256.48
Zhang Yu Zhi	195,269.73	194,637.28
Yao You Ling	0.00	0.00
Wang Quan Hong	0.00	0.00
Tang Qing Bin	49,395.00	0.00
Song Zhi Wang	49,395.00	0.00
Cai Zhong Jie	49,395.00	0.00
Wei Zhao Qiang	92,213.10	0.00
Wang Ming Hua	15,450.00	0.00
Liu Bo	15,450.00	0.00

(5) Other connected transactions

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

6. *Related party commitments*

Nil

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XIII. Share-based payments

1. *Share-based payments*

Applicable Not applicable

2. *Equity-settled share-based payments*

Applicable Not applicable

3. *Cash-settled share-based payments*

Applicable Not applicable

4. *Revision and termination of share-based payments*

Nil

5. *Others*

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

XIV. 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	15,398,500.00	—
Total	15,398,500.00	—

2. *Contingencies*

(1) **Material contingencies at balance sheet date**

As at the end of the reporting period, 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 RMB49,515,315.52. Currently, the total amount involved in cases that have been judged or closed through mediation was RMB43,362,743.90, with settlement amount of RMB20,354,067.21 (RMB16,617,828.90 have been paid, with RMB4,006,913.31 outstanding). For closed cases, the Company is performing its obligations according to the judgment results. For other outstanding cases, the Company made provisions of RMB2,135,574.87 for those cases that have been received first-instance judgment based on the first-instance judgment amount, and made provisions of RMB2,132,230.97 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 has made a total of provisions of RMB24,621,873.05 for such matter.

(2) **To state that the company has no material contingency that needs to be disclosed**

The Company had no material contingency that needs to be disclosed.

XV. Events subsequent to balance sheet date

1. Profit Distribution

Unit: RMB

Proposed profit distribution and dividend	0.00
Considered and approved profit distribution and dividend	0.00

2. Sales Return

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

3. Descriptions of other subsequent events

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

XVI. Other significant events

1. Segment information

(1) Basis for determining reportable segments and accounting policies

(1) Basis for determining reportable segments

According to the internal organisational structure, management requirements and internal reporting system of the Group, the Group's operating segments are divided into 4 reportable segments. The Group identifies the operating segments according to the internal organisation 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 reportable segments

Segment reporting information is disclosed in accordance to the accounting policies and measurement standards adopted for reporting to the management by each segment, which are consistent with the accounting policies and measurement basis for preparing financial statements.

(2) Financial information of reportable segments

Unit: RMB

Item	Casing and Tubing	Three kinds of pumping units	Petroleum machinery plant	Tube blank	Others	Unallocated Item	Inter- segment elimination	Total
Operation revenue								
External revenue	1,736,398,713.52	22,554,354.70	19,718,743.32	528,281,779.05	70,491,443.67	—	—	2,377,445,034.26
Inter-segment revenue								
Total segment operating revenue	1,736,398,713.52	22,554,354.70	19,718,743.32	528,281,779.05	70,491,443.67	—	—	2,377,445,034.26
Total operating revenue in financial statements	1,736,398,713.52	22,554,354.70	19,718,743.32	528,281,779.05	70,491,443.67	—	—	2,377,445,034.26
Segment expenses	1,560,079,606.90	20,614,918.48	16,881,992.95	545,487,643.31	68,045,665.55	—	—	2,211,109,827.19
Segment operating profit	176,319,106.62	1,939,436.22	2,836,750.37	(17,205,864.26)	2,445,778.12	—	—	166,335,207.07
Adjusted for:								
Administrative expenses	—	—	—	—	—	55,293,610.81	—	55,293,610.81
Research and development expenses	—	—	—	—	—	21,016,556.28	—	21,016,556.28
Finance costs	—	—	—	—	—	79,893,627.95	—	79,893,627.95
Investment income	—	—	—	—	—	1,170,164.41	—	1,170,164.41
Gain on disposal of assets	—	—	—	—	—	(229,634.05)	—	(229,634.05)
Other income	—	—	—	—	—	12,204,052.90	—	12,204,052.90
Operating profit in financial statements	176,319,106.62	1,939,436.22	2,836,750.37	(17,205,864.26)	2,445,778.12	(143,059,211.78)	—	23,275,995.29
Non-operating income	—	—	—	—	—	6,078,613.12	—	6,078,613.12
Non-operating expenses	—	—	—	—	—	7,328,046.80	—	7,328,046.80
Total profit	176,319,106.62	1,939,436.22	2,836,750.37	(17,205,864.26)	2,445,778.12	(144,308,645.46)	—	22,026,561.61
Income tax	—	—	—	—	—	3,410,375.68	—	3,410,375.68
Net profit	176,319,106.62	1,939,436.22	2,836,750.37	(17,205,864.26)	2,445,778.12	(147,719,021.14)	—	18,616,185.93
Total segment assets	5,078,705,673.98	100,009,617.03	62,725,218.74	454,391,172.54	236,715,744.82	584,663,566.45	—	6,517,210,993.56
Total segment liabilities	2,403,528,599.30	18,752,086.65	26,548,232.12	324,759,786.33	42,288,249.20	1,668,587,904.79	—	4,484,464,858.39

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2. Other significant transactions and items affecting decision-making of investors

In the half year of 2019 and half year of 2018, the Group derived all external revenue from the PRC and overseas. As all assets were located in the PRC, external revenue by location of income source is disclosed as follows:

Unit: RMB

External revenue	Amount for the period	Amount for the last period
PRC (except Hong Kong)	2,101,112,092.50	1,770,628,086.11
Hong Kong	—	—
Other overseas regions	276,332,941.76	229,453,483.72
Total	2,377,445,034.26	2,000,081,569.83

3. Others

Pledge of assets

- (1) 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 30 June 2019, the book value of the above-mentioned land use rights and sea area use rights was RMB8,418.96 ten thousand, and the book value of the construction was RMB2,084.61 ten thousand. The financing amount of the Company under this contract is RMB5,001.19 ten thousand. 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.
- (2) Pursuant to the financing agreement and the relevant mortgage contract signed by the Company, the Company's subsidiary Shouguang Maolong and Great Wall Asset Management, the Company provide collateral for the financing of the Company and its subsidiary Shouguang Maolong 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 30 June 2019, the book value of the above-mentioned mortgaged land use rights was RMB955.68 ten thousand, and the book value of buildings and structures was RMB3,653.35 ten thousand. The Company has financed RMB30,000.00 ten thousand under the contract and repaid RMB3,640.00 ten thousand on 30 November 2018 and RMB8,190 ten thousand on 31 May 2019. 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 are expired on 29 December 2020.
- (3) Pursuant to the financial leasing contract entered into between the Company and Cosco Shipping Leasing Co., Ltd. ("Cosco Shipping"), the Company financed certain equipment by way of sale and leaseback arrangement to commence the financial leasing business. As at 30 June 2019, the equipment had original value of RMB18,705.96 ten thousand and net book value of RMB13,936.83 ten thousand. The facility amount under the contract was RMB15,000.00 ten thousand. The contract will expire on 15 April 2022.

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

1. Accounts receivable

(1) Disclosure of accounts receivable by type

Unit: RMB

Type	Balance at the end of the period				Book value	Balance at the beginning of the period				Book value
	Book balance		Provision for bad debts			Book balance		Provision for bad debts		
	Amount	Percentage	Amount	Provision rate		Amount	Percentage	Amount	Provision rate	
Accounts receivable provided for bad debts on an individual basis	23,966,256.93	2.48%	9,586,502.77	40.00%	14,379,754.16	24,966,256.93	3.37%	9,986,502.77	40.00%	14,979,754.16
Including:										
Accounts receivable provided for bad debts on an individual basis due to significantly different credit risk	23,966,256.93	2.48%	9,586,502.77	40.00%	14,379,754.16	24,966,256.93	3.37%	9,986,502.77	40.00%	14,979,754.16
Accounts receivable provided for bad debts on a collective basis	944,031,445.67	97.52%	116,392,599.69	12.33%	827,638,845.98	716,739,993.96	96.63%	113,013,481.77	15.77%	603,726,512.19
Including:										
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics	755,637,823.33	78.06%	116,392,599.69	15.40%	639,245,223.64	633,359,987.09	85.39%	113,013,481.77	17.84%	520,346,505.32
Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on associates under consolidation	188,393,622.34	19.46%	—	—	188,393,622.34	83,380,006.87	11.24%	—	—	83,380,006.87
Total	967,997,702.60	100.00%	125,979,102.46	—	842,018,600.14	741,706,250.89	100.00%	122,999,984.54	—	618,706,266.35

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	Book balance	Balance at the end of the period		Reason for provision
		Provision for bad debts	Provision rate	
Hebei Zhongtai Steel Pipe Manufacture Co., Ltd. (河北中泰鋼管製造有限公司)	23,966,256.93	9,586,502.77	40.00%	Provision was made based on the amount of expected credit loss of the customer
Total	23,966,256.93	9,586,502.77	— —	

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	Book balance	Balance at the end of the period	
		Provision for bad debts	Provision rate
Within 1 year	628,234,703.04	6,282,347.03	1.00%
1–2 years	4,685,134.11	2,342,567.05	50.00%
2–3 years	1,836,864.60	1,377,648.45	75.00%
3–5 years	96,607,229.48	82,116,145.06	85.00%
Over 5 years	24,273,892.10	24,273,892.10	100.00%
Total	755,637,823.33	116,392,599.69	—

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	Book balance	Balance at the end of the period	
		Provision for bad debts	Provision rate
Shouguang Maolong New Materials Technology Development Co., Ltd.	168,348,982.28	—	—
MPM INTERNATIONAL LIMITED	20,044,640.06	—	—
Total	188,393,622.34	—	—

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 the end of the period
Within 1 year (inclusive)	796,583,685.32
1 to 2 years	30,627,824.57
2 to 3 years	2,410,164.60
Over 3 years	138,376,028.11
3 to 4 years	29,547,193.17
4 to 5 years	84,554,942.84
Over 5 years	24,273,892.10
<hr/>	
Total	967,997,702.60

(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 the beginning of the period	Movement during the period			Balance of the end of the period
		Provision	Recovery or reversal	Write-off	
Provisions for bad debts of					
accounts receivable	122,999,984.54	2,979,117.92	—	—	125,979,102.46
<hr/>					
Total	122,999,984.54	2,979,117.92	—	—	125,979,102.46

(3) Accounts receivables written off during the period

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

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

As at the end of the period, the aggregate balance of top five accounts receivable as at the end of the year by debtor amounted to RMB724,717,976.56, accounting for 74.87% 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 RMB44,052,253.31.

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

As at 30 June 2019, the Company 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 30 June 2019, the Company had no assets or liabilities for which accounts receivable have been transferred but involvement continues.

2. Other receivables

Item	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Interests receivable	1,817,971.48	2,710,659.25
Other receivables	460,930,503.83	458,496,851.79
Total	462,748,475.31	461,207,511.04

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(1) Interests receivable

1) Type of interests receivable

Item	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Interests on security deposits	1,817,971.48	2,710,659.25
Total	1,817,971.48	2,710,659.25

2) Significant overdue interest

The above interests of the Group were not overdue.

3) *Provision for bad debts*

Applicable Not applicable

(2) **Other receivables**

1) *Other receivables by payment nature*

Unit: RMB

Payment nature	Book Balance at the end of the period	Book Balance at the beginning of the period
Staff turnover loans	1,005,000.00	1,120,000.00
Deposits/caution money	3,749,807.75	1,931,819.00
Amounts due from administrative entities	14,530,000.00	14,530,000.00
Other amounts due from individuals	36,198,651.27	37,803,877.48
Other amounts due from entities	442,520,427.08	440,284,184.61
Less: Provision for bad debts of other receivables	37,073,382.27	37,173,029.30
Total	460,930,503.83	458,496,851.79

2) *Provision for bad debts*

Unit: RMB

Provision for bad debts	Stage 1 Next 12-month expected credit loss	Stage 2 Lifetime expected credit loss (without credit impairment)	Stage 3 Lifetime expected credit loss (with credit impairment)	Total
Balance at 1 January 2019	258,877.87	1,776,729.82	35,137,421.61	37,173,029.30
Transfer of balance at 1 January 2019 during the period	—	—	—	—
Provision for the period	(99,647.03)	—	—	(99,647.03)
Balance at 30 June 2019	159,230.84	1,776,729.82	35,137,421.61	37,073,382.27

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

Applicable Not applicable

Disclosure by age

Unit: RMB

Age	Balance at the end of the period
Within 1 year (inclusive)	9,938,990.88
1 to 2 years	89,811,792.12
2 to 3 years	327,919,448.58
Over 3 years	70,333,654.52
3 to 4 years	55,681,535.27
4 to 5 years	—
Over 5 years	14,652,119.25
Total	498,003,886.10

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

Provisions for bad debts for the period:

Unit: RMB

Type	Balance at the beginning of the period	Movement during the period		Balance at the end of the period
		Provision	Recovery or reversal	
Provisions for bad debts of other receivables	37,173,029.30	(99,647.03)	—	37,073,382.27
Total	37,173,029.30	(99,647.03)	—	37,073,382.27

4) *Other receivables written off during the period*

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

5) *Balance of top five other receivables as at the end of the period by debtor*

Unit: RMB

Name of entity	Nature of payment	Balance at the end of the period	Age	Percentage of the total amount of closing balance of other receivables	Balance of bad debt provision at the end of the period
Shouguang Maolong New Materials Technology Development Co., Ltd.	Amounts from related parties under consolidation	324,492,284.31	2-3 years	65.16%	—
Shouguang Molong Logistic Co., Ltd.	Amounts from related parties	1,131,433.11	Within 1 year	0.23%	—
	under consolidation	87,426,960.75	1-2 years	17.56%	—
		910,000.00	2-3 years	0.18%	—
JESORO OIL LTD	Amounts due from entities	26,910,027.83	3-4 years	5.40%	—
JESORO OIL LTD	Amounts due from entities	35,073,974.11	3-4 years	7.04%	35,015,302.36
Shouguang City Yang Kou Town Office of Finance	Amounts due from administrative entities	14,530,000.00	Over 5 years	2.92%	1,743,600.00
Sinopec International Business Co., Ltd., Nanjing Bidding Centre (中國石化國際事業有限公司南京招標中心)	Security deposit for Bidding	2,173,473.92	Within 1 year	0.44%	—
Total	—	492,648,154.03	—	98.93%	36,758,902.36

6) *Accounts receivable involving government grants*

Nil

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

As at 30 June 2019, 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 30 June 2019, the Group had no assets or liabilities for which other receivables have been transferred but involvement continues.

3. Long-term equity investments

Unit: RMB

Item	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment 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	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Provision of impairment for the period	Provision of
						impairment at the end of the period
Shouguang Maolong	1,006,743,691.73	—	—	1,006,743,691.73	—	—
Weihai Baolong	117,000,000.00	—	—	117,000,000.00	—	103,000,000.00
MPM	7,276,230.00	—	—	7,276,230.00	—	—
Shouguang Baolong	—	—	—	—	—	105,000,000.00
Molong Logistic	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	1,144,069,921.73	—	—	1,144,069,921.73	—	208,000,000.00

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4. Operating revenue and operating cost

Unit: RMB

Item	Amount for the period		Amount for the last period	
	Revenue	Cost	Revenue	Cost
Principal businesses	1,784,082,191.35	1,588,491,180.99	1,762,891,860.58	1,525,735,593.12
Other businesses	79,684,580.84	77,861,336.45	79,384,675.76	76,681,422.32
Total	1,863,766,772.19	1,666,352,517.44	1,842,276,536.34	1,602,417,015.44

Whether the new standard for revenue has been adopted

Yes No

Information on performance obligations:

The Company as primary obligor satisfy its obligations of supplying products customers in a timely manner by reference to the category, standard and time requested by the customer in accordance with the provisions of the contracts. There are different payments terms for different customers and different products: domestic customers of tubes are normally subject to payment in advance of distribution, and domestic customers of oil casing is normally subject to payment terms of 3-6 months after bill settlement. As to export business, payment terms are mainly payment upfront. As to oil casing products, most of the customers are subject to payment in advance, under which customers are to make 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 RMB701,898,547.88 as at the end of the reporting period, in which RMB701,898,547.88 is expected to be recognised as revenue in 2019.

XVIII. Supplementary information

1. Statement of extraordinary profit or loss for the period

Applicable Not applicable

		Unit: RMB
Item	Amount	Description
Gain or loss on disposal of non-current assets	(229,634.05)	—
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	12,204,052.90	—
Profit or loss arising from contingencies unrelated to the normal business operations of the Company	(7,132,168.72)	—
Other non-operating income and expenses other than the above	(1,249,433.68)	—
Less: Effect on income tax	70,196.78	—
Effect on minority interests	503,357.89	—
Total	3,019,261.78	—

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. Return on net assets and earnings per share

Profit for the reporting period	Weighted average return on net assets	Earnings per share	
		Basic (RMB/Share)	Diluted (RMB/Share)
Net profit attributable to ordinary shareholders of the Company	0.92%	0.0226	0.0226
Net profit attributable to ordinary shareholders of the Company after extraordinary profit or loss	0.73%	0.018	0.018

It was calculated based on Article 4 "Companies should calculate basic earnings per share by dividing net profit for the period attributable to ordinary shareholders by weighted average number of ordinary shares in issue" under ASBE 34 "earnings per share".

3. Difference in accounting data under domestic and overseas accounting standards

- (1) Difference in net profit and net assets in financial statements as disclosed in accordance with IASs and PRC GAAP

Applicable Not applicable

- (2) Difference in net profit and net assets in the financial statements as disclosed under the overseas accounting standards and PRC GAAP

Applicable Not applicable

- (3) Reason(s) for accounting difference between domestic and international accounting standards; if adjustment has been made to data audited by overseas audit firm, specify the name of the overseas audit firm

Not applicable

4. Others

No

XI. DOCUMENTS AVAILABLE FOR INSPECTION

- (I) 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;
- (II) A copy of the interim report which was signed by the chairman of the Company;
- (III) All originals of documents and master copies of announcements of the Company disclosed on the designated information disclosure media by CSRC during the reporting period;
- (IV) The above documents available for inspection are kept at the office of the Board of the Company.

