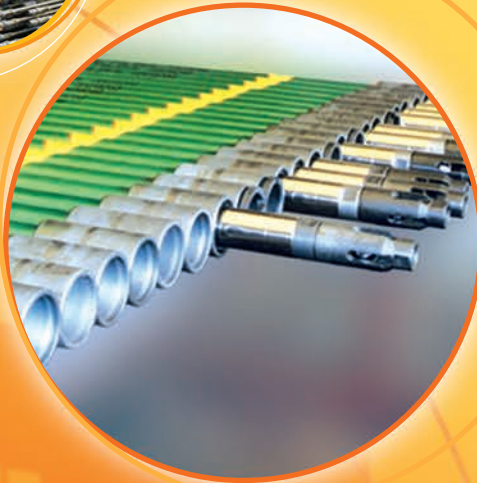




山東墨龍石油機械股份有限公司

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)



2023
Interim
Report

SECTION I IMPORTANT, CONTENTS AND DEFINITIONS

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

Yuan Rui, the legal representative of the Company, Hao Yun Feng, the person in charge of accounting department and Zhu Lin, the head of the accounting department, declare that they guarantee the truthfulness, accuracy and completeness of the financial statements in this interim report.

All Directors attended the Board meeting for considering this interim report.

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

The Company has described in detail the potential risks in the section headed “X. Risk exposures and contingency measures of the Company” under “Management Discussion and Analysis” in Section III of this report. Investors are advised to read carefully the contents thereof.

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

Contents

1

| | | |
|--------------|--|----|
| Section I | Important, Contents and Definitions | 1 |
| Section II | Company Profile and Key Financial Indicators | 4 |
| Section III | Management Discussion and Analysis | 7 |
| Section IV | Corporate Governance | 26 |
| Section V | Environmental and Social Responsibility | 28 |
| Section VI | Material Matters | 32 |
| Section VII | Changes in Shares and Shareholders | 38 |
| Section VIII | Preferred Shares | 43 |
| Section IX | Bonds | 44 |
| Section X | Financial Report | 45 |

Documents Available for Inspection

- (1) The financial statements which were signed and sealed by the responsible person, chief accountant and head of accounting department (person in charge of accounting matters) of the Company.
- (2) The master copy of the 2023 interim report affixed with company seal and signature of the legal representative of the Company.
- (3) All of the originals of documents and master copies of announcements of the Company publicly disclosed on the websites as designated by CSRC during the reporting period.
- (4) Place for inspecting the above documents: Office of the board of directors of the Company.

Definitions

| Term | Definition |
|---|--|
| “Company”, “parent company” and “Shandong Molong” | 山東墨龍石油機械股份有限公司 (Shandong Molong Petroleum Machinery Company Limited) |
| “Group” | collectively, the Company and its subsidiaries |
| “SZSE” | Shenzhen Stock Exchange |
| “SEHK” | The Stock Exchange of Hong Kong Limited |
| “CSRC” | China Securities Regulatory Commission |
| “Shouguang Maolong” | 壽光懋隆新材料技術開發有限公司 (Shouguang Maolong New Materials Technology Development Co., Ltd.) |
| “Shouguang Baolong” | 壽光寶隆石油器材有限公司 (Shouguang Baolong Petroleum Equipment Co., Ltd.) |
| “Weihai Baolong” | 威海市寶隆石油專材有限公司 (Weihai Baolong Special Petroleum Materials Co., Ltd.) |
| “Molong I&E” | 山東墨龍進出口有限公司 (Shandong Molong Import & Export Co., Ltd.) |
| “MPM” | MPM International Limited |
| “Molong Logistic” | 壽光墨龍物流有限公司 (Shouguang Molong Logistic Co., Ltd.) |
| “Molong Electro-mechanical” | 壽光墨龍機電設備有限公司 (Shouguang Molong Electro-mechanical Equipment Company Limited) |
| “Molong Commercial” | 山東墨龍商貿有限公司 (Shandong Molong Commercial Trading Company) |
| “Shouguang Jinxin” | 山東壽光金鑫投資發展控股集團有限公司 (Shandong Shouguang Jinxin Investment Development Holdings Group Limited) |
| “Shouguang SAB” | 壽光市國有資產監督管理局 (State-owned Assets Supervision and Administration Bureau of Shouguang City) |
| “Molong Holdings” | 壽光墨龍控股有限公司 (Shouguang Molong Holdings Co., Ltd.) |
| “reporting period” | 1 January 2023 to 30 June 2023 |
| “RMB”, “RMB thousand”, “RMB ten thousand” | Renminbi, thousand Renminbi, ten thousand Renminbi |

SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

I. Company Profile

| | | | |
|--|---|------------|---------------|
| Stock Name Abbreviation | Shandong Molong | Stock Code | 002490, 00568 |
| Stock Name Abbreviation before change (if any) | Not applicable | | |
| Stock exchanges of listed shares | SZSE, SEHK | | |
| Chinese name of the Company | 山東墨龍石油機械股份有限公司 | | |
| Abbreviation of the Chinese Name (if any) | 山東墨龍 | | |
| English Name of the Company (if any) | Shandong Molong Petroleum Machinery Company Limited | | |
| Abbreviation of the English Name (if any) | Shandong Molong | | |
| Legal Representative of the Company | Yuan Rui | | |

II. Contact Person and Contact Information

Secretary to the Board

| | |
|-----------------|---|
| Name | Zhao Xiao Tong |
| Contact Address | 8 th -10 th Floor, Building 19, Enterprise Headquarters Group, Shengcheng Street, Shouguang City, Shandong Province |
| Telephone | 0536-5100890 |
| Facsimile | 0536-5100888 |
| Email Address | dsh@molonggroup.com |

III. Others

1. Contact methods of the Company

Any changes in the registered address, office address and postal code, website, e-mail address, etc. of the Company during the reporting period

Applicable Not applicable

There were no changes in the registered address, office address and postal code, website, e-mail address of the Company during the reporting period. For details, please see the Annual Report 2022.

2. Information Disclosure and Places for keeping records

Any changes in information disclosures and places for keeping records during the reporting period

Applicable Not applicable

There were no changes in the websites of stock exchanges or names and websites of media on which the annual report of the Company is disclosed and the place of keeping interim reports of the Company during the reporting period. For details, please see the Annual Report 2022.

3. Other Relevant Information

Any changes in other relevant information during the reporting period

Applicable Not applicable

IV. Key Accounting Data and Financial Indicators

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

Yes No

| | For the reporting period | For the same period last year | Year-on-Year increase/decrease |
|---|--|-------------------------------|---------------------------------------|
| Operating revenue (RMB) | 798,419,015.10 | 1,570,941,941.65 | -49.18% |
| Net profit attributable to shareholders of listed company (RMB) | (158,242,397.13) | (172,717,715.72) | 8.38% |
| Net profit after extraordinary gains or losses attributable to shareholders of listed company (RMB) | (159,715,581.43) | (181,365,553.51) | 11.94% |
| Net cash flows generated from operating activities (RMB) | (23,770,597.65) | 56,906,850.11 | -141.77% |
| Basic earnings per Share (RMB/share) | (0.1983) | (0.2165) | 8.41% |
| Diluted earnings per Share (RMB/share) | (0.1983) | (0.2165) | 8.41% |
| Weighted average rate of return on net assets | (17.42%) | (13.02%) | -4.40% |
| | As at the end of the reporting period | As at the end of last year | Year-on-Year increase/decrease |
| Total assets (RMB) | 3,721,541,449.42 | 4,038,605,559.51 | -7.85% |
| Net assets attributable to shareholders of listed company (RMB) | 829,910,098.20 | 987,960,842.88 | -16.00% |

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

- 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.

- 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 | Descriptions |
|--|--------------|--|
| Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets) | (131,293.77) | Mainly comprised of the losses on disposal and retirement of certain assets of the Company. |
| Government grant recognised in current profit and loss (excluding those grants that are closely related to the Company's normal business operation, that met the requirements of national policy, and that were continuously granted in accordance with the certain standard amount or volume prescribed by the State) | 132,723.59 | Mainly comprised of the cross-border e-commerce subsidies received and the refunds of handlings fees for withholding and remitting of individual income tax during the current period. |
| Non-operating income and expenses other than the above items | 1,759,208.98 | Mainly comprised of the transfer of non-repayable accounts payable during the current period. |
| Less: Effect on income tax | 85,813.61 | |
| Effect on minority interests (after tax) | 201,640.89 | |
| Total | 1,473,184.30 | |

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

Applicable Not applicable

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

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

Applicable Not applicable

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

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

I. Principal businesses of the Company during the reporting period

1. Descriptions of the Company's principal businesses during the reporting period

During the reporting period, the Company was principally engaged in the design, research and development, processing and manufacturing, sale service and export trade of products for the energy equipment industry. The main products included petroleum-drilling machinery equipment, petroleum and natural gas pipeline equipment, oil and gas exploitation equipment and castings and forgings, etc. These products were mainly used in the manufacture of equipment in connection with industries such as oil and gas drilling, machinery processing, urban pipe network and wind turbine castings. During the reporting period, the Company's main products are pipe products, accounting for nearly 90% of the Company's operation revenue, and particularly, the proportion of export businesses sales has increased significantly. The Company has adopted a "sales-based production" business model for production under which the production system of the Company manufactures, inspects and delivers products according to the orders placed by customers specifying the required specifications and quantity and based on the market sales initiatives of the sales department. The Company has adopted a centralised procurement model under which the procurement department is responsible for the purchase of all raw materials, moulds and equipment, including the signing of procurement contracts, procurement status tracking, facilitating quality improvement of raw materials, etc. The procurement department strictly controls the selection of suppliers based on a comprehensive overall evaluation index system. It fosters quality partners and develops long-term and stable strategic partnership. The Company has a relatively mature sales network and has established a professional team dedicated to sales and import and export operations with members responsible for domestic and international market research and study, development, product sales and after-sales services, respectively.

During the reporting period, the sales volume and gross profit margin of oil casing and other products related to the Company's oilfield business recorded an year-on-year increase; affected by factors such as poor market conditions for general pipe and castings and forgings, the Company has adjusted its product structure and reduced the production and sales of general pipe and castings and forgings, resulting in a significant year-on-year decline in the production and sales of related products in the first half of the year, insufficient utilization rate of production lines and increased costs. The growth in the oilfield business could not offset the impact of poor market conditions for general pipe and castings and forgings, resulting in an overall losses in the Company's operating results.

As at the end of the reporting period, the Company had total assets of RMB3.722 billion, representing a decrease of 7.85% from the beginning of the year. Net assets attributable to shareholders of the listed company were RMB0.830 billion, representing a decrease of 16.00% from the beginning of the year. During the reporting period, the Company realised an operating revenue of RMB0.798 billion, representing a year-on-year decrease of 49.18%. Net profit attributable to shareholders of the listed company was –RMB158 million.

2. General overview of the Company's industry during the reporting period

The Company operates in the energy equipment industry covering energy sources such as petroleum, natural gas, shale gas, coal and coalbed methane, which falls within the scope of the petroleum and natural gas special equipment manufacturing and services industry. Therefore, the development and prosperity of the petroleum and natural gas exploitation industry have direct impact to the development of the Company's industry. In the long run, global economic growth rate, price trends of and consumers' demand for petroleum and natural gas, global spendings in exploration and development of petroleum and scale of oil and gas exploitation, and the carbon neutrality policy around the world, are determinants of the prosperity of the Company's industry.

In 2023, the world economy continues its slow recovery, China's economy enjoys a steady upturn, and market expectations are expected to improve significantly. While international oil prices have been shocked to the downside, the domestic market demand for refined oil has steadily recovered, and the market demand for natural gas has continued to grow. The national energy system and the oil and gas industry, anchoring the "Seven-Year Action Plan" mission objectives, has continuously strengthened the policy supply, increased investment and workload in oil and gas exploration and development, further promoted the strategy of scientific and technological innovation, and accelerated the stable and increasing output of crude oil and rapid increasing production of natural gas. Vigorously enhanced oil and gas exploration and development efforts have achieved remarkable results, offshore oil and gas exploration and development continue to advance to the deep-water, and other unconventional oil and gas such as shale oil and gas have realized a leap-forward development, which have made great contributions to the security of oil and gas supply in China.

The 2023 Work Meeting on Great Efforts to Enhance Oil and Gas Exploration and Development stressed that as the next step, the national energy system and the oil and gas industry will continue to deeply implement the decision and deployment of the 20th National Congress of the CPC on "further promoting the energy revolution" and "strengthening the exploration and development of oil and gas resources and the efforts on increasing reserves and production", strengthen overall planning and forward-looking thinking, and coordinate scientific and technological research and application of results, as well as build a scientific long-term development strategy, establish strategic confidence, maintain confidence in success, and firmly increase oil and gas reserves and production, so as to resolutely guarantee the core demand for oil and gas in China. Under the guidance of the strategy of improving energy security, the demand for oil and gas equipment and services continues to grow, which shows positive prospects for the year.

II. Analysis of core competitiveness

1. *Strength in furnace rehabilitation technology*

8

The Company is deeply involved in the field of melting reduction technology, and is committed to the application and promotion of Hlsmelt technology in iron and steel smelting and the like fields. As an advantageous technology of the Company, Hlsmelt is a furnace rehabilitation metallurgical technology of Shandong Molong which actively follows the national manufacturing transformation and upgrade, continues to develop the recycling economy and builds a green metallurgical enterprise. The Company has obtained Hlsmelt series patents and authorizations. After the identification of scientific and technological achievements organised by the Chinese Society for Metals, Shandong Molong Hlsmelt technology has reached the international leading level. The Company's Project entitled "Key Technologies of Green and Efficient Melting Reduction Ironmaking and their Applications" won the second prize of Weifang Science and Technology Progress Award in 2022; the Project of "Complete Package of Core Technical Equipment for Hlsmelt Melting Reduction Process" was selected as the first technical equipment project organized by Shandong Provincial Department of Industry and Information Technology, which had good value of popularization and application and broad market prospect and has currently obtained the technology license for the project implementation. The Company will continue to increase the promotion of Hlsmelt technology and actively facilitate the implementation of new technology authorization projects, so as to create profit growth points for the Company's development.

2. *Strength in technological research and development and innovation*

The Company has strong R&D capabilities in the field of special equipment for energy equipment, and has undertaken more than 80 national and provincial-level related scientific research projects. We are a new high-technology enterprise and a leading enterprises in China's energy equipment base with Shandong Provincial Enterprise Technology Center, Shandong Petroleum Special Pipe Engineering Technology Research Center, and National Accreditation Laboratory (CNAS) and Weifang Petroleum Machinery Engineering Technology Research Center and other innovation platforms in place. The Company has built a professional and stable scientific research team through independent training, introduction of talents, and cooperation with universities and research institutes, which is creating the enterprises-based and market-oriented technology innovation system with in-depth integration of production, education and research.

3. *Strength in new products*

During the reporting period, in order to meet market demand, the Company developed a series of new products and improved its technical know-how by further pushing forward its product R&D activities. Research and development of special threaded connectors and other casings have been conducted, and the product steel grade covers the Company's various steel grades from lowest to highest; in order to realise the intelligent manufacturing of products, the Company has independently developed the fully automated production line for the coupling and painting, and on this basis, a series of long plunger anti-scaling travelling barrel pumps is under research and development and feedback on heavy crude pumps and other special pumps have been received to satisfy the needs of the special wells for oil recovery, and has completed the development of the special exporting N75 anti-corrosion sucker rod and large shipments to the Middle East market. The efforts in research and development of new products and improvement of technical know-how will help the Company further increase its overall competitiveness in the industry.

4. *Strength in product quality*

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

5. *Strength in marketing*

The Company sets foothold in China and goes global. Over the years of development, the Company has built a network providing long-term, stable, fast and effective sales services and established a loyal, long-lasting and winwin partnership with mass customers. In the domestic market, the Company has a relatively stable customer base which includes, without limitation to, oil and gas companies such as PetroChina, Sinopec, CNOOC and Yanchang Petroleum. The major overseas markets are countries and regions in the Middle East, the Americas, Europe and North Africa. In the first half of 2023, 4 new market territories and 11 new customers have been developed overseas. The Company's marketing team consists of talents who are professionals in international trade and marketing and have relatively extensive experience and strong business competence, which allows the Company to enjoy, to a certain extent, competitive edge in marketing of energy equipment products.

6. *Strength in brand name*

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

III. Analysis of principal businesses

Overview

See “I. Principal businesses of the Company during the reporting period” for details.

Year-on-year changes in key financial data

Unit: RMB

| | For the reporting period | For the same period last year | Year-on-year increase/decrease | Reason(s) for the change |
|---|--------------------------|-------------------------------|--------------------------------|--|
| Operating revenue | 798,419,015.10 | 1,570,941,941.65 | -49.18% | Mainly attributable to the decline in sales volumes of general pipe and castings and forgings during the current period. |
| Operating costs | 745,514,513.99 | 1,517,239,001.79 | -50.86% | Mainly attributable to the decline in sales volumes of general pipe and castings and forgings during the current period. |
| Selling expenses | 9,699,153.33 | 7,124,810.84 | 36.13% | Mainly attributable to the increase in bid service fee and salaries of sales staff during the current period. |
| Administrative expenses | 135,856,718.33 | 136,188,184.82 | -0.24% | |
| Finance costs | 43,618,923.57 | 54,037,626.23 | -19.28% | Mainly attributable to the decrease in bills discounting facilities during the current period. |
| Income tax expenses | 1,458,254.39 | 2,063,592.49 | -29.33% | Mainly attributable to the decrease in deferred income tax expenses as a result of an increase in deferred income tax assets. |
| Research and development expenditures | 18,226,212.09 | 24,397,415.04 | -25.29% | Mainly attributable to the less inputs to the research and development of new products during the current period. |
| Net cash flow generated from operating activities | (23,770,597.65) | 56,906,850.11 | -141.77% | Mainly attributable to the decrease in value-added tax credit refunds received during the current period as compared to the previous year. |
| Net cash flow generated from investing activities | (4,053,463.91) | (6,599,680.18) | 38.58% | Mainly attributable to the decrease in payments for engineering equipment during the current period. |
| Net cash flow generated from financing activities | 40,211,252.36 | 16,622,008.79 | 141.92% | Mainly attributable to the decrease in repayments for due financing funds during the current period. |
| Net increase in cash and cash equivalents | 14,160,456.10 | 64,739,091.05 | -78.13% | Mainly attributable to the combined effect of the above operating, investing and financing activities. |

Significant changes in profit composition or sources of the Company for the reporting period

Applicable Not applicable

There were no significant changes in the profit composition or sources of Company during the reporting period.

Composition of operating revenue

Unit: RMB

| | For the reporting period | | For the same period last year | | Year-on-year increase/decrease |
|---------------------------------|--------------------------|---------------------------------|-------------------------------|---------------------------------|--------------------------------|
| | Amount | Percentage of operating revenue | Amount | Percentage of operating revenue | |
| Total operating revenue | 798,419,015.10 | 100% | 1,570,941,941.65 | 100% | -49.18% |
| By industry | | | | | |
| Special equipment manufacturing | 798,419,015.10 | 100.00% | 1,570,941,941.65 | 100.00% | -49.18% |
| By product | | | | | |
| Pipe products | 716,389,280.84 | 89.73% | 593,912,032.35 | 37.81% | 20.62% |
| Castings and forgings | 14,860,414.01 | 1.86% | 878,006,892.23 | 55.89% | -98.31% |
| Three kinds of pumping units | 14,110,813.66 | 1.77% | 16,732,788.46 | 1.07% | -15.67% |
| Petroleum machinery parts | 14,807,795.88 | 1.85% | 8,763,820.61 | 0.56% | 68.97% |
| Others | 38,250,710.71 | 4.79% | 73,526,408.00 | 4.68% | -47.98% |
| By region | | | | | |
| Within China | 635,768,739.52 | 79.63% | 1,507,525,783.97 | 95.96% | -57.83% |
| Outside China | 162,650,275.58 | 20.37% | 63,416,157.68 | 4.04% | 156.48% |

Industries, products or regions that accounted for over 10% of the Company's operating revenue or operating profits

Applicable Not applicable

Unit: RMB

| | Operating revenue | Operating costs | Gross profit margin | Year-on-year increase/decrease in | Year-on-year increase/decrease in | Year-on-year increase/decrease in |
|---------------------------------|-------------------|-----------------|---------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | | | | operating revenue | operating costs | gross profit margin |
| By industry | | | | | | |
| Special equipment manufacturing | 798,419,015.10 | 745,514,513.99 | 6.63% | -49.18% | -50.86% | 3.21% |
| By product | | | | | | |
| Pipe products | 716,389,280.84 | 666,365,244.44 | 6.98% | 20.62% | 20.77% | -0.11% |
| By region | | | | | | |
| Within China | 635,768,739.52 | 613,563,318.99 | 3.49% | -57.83% | -58.08% | 0.59% |
| Outside China | 162,650,275.58 | 131,951,195.00 | 18.87% | 156.48% | 146.57% | 3.26% |

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

Applicable Not applicable

IV. Analysis of non-principal businesses

✓ Applicable □ Not applicable

Unit: RMB

| | Amount | Percentage of total profit | Reason(s) for the incurrence | Is it recurring |
|--------------------------|----------------|---|--|----------------------------|
| Non-operating income | 2,044,943.45 | -1.26% | Mainly comprised of the transfer of non-repayable accounts payable during the current period. | No |
| Non-operating expenses | 742,741.22 | -0.46% | Mainly comprised of loss on disposal of certain assets during the current period. | No |
| Asset impairment losses | (1,465,146.60) | 0.90% | Mainly attributable to the provision for impairment loss on inventories after performing impairment test on inventories during the current period. | No |
| Credit impairment losses | (2,115,579.66) | 1.30% | Mainly comprised of the provision for impairment loss on accounts receivable during the current period. | No |
| Other income | 132,723.59 | -0.08% | Mainly comprised of the cross-border e-commerce subsidies received and the refunds of handlings fees for withholding and remitting of individual income tax during the current period. | No |

V. Analysis of assets and liabilities

1. Significant changes in the composition of assets

Unit: RMB

| | As at the end of the reporting period | | As at the end of last year | | Increase/decrease in percentage | Descriptions of the significant change |
|---|---------------------------------------|----------------------------|----------------------------|----------------------------|---------------------------------|---|
| | Amount | Percentage of total assets | Amount | Percentage of total assets | | |
| Monetary funds | 453,841,221.77 | 12.19% | 459,657,822.57 | 11.38% | 0.81% | |
| Accounts receivables | 364,398,811.59 | 9.79% | 294,399,562.75 | 7.29% | 2.50% | Mainly attributable to the increase in oil field operations during the current period. |
| Inventories | 509,137,968.74 | 13.68% | 670,217,844.40 | 16.60% | -2.92% | Mainly attributable to the sales of inventory products during the current period. |
| Long-term equity investments | 1,857,463.06 | 0.05% | 1,857,463.06 | 0.05% | 0.00% | |
| Fixed assets | 1,904,405,618.29 | 51.17% | 2,003,871,030.19 | 49.62% | 1.55% | |
| Construction-in-progress | 6,323,500.82 | 0.17% | 298,971.19 | 0.01% | 0.16% | Mainly attributable to the improvement of certain production line equipment during the current period. |
| Short-term borrowings | 2,056,148,505.85 | 55.25% | 1,962,936,789.90 | 48.60% | 6.65% | |
| Contract liabilities | 50,955,109.94 | 1.37% | 107,582,152.10 | 2.66% | -1.29% | Mainly attributable to the decrease in receipts in advance at the end of the current period. |
| Bills receivables | 60,192,674.87 | 1.62% | 171,547,752.98 | 4.25% | -2.63% | Mainly attributable to the decrease in settlement amount of trade acceptance bills during the current period as compared to the same period of last year. |
| Financing receivables | 16,486,581.33 | 0.44% | 5,371,855.71 | 0.13% | 0.31% | Mainly attributable to the increase in the amount of goods settled by bank acceptances and not transferred. |
| Prepayments | 9,950,942.76 | 0.27% | 35,450,700.83 | 0.88% | -0.61% | Mainly attributable to the decrease in prepayments for materials as at the end of the current period. |
| Other receivables | 11,113,319.94 | 0.30% | 5,626,830.61 | 0.14% | 0.16% | Mainly attributable to the increase in the payment of tender deposit during the current period. |
| Other current assets | 3,788,957.13 | 0.10% | 5,790,675.91 | 0.14% | -0.04% | Mainly attributable to the decrease in input tax pending deduction during the current period. |
| Salaries payable | 58,708,004.97 | 1.58% | 42,790,646.48 | 1.06% | 0.52% | Mainly attributable to the increase in unpaid salaries as at the end of the current period. |
| Taxes payable | 22,281,543.77 | 0.60% | 11,279,406.47 | 0.28% | 0.32% | Mainly attributable to the increase in value-added tax realised as at the end of the period. |
| Other payables | 24,623,572.17 | 0.66% | 36,765,356.32 | 0.91% | -0.25% | Mainly attributable to the decrease in accrued energy charges as at the end of the current period. |
| Non-current liabilities due within one year | 49,329,277.41 | 1.33% | 87,329,367.25 | 2.16% | -0.83% | Mainly attributable to the repayment of long-term borrowings due within one year during the current period. |
| Other non-current liabilities | 24,881,369.20 | 0.67% | 48,192,008.81 | 1.19% | -0.52% | Mainly attributable to the decrease in endorsed trade acceptance not due as at the end of the current period. |
| Long-term payables | 41,160,600.38 | 1.11% | 65,461,963.55 | 1.62% | -0.51% | Mainly attributable to the repayment of financing funds for the sale-and leaseback financing business during the current period. |

2. Major overseas assets

Applicable Not applicable

3. Assets and liabilities measured at fair value

Applicable Not applicable

Unit: RMB

| Item | Amount at the beginning of the period | Gain or loss on fair value changes in the current period | Cumulative fair value changes included in equity | Provision for impairment for the current period | Purchases during the current period | Disposals during the current period | Other changes | Amount at the end of the period |
|-----------------------|---------------------------------------|--|--|---|-------------------------------------|-------------------------------------|---------------|---------------------------------|
| Financial assets | | | | | | | | |
| Financing | | | | | | | | |
| receivables | 5,371,855.71 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 11,114,725.62 | 16,486,581.33 |
| Total of the above | 5,371,855.71 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 11,114,725.62 | 16,486,581.33 |
| Financial liabilities | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Other changes

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

Any material changes in the measurement attributes of the Company's major assets during the reporting period

Yes No

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

Unit: RMB

| Item | Book value at the end of the period | Reason(s) for the restriction |
|----------------------|-------------------------------------|---|
| Monetary funds | 433,131,291.60 | Security deposits and frozen for litigation |
| Bills receivable | 7,558,071.96 | Pledge of bills |
| Fixed assets | 342,981,934.52 | Charge for borrowings |
| Intangible assets | 195,998,183.84 | Charge for borrowings/seizure |
| Accounts receivables | 23,004,870.47 | Factoring financing |
| Total | 1,002,674,352.39 | — |

VI. Analysis of investments

1. General

Applicable Not applicable

| Investments during the reporting period (RMB) | Investments during the corresponding period of prior year (RMB) | Change |
|---|---|--------|
| 400,000,000 | 0 | 0 |

2. Significant equity investments acquired during the reporting period

Applicable Not applicable

Unit: RMB ten thousand

| Name of investee | Principal activities | Form of investment | Investment amount | Shareholding | Capital source | Partner(s) | Period of investment | Product type | Progress as at the date of balance sheet | Estimated return | Profit or loss from investment for the period | Involvement in lawsuit | Date of disclosure | Disclosure index |
|-------------------|---|--------------------|-------------------|--------------|----------------|------------|----------------------|--------------|--|------------------|---|------------------------|--------------------|---|
| Shouguang Maolong | Research of new materials for energy equipment; production and sale of metal castings and forgings; sea water desalination; waste heat and gas power generation | Capital increase | 40,000 | 100% | Debt | Nil | Long term | N/A | Capital increased | 0 | 0 | Yes | 29 April 2023 | CNINFO (巨潮資訊) (http://www.cninfo.com.cn) |
| Total | — | — | 40,000 | — | — | — | — | — | — | 0 | 0 | — | — | — |

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

Applicable Not applicable

4. *Investments in financial assets*

(1) **Investments in securities**

Applicable Not applicable

The Company did not have any investment in securities during the reporting period.

(2) **Investments in derivatives**

Applicable Not applicable

The Company did not have any investment in derivatives during the reporting period.

5. *Use of raised funds*

Applicable Not applicable

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

VII. Disposals of material assets and equity interests

1. *Disposals of material assets*

Applicable Not applicable

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

2. *Disposals of material equity interests*

Applicable Not applicable

VIII. Analysis of major controlled and invested companies

Applicable Not applicable

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

Unit: RMB

| Name of company | Type of company | Principal businesses | Registered capital | | | Operating | | |
|-------------------|-----------------|---|--------------------|------------------|------------------|---------------|------------------|-----------------|
| | | | (RMB ten thousand) | Total assets | Net assets | revenue | Operating profit | Net Profit |
| Shouguang Baolong | Subsidiary | Production and sale of oil equipment and castings and forgings | 15,000 | 294,030,493.04 | (276,834,120.36) | 16,769,187.92 | (24,724,303.09) | (24,054,167.99) |
| Shouguang Maolong | Subsidiary | Research of new materials for energy equipment; production and sale of metal castings and forgings; sea water desalination; waste heat and gas power generation | 111,238 | 1,140,105,224.89 | 358,214,052.68 | 59,130,557.05 | (73,438,343.22) | (72,477,719.93) |

Acquisitions and disposals of subsidiaries during the reporting period

Applicable Not applicable

Information on major controlled and invested companies

- (1) Shouguang Baolong realised an operating revenue of RMB16.7692 million for the current period, representing a decrease of 95.60% as compared with the same period of last year. Loss for the period amounted to RMB2,405.42 ten thousand, as compared to the loss of RMB5,179.69 ten thousand for the same period of last year, which was primarily attributable to the insufficient utilization rate of production lines during the reporting period, higher related fixed charges, declined production and sales and decreased revenue, resulting in a loss.
- (2) Shouguang Maolong realised an operating revenue of RMB59.1306 million for the current period, representing a decrease of 93.83% as compared with the same period of last year. Loss for the period amounted to RMB7,247.77 ten thousand, as compared to the loss of RMB4,721.30 ten thousand for the same period of last year, which was primarily attributable to the decrease in revenue due to lower demand for our products; at the same time, the higher purchase prices of raw materials and insufficient utilization rate of production lines during the reporting period resulted in a loss.

17

IX. Structured entities controlled by the Company

Applicable Not applicable

X. Risk exposures and countermeasures of the Company

1. Market risk

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

2. Raw material price fluctuation risk

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

3. Policy risk

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

4. Exchange rate risk

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

5. Interest rate risk

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

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

1. Results

The Group's revenue and the financial positions of the Group and of the Company for the first half of 2023 are set out in the financial statement contained in the "Financial Report" section 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 2 financial years is as follows:

Results

| Item | For the six months ended 30 June | |
|--|----------------------------------|-----------------|
| | 2023 RMB'000 | 2022 RMB'000 |
| Total operating revenue | 798,419 | 1,570,942 |
| Operating (loss)/profit | (163,778) | (185,006) |
| Total (loss)/profit | (162,475) | (181,107) |
| Net profit/(loss) | (163,934) | (183,171) |
| Minority interests | (5,691) | (10,453) |
| Net (loss)/profit attributable to shareholders of the parent company | (158,242) | (172,718) |
| Basic (loss)/earnings per share (RMB) | (0.1983) | (0.2165) |

Assets and liabilities

| Item | As at 30 June 2023 | As at 30 June 2022 |
|-------------------|--------------------|--------------------|
| | RMB'000 | RMB'000 |
| Total assets | 3,721,541 | 5,047,428 |
| Total liabilities | 2,974,997 | 3,871,015 |
| Net assets | 746,544 | 1,176,413 |

3. Changes in share capital

For details of changes in the share capital of the Company during the first half of 2023, please refer to the section headed "Changes in shares and shareholders".

4. Reserves and distributable reserves

Details of changes in the reserves and distributable reserves of the Group during the first half of 2023 are set out in sub-section headed "Undistributed profit" under the "Explanatory Notes to the Consolidated Financial Statements Line Items" in the financial report.

5. Property, plant and equipment

Details of changes in the property, plant and equipment of the Group during the first half of 2023 are set out in the section of "financial report".

6. Capitalised interests

During the first half of 2023, the Group capitalised interests of RMB nil.

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

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

8. *Continuing connected transactions*

In the first half of 2023, the Company did not conduct any connected transaction and none of the related party transactions disclosed in the "Financial Report" section in this report constituted a discloseable connected transaction under the Listing Rules. The Company confirms that the disclosure requirements under Chapter 14A of the Listing Rules were met.

9. *Directors', supervisors' and chief executive's interests in securities under the Securities and Futures Ordinance ("SFO") of Hong Kong*

As at 30 June 2023, interests of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Company and to the Stock Exchange, were as follows:

Long positions in the shares of the Company

| Name | Nature of interest | Number of A shares | Approximate percentage of A shares | Approximate percentage of the total registered share capital |
|----------------|---------------------|--------------------|------------------------------------|--|
| Wang Quan Hong | Beneficial interest | 139,500 | 0.03% | 0.02% |

Save as disclosed above, as at 30 June 2023, to the best knowledge of the Directors, Supervisors and chief executive, none of the Directors, the Supervisors or chief executive had any interests or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the SEHK under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Company and to the Stock Exchange.

10. *Directors' and supervisors' rights to acquire shares or debentures*

None of the Directors or Supervisors or their respective associates (as defined under the Rule 1.01 of the Listing Rules) was granted by the Company or its subsidiaries any rights to acquire any shares in or debentures of the Company or had exercised any such rights in the first half of 2023.

11. *Share scheme*

Since the date of the Company's incorporation, the Company has not adopted or implemented any share schemes, including share incentive scheme or share option scheme.

12. Substantial shareholders

Details are set out in “Number of corporate shareholders of the Company and their shareholdings” under the section headed “Changes in Shares and Shareholders” in this interim report.

13. Directors’ and supervisors’ interests in contracts

No directors or supervisors or any entity related to any of the directors of the Company has directly or indirectly interested in any transaction, arrangement or contract to which the Company or any of its subsidiaries is a party that has not been or has been in force in the first half of 2023 or as at 30 June 2023, and has a material relationship with the business of the Group.

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 2023.

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 (the “CG Code”) of Appendix 14 to 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 CG Code 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 provisions of the Code at any time during the reporting period.

18. Directors’ 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 to the Listing Rules of the SEHK and requires directors to follow the Model Code while conducting securities transactions. The Model Code also applies to the Company’s senior management. The Company has made specific enquiries to all directors and all of them have confirmed that they have fully complied with the Model Code during the six months ended 30 June 2023.

19. Sufficiency of public float

According to information publicly available to the Company and to the best knowledge of the Directors, the Directors confirmed that the Company has maintained a sufficient public float throughout the first half of 2023 and up to the date of this interim report.

20. Substantial shareholders' interests in securities

As at 30 June 2023, to the best knowledge of the Directors, Supervisors and chief executive of the Company, as shown in the register of interests and/or short positions required to be maintained pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or the register required to be kept under Section 336 of SFO, the substantial shareholders and other persons had the following interests and/or short positions in the Shares or underlying Shares of the Company as follows:

Long positions in the shares of the Company

| Substantial shareholder | Nature of interest | Number of A shares/ H shares | Approximate percentage of A shares/ H shares | Approximate percentage of the total registered share capital |
|--|--|------------------------------------|---|--|
| Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司) | Beneficial interest ⁽²⁾ | 235,617,000 A shares | 43.49% A shares | 29.53% |
| Shandong Shouguang Jinxin Investment Development Holdings Group Limited (山東壽光金鑫投資發展控股集團有限公司) | Interest in controlled corporation ⁽²⁾ | 235,617,000 A shares | 43.49% A shares | 29.53% |
| Shandong Zhimeng Holdings Co., Ltd. (山東智夢控股有限公司) | Beneficial interest | 64,740,000 H shares | 25.28% H shares | 8.11% |
| | Beneficial interest | 900,000 A shares | 0.17% A shares | 0.11% |
| | Interest under Section 317 of the SFO ⁽¹⁾ | 85,974,800 H shares | 33.57% H shares | 10.78% |
| Shouguang Panjin Property Co., Ltd. (壽光市磐金置業有限公司) | Beneficial interest | 30,800,000 H shares | 12.03% H shares | 3.86% |
| | Interest under Section 317 of the SFO ⁽¹⁾ | 900,000 A shares | 0.17% A shares | 0.11% |
| | Interest under Section 317 of the SFO ⁽¹⁾ | 119,914,800 H shares | 46.82% H shares | 15.03% |
| Shouguang Hongsen Logistics Co., Ltd. (壽光市鴻森物流有限公司) | Beneficial interest | 31,800,000 H shares | 12.42% H shares | 3.99% |
| | Interest under Section 317 of the SFO ⁽¹⁾ | 900,000 A shares | 0.17% A shares | 0.11% |
| | Interest under Section 317 of the SFO ⁽¹⁾ | 118,914,800 H shares | 46.43% H shares | 14.90% |
| Shouguang Ruisen New Building Materials Co., Ltd. (壽光市瑞森新型建材有限公司) | Beneficial interest | 23,374,800 H shares | 9.13% H shares | 2.93% |
| | Interest under Section 317 of the SFO ⁽¹⁾ | 900,000 A shares | 0.17% A shares | 0.11% |
| | Interest under Section 317 of the SFO ⁽¹⁾ | 127,340,000 H shares | 48.16% H shares | 15.96% |

Notes:

- (1) Shandong Zhimeng Holdings Co., Ltd., Shouguang Panjin Property Co., Ltd., Shouguang Hongsen Logistics Co., Ltd. and Shouguang Ruisen New Building Materials Co., Ltd. have entered into a concert party agreement pursuant to which, they are parties acting in concert for the purpose of the shares of the Company. As such, they were deemed to be collectively interested in the total number of shares held by them by virtue of Part XV of the SFO.
- (2) Shouguang Molong Holdings Co., Ltd. is a wholly-owned subsidiary of Shandong Shouguang Jinxin Investment Development Holdings Group Limited. Therefore, Shandong Shouguang Jinxin Investment Development Holdings Group Limited are deemed to be interested in the 235,617,000 A shares in which Shouguang Molong Holdings Co., Ltd. is interested by virtue of Part XV of the SFO.
- (3) The approximate percentage is based on the 541,722,000 A shares, 256,126,400 H shares and 797,848,400 shares in issue as at 30 June 2023.

Save as disclosed above, as at 30 June 2023, 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.

21. Liquidity and financial resources

As at 30 June 2023, the Group recorded a current ratio of 50.24%, quick ratio of 32.34%, receivable turnover ratio of 242.39% and inventory turnover ratio of 126.43%. 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 2023, the Group had total borrowings of RMB2,147 million (as at the end of last year, the Group had total borrowings of RMB2,116 million). As at 30 June 2023, the Group had monetary funds of RMB460 million (monetary funds as at the end of last year of RMB475 million).

22. Gearing ratio

As at 30 June 2023, the Group's gearing ratio was approximately 79.94% (2022: approximately 77.46%) which is calculated based on the Group's total liabilities of approximately 2,974,997 thousand (2022: approximately RMB3,128,252 thousand) and total assets of approximately RMB3,721,541 thousand (2022: approximately 4,038,606 thousand).

23. 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 RMB. The Group's liquidity and solvency are in good condition.

24. Restricted assets

As at 30 June 2023, the Group had restricted assets as follows:

Unit: RMB

| Item | Book value at the end of the period | Reason(s) for the restriction |
|----------------------|-------------------------------------|---|
| Monetary funds | 433,131,291.60 | Security deposits and frozen for litigation |
| Bills receivable | 7,558,071.96 | Pledge of bills |
| Fixed assets | 342,981,934.52 | Charge for borrowings |
| Intangible assets | 195,998,183.84 | Charge for borrowings/seizure |
| Accounts receivables | 23,004,870.47 | Factoring financing |
| Total | 1,002,674,352.39 | — |

25. *Contingent liabilities*

As at 30 June 2023, the Group did not have any contingent liabilities except those disclosed in the “Commitments and Contingencies” in this report.

26. *Material investments, acquisitions and disposals*

For the six months ended 30 June 2023, save as disclosed in this report, the Group did not carry out any major acquisitions or disposal of subsidiaries, affiliates and associates or major investments, nor did it plan to make major investments or purchase capital assets in the future.

27. *Tax concessions and exemptions*

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

28. *Equity-linked agreements*

The Company has not entered into any equity-linked agreements at the end of the six months ended 30 June 2023 or at any time during the half-year period.

29. *Business review*

Key financial and business performance indicators

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

30. *Interim dividend*

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2023.

31. *Audit committee and review of interim results*

The Company has complied with Rule 3.21 of the Listing Rules and Code Provision D.3 of the CG Code to establish the Audit Committee to review and supervise the Group's financial reporting procedures, risk management and internal audit and control. The Audit Committee has reviewed the Group's interim results and financial statements for the six months ended 30 June 2023. However, the Group's unaudited consolidated financial statements for the six months ended 30 June 2023 have not been audited by the Company's auditors.

32. *Changes in Directors' information*

There were no changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules of the Hong Kong Stock Exchange.

SECTION IV CORPORATE GOVERNANCE

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

1. General meetings held in the reporting period

| Session of meeting | Type of meeting | Attendance | | Date of meeting | Date of Disclosure | Meeting resolutions |
|-----------------------------|------------------------|--------------|--|-----------------|--------------------|--|
| | | of investors | | | | |
| 2022 annual general meeting | Annual general meeting | 31.10% | | 19 May 2023 | 20 May 2023 | Announcement on the resolutions passed at the annual general meeting 2022 (2023-029); Legal opinions on the annual general meeting 2022. Details of the above announcement can be found on the China Securities Journal, the Shanghai Securities News, the Securities Daily, the Securities Times and the website of cninfo (www.cninfo.com.cn). |

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

Applicable Not applicable

II. Change of Directors, Supervisors and Senior Management

Applicable Not Applicable

| Name | Position | Type | Date | Reason |
|----------------|--------------------|----------|------------------|---|
| Yang Yun Long | Chairman, Director | Resigned | 24 February 2023 | Resigned from the positions of Chairman, executive Director and relevant board committee members due to personal work arrangements. |
| Yuan Rui | Chairman | Elected | 24 February 2023 | Elected by the Board. |
| Liu Ji Lu | Director | Resigned | 7 April 2023 | Resigned from the Company's directorship due to personal work reasons. |
| Zhao Xiao Tong | Director | Elected | 19 May 2023 | Elected by the general meeting and the Board. |
| Zhang Min | Director | Elected | 19 May 2023 | Elected by the general meeting and the Board. |

III. Profit distribution and transfer of capital reserve to share capital during the reporting period

Applicable Not applicable

The Company did not plan to pay any cash dividends or issue any bonus shares or transfer any reserve to capital for the half year.

IV. Operation of stock incentive schemes, employee share schemes or other employee incentive measures of the Company

Applicable Not applicable

The Company did not have or operate any stock incentive schemes, employee share schemes or other employee incentive measures during the reporting period.

SECTION V ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

I. Major environmental issues

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

Yes No

Policies and industrial standards related to environmental protection

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

Environmental Protection Administrative Licensing

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

Shandong Molong and its branches' Pollutant Discharge Permit numbered: 91370000734705456P001P, 91370783MA3CW9X53H001P, with the first application date of 27 October 2017 and the current validity period till 18 January 2027 and 31 May 2028, respectively;

Shouguang Baolong's Pollutant Discharge Permit numbered: 913707836613984230001R, with the first application date of 23 July 2020 and the current validity period till 22 July 2028;

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

Weihai Baolong's Pollutant Discharge Permit numbered: 91371081756387292D001P, with the first application date of 20 April 2020 and the current validity period till 19 April 2028.

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

| The Company or name of subsidiary | Categories of major pollutants and specific pollutant | Name of major pollutant and specific pollutant | Method of discharge | Number of discharge outlets | Distribution of discharge outlets | Discharge concentration/intensity | Implemented standards for pollutant discharge | Total volume of discharge | Approved total volume of discharge | Excessive discharge |
|-----------------------------------|---|--|---------------------|-----------------------------|-----------------------------------|-----------------------------------|---|---------------------------|------------------------------------|---------------------|
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 2.5mg/m ³ | 10mg/m ³ | 58.27 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 2.5mg/m ³ | 10mg/m ³ | 47.85 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 3.1mg/m ³ | 10mg/m ³ | 24.601 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 2.2mg/m ³ | 10mg/m ³ | 8.24 kg | — | No |
| Shouguang Maolong | — | Volatile organic compounds | Organised | 1 | Production complex | 12mg/m ³ | 60mg/m ³ | 41.2 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 2.4mg/m ³ | 10mg/m ³ | 5.356 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 3.2mg/m ³ | 10mg/m ³ | 7.191 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 3.1mg/m ³ | 10mg/m ³ | 13.604 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 2.9mg/m ³ | 10mg/m ³ | 1.612 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 3.6mg/m ³ | 10mg/m ³ | 19.948 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 4.0mg/m ³ | 10mg/m ³ | 0.077 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 3.1mg/m ³ | 10mg/m ³ | 1.842 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 3.4mg/m ³ | 10mg/m ³ | 3.084 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 3.6mg/m ³ | 10mg/m ³ | 1.12 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 2.6mg/m ³ | 10mg/m ³ | 4.291 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 3.2mg/m ³ | 10mg/m ³ | 0.0462 kg | — | No |
| Shouguang Maolong | — | Sulfur dioxide | Organised | 1 | Production complex | 5mg/m ³ | 50mg/m ³ | 1.1687 kg | — | No |
| Shouguang Maolong | — | Nitrogen oxides | Organised | 1 | Production complex | 76mg/m ³ | 100mg/m ³ | 2.699 kg | — | No |
| Shouguang Maolong | — | Particulate matter | Organised | 1 | Production complex | 7.2mg/m ³ | 10mg/m ³ | 0.2262 kg | — | No |

Treatment of pollutants

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

Wastewater treatment facilities: The Company has equipped all production plants with integrated sewage treatment facilities in all factories which have been in normal operation. Wastewater discharged from production process are treated and recycled without outward discharge, and a new package of rainwater online monitoring facilities has been installed in Park 180.

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

Emergency plans for sudden environmental incidents

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

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

During the reporting period, investment in environmental governance and protection of the Company and all subsidiaries totaled RMB1.6473 million; the Company and all subsidiaries paid a total of RMB19.6 thousand in environmental protection tax.

Environmental self-monitoring program

During the reporting period, the Company and its subsidiaries worked closely with local environmental inspection departments on periodic supervisory inspections. Four sets of exhaust online monitoring equipment were in normal operation. It engaged third party inspection firms to monitor their discharge statistics on a regular basis, and the monitoring results were regularly publicized on the national pollutant discharge permit management information platform, with an aim to meet industry standards and requirements of local environmental authorities. Monthly statistics on the related environmental data, supervision on stable operation of wastewater and exhaust treatment facilities are conducted to effectively ensure sound management of internal discharge of wastewater and exhaust.

Administrative penalties arising from environmental issues during the reporting period

Applicable Not applicable

Other discloseable environmental information

There was no other discloseable environmental information.

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

Applicable Not applicable

Other environmentally related information

There was no other environmentally related information.

II. Social Responsibility

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

1. *Safeguarding shareholders' interest*

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

2. *Safeguarding employees' interest*

The Company highly emphasised the nurture of talents. We strived to improve the quality of our staff and realised mutual growth of our staff and the enterprise by offering our staff with career planning and organising various corporate training. The Company offered various social insurance to our staff and established relief fund to care and support staff in difficult times and created a harmonious working environment. In 2023, the Company released RMB52 thousand from the relief fund towards helping the family of staff in financial difficulties.

3. *Actively participating in social undertakings*

The Company pays great attention to the creation of social value and places our focus of fulfilling social responsibility on actively participating in social services. We spare no effort to join social undertakings and charity activities and organised numerous donations with a view to rewarding the society within our capacity. In 2023, the Company proactively participated in social welfare undertakings by actively liaising with blood donation centres in the central district of Weifang City, advocating and arranging 1 voluntary blood donation public welfare activity, which demonstrated the social responsibility and undertaking of the Company.

SECTION VI MATERIAL MATTERS

I. Commitments fully performed by the Company's actual controllers, shareholders, related parties, acquirers and the Company and other committing parties during the reporting period and their outstanding commitments as at the end of the reporting period

Applicable Not applicable

There were no commitments that were fully performed by the Company's actual controllers, shareholders, related parties, acquirers and the Company and other committing parties during the reporting period, and there were no outstanding commitments as at the end of the reporting period.

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

Applicable Not applicable

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

III. Illegal external guarantees

Applicable Not applicable

There were no illegal external guarantees during the reporting period.

IV. Appointment and dismissal of accounting firm

Whether the interim financial report has been audited

Yes No

The Company's interim report is unaudited.

V. Opinions of the board and the supervisory committee regarding the "modified auditor's report" issued by accounting firm for the reporting period

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 were no matters related to bankruptcy and reorganisation during the reporting period.

VIII. Litigations

Significant litigations and arbitrations

Applicable Not applicable

The Company was not involved in any significant litigations or arbitrations during the reporting period.

Other lawsuits

Applicable Not applicable

| Basic information on the litigation (arbitration) | Amount involved (RMB 0'000) | Recognized as provision for liability | Progress of the litigation (arbitration) | Results of trial of litigation (arbitration) and effects thereof | Enforcement of litigation (arbitration) judgment | Date of disclosure | Disclosure index |
|--|-----------------------------|---------------------------------------|--|---|---|--------------------|------------------|
| There were a total of 43 prosecution-related cases during the reporting period | 2,122.19 | No | Concluded by mediation or adjudication | No significant impact on the Company's results of operation | Based on judgements, 9 cases were completed and 24 cases were in the process of execution | — | — |
| | 1,790.20 | No | Not in trial yet or not yet closed | Not expected to have a significant impact on the Company's results of operation | N/A | — | — |

33

IX. Punishments and rectifications

Applicable Not applicable

X. Integrity of the Company, its controlling shareholders and actual controllers

Applicable Not applicable

XI. Significant related party transactions

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

Applicable Not applicable

The Company did not enter into any related party transaction associated with the day-to-day operations during the reporting period.

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

Applicable Not applicable

There were no related party transactions in connection with acquisition or disposal of assets or equity interest during the reporting period.

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

Applicable Not applicable

There were no related party transactions 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

Debts due to related parties

| Related Party | Related relationship | Reason | Balance at the beginning of the period (RMB ten thousand) | Amount | | Interest rate | Interest for the current period (RMB ten thousand) | Balance at the end of the period (RMB ten thousand) |
|------------------|--|----------------------|---|--|--|---------------|--|---|
| | | | | increased during the current period (RMB ten thousand) | Amount repaid during the current period (RMB ten thousand) | | | |
| Shouguang Jinxin | Controlling shareholder of the controlling shareholder | Financial assistance | 0 | 23,700 | 15,700 | 0.00% | 0 | 8,000 |

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

On 10 February 2023, after the consideration and approval at the third special meeting of the seventh session of the board of directors of the Company, the Company accepted the non-interest bearing borrowings of up to RMB500 million provided by Shouguang Jinxin, the related party, to the Company for a term of less than one year.

During the reporting period, the maximum single-day balance of the borrowings was RMB100 million, which fell within the above limit.

5. *Amounts due from/to related financial companies*

Applicable Not applicable

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

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

Applicable Not applicable

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

7. *Other significant related party transactions*

Applicable Not applicable

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

XII. Material contracts and their performance

1. Entrustment, Contracting and leasing

(1) Entrustment

Applicable Not applicable

The Company had no entrustment during the reporting period.

(2) Contracting

Applicable Not applicable

The Company had no contracting during the reporting period.

(3) Leasing

Applicable Not applicable

Descriptions of the leasing

- (1) On 26 August 2021, after consideration at the twelfth meeting of the sixth session of the board of directors of the Company, in order to further expand financing channels, the Company has development the sale-and-leaseback financing business jointly with Yangtze United Financial Leasing Co., Ltd. (長江聯合金融租賃有限公司) with certain production equipment held by the Company as lease objects. The financing amount is not more than RMB60 million and the term is within 36 months. During the lease period, the Company shall continue to use such certain production equipment by way of sale and leaseback until the lease period as agreed in the lease ends. Details can be found in the Announcement on the Development of Finance Lease Business disclosed by the Company (Announcement No.: 2021-052).
- (2) On 17 August 2022, after consideration at the second extraordinary meeting of the seventh session of the board of directors of the Company, in order to further expand financing channels, the Company has development the sale-and-leaseback financing business jointly with Zhejiang Zhongda Yuantong Finance Leasing Co., Ltd. (浙江中大元通融資租賃有限公司) with certain production equipment held by the Company as lease objects. The financing amount is not more than RMB85 million and the term is within 36 months. During the lease period, the Company shall continue to use such certain production equipment by way of sale and leaseback until the lease period as agreed in the lease ends. Details can be found in the Announcement on the Development of Finance Lease Business disclosed by the Company (Announcement No.: 2022-021).
- (3) During the report period, the Company entered into a lease contract with Shouguang Xiangrun Industry Co., Ltd. (壽光祥潤實業有限公司), pursuant to which the Company leased an office building for business office use for a term of three years commencing from 1 January 2023 to 31 December 2025, with free rent for the first year, RMB675,100 for the second year and RMB1,181,400 for the third year.

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

Applicable Not applicable

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

2. Significant guarantees

Applicable Not applicable

Unit: RMB ten thousand

| External guarantees of the Company and its subsidiaries (excluding guarantee in favour of subsidiaries) | | | | | | | | | | |
|--|---|-------------------|---------------------------|--|-------------------|--|----------------------------|------------------|------------------------|--------------------------------|
| Name of guaranteed party | Date of disclosure of announcement in relation to the line of guarantee | Line of guarantee | Date of actual occurrence | Actual guarantee amount | Type of guarantee | Collaterals (if any) | Counter-guarantee (if any) | Guarantee period | Fully performed or not | Related party guarantee or not |
| Guarantees of the Company in favour of subsidiaries | | | | | | | | | | |
| Name of guaranteed party | Date of disclosure of announcement in relation to the line of guarantee | Line of guarantee | Date of actual occurrence | Actual guarantee amount | Type of guarantee | Collaterals (if any) | Counter-guarantee (if any) | Guarantee period | Fully performed or not | Related party guarantee or not |
| Molong Commercial | 1 April 2023 | 10,000.00 | Not yet occurred | — | — | — | — | — | — | — |
| Molong I&E | 1 April 2023 | 10,000.00 | Not yet occurred | — | — | — | — | — | — | — |
| Shouguang Maolong | 16 May 2020 | 14,510.78 | 30 June 2020 | 0 | Security | Certain properties and land use rights | — | 3 years | Yes | No |
| Total line of guarantees granted to subsidiaries during the reporting period (B1) | | | 20,000 | Total actual amount of guarantees in favour of subsidiaries during the reporting period (B2) | | | 0 | | | |
| Total line of guarantees granted to subsidiaries as at the end of the reporting period (B3) | | | 20,000 | Total actual amount of guarantees in favour of subsidiaries as at the end of the reporting period (B4) | | | 0 | | | |
| Guarantees of subsidiaries in favour of subsidiaries | | | | | | | | | | |
| Name of guaranteed party | Date of disclosure of announcement in relation to the line of guarantee | Line of guarantee | Date of actual occurrence | Actual guarantee amount | Type of guarantee | Collaterals (if any) | Counter-guarantee (if any) | Guarantee period | Fully performed or not | Related party guarantee or not |
| Shouguang Maolong | 16 May 2020 | 4,048.95 | 30 June 2020 | 0 | Security | Certain properties and land use rights | — | 3 years | Yes | No |
| Shouguang Maolong | 16 May 2020 | 1,440.27 | 30 June 2020 | 0 | Security | Certain properties and land use rights | — | 3 years | Yes | No |
| Shouguang Maolong | 17 June 2023 | 5,000.00 | Net yet occurred | — | — | — | — | — | — | — |
| Total line of guarantees granted to subsidiaries during the reporting period (C1) | | | 5,000 | Total actual amount of guarantees in favour of subsidiaries during the reporting period (C2) | | | 0 | | | |
| Total line of guarantees granted to subsidiaries as at the end of the reporting period (C3) | | | 5,000 | Total actual amount of guarantees in favour of subsidiaries as at the end of the reporting period (C4) | | | 0 | | | |
| Total guarantees of the Company (being the sum of the above three guarantees) | | | | | | | | | | |
| Total line of guarantees granted during the reporting period (A1+B1+C1) | | | 25,000 | Total actual amount of guarantees during the reporting period (A2+B2+C2) | | | 0 | | | |
| Total line of guarantees granted as at the end of the reporting period (A3+B3+C3) | | | 25,000 | Total actual amount of guarantees as at the end of the reporting period (A4+B4+C4) | | | 0 | | | |
| Proportion of total actual guarantees (i.e. A4+B4+C4) to net assets of the Company | | | | | | | | | | 0% |
| Including: | | | | | | | | | | |
| Balance of guarantees given for shareholders, actual controllers and their related parties (D) | | | | | | | | | | 0 |
| Balance of debt guarantees direct or indirectly given for guarantee parties with gearing ratio of over 70% (E) | | | | | | | | | | 0 |
| Amount of total guarantees in excess of 50% of net assets (F) | | | | | | | | | | 0 |
| Total of the above three guarantee amounts (D+E+F) | | | | | | | | | | 0 |
| For unexpired guarantee contracts, descriptions about the guarantee liabilities occurred or possible joint and several liabilities of repayment with evidence during the reporting period (if any) | | | | | | | | | | Nil |
| External guarantees in breach of procedural requirements (if any) | | | | | | | | | | Nil |

Details of synthetic guarantees

Nil

3. *Entrusted wealth management*

Applicable Not applicable

The Company had no entrusted wealth management during the reporting period.

4. *Other significant contracts*

Applicable Not applicable

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

XIII. Descriptions of other significant events

Applicable Not applicable

1. *Completion of the change of legal person and renewal of business license*

The Company held the fourth extraordinary meeting of the seventh session of the board of directors on 24 February 2023, at which the Resolution on the Election of the Chairman of the Seventh Session of the Board of Directors (《關於選舉第七屆董事會董事長的議案》) was considered and approved, agreeing to the election of Mr. Yuan Rui as the chairman of the Company's seventh session of the board of directors, with a term of office commencing from the date on which the appointment was considered and approved by the board of directors until the date on which the term of office of the seventh session of the board of directors expires. See the information disclosure website of cninfo (<http://www.cninfo.com.cn>) for detailed information of Announcement on Election of Chairman and Adjustment of Members of Special Committees of the Board of Directors (《關於選舉董事長及調整董事會專門委員會成員的公告》) (Announcement No.: 2023-007). According to the provisions of the Articles of Association, the chairman of the board of directors is the legal representative of the Company, and on 10 April 2023, the Company completed the relevant procedures for the change of industrial and commercial registration and was reissued a business licence by the Weifang Municipal Administration for Market Regulation (濰坊市市場監督管理局).

37

XIV. Significant events of subsidiaries of the Company

Applicable Not applicable

1. *Completion of the change of industrial and commercial registration and the renewal of business license by a subsidiary*

The Company held the sixth meeting of the seventh session of the board of directors on 28 April 2023, at which the Resolution on the Capital Increase to a Wholly-Owned Subsidiary through Debt-to-Equity Swap (《關於以債轉股方式對全資子公司增資的議案》) was considered and approved, agreeing the capital increase of RMB400 million by the Company to its wholly-owned subsidiary through debt-to-equity swap. See the information disclosure website of cninfo (<http://www.cninfo.com.cn>) for detailed information of Announcement on the Capital Increase to a Wholly-Owned Subsidiary through Debt-to-Equity Swap (《關於以債轉股方式對全資子公司增資的公告》) (Announcement No.: 2023-025). On 22 May 2023, the subsidiary completed the relevant procedures for the change of industrial and commercial registration and was reissued a business licence by the Shouguang Administrative Examination and Approval Service Bureau (壽光市行政審批服務局).

SECTION VII CHANGES IN SHARES AND SHAREHOLDERS

I. Changes in Shares

1. Changes in shares

Unit: share

| | Prior to the change | | Increase/decrease as a result of the change (+, -) | | | | | After the change | |
|---|---------------------|------------|--|-------------|---------------------------------------|--------|-----------|------------------|------------|
| | Number of shares | Percentage | Issue of new shares | Bonus issue | Transfer of reserves to share capital | Others | Sub-total | Number of shares | Percentage |
| I. Shares subject to lock-up | 104,625 | 0.01% | — | — | — | — | — | 104,625 | 0.01% |
| 1. State-owned shares | — | — | — | — | — | — | — | — | — |
| 2. State-owned legal person shares | — | — | — | — | — | — | — | — | — |
| 3. Other domestic shares | 104,625 | 0.01% | — | — | — | — | — | 104,625 | 0.01% |
| Including: Domestic legal person shares | — | — | — | — | — | — | — | — | — |
| Domestic natural person shares | 104,625 | 0.01% | — | — | — | — | — | 104,625 | 0.01% |
| 4. Foreign shares | — | — | — | — | — | — | — | — | — |
| Including: Overseas legal person shares | — | — | — | — | — | — | — | — | — |
| Overseas natural person shares | — | — | — | — | — | — | — | — | — |
| II. Shares not subject to lock-up | 797,743,775 | 99.99% | — | — | — | — | — | 797,743,775 | 99.99% |
| 1. RMB ordinary shares | 541,617,375 | 67.88% | — | — | — | — | — | 541,617,375 | 67.88% |
| 2. Domestically-listed foreign shares | — | — | — | — | — | — | — | — | — |
| 3. Overseas-listed foreign shares | 256,126,400 | 32.10% | — | — | — | — | — | 256,126,400 | 32.10% |
| 4. Others | — | — | — | — | — | — | — | — | — |
| III. Total number of shares | 797,848,400 | 100.00% | — | — | — | — | — | 797,848,400 | 100.00% |

Reason(s) for change in shares

Applicable Not applicable

Approval for the change in shares

Applicable Not applicable

Transfer for the change in shares

Applicable Not applicable

Progress of share repurchases

Applicable Not applicable

Progress 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

II. **Issuance and listing of securities**

Applicable Not applicable

III. Number of shareholders of the Company and their shareholdings

Unit: share

| | | | |
|--|--|---|---|
| Total number of ordinary shareholders at the end of reporting period | 39,651 (including 39,609 A shareholders and 42 H shareholders) | Total number of preferred shareholders with restored voting rights as at the end of reporting period (if any) | 0 |
|--|--|---|---|

Shareholdings of ordinary shareholders holding over 5% of shares or the top 10 ordinary shareholders

| Name of shareholder | Nature of shareholder | Shareholding percentage | Number of ordinary shares held as at the end of the reporting period | Change (increase or decrease) during the reporting period | Number of ordinary shares subject to lock-up held | Number of ordinary shares not subject to lock-up held | Pledged, charged or frozen | |
|---|---------------------------------------|-------------------------|--|---|---|---|----------------------------|------------------|
| | | | | | | | Status of the shares | Number of shares |
| Shouguang Molong Holdings Co., Ltd. | State-owned legal person | 29.53% | 235,617,000 | 0 | 0 | 235,617,000 | — | — |
| HKSCC Nominees Limited | Overseas legal person | 13.19% | 105,223,330 | 8,000 | 0 | 105,223,330 | — | — |
| Shandong Zhimeng Holdings Co., Ltd. | Domestic non-state owned legal person | 8.23% | 65,640,000 | 0 | 0 | 65,640,000 | — | — |
| Shouguang Hongsen Logistics Co., Ltd. | Domestic non-state owned legal person | 3.99% | 31,800,000 | 0 | 0 | 31,800,000 | — | — |
| Shouguang Panjin Property Co., Ltd. | Domestic non-state owned legal person | 3.86% | 30,800,000 | 0 | 0 | 30,800,000 | — | — |
| Shouguang Ruisen New Building Materials Co., Ltd. | Domestic non-state owned legal person | 2.93% | 23,374,800 | 0 | 0 | 23,374,800 | — | — |
| Zhang Yun San | Domestic natural person | 2.90% | 23,108,000 | 0 | 0 | 23,108,000 | — | — |
| Fan Xi Sheng | Domestic natural person | 0.95% | 7,615,000 | 2,076,800 | 0 | 7,615,000 | — | — |
| Ma Li Ke | Domestic natural person | 0.81% | 6,481,670 | (192,400) | 0 | 6,481,670 | — | — |
| Hong Kong Securities Clearing Company Limited | Overseas legal person | 0.43% | 3,455,760 | 1,307,112 | 0 | 3,455,760 | — | — |

Strategic investors or ordinary legal person becoming top 10 ordinary shareholders upon placing of new shares (if any)

Not applicable

Connected relationship or concert party relationship among the above shareholders

Among the above shareholders, Shandong Zhimeng Holdings Co., Ltd., Shouguang Hongsen Logistics Co., Ltd., Shouguang Panjin Property Co., Ltd., and Shouguang Ruisen New Building Materials Co., Ltd. have entered into a concert party relationship by signing a concert party agreement and have no control over each other. Other than the above, the Company is not aware of the existence of any relationship or concerted relationship between other shareholders.

Description of entrusting/being entrusted voting rights or waiving voting rights of the above Shareholders

Not applicable

Specific descriptions of special repurchase account of top 10 shareholders (if any)

Not applicable

Shareholdings of the top 10 non-locked up ordinary shareholders

| Name of shareholder | Number of non-locked up ordinary shares held at the end of the reporting period | Type of shares | |
|---|---|--------------------------------|------------------|
| | | Type of shares | Number of shares |
| Shouguang Molong Holdings Co., Ltd. | 235,617,000 | RMB ordinary shares | 235,617,000 |
| HKSCC Nominees Limited | 105,223,330 | Overseas listed foreign shares | 105,223,330 |
| Shandong Zhimeng Holdings Co., Ltd. | 65,640,000 | RMB ordinary shares | 900,000 |
| | | Overseas listed foreign shares | 64,740,000 |
| Shouguang Hongsen Logistics Co., Ltd. | 31,800,000 | Overseas listed foreign shares | 31,800,000 |
| Shouguang Panjin Property Co., Ltd. | 30,800,000 | Overseas listed foreign shares | 30,800,000 |
| Shouguang Ruisen New Building Materials Co., Ltd. | 23,374,800 | Overseas listed foreign shares | 23,374,800 |
| Zhang Yun San | 23,108,000 | RMB ordinary shares | 23,108,000 |
| Fan Xi Sheng | 7,615,000 | RMB ordinary shares | 7,615,000 |
| Ma Li Ke | 6,481,670 | RMB ordinary shares | 6,481,670 |
| Hong Kong Securities Clearing Company Limited | 3,455,760 | RMB ordinary shares | 3,455,760 |

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

Among the above shareholders, Shandong Zhimeng Holdings Co., Ltd., Shouguang Hongsen Logistics Co., Ltd., Shouguang Panjin Property Co., Ltd., and Shouguang Ruisen New Building Materials Co., Ltd. have entered into a concert party relationship by signing a concert party agreement and have no control over each other. Other than the above, the Company is not aware of the existence of any relationship or concerted relationship between other shareholders.

Description of the top 10 ordinary shareholders participating in margin trading business

Not applicable

41

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 into any contracted repurchase transactions during the reporting period.

IV. Changes in shareholdings of directors, supervisors and senior management

Applicable Not applicable

There were no changes in the shareholdings of the Company's directors, supervisors and senior management during the reporting period. Details can be found in the Annual Report 2022.

V. Changes in controlling shareholders or actual controllers

Changes in controlling shareholders during the reporting period

Applicable Not applicable

There were no changes in the controlling shareholders of the Company during the reporting period.

Changes in actual controllers during the reporting period

Applicable Not applicable

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

SECTION VIII PREFERRED SHARES

Applicable Not applicable

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

SECTION IX BONDS

Applicable Not applicable

SECTION 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 used in the notes to the financial statements: RMB

1. Consolidated balance sheet

Prepared by: Shandong Molong Petroleum Machinery Company Limited

| | Unit: RMB | |
|--|-------------------------|-------------------------|
| Item | 30 June 2023 | 1 January 2023 |
| Current assets: | | |
| Monetary funds | 453,841,221.77 | 459,657,822.57 |
| Settlement deposits | — | — |
| Lending funds | — | — |
| Financial assets held for trading | — | — |
| Derivative financial assets | — | — |
| Bills receivable | 60,192,674.87 | 171,547,752.98 |
| Accounts receivable | 364,398,811.59 | 294,399,562.75 |
| Financing receivables | 16,486,581.33 | 5,371,855.71 |
| Prepayments | 9,950,942.76 | 35,450,700.83 |
| Insurance receivables | — | — |
| Reinsurance receivables | — | — |
| Reinsurance contract reserves receivable | — | — |
| Other receivables | 11,113,319.94 | 5,626,830.61 |
| Including: Interest receivables | — | — |
| Dividends receivable | — | — |
| Purchases of sell-back financial assets | — | — |
| Inventories | 509,137,968.74 | 670,217,844.40 |
| Contract assets | — | — |
| Assets held for sale | — | — |
| Non-current assets due within one year | — | — |
| Other current assets | 3,788,957.13 | 5,790,675.91 |
| Total current assets | 1,428,910,478.13 | 1,648,063,045.76 |

Unit: RMB

| Item | 30 June 2023 | 1 January 2023 |
|---|-------------------------|------------------|
| Non-current assets: | | |
| Loans and advances | — | — |
| Debt investments | — | — |
| Other debt investments | — | — |
| Long-term receivables | — | — |
| Long-term equity investments | 1,857,463.06 | 1,857,463.06 |
| Investments in other equity instruments | — | — |
| Other non-current financial assets | — | — |
| Investment properties | — | — |
| Fixed assets | 1,904,405,618.29 | 2,003,871,030.19 |
| Construction-in-progress | 6,323,500.82 | 298,971.19 |
| Productive biological assets | — | — |
| Oil and gas assets | — | — |
| Right-of-use assets | — | — |
| Intangible assets | 350,173,760.99 | 357,278,042.57 |
| Development expenditures | 4,569,208.80 | — |
| Goodwill | — | — |
| Long-term deferred expenses | — | — |
| Deferred income tax assets | 24,551,419.33 | 26,108,899.14 |
| Other non-current assets | 750,000.00 | 1,128,107.60 |
| Total non-current assets | 2,292,630,971.29 | 2,390,542,513.75 |
| Total assets | 3,721,541,449.42 | 4,038,605,559.51 |

Unit: RMB

| Item | 30 June 2023 | 1 January 2023 |
|---|-------------------------|------------------|
| Current liabilities: | | |
| Short-term borrowings | 2,056,148,505.85 | 1,962,936,789.90 |
| Borrowings from the central bank | — | — |
| Borrowing funds | — | — |
| Financial liabilities held for trading | — | — |
| Derivative financial liabilities | — | — |
| Bills payable | 47,445,760.00 | 64,855,401.04 |
| Accounts payable | 509,925,689.87 | 611,264,285.51 |
| Receipts in advance | — | — |
| Contract liabilities | 50,955,109.94 | 107,582,152.10 |
| 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 | 58,708,004.97 | 42,790,646.48 |
| Taxes payable | 22,281,543.77 | 11,279,406.47 |
| Other payables | 24,465,572.17 | 36,765,356.32 |
| Including: Interests payable | — | — |
| Dividends payable | — | — |
| Brokerage and commission payables | — | — |
| Reinsurance payables | — | — |
| Liabilities held for sale | — | — |
| Non-current liabilities due within one year | 49,329,277.41 | 87,329,367.25 |
| Other current liabilities | 24,881,369.20 | 48,192,008.81 |
| Total current liabilities | 2,844,140,833.18 | 2,972,995,413.88 |
| Non-current liabilities: | | |
| Insurance contract reserves | — | — |
| Long-term borrowings | — | — |
| Bonds payable | — | — |
| Including: Preferred shares | — | — |
| Perpetual bonds | — | — |
| Lease liabilities | — | — |
| Long-term payables | 41,160,600.38 | 65,461,963.55 |
| Long-term salaries payable | — | — |
| Estimated liabilities | 77,771,212.05 | 77,771,212.05 |
| Deferred revenue | 6,756,829.50 | 6,756,829.50 |
| Deferred income tax liabilities | 5,167,706.87 | 5,266,932.29 |
| Other non-current liabilities | — | — |
| Total non-current liabilities | 130,856,348.80 | 155,256,937.39 |
| Total liabilities | 2,974,997,181.98 | 3,128,252,351.27 |

Unit: RMB

| Item | 30 June 2023 | 1 January 2023 |
|--|-------------------------|------------------|
| Owners' equity: | | |
| Share capital | 797,848,400.00 | 797,848,400.00 |
| Other equity instruments | — | — |
| Including: Preferred shares | — | — |
| Perpetual bonds | — | — |
| Capital reserve | 865,199,605.64 | 864,405,329.26 |
| Less: Treasury shares | — | — |
| Other comprehensive income | (3,631,883.68) | (3,029,259.75) |
| Special reserve | — | — |
| Surplus reserve | 187,753,923.88 | 187,753,923.88 |
| General risk reserve | — | — |
| Undistributed profits | (1,017,259,947.64) | (859,017,550.51) |
| Total equity attributable to owners of the parent company | 829,910,098.20 | 987,960,842.88 |
| Minority interests | (83,365,830.76) | (77,607,634.64) |
| Total owners' equity | 746,544,267.44 | 910,353,208.24 |
| Total liabilities and owners' equity | 3,721,541,449.42 | 4,038,605,559.51 |

Legal representative:
Yuan Rui

Chief accountant:
Hao Yun Feng

Head of accounting department:
Zhu Lin

48

2. Balance sheet of the parent company

Unit: RMB

| Item | 30 June 2023 | 1 January 2023 |
|--|-------------------------|------------------|
| Current assets: | | |
| Monetary funds | 446,844,464.07 | 437,728,168.67 |
| Financial assets held for trading | — | — |
| Derivative financial assets | — | — |
| Bills receivable | 60,192,674.87 | 171,547,752.98 |
| Accounts receivable | 646,662,983.77 | 560,320,816.34 |
| Financing receivables | 10,158,178.25 | 3,888,898.40 |
| Prepayments | 402,079,453.27 | 406,342,471.90 |
| Other receivables | 449,662,976.42 | 734,091,673.64 |
| Including: Interests receivable | — | — |
| Dividends receivable | — | — |
| Inventories | 415,346,734.91 | 525,035,413.03 |
| Contract assets | — | — |
| Assets held for sale | — | — |
| Non-current assets due within one year | — | — |
| Other current assets | 2,598,189.86 | 2,995,798.48 |
| Total current assets | 2,433,545,655.42 | 2,841,950,993.44 |

Unit: RMB

| Item | 30 June 2023 | 1 January 2023 |
|---|-------------------------|-------------------------|
| Non-current assets: | | |
| Debt investments | — | — |
| Other debt investments | — | — |
| Long-term receivables | — | — |
| Long-term equity investments | 1,554,019,921.73 | 1,154,019,921.73 |
| Investments in other equity instruments | — | — |
| Other non-current financial assets | — | — |
| Investment properties | — | — |
| Fixed assets | 659,920,219.64 | 701,355,376.51 |
| Construction-in-progress | 3,265,486.70 | — |
| Productive biological assets | — | — |
| Oil and gas assets | — | — |
| Right-of-use assets | — | — |
| Intangible assets | 69,770,755.83 | 72,482,198.98 |
| Development expenditures | 4,569,208.80 | — |
| Goodwill | — | — |
| Long-term deferred expenses | — | — |
| Deferred income tax assets | 22,832,825.97 | 24,300,320.35 |
| Other non-current assets | — | 378,107.60 |
| Total non-current assets | 2,314,378,418.67 | 1,952,535,925.17 |
| Total assets | 4,747,924,074.09 | 4,794,486,918.61 |
| Current liabilities: | | |
| Short-term borrowings | 1,492,148,505.85 | 1,396,236,789.90 |
| Financial liabilities held for trading | — | — |
| Derivative financial liabilities | — | — |
| Bills payable | 618,713,831.96 | 645,113,301.29 |
| Accounts payable | 272,303,728.04 | 265,933,229.03 |
| Receipts in advance | — | — |
| Contract liabilities | 48,078,605.64 | 100,598,968.48 |
| Salaries payable | 41,359,836.08 | 28,977,905.19 |
| Taxes payable | 17,700,578.33 | 7,878,113.91 |
| Other payables | 31,906,459.05 | 27,785,537.73 |
| Including: Interests payable | — | — |
| Dividends payable | — | — |
| Liabilities held for sale | — | — |
| Non-current liabilities due within one year | 49,329,277.41 | 48,991,857.12 |
| Other current liabilities | 24,507,423.64 | 47,882,854.13 |
| Total current liabilities | 2,596,048,246.00 | 2,569,398,556.78 |

Unit: RMB

| Item | 30 June 2023 | 1 January 2023 |
|---|-------------------------|------------------|
| Non-current liabilities: | | |
| Long-term borrowings | — | — |
| Bonds payable | — | — |
| Including: Preferred shares | — | — |
| Perpetual bonds | — | — |
| Lease liabilities | — | — |
| Long-term payables | 41,160,600.38 | 65,461,963.55 |
| Long-term salaries payable | — | — |
| Estimated liabilities | — | — |
| Deferred revenue | — | — |
| Deferred income tax liabilities | — | — |
| Other non-current liabilities | — | — |
| Total non-current liabilities | 41,160,600.38 | 65,461,963.55 |
| Total liabilities | 2,637,208,846.38 | 2,634,860,520.33 |
| Owners' equity: | | |
| Share capital | 797,848,400.00 | 797,848,400.00 |
| Other equity instruments | — | — |
| Including: Preferred shares | — | — |
| Perpetual bonds | — | — |
| Capital reserve | 865,180,938.14 | 864,386,661.76 |
| Less: Treasury shares | — | — |
| Other comprehensive income | — | — |
| Special reserve | — | — |
| Surplus reserve | 187,753,923.88 | 187,753,923.88 |
| Undistributed profits | 259,931,965.69 | 309,637,412.64 |
| Total owners' equity | 2,110,715,227.71 | 2,159,626,398.28 |
| Total liabilities and owners' equity | 4,747,924,074.09 | 4,794,486,918.61 |

3. Consolidated income statement

Unit: RMB

| Item | Interim 2023 | Interim 2022 |
|---|-------------------------|------------------|
| I. Total operating revenue | 798,419,015.10 | 1,570,941,941.65 |
| Including: Operating revenue | 798,419,015.10 | 1,570,941,941.65 |
| Interest income | — | — |
| Insurance premium earned | — | — |
| Brokerage and commission income | — | — |
| II. Total operating costs | 959,074,308.28 | 1,746,829,087.21 |
| Including: Operating costs | 745,514,513.99 | 1,517,239,001.79 |
| Interest expenses | — | — |
| Brokerage and commission expenses | — | — |
| Surrenders | — | — |
| Net compensation expenses | — | — |
| Net amount of insurance contract reserves provided | — | — |
| Policyholder dividend expenses | — | — |
| Reinsurance premiums | — | — |
| Tax and surcharges | 8,876,640.21 | 7,134,994.01 |
| Selling expenses | 9,699,153.33 | 7,124,810.84 |
| Administrative expenses | 135,856,718.33 | 136,188,184.82 |
| Research and development expenses | 15,508,358.85 | 25,104,469.52 |
| Finance costs | 43,618,923.57 | 54,037,626.23 |
| Including: Interest expenses | 47,431,215.06 | 58,378,820.98 |
| Interest income | 2,911,132.92 | 3,752,773.33 |
| Add: Other gains | 132,723.59 | 49,128.67 |
| Investment income | — | — |
| 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 | (2,115,579.66) | 5,831,665.58 |
| Asset impairment losses | (1,465,146.60) | (15,000,113.67) |
| Gain on disposal of assets | 325,712.98 | — |
| III. Operating profit | (163,777,582.87) | (185,006,464.98) |
| Add: Non-operating income | 2,044,943.45 | 4,960,223.84 |
| Less: Non-operating expenses | 742,741.22 | 1,061,228.98 |
| IV. Total profit | (162,475,380.64) | (181,107,470.12) |
| Less: Income tax expenses | 1,458,254.39 | 2,063,592.49 |
| V. Net profit | (163,933,635.03) | (183,171,062.61) |
| (i) By business continuity | | |
| 1. Net profit from continuing operations | (163,933,635.03) | (183,171,062.61) |
| 2. Net profit from discontinued operations | — | — |
| (ii) By attributable ownership | | |
| 1. Net profit attributable to the shareholders of the parent company | (158,242,397.13) | (172,717,715.72) |
| 2. Loss or profit attributable to minority interests | (5,691,237.90) | (10,453,346.89) |

Unit: RMB

| Item | Interim 2023 | Interim 2022 |
|---|-------------------------|------------------|
| VI. Other comprehensive income, net of tax | (669,582.15) | (859,902.79) |
| Other comprehensive income attributable to owners of the parent company, net of tax | (602,623.93) | (773,912.51) |
| (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 | (602,623.93) | (773,912.51) |
| 1. Other comprehensive income that may be transferred to profit or loss under equity accounting | — | — |
| 2. Fair value changes in other debt investments | — | — |
| 3. Reclassification of financial assets to other comprehensive income | — | — |
| 4. Credit-impaired provision for other debt investments | — | — |
| 5. Cash flow hedge reserve | — | — |
| 6. Exchange differences on translation of foreign financial statements | (602,623.93) | (773,912.51) |
| 7. Others | — | — |
| Other comprehensive income attributable to minority shareholders, net of tax | (66,958.22) | (85,990.28) |
| VII. Total comprehensive income | (164,603,217.18) | (184,030,965.40) |
| Total comprehensive income attributable to owners of the parent company | (158,845,021.06) | (173,491,628.23) |
| Total comprehensive income attributable to minority interests | (5,758,196.12) | (10,539,337.17) |
| VIII. Earnings per share: | | |
| (i) Basic earnings per share | (0.1983) | (0.2165) |
| (ii) Diluted earnings per share | (0.1983) | (0.2165) |

Legal representative:
Yuan Rui

Chief accountant:
Hao Yun Feng

Head of accounting department:
Zhu Lin

4. Income statement of the parent company

Unit: RMB

| Item | Interim 2023 | Interim 2022 |
|--|------------------------|-----------------|
| I. Operating revenue | 770,766,171.97 | 674,212,344.85 |
| Less: Operating costs | 710,043,047.65 | 637,651,438.21 |
| Taxes and surcharges | 6,109,749.15 | 2,855,752.14 |
| Selling expenses | 9,096,474.00 | 6,118,594.53 |
| Administrative expenses | 39,266,873.10 | 63,217,793.45 |
| Research and development expenses | 15,508,358.85 | 25,104,469.52 |
| Finance costs | 36,618,539.96 | 32,563,009.35 |
| Including: Interest expenses | 40,581,694.30 | 37,423,908.35 |
| Interest income | 2,861,768.94 | 3,648,308.59 |
| Add: Other gains | 122,781.67 | 38,174.68 |
| 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 | (2,218,403.50) | 5,554,900.69 |
| Asset impairment losses | (714,510.36) | (4,585,342.04) |
| Gain on disposal of assets | 325,712.98 | — |
| II. Operating profit | (48,361,289.95) | (92,290,979.02) |
| Add: Non-operating income | 156,928.68 | 464,804.25 |
| Less: Non-operating expenses | 33,591.30 | 308,392.58 |
| III. Total profit | (48,237,952.57) | (92,134,567.35) |
| Less: Income tax expenses | 1,467,494.38 | 2,072,832.48 |
| IV. Net profit | (49,705,446.95) | (94,207,399.83) |
| (i) Net profit from continuing operations | (49,705,446.95) | (94,207,399.83) |
| (ii) Net profit from discontinued operations | — | — |

Unit: RMB

| Item | Interim 2023 | Interim 2022 |
|---|------------------------|------------------------|
| V. Other comprehensive income, net of tax | — | — |
| (i) Other comprehensive income that may not be reclassified to profit or loss | — | — |
| 1. Changes on remeasurement of defined benefit plans | — | — |
| 2. Other comprehensive income that may not be transferred to profit or loss under equity accounting | — | — |
| 3. Fair value changes in investments in other equity instruments | — | — |
| 4. Fair value changes in credit risk of the company | — | — |
| 5. Others | — | — |
| (ii) Other comprehensive income that will be reclassified to profit or loss | — | — |
| 1. Other comprehensive income that may be transferred to profit or loss under equity accounting | — | — |
| 2. Fair value changes in other debt investments | — | — |
| 3. Reclassification of financial assets to other comprehensive income | — | — |
| 4. Provision for credit impairment on other debt investments | — | — |
| 5. Cash flow hedge reserve | — | — |
| 6. Exchange differences on translation of foreign financial statements | — | — |
| 7. Others | — | — |
| VI. Total comprehensive income | (49,705,446.95) | (94,207,399.83) |
| VII. Earnings per share: | | |
| (i) Basic earnings per share | — | — |
| (ii) Diluted earnings per share | — | — |

5. Consolidated statement of cash flows

Unit: RMB

| Item | Interim 2023 | Interim 2022 |
|---|------------------------|------------------|
| I. Cash flows from operating activities: | | |
| Cash received from sales of goods and rendering of services | 849,356,766.18 | 1,810,421,028.53 |
| Net increase in customer deposits and due to banks and other financial institutions | — | — |
| Net increase in borrowings from the central bank | — | — |
| Net increase in borrowing funds from other financial institutions | — | — |
| Cash received from receiving premiums of original insurance contracts | — | — |
| Net cash received from reinsurance business | — | — |
| Net increase in deposits from policyholders and investments | — | — |
| Cash received of interests, brokerages and commissions | — | — |
| Net increase in borrowing funds | — | — |
| Net increase in repurchase business capital | — | — |
| Net cash proceeds from securities brokerage | — | — |
| Receipts of tax refunds | 466,828.15 | 651,781.97 |
| Other cash received relating to operating activities | 6,479,044.83 | 71,529,506.03 |
| Sub-total of cash inflows from operating activities | 856,302,639.16 | 1,882,602,316.53 |
| Cash paid for purchasing goods and receiving services | 691,479,494.92 | 1,568,274,489.14 |
| Net increase in loans and advances to customers | — | — |
| Net increase in deposits with the central bank and other financial institutions | — | — |
| Cash paid for compensations of original insurance contracts | — | — |
| Net increase in lending funds | — | — |
| Cash paid for interests, brokerages and commissions | — | — |
| Cash paid for policyholder dividends | — | — |
| Cash paid to and on behalf of employees | 97,299,985.75 | 141,848,731.91 |
| Taxes paid | 28,903,931.12 | 34,207,113.88 |
| Cash paid relating to other operating activities | 62,389,825.02 | 81,365,131.49 |
| Sub-total of cash outflows from operating activities | 880,073,236.81 | 1,825,695,466.42 |
| Net cash flow generated from operating activities | (23,770,597.65) | 56,906,850.11 |

Unit: RMB

| Item | Interim 2023 | Interim 2022 |
|---|-------------------------|------------------|
| II. Cash flows from investing activities: | | |
| Cash received from return on investments | — | — |
| Cash received from gains on investments | — | — |
| Net cash from disposal of fixed assets, intangible assets and other long-term assets | 85,500.00 | — |
| 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 | 85,500.00 | — |
| Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets | 4,138,963.91 | 6,599,680.18 |
| Cash paid for investments | — | — |
| Net increase in pledged loans | — | — |
| Net cash paid for acquisition of subsidiaries and other business units | — | — |
| Cash paid relating to other investing activities | — | — |
| Sub-total of cash outflows from investing activities | 4,138,963.91 | 6,599,680.18 |
| Net cash flow generated from investing activities | (4,053,463.91) | (6,599,680.18) |
| III. Cash flows from financing activities: | | |
| Cash received from capital contributions | — | — |
| Including: Cash received from capital contributions from minority shareholders by subsidiaries | — | — |
| Cash received from borrowings | 1,881,490,872.82 | 2,459,716,777.52 |
| Other cash received relating to financing activities | 32,048,500.00 | — |
| Sub-total of cash inflows from financing activities | 1,913,539,372.82 | 2,459,716,777.52 |
| Cash paid for repayment of debts | 1,825,498,373.81 | 2,117,306,394.73 |
| Cash paid for distribution of dividends and profits or repayment of interests | 47,829,746.65 | 57,429,874.00 |
| Including: Dividends and profits paid to minority shareholders by subsidiaries | — | — |
| Cash paid relating to other financing activities | — | 268,358,500.00 |
| Sub-total of cash outflows from financing activities | 1,873,328,120.46 | 2,443,094,768.73 |
| Net cash flow generated from financing activities | 40,211,252.36 | 16,622,008.79 |
| IV. Effect of changes in foreign exchange rate on cash and cash equivalents | 1,773,265.30 | (2,190,087.67) |
| V. Net increase in cash and cash equivalents | 14,160,456.10 | 64,739,091.05 |
| Add: Balance of cash and cash equivalents at the beginning of the period | 358,672,243.57 | 414,209,197.66 |
| VI. Balance of cash and cash equivalents at the end of the period | 372,832,699.67 | 478,948,288.71 |

6. Statement of cash flows of the parent company

Unit: RMB

| Item | Interim 2023 | Interim 2022 |
|---|-------------------------|-------------------------|
| I. Cash flows from operating activities: | | |
| Cash received from sales of goods and rendering of services | 822,858,440.92 | 834,290,226.86 |
| Refunds of taxes received | 0.00 | 651,781.97 |
| Other cash received relating to operating activities | 35,274,881.44 | 45,111,271.72 |
| Sub-total of cash inflows from operating activities | 858,133,322.36 | 880,053,280.55 |
| Cash paid for purchasing goods and receiving services | 741,279,073.47 | 381,519,517.78 |
| Cash paid to and on behalf of employees | 73,380,016.80 | 92,040,854.91 |
| Cash paid for taxes | 24,873,023.83 | 22,516,374.21 |
| Other cash paid relating to operating activities | 46,448,310.68 | 320,163,708.43 |
| Sub-total of cash outflows from operating activities | 885,980,424.78 | 816,240,455.33 |
| Net cash flow generated from operating activities | (27,847,102.42) | 63,812,825.22 |
| 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 | 85,500.00 | — |
| Net cash received from disposal of subsidiaries and other operating entities | — | — |
| Other cash received relating to investing activities | — | — |
| Sub-total of cash inflows from investing activities | 85,500.00 | — |
| Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets | 2,577,150.00 | 454,414.00 |
| Cash paid for investments | — | — |
| Net cash paid for acquisition of subsidiaries and other operating entities | — | — |
| Other cash paid relating to investing activities | — | — |
| Sub-total of cash outflows from investing activities | 2,577,150.00 | 454,414.00 |
| Net cash flow generated from investing activities | (2,491,650.00) | (454,414.00) |
| III. Cash flows from financing activities: | | |
| Cash received from capital contributions | — | — |
| Cash received from borrowings | 1,481,490,872.82 | 1,564,016,777.52 |
| Other cash received relating to financing activities | — | — |
| Sub-total of cash inflows from financing activities | 1,481,490,872.82 | 1,564,016,777.52 |
| Cash paid for repayment of liabilities | 1,384,389,878.48 | 1,595,206,394.73 |
| Cash paid for dividend and profit distributions or interest repayments | 41,026,008.61 | 37,529,024.24 |
| Other cash paid relating to financing activities | — | — |
| Sub-total of cash outflows from financing activities | 1,425,415,887.09 | 1,632,735,418.97 |
| Net cash flow generated from financing activities | 56,074,985.73 | (68,718,641.45) |
| IV. Effect of changes in foreign exchange rate on cash and cash equivalents | 1,582,672.56 | (2,311,704.03) |
| V. Net increase in cash and cash equivalents | 27,318,905.87 | (7,671,934.26) |
| Add: Balance of cash and cash equivalents at the beginning of the period | 340,829,668.67 | 375,994,555.19 |
| VI. Balance of cash and cash equivalents at the end of the period | 368,148,574.54 | 368,322,620.93 |

7. Consolidated statement of changes in owners' equity

Amounts for the current period

Unit: RMB

| Item | Interim 2023 | | | | | | | | | | | | | | |
|--|---|-----------------|--------|---|-----------------|-----------------------|----------------------------|-----------------|-----------------|----------------------|-----------------------|--------|------------------|--------------------|----------------------|
| | Equity attributable to owners of the parent company | | | | | | | | | | | | | | |
| | Other equity instruments | | | | Capital reserve | Less: Treasury shares | Other comprehensive income | Special reserve | Surplus reserve | General risk reserve | Undistributed profits | Others | 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 | — | — | — | 864,405,329.26 | — | (3,029,259.75) | — | 187,753,923.88 | — | (659,017,550.51) | — | 987,960,842.88 | (77,607,634.64) | 910,353,208.24 |
| 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 | — | — | — | 864,405,329.26 | — | (3,029,259.75) | — | 187,753,923.88 | — | (659,017,550.51) | — | 987,960,842.88 | (77,607,634.64) | 910,353,208.24 |
| III. Changes in the current period | — | — | — | — | 794,276.38 | — | (602,623.93) | — | — | — | (158,242,397.13) | — | (158,050,744.68) | (5,758,196.12) | (163,808,940.80) |
| (i) Total comprehensive income | — | — | — | — | — | — | (602,623.93) | — | — | — | (158,242,397.13) | — | (158,845,021.06) | (5,758,196.12) | (164,603,217.18) |
| (ii) Owners' capital contribution and reduction | — | — | — | — | 794,276.38 | — | — | — | — | — | — | — | 794,276.38 | — | 794,276.38 |
| 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 | — | — | — | — | 794,276.38 | — | — | — | — | — | — | — | 794,276.38 | — | 794,276.38 |
| (iii) Profit distribution | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 1. Appropriations to surplus reserve | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 2. Appropriations to general risk reserve | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 3. Distributions to owners (or shareholders) | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 4. Others | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| (iv) Transfer of owners' equity | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 1. Transfer of capital reserve to capital (or share capital) | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 2. Transfer of surplus reserve to 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 | — | — | — | — | — | — | 7,315,605.66 | — | — | — | — | — | 7,315,605.66 | — | 7,315,605.66 |
| 2. Utilised during the period | — | — | — | — | — | — | 7,315,605.66 | — | — | — | — | — | 7,315,605.66 | — | 7,315,605.66 |
| (vi) Others | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| IV. Balance at the end of the current period | 797,848,400.00 | — | — | — | 865,199,605.64 | — | (3,631,883.68) | — | 187,753,923.88 | — | (1,017,259,947.64) | — | 829,910,098.20 | (83,365,830.76) | 746,544,267.44 |

Amounts for the prior year

Unit: RMB

| Item | Interim 2022 | | | | | | | | | | | | | | |
|--|---|--------------------|--------|---|-----------------|--------------------------|----------------------------------|--------------------|-----------------|-------------------------|--------------------------|--------|------------------|-----------------------|-------------------------|
| | Equity attributable to owners of the parent company | | | | | | | | | | | | | | |
| | Other equity instruments | | | | Capital reserve | Less: Treasury shares | Other comprehensive income | Special reserve | Surplus reserve | General risk reserve | Undistributed profits | Others | 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 | — | — | — | 863,356,311.20 | — | (1,671,948.29) | — | 187,753,923.88 | — | (434,047,824.92) | — | 1,413,238,861.87 | (53,491,100.48) | 1,359,747,761.39 |
| 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 | — | — | — | 863,356,311.20 | — | (1,671,948.29) | — | 187,753,923.88 | — | (434,047,824.92) | — | 1,413,238,861.87 | (53,491,100.48) | 1,359,747,761.39 |
| III. Changes in the current period | — | — | — | — | 696,422.22 | — | (773,912.51) | — | — | — | (172,717,715.72) | — | (172,795,206.01) | (10,539,337.17) | (163,334,543.18) |
| (i) Total comprehensive income | — | — | — | — | — | — | (773,912.51) | — | — | — | (172,717,715.72) | — | (173,491,628.23) | (10,539,337.17) | (184,030,965.40) |
| (ii) Owners' capital contribution and reduction | — | — | — | — | 696,422.22 | — | — | — | — | — | — | — | 696,422.22 | — | 696,422.22 |
| 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 | — | — | — | — | 696,422.22 | — | — | — | — | — | — | — | 696,422.22 | — | 696,422.22 |
| (iii) Profit distribution | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 1. Appropriations to surplus reserve | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 2. Appropriations to general risk reserve | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 3. Distributions to owners (or shareholders) | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 4. Others | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| (iv) Transfer of owners' equity | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 1. Transfer of capital reserve to capital (or share capital) | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 2. Transfer of surplus reserve to 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 | — | — | — | — | — | — | — | 13,594,754.41 | — | — | — | — | 13,594,754.41 | — | 13,594,754.41 |
| 2. Utilised during the period | — | — | — | — | — | — | — | (13,594,754.41) | — | — | — | — | (13,594,754.41) | — | (13,594,754.41) |
| (vi) Others | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| IV. Balance at the end of the current period | 797,848,400.00 | — | — | — | 864,052,733.42 | — | (2,445,860.80) | — | 187,753,923.88 | — | (606,765,540.64) | — | 1,240,443,655.86 | (64,030,437.65) | 1,176,413,218.21 |

8. Statement of changes in owners' equity of the parent company

Amounts for the current period

Unit: RMB

| Item | Interim 2023 | | | | | | | | | | | |
|--|--------------------------|------------------|-----------------|--------|-----------------|-----------------------|----------------------------|-----------------|-----------------|-----------------------|--------|----------------------|
| | Other equity instruments | | | | Capital reserve | Less: Treasury shares | Other comprehensive income | Special reserve | Surplus reserve | Undistributed profits | Others | 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 | — | — | — | 863,337,643.70 | — | — | — | 187,753,923.88 | 504,279,657.64 | — | 2,353,219,625.22 |
| Add: Changes in accounting policies | — | — | — | — | — | — | — | — | — | — | — | — |
| Correction of prior period errors | — | — | — | — | — | — | — | — | — | — | — | — |
| Others | — | — | — | — | — | — | — | — | — | — | — | — |
| II. Balance at the beginning of the current year | 797,848,400.00 | — | — | — | 863,337,643.70 | — | — | — | 187,753,923.88 | 504,279,657.64 | — | 2,353,219,625.22 |
| III. Changes in the current period | — | — | — | — | 1,843,294.44 | — | — | — | — | (244,347,691.95) | — | (242,504,397.51) |
| (i) Total comprehensive income | — | — | — | — | — | — | — | — | — | (244,347,691.95) | — | (244,347,691.95) |
| (ii) Owners' capital contribution and reduction | — | — | — | — | 1,843,294.44 | — | — | — | — | — | — | 1,843,294.44 |
| 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 | — | — | — | — | 1,843,294.44 | — | — | — | — | — | — | 1,843,294.44 |
| (iii) Profit distribution | — | — | — | — | — | — | — | — | — | — | — | — |
| 1. Appropriations to surplus reserve | — | — | — | — | — | — | — | — | — | — | — | — |
| 2. Distributions to owners (or shareholders) | — | — | — | — | — | — | — | — | — | — | — | — |
| 3. Others | — | — | — | — | — | — | — | — | — | — | — | — |
| (iv) Transfer of owners' equity | — | — | — | — | — | — | — | — | — | — | — | — |
| 1. Transfer of capital reserve to capital (or share capital) | — | — | — | — | — | — | — | — | — | — | — | — |
| 2. Transfer of surplus reserve to 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 | — | — | — | — | — | — | — | 4,736,617.65 | — | — | — | 4,736,617.65 |
| 2. Utilised during the period | — | — | — | — | — | — | — | 4,736,617.65 | — | — | — | 4,736,617.65 |
| (vi) Others | — | — | — | — | — | — | — | — | — | — | — | — |
| IV. Balance at the end of the current period | 797,848,400.00 | — | — | — | 865,180,938.14 | — | — | — | 187,753,923.88 | 259,931,965.69 | — | 2,110,715,227.71 |

Amounts for the prior year

Unit: RMB

| Item | Interim 2022 | | | | | | | | | | | Total owners' equity |
|--|----------------|--------------------------|-----------------|--------|-----------------|-----------------------|----------------------------|----------------------------|-----------------|-----------------------|--------|----------------------|
| | Share capital | Other equity instruments | | | Capital reserve | Less: Treasury shares | Other comprehensive income | | Surplus reserve | Undistributed profits | Others | |
| | | Preferred shares | Perpetual bonds | Others | | | Special reserve | Other comprehensive income | | | | |
| I. Balance at the end of the same period last year | 797,848,400.00 | — | — | — | 863,337,643.70 | — | — | — | 187,753,923.88 | 504,279,657.64 | — | 2,353,219,625.22 |
| Add: Changes in accounting policies | — | — | — | — | — | — | — | — | — | — | — | — |
| Correction of prior period errors | — | — | — | — | — | — | — | — | — | — | — | — |
| Others | — | — | — | — | — | — | — | — | — | — | — | — |
| II. Balance at the beginning of the current year | 797,848,400.00 | — | — | — | 863,337,643.70 | — | — | — | 187,753,923.88 | 504,279,657.64 | — | 2,353,219,625.22 |
| III. Changes in the current period | — | — | — | — | 696,422.22 | — | — | — | — | (94,207,399.83) | — | (93,510,977.61) |
| (i) Total comprehensive income | — | — | — | — | — | — | — | — | — | (94,207,399.83) | — | (94,207,399.83) |
| (ii) Owners' capital contribution and reduction | — | — | — | — | 696,422.22 | — | — | — | — | — | — | 696,422.22 |
| 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 | — | — | — | — | 696,422.22 | — | — | — | — | — | — | 696,422.22 |
| (iii) Profit distribution | — | — | — | — | — | — | — | — | — | — | — | — |
| 1. Appropriations to surplus reserve | — | — | — | — | — | — | — | — | — | — | — | — |
| 2. Distributions to owners (or shareholders) | — | — | — | — | — | — | — | — | — | — | — | — |
| 3. Others | — | — | — | — | — | — | — | — | — | — | — | — |
| (iv) Transfer of owners' equity | — | — | — | — | — | — | — | — | — | — | — | — |
| 1. Transfer of capital reserve to capital (or share capital) | — | — | — | — | — | — | — | — | — | — | — | — |
| 2. Transfer of surplus reserve to 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 | — | — | — | — | — | — | — | 3,793,531.41 | — | — | — | 3,793,531.41 |
| 2. Utilised during the period | — | — | — | — | — | — | — | 3,793,531.41 | — | — | — | 3,793,531.41 |
| (vi) Others | — | — | — | — | — | — | — | — | — | — | — | — |
| IV. Balance at the end of the current period | 797,848,400.00 | — | — | — | 864,034,065.92 | — | — | — | 187,753,923.88 | 410,072,257.81 | — | 2,259,708,647.61 |

III. General Information of the Company

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

Upon the approval by the 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 SEHK.

Upon the approval by the 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 the China Securities Regulatory Commission on 26 January 2007 and the approval issued by the SEHK on 6 February 2007, the listing status of the Company’s overseas listed foreign shares (H Shares) in the Growth Enterprise Market of the SEHK has been cancelled on 7 February 2007, and changed to list on the Main Board of the SEHK.

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

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

On 23 February 2021, Mr. Zhang En Rong, the original controlling shareholder and the actual controller of the Company, entered into the Share Transfer Agreement with Molong Holdings. Mr. Zhang En Rong transferred 235,617,000 A shares of the Company (representing 29.53% of the total share capital of the Company) held by him to Molong Holdings by way of transfer agreement.

As at 30 June 2023, the Company had a registered capital of RMB797,848,400.00, divided into a total of 797,848,400 shares.

The registered address of the Company is at No. 99 Xing Shang Road, Gucheng Subdistrict, Shouguang City, Shandong Province, PRC. The office address of the Company is at 8th–10th Floor, Building 19, Enterprise Headquarters Group, Shengcheng Street, Shouguang City, Shandong Province.

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

The controlling shareholder of the Company is Molong Holdings and the actual controller of the Company is the State-owned Assets Supervision and Administration Commission of Shouguang City (壽光市國有資產監督管理局).

The Company's consolidated financial statements covers eight companies including Shouguang Baolong Petroleum Equipment Co., Ltd., Shouguang Maolong New Materials Technology Development Co., Ltd. and Weihai Baolong Special Petroleum Materials Co., Ltd.

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

IV. Basis of preparation of the financial statements

1. Basis of preparation

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

2. Going concern

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

- 1) the Company received an interest-free financial assistance of RMB500 million from Shouguang Jinxin, the controlling shareholder of the Company's controlling shareholder.
- 2) the Company increased its efforts in the promotion and sales of new products with higher gross margin, strengthened its internal management, deepened the internal tapping, intensified inputs to technological upgrade, adopted multiple measures to reduce production cost and enhance the profitability of the Company.
- 3) the cooperation between the Group and financial institutions is currently well advanced. While maintain the existing financing channels and credit lines, the Company diversified into other financing channels and modes.
- 4) the Group is adopting measures to actively explore new investment and business opportunities such as further promoting the furnace rehabilitation technology, in order to make profit and gain adequate working capital.

As at the date of this financial report, the Group had unutilised short-term borrowings of RMB135 million, and had stable cash flows from operating activities as there was a large number of orders unfulfilled. The Company has launched its newly-developed products into the market and the prospect is promising.

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

V. Significant accounting policies and accounting estimates

Specific accounting policies and accounting estimates:

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

1. *Statement of compliance with the ASBEs*

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

2. *Accounting period*

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

3. *Business cycle*

The Company'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 Company is RMB.

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

The assets and liabilities that the Company 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 Company on the acquisition date to obtain control over the acquiree, the debts issued or undertaken by the Company and the equity securities issued as well as all relevant direct costs for the business combination (for a business combination realised by multiple transactions, the combination costs shall be the aggregate of the costs of all separate transactions). The amount of the combination costs in excess of the fair value of the identifiable net assets of the acquiree shall be recognised as goodwill. If the combination costs are less than the fair value of the identifiable net assets of the acquiree, the fair value of the identifiable assets, liabilities and contingent liabilities acquired from the combination as well as the fair value of the non-cash assets or the equity securities issued for paying the consideration will be reviewed. If the combination costs are still less than the fair value of the identifiable net assets after review, the balance shall be accounted for as non-operating income for the current period.

6. *Preparation of consolidated financial statements*

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

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

Significant intra-group transactions, current balance and unrealised profits within the scope of consolidation shall be offset in preparing the consolidated financial statements. The shares of owners' equity in subsidiaries not attributable to the parent company and the net loss or profit for the current period, other comprehensive income and total comprehensive income attributable to minority interests shall be presented in the consolidated financial statements as "minority interests, profit or loss attributable to minority interests, other comprehensive income attributable to minority interests and total comprehensive income attributable to minority interests", respectively.

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

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 Company 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 Company'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, the Company's long-term equity investments before the combination, as well as the relevant recognised profit or loss, other comprehensive income and other changes in net assets from the day of acquiring the original equity interest or the day when the Company 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 Company gains control. When preparing the consolidated financial statements, the financial statements of the subsidiary shall be adjusted based on the fair value of the identifiable assets, liabilities and contingent liabilities determined on the acquisition date.

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

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

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

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

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

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

(2) Translation of foreign currency financial statements

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

10. Financial instruments

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

(1) Financial assets

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

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

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

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

The Company 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 Company at fair value through other comprehensive income is recognised initially at fair value, and related transaction expense is included in the initially recognised amount. Except for dividends (excluding any portion as return of investment cost) received and recorded in the current profit and loss, other related gains and losses (including exchange gains and losses) are included in other comprehensive income and subsequently may not be transferred to the current profits and losses. When it is derecognised, the accumulated gain or loss previously included in other comprehensive income is transferred from other comprehensive income and is included in retained earnings. The Company currently does not have any investment in equity instruments designated at fair value through other comprehensive income.

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

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

2) *Basis of recognition and method of measurement of transfer of 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 Company 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 Company has neither transferred nor retained substantially all the risks and rewards incidental to the ownership of the financial asset, and has not retained its control over the financial asset.

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

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

(2) Financial liabilities

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

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

- ① Financial liabilities at fair value through profit or loss for the current period (including derivatives that are financial liabilities) include trading financial liabilities and financial liabilities held-for-trading and those designated as fair value through profit or loss on initial recognition. These financial liabilities are subsequently measured at fair value. The net gain or loss arising from changes in fair value; dividends and Interest expenditure related to such financial liabilities are recorded in profit or loss for the period in which they are incurred.
- ② Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Financial liabilities of this kind are measured by the Company according to the standard for transferring financial assets.
- ③ Financial guarantee contracts that do not fall into ① or ② above, and commitments to provide a loan at a below-market interest rate that do not fall into ① above. The Company, as an issuer of the financial liabilities of this kind, will measure subsequent to initial recognition at the higher of the amount of provision for losses as determined according to standard for impairment on financial instruments and the surplus after accumulative amortisation as determined according to the standard for revenue.

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

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

Fair values of financial assets and financial liabilities of the Company 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 Company: 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 Company, and level 3 inputs will be the last one to use. The level of fair value measurement is determined by the lowest level of inputs which are significant to the measurement of fair value as a whole.

The Company 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 Company 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 Company has a legal right that is currently enforceable to set off the recognised amount, and ② the Company 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 Company classifies financial liabilities and equity instruments on the following principles: ① Where the Company is unable to unconditionally avoid delivering cash or another financial asset to fulfill 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 Company's own equity instrument, consideration shall be given to whether the Company'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 Company will or may use its own equity instrument to settle the financial instrument, and the amount of the contractual right or obligation equal to the number instrument, consideration shall be given to whether the Company'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 Company 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 Company's own equity instruments (for example an interest rate, a commodity price or a financial instrument price).

When classifying a financial instrument (or a component thereof) in consolidated financial statements, the Company 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 Company treats it as change in equity when it is issued (including refinanced), repurchased, sold or cancelled, and does not recognise changes in fair value of equity instrument.

11. Bills receivable

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

12. Accounts receivable

For the accounts receivable arising from the transactions regulated by the "Accounting Standards for Business Enterprises No. 14 — Revenue" and including no significant financing components, the Company 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 Company determines whether the credit risk of financial instrument has increased significantly. However, if the Company 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 Company 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 Company shall consider the reasonable and supportable information, including forward-looking information, that is available without undue cost or effort. Information considered by the Company includes:

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

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

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

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

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

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

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

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

13. Financing receivables

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

14. Other receivables

Recognition and accounting methods for expected credit loss on other receivables

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

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

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

73

15. Inventories

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

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

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

16. Contract assets

(1) Recognition and criteria of contract assets

A contract asset is the Company'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 Company 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 Company shall recognise such right to receive payment as contract asset.

(2) Recognition and accounting methods for expected credit loss on contract assets

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

The Company 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 Company recognises the difference as impairment loss which shall be charged to “asset impairment loss” or credited to “impairment allowance for contract assets”. In the case contrary to the aforesaid, the Company recognises the difference as impairment gain and makes the account contrarily.

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

17. Contract costs

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

The Company'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 Company in performing its contract. When the costs are not within the scope of other accounting standards for business enterprises, the Company recognizes 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 (or similar expenses), costs that are explicitly chargeable to the customer under the contract and other costs that are incurred only because the Company has entered into the contract; the costs generate or enhance resources of the Company 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 Company incurs to obtain a contract. If the cost is expected to be recovered, it is treated as the cost of obtaining a contract and recognised as an asset; if the amortisation period of such asset is less than one year, it is recorded in profit or loss for the current period when incurred. Incremental costs are the costs that they would not have incurred if the Company had not obtained the contract (for example, sales commission). For other expenses incurred by the Company 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 Company amortises the asset relating to contract costs on a basis that is consistent with the revenue recognition relating to the asset and recognises it in profit or loss.

(3) Impairment of assets related to contract costs

When determining the impairment loss of an asset related to the contract cost, the Company 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 Company provides for impairment allowance and recognises as an impairment loss of asset to the extent that the carrying amount of such asset exceeds the difference between the following: the remaining amount of consideration that the Company 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 Company shall recognise in profit or loss a reversal of an impairment loss previously recognised when the impairment conditions change and the aforesaid difference is higher than the carrying amount of the asset. The increased carrying amount of the asset shall not exceed the amount that would have been determined if no impairment loss had been recognised previously.

18. Assets held for sale

- (1) The Company 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 Company 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 Company acquired specifically for disposal, satisfy the criterion of “disposal is expected to be completed within one year” on the date of acquisition, and is probable to satisfy other criteria of classifying as held for sale shortly (usually within 3 months), are classified as held for sale on the date of acquisition. At initial measurement, the amounts initially measured assuming it is not classified as held for sale and the fair value less cost of disposal are compared, and the lower of the two is measured. Other than non-current assets or disposal 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 Company has lost control of a subsidiary due to reasons such as disposal of investment in the subsidiary, regardless of the Company retains any part of equity investment after disposal, upon the investment in the subsidiary intended to be disposed satisfying the criterion for classification as held for sale, the investment in the subsidiary will be entirely classified as held for sale in the separate financial statements of the parent company, and all assets and liabilities of the subsidiary are classified as held for sale in the consolidated financial statements.
- (4) Where there is an increase in fair value less cost of disposal of a non-current asset held for sale on subsequent balance sheet dates, the amount previously written down should be recovered and reversed in the impairment loss of assets recognised after classification as held for sale, with the reversed amount recognised in profit and loss of the period. Asset impairment loss recognised before classification as held for sale is not reversible.
- (5) Asset impairment loss recognised for disposal groups held for sale is first offset against the book value of goodwill of disposal groups, and then offset against the book values proportionally according to the share of book value of each non-current asset.

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

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

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

19. Long-term equity investments

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

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

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

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

For shareholding which obtained by different transactions in stages and become business combination finally, if it belongs to a basket of transactions, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to a basket of transactions, Initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will 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 disposes related assets or liabilities upon disposal. For shareholding which it holds before acquisition and designated as equity instruments not held for trading at fair value through other comprehensive income, the accumulated change in fair value which is originally included in other comprehensive income shall not be transferred to profit or loss for the current period.

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

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

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

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

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

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

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

20. Investment properties

Measurement model for investment properties

Cost method

Method for depreciation or amortisation

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

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

21. Fixed assets

(1) Criteria for recognition

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

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

(2) Depreciation method

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

The Company reviews the expected 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.

22. Construction-in-progress

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

23. Borrowing costs

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

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

24. *Right-of-use assets*

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

(1) **Initial measurement**

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

(2) **Subsequent measurement**

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

(3) **Depreciation of right-of-use assets**

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

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

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

(4) **Impairment of right-of-use assets**

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

25. *Intangible assets*

(1) **Measurement method, useful life and impairment test**

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

For intangible assets with definite useful lives, the Company adopts straight-line method for amortisation at the month of acquisition. The Company amortises 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-patented technology and other intangible assets are amortised evenly on the basis of shorter of estimated useful life, stipulated beneficial year by contract, and legal available year. The amortisation amount is accounted into profit and loss in the current period. The Company makes the assessment on the estimated useful life and amortisation 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 Company due to various reasons are recognised as intangible assets with indefinite useful life. The Company 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 Company'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 Company shall undergo two phases, namely research and development. The research phase includes such stages as investigation, substantiation, the initiation and approval of annual new product R&D plans, early researches (including formula design, process design, equipment selection, formulation of technical standards, etc.), the preparation and approval of monthly new product R&D plans and so on, among which the completion of approval of monthly new product R&D plans symbolises the end of the phase of research for a new product. The development phase includes specifically such stages as trial production of the new product, project acceptance, etc., the latter of which symbolises the end of the phase of development for a new product.

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

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

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

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

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

26. Impairment of long-term assets

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

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

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

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

27. Long-term deferred expenses

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

28. Contract liabilities

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

29. Employee compensations

(1) Accounting for short-term employee compensations

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

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

(2) Accounting for post-employment benefits

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

(3) Accounting for termination benefits

The Company has currently no termination benefits.

(4) Accounting for other long-term compensations

The Company has currently no other long-term compensations.

83

30. Lease liabilities

(1) Initial measurement

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

1) Lease payments

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

2) Discount rate

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

(2) Subsequent measurement

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

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

(3) Remeasurement

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

31. Provisions

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

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

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

32. Safety Production Fee

The Company collects, utilises and reviews the production safety fee pursuant to the relevant requirements of Notice of the Ministry of Finance and the State Administration of Work Safety on Issuing the Administrative Measures for the Collection and Utilisation of Enterprise Work Safety Funds (Cai Qi [2022] No. 136) and Notice of the Ministry of Finance on Issuing Interpretation No. 3 of the Accounting Standards for Business Enterprises (Cai Hui [2009] No. 8).

The provision of Company's machinery production enterprise safety production fee 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 2.35%;
- (2) Operating income of RMB10 million to RMB100 million (inclusive), accrued in accordance with 1.25%;
- (3) Operating income of RMB100 million to RMB1,000 million (inclusive), accrued in accordance with 0.25%;
- (4) Operating income of RMB1,000 million to RMB5,000 million (inclusive), accrued in accordance with 0.1%;
- (5) Operating income above RMB5,000 million, accrued in accordance with 0.05%.

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

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

85

33. Revenue

Accounting policy adopted for the recognition and measurement of revenue

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

(1) Principles of revenue recognition

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

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

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

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

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

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

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

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

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

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

① *Contracts for sale of goods*

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

② *Contracts for provision of services*

Contracts for provision of services between the Company and its customers usually contain performance obligations such as technical services and after-sale maintenance services. While the Company performs the contract, the customer obtains and consumes the economic benefit brought by the Company's performance, and in respect of the portion of revenue arising from the Company's performance completed to date, the Company 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 Company 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 Company recognises revenue based on the amount of costs incurred, until the progress of performance can be reasonably determined.

Differences in accounting policies for revenue recognition due to the adoption of different business models for similar businesses

87

34. Government grants

The Company'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 Company 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 Company shall determine based on the above classification principles, otherwise, it is classified as a government grant related to income in its entirety.

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

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

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

Interest subsidies for policy-related preferential loans obtained by the Company are classified as interest subsidy funds paid to lending banks or interest subsidy funds directly paid to the Company, 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 Company at policy-related preferential rates, and the Company 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 Company, the Company will offset the corresponding interest subsidy against the relevant borrowing expenses.

For government grants recognised that needs to be returned, the Company 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.

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

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

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

36. *Leases*

(1) Identification of leases

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

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

(2) The Company as a lessee

1) *Lease recognition*

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

2) *Modifications of leases*

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

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

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

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

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

(3) The Company as a lessor

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

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

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

1) *Accounting for finance leases*

Initial measurement

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

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

Subsequent measurement

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

Accounting for lease modification

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

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

2) *Accounting for operating leases*

Treatment for rents

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

Incentive measures provided

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

Initial direct expenses

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

Depreciation

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

Variable lease payments

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

Modifications of operating leases

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

37. Other Significant Accounting Policies and Accounting Estimates

(1) Accounting for income tax

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

The tax currently payable is the amount of tax payable to taxation bureau by the enterprises in respect of the transactions and matters of the current period calculated according to the taxation regulations. The deferred income tax is the difference between the balances of the deferred income tax assets and deferred tax liabilities that should be recognised using the balance sheet liabilities approach at the end of period and their balances originally recognised.

(2) Segment information

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

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

(3) Discontinued operations

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

92

38. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

Applicable Not applicable

(2) Changes in significant accounting estimates

Applicable Not applicable

(3) Initial implementation of new accounting standards to adjust the related items in the financial statements at the beginning of the year from 2023 onward

Applicable Not applicable

VI. Taxation

1. Main tax types and tax rates

| Type | Calculation basis | Rate |
|--|--|-----------------|
| Value-added tax | Value-added tax payable is the balance of output tax after deducting deductible import tax | 13%, 9%, 5% |
| Urban maintenance and construction tax | Turnover tax actually paid | 7% |
| Enterprise income tax | Taxable profits | 15%, 16.5%, 25% |
| Education surcharge | Turnover tax actually paid | 3% |
| Local education surcharge | Turnover tax actually paid | 2% |

Disclosures regarding taxpaying entities subject to different enterprise income tax rates

| Name of taxpaying entity | Income tax rate |
|---------------------------|-----------------|
| The Company | 15% |
| Molong Logistic | 25% |
| MPM | 16.5% |
| Shouguang Baolong | 25% |
| Shouguang Maolong | 25% |
| Molong Electro-mechanical | 25% |
| Weihai Baolong | 25% |
| Molong I&E | 20% |
| Molong Commercial | 20% |

2. Tax incentives

- (1) According to the document of "Letter Regarding 2020 2nd Batch Filing of High-tech Enterprises of Shandong Province" (Guo Ke Huo Zi [2021] No. 25) issued by the Leading Group Office of National Hightech Enterprises Recognition and Management, the Company has been recognised as a high-tech enterprise and obtained a certificate of high-tech enterprise No. GR202037004362. The certificate of high-tech enterprise was issued on 8 December 2020 and is valid for a term of three years.

According to the regulations of high-tech enterprise recognition and relevant national tax policies, the Company can enjoy preferential national tax policies for three consecutive years (from 2020 to 2022) from the re-recognition of high-tech enterprises, i.e. paying enterprise income tax at a rate of 15%.

- (2) According to the Announcement of the State Administration of Taxation on the Collection and Management of Preferential Income Tax Policies for Small Low-Profit Enterprises (SAT Announcement [2023] No. 6), from 1 January 2023 to 31 December 2024, small low-profit enterprises shall calculate taxable income at a reduced rate of 25% for the part of taxable income not exceeding RMB3 million, which is subject to enterprise income tax at the rate of 20%.

VII. Explanatory Notes to the Consolidated Financial Statements Line Items

1. Monetary funds

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|--|---|--|
| Cash on hand | 209,646.21 | 40,394.74 |
| Cash at banks | 27,595,898.94 | 217,265,724.34 |
| Other monetary funds | 426,035,676.62 | 242,351,703.49 |
| Total | 453,841,221.77 | 459,657,822.57 |
| Including: Total deposits overseas | 2,544,903.93 | 2,450,457.39 |
| Total funds restricted for use as security, pledge or freeze | 433,131,291.60 | 245,410,596.72 |

Other descriptions:

- (1) The Company's deposits overseas represented the monetary funds of MPM, a Hong Kong-based subsidiary.
- (2) The Company's other monetary funds at the end of the period included bank acceptance margins of RMB424,309,787.13 (as at the beginning of the year: RMB239,976,846.00), USD-denominated margins of RMB722,982.33 (as at the beginning of the year: RMB696,671.72) and deposits in other financial institutions of RMB1,002,907.16 (as at the beginning of the year: RMB1,678,185.77).
- (3) The Company had security deposits for bank acceptance bills with maturity date over 3 months of RMB72,910,000.00 (as at the beginning of the year: RMB96,248,500.00).
- (4) Monetary funds restricted for use

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|----------------------|---|--|
| Bank deposits | 8,098,522.10 | 4,737,079.00 |
| Other monetary funds | 425,032,769.46 | 240,673,517.72 |
| Total | 433,131,291.60 | 245,410,596.72 |

As at the balance sheet date, the Company had funds of RMB8,098,522.10 subject to judicial freezing for litigations.

2. Bills receivable

(1) Presentation of bills receivable by type

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|------------------------|---|--|
| Trade acceptance bills | 60,192,674.87 | 171,547,752.98 |
| Total | 60,192,674.87 | 171,547,752.98 |

Unit: RMB

| Type | Balance at the end of the period | | | | | Balance at the beginning of the period | | | | |
|--|----------------------------------|------------|-------------------------|----------------|---------------|--|------------|-------------------------|----------------|----------------|
| | Book balance | | Provision for bad debts | | | Book balance | | Provision for bad debts | | |
| | Amount | Percentage | Amount | Provision rate | Book value | Amount | Percentage | Amount | Provision rate | Book value |
| Bills receivable provided for bad debts on a collective basis | 60,800,681.69 | 100.00% | 608,006.82 | 1.00% | 60,192,674.87 | 173,280,558.57 | 100.00% | 1,732,805.59 | 1.00% | 171,547,752.98 |
| Including: Bills receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics | 60,800,681.69 | 100.00% | 608,006.82 | 1.00% | 60,192,674.87 | 173,280,558.57 | 100.00% | 1,732,805.59 | 1.00% | 171,547,752.98 |
| Total | 60,800,681.69 | | 608,006.82 | | 60,192,674.87 | 173,280,558.57 | | 1,732,805.59 | | 171,547,752.98 |

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

Unit: RMB

| Name | Balance at the end of the period | | |
|---------------|----------------------------------|--------------------|----------------|
| | Book balance | Bad debt provision | Provision rate |
| Within 1 year | 60,800,681.69 | 608,006.82 | 1.00% |
| Total | 60,800,681.69 | 608,006.82 | |

Basis for determining the group:

Age of the bills receivable as at the end of the period: The bills receivable of the Company as at the end of the period were all aged within 1 year.

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

Applicable Not applicable

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

Provision for bad debts for the current period:

Unit: RMB

| Type | Balance at the beginning of period | Movement during the current period | | | | Balance at the end of the period |
|--|------------------------------------|------------------------------------|----------------------|-----------|--------|----------------------------------|
| | | Provision | Recovery or reversal | Write-off | Others | |
| Provisions for bad debts of bills receivable | 1,732,805.59 | (1,124,798.77) | — | — | — | 608,006.82 |
| Total | 1,732,805.59 | (1,124,798.77) | — | — | — | 608,006.82 |

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

Applicable Not applicable

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

Unit: RMB

| Item | Pledged amount at the end of the period |
|------------------------|---|
| Trade acceptance bills | 7,558,071.96 |
| Total | 7,558,071.96 |

(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 |
|------------------------|---|---|
| Trade acceptance bills | — | 49,585,777.14 |
| Total | — | 49,585,777.14 |

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

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

- (6) Actual write-off of bills receivable for the current period

There were no actual write-offs of bills receivable for the current period.

3. Accounts receivable

- (1) Disclosure of accounts receivable by type

Unit: RMB

| Type | Balance at the end of the period | | | | | Balance at the beginning of the period | | | | |
|---|----------------------------------|------------|-------------------------|----------------|----------------|--|------------|-------------------------|----------------|----------------|
| | Book balance | | Provision for bad debts | | | Book balance | | Provision for bad debts | | |
| | Amount | Percentage | Amount | Provision rate | Book value | Amount | Percentage | Amount | Provision rate | Book value |
| Including: | | | | | | | | | | |
| Accounts receivable provided for bad debts on a collective basis | 469,861,648.77 | 100.00% | 105,462,837.18 | 22.45% | 364,398,811.59 | 397,062,652.41 | 100.00% | 102,663,089.66 | 25.86% | 294,399,562.75 |
| Including: | | | | | | | | | | |
| Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics | 469,861,648.77 | 100.00% | 105,462,837.18 | 22.45% | 364,398,811.59 | 397,062,652.41 | 100.00% | 102,663,089.66 | 25.86% | 294,399,562.75 |
| Total | 469,861,648.77 | | 105,462,837.18 | | 364,398,811.59 | 397,062,652.41 | | 102,663,089.66 | | 294,399,562.75 |

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

97

Unit: RMB

| Name | Balance at the end of the period | | |
|---------------|----------------------------------|--------------------|----------------|
| | Book balance | Bad debt provision | Provision rate |
| Within 1 year | 366,466,496.17 | 3,664,664.97 | 1.00% |
| 1–2 years | 2,451,875.32 | 1,225,937.66 | 50.00% |
| 2–3 years | 523,052.05 | 392,289.04 | 75.00% |
| 3–4 years | | | |
| 4–5 years | 1,601,864.77 | 1,361,585.05 | 85.00% |
| Over 5 years | 98,818,360.46 | 98,818,360.46 | 100.00% |
| Total | 469,861,648.77 | 105,462,837.18 | |

Basis for determining the group:

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

Applicable Not applicable

Disclosure by age

Unit: RMB

| Age | Balance at the end of the period |
|---------------------------|---|
| Within 1 year (inclusive) | 366,466,496.17 |
| 1 to 2 years | 2,451,875.32 |
| 2 to 3 years | 523,052.05 |
| Over 3 years | 100,420,225.23 |
| 3 to 4 years | 0.00 |
| 4 to 5 years | 1,601,864.77 |
| Over 5 years | 98,818,360.46 |
| <hr/> | |
| Total | 469,861,648.77 |

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

Provision for bad debts for the current period:

Unit: RMB

| Type | Balance at the beginning of the period | Movement during the current period | | | | Balance at the end of the period |
|----------------------------|---|---|-----------------------------|------------------|---------------|---|
| | | Provision | Recovery or reversal | Write-off | Others | |
| Provision for bad debts of | | | | | | |
| accounts receivable | 102,663,089.66 | 2,799,747.52 | — | — | — | 105,462,837.18 |
| <hr/> | | | | | | |
| Total | 102,663,089.66 | 2,799,747.52 | — | — | — | 105,462,837.18 |

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

There were no accounts receivable actually written off during the current period.

(4) Balance of five largest accounts receivable as at the end of the period by debtors

Unit: RMB

| Name of entity | Balance of accounts receivable at the end of the period | Percentage of the total balance of accounts receivable at the end of the period | Balance of bad debt provision at the end of the period |
|----------------|---|---|--|
| Entity I | 130,500,500.33 | 27.77% | 1,305,005.00 |
| Entity II | 122,833,464.95 | 26.14% | 1,228,334.65 |
| Entity III | 50,585,077.68 | 10.77% | 50,585,077.68 |
| Entity IV | 46,222,835.06 | 9.84% | 462,228.35 |
| Entity V | 41,930,012.42 | 8.92% | 419,300.12 |
| Total | 392,071,890.44 | 83.44% | |

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

(5) Accounts receivable derecognised on transfer of financial assets

As at 30 June 2023, the Company had no accounts receivable derecognised on the transfer of financial assets.

(6) Amount of assets or liabilities arising from transfer of accounts receivable with continuous involvement

As at 30 June 2023, the Company had no assets or liabilities arising from transfer of accounts receivable with continuous involvement.

99

4. *Financing receivables*

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|-----------------------|----------------------------------|--|
| Bank acceptance bills | 16,486,581.33 | 5,371,855.71 |
| Total | 16,486,581.33 | 5,371,855.71 |

Increase or decrease movements and fair value changes of financing receivables during the current period

Applicable Not applicable

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

The Company uses the carrying amount of the bank acceptance bills as their fair value due to their short remaining terms and their carrying amount approximates to their fair value.

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

Applicable Not applicable

Other descriptions:

There were no pledged financing receivables as at the end of the period.

5. Prepayments

(1) Presentation of prepayments by age

Unit: RMB

| Age | Balance at the end of the period | | Balance at the beginning of the period | |
|---------------|----------------------------------|---------------|--|------------|
| | Amount | Percentage | Amount | Percentage |
| Within 1 year | 9,039,559.07 | 90.84% | 34,768,204.32 | 98.07% |
| 1 to 2 years | 164,446.80 | 1.65% | 5,599.62 | 0.02% |
| 2 to 3 years | 83,992.62 | 0.84% | 607,826.62 | 1.71% |
| Over 3 years | 662,944.27 | 6.66% | 69,070.27 | 0.20% |
| Total | 9,950,942.76 | | 35,450,700.83 | |

Reason(s) for significant prepayments with an age over 1 year and not settled when due:

The Company did not have any material prepayments with an age over one year as at the end of the current period.

(2) Balance of five largest prepayments as at the end of the period by prepaid entity

Unit: RMB

| Name of entity | Balance at the end of the year | Age | Percentage of total balance of prepayments at the end of the period (%) |
|----------------|--------------------------------|---------------|---|
| Entity I | 2,370,000.00 | Within 1 year | 3.04% |
| Entity II | 1,200,227.25 | Within 1 year | 1.54% |
| Entity III | 860,065.17 | Within 1 year | 1.10% |
| Entity IV | 652,083.33 | Within 1 year | 0.84% |
| Entity V | 570,330.00 | Within 1 year | 0.73% |
| Total | 5,652,705.75 | | 7.25% |

6. Other receivables

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|-------------------|----------------------------------|--|
| Other receivables | 11,113,319.94 | 5,626,830.61 |
| Total | 11,113,319.94 | 5,626,830.61 |

(1) 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 | 808,000.00 | 699,000.00 |
| Deposits/margins | 9,130,630.60 | 3,029,305.84 |
| Amounts due from administrative entities | 1,369,800.00 | 1,369,800.00 |
| Receivable export tax rebate | 0.00 | 237,314.85 |
| Amounts due from other entities | 1,727,451.96 | 1,773,537.72 |
| Less: Provision for bad debts of other receivables | (1,922,562.62) | (1,482,127.80) |
| Total | 11,113,319.94 | 5,626,830.61 |

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 2023 | 170,949.17 | 1,311,178.63 | — | 1,482,127.80 |
| Balance at 1 January 2023 during the current period | | | | |
| Provision for the current period | 5,220.39 | 584,360.06 | — | 589,580.45 |
| Reversal for the current period | 149,145.63 | — | — | 149,145.63 |
| Balance at 30 June 2023 | 27,023.93 | 1,895,538.69 | — | 1,922,562.62 |

Movements of book balance of significant changes in loss allowance for the current period

Applicable Not applicable

Disclosure by age

Unit: RMB

| Age | Balance at the end of the period |
|---------------------------|---|
| Within 1 year (inclusive) | 9,703,247.57 |
| 1 to 2 years | 1,400,884.84 |
| 2 to 3 years | 10,000.00 |
| Over 3 years | 1,921,750.15 |
| 3 to 4 years | 987.63 |
| 4 to 5 years | 69,800.00 |
| Over 5 years | 1,850,962.52 |
| Total | 13,035,882.56 |

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

Provision for bad debts for the current period:

Unit: RMB

| Type | Balance at the beginning of the period | Movements during the current period | | | | Balance at the end of the period |
|---|--|-------------------------------------|----------------------|-----------|--------|----------------------------------|
| | | Provision | Recovery or reversal | Write-off | Others | |
| Provisions for bad debts of other receivables | 1,482,127.80 | 440,434.82 | — | — | — | 1,922,562.62 |
| Total | 1,482,127.80 | 440,434.82 | — | — | — | 1,922,562.62 |

4) *Other receivables actually written off during the current period*

There were no other receivables actually written off during the current period.

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

Unit: RMB

| Name of entity | Nature of payment | Balance at the end of the period | Age | Percentage of the total balance of other receivables at the end of the period | Balance of bad debt provision at the end of the period |
|--|--|----------------------------------|---------------|---|--|
| Shaanxi Energy Chemical Industry Exchange Co., Ltd. (陝西能源化工交易所股份有限公司) | Security deposits | 6,000,000.00 | Within 1 year | 46.03% | — |
| Shaanxi Energy Chemical Industry Exchange Co., Ltd. (陝西能源化工交易所股份有限公司) | Security deposits | 257,236.60 | 1–2 years | 1.97% | — |
| Wendeng Gaocun Town People's Government (文登市高村鎮人民政府) | Amounts due from administrative entities | 1,300,000.00 | Over 5 years | 9.97% | 780,000.00 |
| CNPC Chuanqing Drilling Engineering Company Limited (中國石油集團川慶鑽探工程有限公司) | Security deposits | 1,164,196.00 | Within 1 year | 8.93% | — |
| Shouguang Social Insurance Management Center (壽光市社會保險事業管理中心) (Work Injury) | Insurance | 106,974.57 | Within 1 year | 0.82% | 15,882.09 |
| Shouguang Social Insurance Management Center (壽光市社會保險事業管理中心) (Work Injury) | Insurance | 994,248.24 | 1–2 years | 7.63% | 546,836.53 |
| Nanjing Tendering Center of Sinopec International Co., Ltd. (中國石化國際事業有限公司南京招標中心) | Security deposits | 887,798.00 | Within 1 year | 6.81% | — |
| Total | | 10,710,453.41 | | 82.16% | 1,342,718.62 |

- 6) *Government grants receivable*
Nil
- 7) *Other receivables derecognised on transfer of financial assets*
As at 30 June 2023, the Company had no other receivables derecognised on transfer of financial assets.
- 8) *Amount of assets or liabilities arising from transfer of other receivables with continuous involvement*
As at 30 June 2023, there were no assets or liabilities arising from transfer of other receivables with continuous involvement.

Other descriptions:

As at 30 June 2023, the Group did not have any pledged other receivables.

7. Inventories

Should the Company comply with the disclosure requirements for property industry

No

(1) Category of inventories

Unit: RMB

| Item | Balance at the end of the period | | | Balance at the beginning of the period | | |
|---------------------------|----------------------------------|---|----------------|--|---|----------------|
| | Book balance | Allowance for impairment of inventories or provision for devaluation of costs of contract performance | Book value | Book balance | Allowance for impairment of inventories or provision for devaluation of costs of contract performance | Book value |
| Raw materials | 220,725,159.86 | 7,804,048.11 | 212,921,111.75 | 233,469,363.70 | 10,573,928.43 | 222,895,435.27 |
| Work-in-progress | 96,766,356.24 | 1,977,171.40 | 94,789,184.84 | 161,281,609.27 | 3,717,644.81 | 157,563,964.46 |
| Goods in stock | 209,567,555.59 | 8,829,268.73 | 200,738,286.86 | 294,813,356.36 | 13,816,538.11 | 280,996,818.25 |
| Sub-contracting materials | 689,403.43 | 18.14 | 689,385.29 | 8,860,690.86 | 99,064.44 | 8,761,626.42 |
| Total | 527,748,475.12 | 18,610,506.38 | 509,137,968.74 | 698,425,020.19 | 28,207,175.79 | 670,217,844.40 |

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

Unit: RMB

| Item | Balance at the beginning of the period | Increase during the current period | | Decrease during the current period | | Balance at the end of the period |
|---------------------------|--|------------------------------------|--------|------------------------------------|--------|----------------------------------|
| | | Provision | Others | Reversal or charge-off | Others | |
| Raw materials | 10,573,928.43 | 2,748,137.60 | 0.00 | 5,518,017.92 | 0.00 | 7,804,048.11 |
| Work-in-progress | 3,717,644.81 | 1,057,200.45 | 0.00 | 2,797,673.86 | 0.00 | 1,977,171.40 |
| Goods in stock | 13,816,538.11 | 2,121,920.43 | 0.00 | 7,109,189.81 | 0.00 | 8,829,268.73 |
| Sub-contracting materials | 99,064.44 | 18.14 | 0.00 | 99,064.44 | 0.00 | 18.14 |
| Total | 28,207,175.79 | 5,927,276.62 | 0.00 | 15,523,946.03 | 0.00 | 18,610,506.38 |

Note: The Company reversed RMB7,392,423.22 and charged off RMB8,131,522.81 from the allowance for impairment of inventories during the current period, respectively.

Allowances for impairment of inventories

| Item | Specific basis to determine net realisable value | Reason for reversal or charge-off during the current year |
|---------------------------|---|---|
| Raw materials | The selling price of the products formed by the production of the materials and semi-finished products minus the further processing costs and related sales expenses and related expenses of taxation | Material requisition for production and price change |
| Work-in-progress | 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 |
| Sub-contracting 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 |
| Finished products | The selling price minus the selling expenses and related expenses of taxation | External sales and price change |

105

(3) Explanation on period-end inventory balance containing borrowing expense capitalisation amount

Nil

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

Nil

8. Other current assets

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|---|----------------------------------|--|
| Deductible input tax | 1,190,767.27 | 2,031,673.75 |
| Prepaid income tax | 0.00 | 763,203.68 |
| Interests receivable on acceptance deposits | 2,598,189.86 | 2,995,798.48 |
| Total | 3,788,957.13 | 5,790,675.91 |

9. Long-term equity investments

Unit: RMB

| Investee | Movement during the current period | | | | | | | | | Balance at the end of the period (Book value) | Balance of provision for impairment at the end of the period |
|---|---|------------------------|------------------------|--|--|-------------------------|-----------------------------------|--------------------------|--------|---|--|
| | Balance at the beginning of the period (Book value) | Increase in investment | Decrease in investment | 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 Ventures | — | — | — | — | — | — | — | — | — | — | — |
| II. Associates | — | — | — | — | — | — | — | — | — | — | — |
| Karamay Yalong Petroleum Machinery Co., Ltd. (克拉玛依亚龙石油机械有限公司) | 1,857,463.06 | — | — | — | — | — | — | — | — | 1,857,463.06 | — |
| Sub-total | 1,857,463.06 | — | — | — | — | — | — | — | — | 1,857,463.06 | — |
| Total | 1,857,463.06 | — | — | — | — | — | — | — | — | 1,857,463.06 | — |

10. Fixed assets

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|--------------|----------------------------------|--|
| Fixed assets | 1,904,405,618.29 | 2,003,871,030.19 |
| Total | 1,904,405,618.29 | 2,003,871,030.19 |

(1) Details of fixed assets

Unit: RMB

| Item | Buildings | Machinery | Electronics and others | Vehicles | Total |
|--|----------------|------------------|------------------------|---------------|------------------|
| I. Original book value | | | | | |
| 1. Balance at the beginning of the period | 955,098,433.28 | 3,289,376,152.99 | 115,619,226.02 | 15,097,423.29 | 4,375,191,235.58 |
| 2. Increased during the current period | — | 28,097.35 | 56,117.18 | — | 84,214.53 |
| (1) Purchases | — | 28,097.35 | 56,117.18 | — | 84,214.53 |
| (2) Transfer from construction-in-progress | — | — | — | — | — |
| (3) Additions from business combinations | — | — | — | — | — |
| 3. Decreased during the current period | 451,300.00 | 9,757,367.05 | 376,088.19 | 684,710.38 | 11,269,465.62 |
| (1) Disposals or retirements | 451,300.00 | 9,757,367.05 | 376,088.19 | 684,710.38 | 11,269,465.62 |
| 4. Balance at the end of the period | 954,647,133.28 | 3,279,646,883.29 | 115,299,255.01 | 14,412,712.91 | 4,364,005,984.49 |
| II. Accumulated depreciation | | | | | |
| 1. Balance at the beginning of the period | 368,447,316.91 | 1,732,830,192.45 | 97,329,331.33 | 10,842,900.31 | 2,209,449,741.00 |
| 2. Increased during the current period | 22,142,905.09 | 72,892,086.01 | 1,683,149.33 | 972,233.89 | 97,690,374.32 |
| (1) Provision | 22,142,905.09 | 72,892,086.01 | 1,683,149.33 | 972,233.89 | 97,690,374.32 |
| 3. Decreased during the current period | 206,413.84 | 8,553,070.51 | 357,454.30 | 293,274.86 | 9,410,213.51 |
| (1) Disposals or retirements | 206,413.84 | 8,553,070.51 | 357,454.30 | 293,274.86 | 9,410,213.51 |
| 4. Balance at the end of the period | 390,383,808.16 | 1,797,169,207.95 | 98,655,026.36 | 11,521,859.34 | 2,297,729,901.81 |
| III. Impairment provision | | | | | |
| 1. Balance at the beginning of the period | 5,891,798.82 | 155,977,815.57 | 850.00 | — | 161,870,464.39 |
| 2. Increased during the current period | — | — | — | — | — |
| (1) Provision | — | — | — | — | — |
| 3. Decreased during the current period | — | — | — | — | — |
| (1) Disposals or retirements | — | — | — | — | — |
| 4. Balance at the end of the period | 5,891,798.82 | 155,977,815.57 | 850.00 | — | 161,870,464.39 |
| IV. Book value | | | | | |
| 1. Book value at the end of the period | 558,371,526.30 | 1,326,499,859.77 | 16,643,378.65 | 2,890,853.57 | 1,904,405,618.29 |
| 2. Book value at the beginning of the period | 580,759,317.55 | 1,400,568,144.97 | 18,289,044.69 | 4,254,522.98 | 2,003,871,030.19 |

107

(2) Temporarily idle fixed assets

Unit: RMB

| Item | Carrying amount at cost | Accumulated depreciation | Impairment provision | Book value | Remark |
|------------------------|-------------------------|--------------------------|----------------------|----------------|--------|
| Buildings | 245,168,033.89 | 126,124,382.67 | 5,521,798.82 | 113,521,852.40 | — |
| Machinery | 817,766,536.98 | 518,535,629.45 | 155,977,815.57 | 143,253,091.96 | — |
| Vehicles | 1,104,853.89 | 787,105.00 | 0.00 | 317,748.89 | — |
| Electronics and others | 45,553,842.20 | 42,319,537.90 | 850.00 | 3,233,454.30 | — |
| Total | 1,109,593,266.96 | 687,766,655.02 | 161,500,464.39 | 260,326,147.55 | — |

(3) Fixed assets with incomplete property ownership certificate

Unit: RMB

| Item | Book value | Reason for incomplete property ownership certificate |
|--|----------------|--|
| Workshop plant, office building and staff canteen of Shouguang Maolong | 206,458,263.13 | Not yet applied |

Other descriptions:

The Company had no fixed assets 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 | 6,323,500.82 | 298,971.19 |
| Total | 6,323,500.82 | 298,971.19 |

(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 for impairment | Book value | Book balance | Provision for impairment | Book value |
| Other miscellaneous projects | 6,323,500.82 | — | 6,323,500.82 | 298,971.19 | — | 298,971.19 |
| Total | 6,323,500.82 | — | 6,323,500.82 | 298,971.19 | — | 298,971.19 |

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

No impairment was provided for construction-in-progress as there were no indication of impairment of construction-in-progress at the end of the year.

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

12. Intangible assets

(1) Details of intangible assets

Unit: RMB

| Item | Land use rights | Patents | Non-patented technology | Software | Total |
|--|-----------------|--------------|-------------------------|------------|----------------|
| I. Original book value | | | | | |
| 1. Balance at the beginning of the period | 446,183,759.48 | 2,886,248.19 | 411,438,307.29 | 770,036.72 | 861,278,351.68 |
| 2. Increased during the current period | — | — | — | — | — |
| (1) Acquisitions | — | — | — | — | — |
| (2) Internal research and development | — | — | — | — | — |
| (3) Additions from business combinations | — | — | — | — | — |
| 3. Decreased during the current period | — | — | — | — | — |
| (1) Disposals | — | — | — | — | — |
| 4. Balance at the end of the period | 446,183,759.48 | 2,886,248.19 | 411,438,307.29 | 770,036.72 | 861,278,351.68 |
| II. Accumulated amortisation | | | | | |
| 1. Balance at the beginning of the period | 98,019,131.76 | 2,883,342.02 | 368,359,423.16 | 770,036.72 | 470,031,933.66 |
| 2. Increased during the current period | 5,250,019.85 | 2,906.17 | 1,851,355.56 | — | 7,104,281.58 |
| (1) Provision | 5,250,019.85 | 2,906.17 | 1,851,355.56 | — | 7,104,281.58 |
| 3. Decreased during the current period | — | — | — | — | — |
| (1) Disposals | — | — | — | — | — |
| 4. Balance at the end of the period | 103,269,151.61 | 2,886,248.19 | 370,210,778.72 | 770,036.72 | 477,136,215.24 |
| III. Provision for Impairment | | | | | |
| 1. Balance at the beginning of the period | — | — | 33,968,375.45 | — | 33,968,375.45 |
| 2. Increased during the current period | — | — | — | — | — |
| (1) Provision | — | — | — | — | — |
| 3. Decreased during the current period | — | — | — | — | — |
| (1) Disposals | — | — | — | — | — |
| 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 | 342,914,607.87 | — | 7,259,153.12 | — | 350,173,760.99 |
| 2. Book value at the beginning of the period | 348,164,627.72 | 2,906.17 | 9,110,508.68 | — | 357,278,042.57 |

The intangible assets generated through internal research and development accounted for 2.07% of the balance of intangible assets as at the end of the period.

13. Development expenditures

Unit: RMB

| Project | Balance at the beginning of the period | Increase during the current period | | Decrease during the current period | | Balance at the end of the period |
|-------------|--|------------------------------------|--------|------------------------------------|---|----------------------------------|
| | | Internal development expenditures | Others | Recognised as intangible assets | Transfer to profit or loss for the current period | |
| Project I | — | 3,635,613.22 | — | — | 3,635,613.22 | 0.00 |
| Project II | — | 3,025,184.10 | — | — | — | 3,025,184.10 |
| Project III | — | 2,969,998.50 | — | — | 2,969,998.50 | 0.00 |
| Project IV | — | 1,544,024.70 | — | — | — | 1,544,024.70 |
| Total | — | 11,174,820.52 | — | — | 6,605,611.72 | 4,569,208.80 |

Other descriptions:

Please refer to Note V.25 for the division in the phase of research and development expenditures and the phase of development, the time and basis of capitalisation of development phase.

14. Deferred income tax assets/deferred income tax liabilities

(1) Deferred income tax assets before offsetting

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 from intragroup transactions | 6,874,373.44 | 1,718,593.36 | 7,234,315.16 | 1,808,578.78 |
| Provision for bad debts of bills receivable | 608,006.80 | 91,201.02 | 1,732,805.59 | 259,920.84 |
| Provision for bad debts of accounts receivable | 105,435,486.33 | 15,815,322.95 | 102,449,762.97 | 15,367,464.45 |
| Provision for bad debts of other receivables | 582,002.33 | 87,300.35 | 224,523.44 | 33,678.52 |
| Allowance for impairment of inventories | 10,881,685.20 | 1,632,252.78 | 16,525,354.34 | 2,478,803.15 |
| Difference in amortisation of intangible assets | 34,711,659.13 | 5,206,748.87 | 41,069,689.35 | 6,160,453.40 |
| Total | 159,093,213.23 | 24,551,419.33 | 169,236,450.85 | 26,108,899.14 |

(2) Deferred income tax liabilities before offsetting

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 | 15,237.52 | 3,809.38 | 15,237.52 | 3,809.38 |
| Intangible assets | 20,655,589.96 | 5,163,897.49 | 21,052,491.64 | 5,263,122.91 |
| Total | 20,670,827.48 | 5,167,706.87 | 21,067,729.16 | 5,266,932.29 |

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

Unit: RMB

| Item | Offsetting between deferred income tax assets and liabilities at the end of the period | Balance of deferred income tax assets or liabilities after offsetting at the end of the period | Offsetting between deferred income tax assets and liabilities at the beginning of the period | Balance of deferred income tax assets or liabilities after offsetting at the beginning of the period |
|---------------------------------|--|--|--|--|
| Deferred income tax assets | — | 24,551,419.33 | — | 26,108,899.14 |
| Deferred income tax liabilities | — | 5,167,706.87 | — | 5,266,932.29 |

(4) Breakdown of unrecognised deferred income tax assets

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|----------------------------------|----------------------------------|--|
| Deductible temporary differences | 248,738,408.73 | 252,794,428.94 |
| Deductible losses | 1,672,898,544.81 | 1,528,225,292.56 |
| Total | 1,921,636,953.54 | 1,781,019,721.50 |

(5) Deductible losses of unrecognised deferred income tax assets expiring in the following years

Unit: RMB

| Year | Amount at the end of the period | Amount at the beginning of the period | Remark |
|-------|---------------------------------|---------------------------------------|--------|
| 2023 | — | 52,476,863.76 | — |
| 2024 | 218,933,559.95 | 218,933,559.95 | — |
| 2025 | 159,477,489.16 | 159,477,912.85 | — |
| 2026 | 305,316,162.29 | 305,316,162.29 | — |
| 2027 | 243,892,358.12 | 243,894,908.95 | — |
| 2028 | 110,413,729.12 | — | — |
| 2029 | 73,995,869.67 | 73,995,869.67 | — |
| 2031 | 273,110,646.67 | 273,110,646.67 | — |
| 2032 | 201,019,368.42 | 201,019,368.42 | — |
| 2033 | 86,739,361.41 | — | — |
| Total | 1,672,898,544.81 | 1,528,225,292.56 | — |

15. Other non-current assets

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 |
| Prepayments for equipment | 750,000.00 | — | 750,000.00 | 750,000.00 | — | 750,000.00 |
| Prepayment for construction works | — | — | — | 378,107.60 | — | 378,107.60 |
| Total | 750,000.00 | — | 750,000.00 | 1,128,107.60 | — | 1,128,107.60 |

16. 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 | 93,692,805.25 | 136,876,184.90 |
| Secured borrowing | 261,879,175.00 | 285,454,575.00 |
| Guaranteed borrowings | 1,025,320,402.78 | 973,906,030.00 |
| Credit borrowings | 80,000,000.00 | — |
| Borrowings for bills discounting and letters of credit | 595,256,122.82 | 566,700,000.00 |
| Total | 2,056,148,505.85 | 1,962,936,789.90 |

Explanations about the classification of short-term borrowings:

Details of the interest rate: In the first half of 2023, the weighted average annual interest rate for short-term borrowings of the Company was 4.59% (2022: 4.80%).

(2) Details of outstanding overdue short-term borrowings

The Company did not have any outstanding overdue short-term borrowing as at the end of the period.

17. Bills payable

Unit: RMB

| Type | Balance at the end of the period | Balance at the beginning of the period |
|-----------------------|--|--|
| Bank acceptance bills | 47,445,760.00 | 64,855,401.04 |
| Total | 47,445,760.00 | 64,855,401.04 |

As at the end of the period, total outstanding overdue bills payable amounted to RMB0.00.

18. Accounts payable

(1) Presentation of accounts payable

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|--------------------------|---|--|
| Amounts due to suppliers | 509,925,689.87 | 611,264,285.51 |
| Total | 509,925,689.87 | 611,264,285.51 |

(2) Material accounts payable with an age of more than one year

Unit: RMB

| Item | Balance at the end of the period | Reasons for outstanding or carrying forward |
|------------|---|--|
| Entity I | 10,564,198.19 | Settlement conditions unfulfilled |
| Entity II | 7,288,167.33 | Settlement conditions unfulfilled |
| Entity III | 5,333,245.98 | Settlement conditions unfulfilled |
| Entity IV | 4,527,099.84 | Settlement conditions unfulfilled |
| Entity V | 4,240,307.44 | Settlement conditions unfulfilled |
| Total | 31,953,018.78 | |

Other descriptions:

Presentation of accounts payable by age

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

Unit: RMB

| Item | Amount at the end of the period | Amount at the beginning of the period |
|------------------|--|---------------------------------------|
| Within 2 months | 87,753,396.11 | 111,870,951.63 |
| 2-3 months | 10,855,354.63 | 19,643,615.92 |
| 3-4 months | 12,948,161.96 | 16,649,553.90 |
| 4 months -1 year | 144,770,289.30 | 258,176,963.71 |
| 1-2 years | 128,459,626.20 | 86,956,033.94 |
| 2-3 years | 40,942,131.29 | 30,406,379.94 |
| Over 3 years | 84,196,730.38 | 87,560,786.47 |
| Total | 509,925,689.87 | 611,264,285.51 |

19. Contract liabilities

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|---------------------|---|--|
| Receipts in advance | 50,955,109.94 | 107,582,152.10 |
| Total | 50,955,109.94 | 107,582,152.10 |

20. Salaries payable

(1) Presentation of salaries payable

Unit: RMB

| Item | Balance at the beginning of the period | Increase during the current period | Decrease during the current period | Balance at the end of the period |
|------------------------------|---|---|---|---|
| I. Short-term salaries | 42,790,646.48 | 99,020,231.88 | 83,263,199.86 | 58,547,678.50 |
| II. Post-employment benefits | | | | |
| — defined contribution plans | — | 15,944,901.34 | 15,784,574.87 | 160,326.47 |
| Total | 42,790,646.48 | 114,965,133.22 | 99,047,774.73 | 58,708,004.97 |

(2) Presentation of short-term salaries

Unit: RMB

| Item | Balance at the beginning of the period | Increase during the current period | Decrease during the current period | Balance at the end of the period |
|---|---|---|---|---|
| 1. Wages, bonuses, allowances and subsidies | 21,441,817.09 | 82,641,548.32 | 68,321,412.61 | 35,761,952.80 |
| 2. Staff welfare | — | 3,202,604.27 | 3,202,604.27 | — |
| 3. Social insurances | — | 9,015,875.99 | 8,938,818.16 | 77,057.83 |
| Including: Medical insurance | — | 7,850,143.25 | 7,787,105.87 | 63,037.38 |
| Work injury insurance | — | 1,165,732.74 | 1,151,712.29 | 14,020.45 |
| 4. Housing provident fund | — | 1,726,794.73 | 1,726,794.73 | — |
| 5. Union fund and staff education fund | 21,348,829.39 | 2,433,408.57 | 1,073,570.09 | 22,708,667.87 |
| Total | 42,790,646.48 | 99,020,231.88 | 83,263,199.86 | 58,547,678.50 |

(3) Presentation of defined contribution plans

Unit: RMB

| Item | Balance at the beginning of the period | Increase during the current period | Decrease during the current period | Balance at the end of the period |
|----------------------------|--|------------------------------------|------------------------------------|----------------------------------|
| 1. Basic pension insurance | — | 15,296,181.13 | 15,140,398.33 | 155,782.80 |
| 2. Unemployment insurance | — | 648,720.21 | 644,176.54 | 4,543.67 |
| Total | — | 15,944,901.34 | 15,784,574.87 | 160,326.47 |

Other descriptions:

The Company participates in social insurance plans established by government agencies as required. According to the plans, the Company pays premiums to these plans in accordance with the relevant regulations of the local government. In addition to the above payment of premiums, the Company no longer undertakes further payment obligations. After the payment of relevant premiums, the Company has no right to utilise the above premiums. The corresponding expenditures are charged to the current profit or loss or related asset cost when incurred.

Salaries payables of the Company as at the end of the period included accrued wages, bonuses and allowances of RMB35,761,952.80 in total, which were expected to be paid in the second half of 2023; staff social insurance payables of RMB77,057.83 has been completely paid as of the disclosure date of this report.

As at 30 June 2023, the Company's contributions to all planned pension insurances and unemployment insurances of RMB160,326.47 have been made as of the disclosure date of this report.

For each of the two financial years ended 30 June 2022 and 2023, the Company did not have any forfeited contributions (by employers on behalf of employees who leave the plans prior to fully vesting in such contributions) under defined contribution plans available for the Company to reduce the existing level of contributions.

21. Taxes Payable

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|--|----------------------------------|--|
| Value-added tax | 12,282,688.50 | 1,595,898.99 |
| Enterprise income tax | 6,185,500.79 | 6,217,753.70 |
| Individual income tax | 77,490.87 | 1,041,814.46 |
| Urban maintenance and construction tax | 709,063.07 | 89,107.82 |
| Property tax | 934,499.40 | 935,600.32 |
| Land use tax | 1,099,464.40 | 869,314.20 |
| Education surcharge | 303,884.17 | 63,648.45 |
| Local water resources fund | 0.00 | 0.00 |
| Stamp duty | 463,161.53 | 434,100.56 |
| Others | 225,791.04 | 32,167.97 |
| Total | 22,281,543.77 | 11,279,406.47 |

22. Other payables

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|----------------|---|--|
| Other payables | 24,465,572.17 | 36,765,356.32 |
| Total | 24,465,572.17 | 36,765,356.32 |

(1) Other payables

1) Presentation of other payables by payment nature

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|------------------------|---|--|
| Accrued energy charges | 5,238,813.76 | 17,118,272.96 |
| Deposits | 9,450,708.08 | 10,462,118.48 |
| Rents | 7,874,614.22 | 7,874,614.22 |
| Others | 1,901,436.11 | 1,310,350.66 |
| Total | 24,465,572.17 | 36,765,356.32 |

2) Material other payables with an age of more than 1 year

As at the end of the period, the Group did not have any material other payables with an age of more than 1 year.

23. Non-current liabilities due within one year

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|--|---|--|
| Long-term borrowings due within one year | — | 38,337,510.13 |
| Long-term payables due within one year | 49,329,277.41 | 48,991,857.12 |
| Total | 49,329,277.41 | 87,329,367.25 |

24. Other current liabilities

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|---|---|--|
| Unmatured endorsed trade acceptance bills | 18,329,654.32 | 35,073,434.98 |
| Output tax to be transferred | 6,551,714.88 | 13,118,573.83 |
| Total | 24,881,369.20 | 48,192,008.81 |

25. Long-term payables

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|--------------------|---|--|
| Long-term payables | 41,160,600.38 | 65,461,963.55 |
| Total | 41,160,600.38 | 65,461,963.55 |

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

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|----------------------|---|--|
| Leaseback financings | 41,160,600.38 | 65,461,963.55 |
| Total | 41,160,600.38 | 65,461,963.55 |

Other descriptions:

Details of interest rate: the Company's long-term payables carried an effective interest rate of 8.05% (8.05% in 2022) in the first half of 2023.

Unit: RMB

| Item | Amount at the end of the period | Amount at the beginning of the period |
|---|---------------------------------------|---|
| Leaseback financings | 90,489,877.79 | 114,453,820.67 |
| Total | 90,489,877.79 | 114,453,820.67 |
| The carrying amounts of the above borrowings are repayable: | | |
| Within one year | 49,329,277.41 | 48,991,857.12 |
| After one year from the balance sheet date but within two years | 37,188,517.01 | 45,607,380.20 |
| After two years from the balance sheet date but within five years | 3,972,083.37 | 19,854,583.35 |
| Less: Amount due within one year shown under current liabilities | 49,329,277.41 | 48,991,857.12 |
| Amount shown under non-current liabilities | 41,160,600.38 | 65,461,963.55 |

26. Estimated liabilities

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period | Cause |
|---------------------|--|--|---|
| Pending litigations | 9,800,000.00 | 9,800,000.00 | See Note XIV. 2 |
| Others | 67,971,212.05 | 67,971,212.05 | Estimated loss on claims of subsidiaries with excess losses |
| Total | 77,771,212.05 | 77,771,212.05 | — |

119

27. Deferred income

Unit: RMB

| Item | Balance at the beginning of the period | Increase during the current period | Decrease during the current period | Balance at the end of the period | Cause |
|-------------------|--|---|---|--|----------------------------------|
| Government grants | 6,756,829.50 | — | — | 6,756,829.50 | Asset-related government grants. |
| Total | 6,756,829.50 | — | — | 6,756,829.50 | |

Projects involving government grants:

Unit: RMB

| Liability | Balance at the beginning of the period | Amount of new grants during the current period | Amount included in non-operating income during the current period | Amount included in other income during the current period | Amount charged against costs and expenses during the current period | Other movements | Balance at the end of the period | |
|--|--|--|---|---|---|-----------------|----------------------------------|---------------|
| | | | | | | | Asset-related/ income-related | |
| Grants for ancillary infrastructure | 6,433,240.86 | — | — | — | — | — | 6,433,240.86 | Asset-related |
| Grants for defense basement construction | 323,588.64 | — | — | — | — | — | 323,588.64 | Asset-related |
| Total | 6,756,829.50 | — | — | — | — | — | 6,756,829.50 | |

Other descriptions:

Note 1: According to Notice on Finance of Shouguang Molong Logistic Company Limited's Subsidy Funds for Infrastructure (Shangzhengfa [2016] No.3) issued by the People's government of Shangkou Town, the Company received subsidy funds for infrastructure of RMB6,954,855.00 on 24 February 2016, and recognised the government grant as the government grant related to assets.

Note 2: According to the Request for return of preferential policy to the phase II project of Weihai Baolong Special Petroleum Materials Co., Ltd. (Gaozhengqingzi [2018] No. 42) issued by the People's Government of Gaocun Town, Weihai Baolong, a subsidiary of the Company, received a grant of RMB719,085.90 for the construction of defense basement on 25 February 2019. The company recognised such government grant as an asset-related government grant.

28. Share capital

Unit: RMB

| | Balance at the beginning of the period | Increase or decrease on the change (+, -) | | | | | Balance at the end of the period |
|------------------------|--|---|-------------|----------------------------------|--------|-----------|----------------------------------|
| | | Issue of new shares | Bonus issue | Transfer of reserves into shares | Others | Sub-total | |
| Total number of shares | 797,848,400.00 | — | — | — | — | — | 797,848,400.00 |

29. Capital Reserves

Unit: RMB

| Item | Balance at the beginning of the period | Increase during the current period | Decrease during the current period | Balance at the end of the period |
|---|--|------------------------------------|------------------------------------|----------------------------------|
| Capital premium (share capital premium) | 849,481,990.92 | — | — | 849,481,990.92 |
| Other capital reserves | 14,923,338.34 | 794,276.38 | — | 15,717,614.72 |
| Total | 864,405,329.26 | 794,276.38 | — | 865,199,605.64 |

Other descriptions, including the increase or decrease during the current period and the reason(s) for such changes:

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

30. Other comprehensive income

Unit: RMB

| Item | Balance at the beginning of the period | Amount for the period | | | | | | | Balance at the end of the period |
|--|--|---|---|--|--------------------------|--|---|----------------|----------------------------------|
| | | Amount before income tax for the current period | Less: Transfer of amount previously included in other comprehensive income to profit or loss for the current period | Less: Transfer of amount previously included in other comprehensive income to retained earnings for the current period | Less: Income tax expense | Attributable to the parent company after tax | Attributable to minority shareholders after tax | | |
| II. Other comprehensive income that will be reclassified to profit or loss | (3,029,259.75) | (669,582.15) | — | — | — | (602,623.93) | (66,958.22) | (3,631,883.68) | |
| Exchange differences on translation of foreign financial statements | (3,029,259.75) | (669,582.15) | — | — | — | (602,623.93) | (66,958.22) | (3,631,883.68) | |
| Total other comprehensive income | (3,029,259.75) | (669,582.15) | — | — | — | (602,623.93) | (66,958.22) | (3,631,883.68) | |

31. Special Reserve

Unit: RMB

| Item | Balance at the beginning of the period | Increase during the current period | Decrease during the current period | Balance at the end of the period |
|-----------------------|--|------------------------------------|------------------------------------|----------------------------------|
| Safety production fee | — | 7,315,605.66 | 7,315,605.66 | — |
| Total | — | 7,315,605.66 | 7,315,605.66 | — |

Other descriptions, including the increase or decrease during the current period and the reason(s) for such changes:

The Company provided for and utilised production safety fee in accordance with the Measures on the Withholding and Usage of Safety Production Fee of Enterprises (企業安全生產費用提取和使用管理辦法) (Cai Qi [2022] No.136) jointly issued by the Ministry of Finance and the State Administration of Work Safety.

32. Surplus Reserve

Unit: RMB

| Item | Balance at the beginning of the period | Increase during the current period | Decrease during the current period | Balance at the end of the period |
|---------------------------|--|------------------------------------|------------------------------------|----------------------------------|
| Statutory surplus reserve | 187,753,923.88 | — | — | 187,753,923.88 |
| Total | 187,753,923.88 | — | — | 187,753,923.88 |

33. Undistributed profits

Unit: RMB

| Item | Current period | Last period |
|---|---------------------------|------------------|
| Undistributed profits at the end of the prior period before adjustments | (859,017,550.51) | (434,047,824.92) |
| Undistributed profits at the beginning of the period after adjustments | (859,017,550.51) | (434,047,824.92) |
| Add: Net profit attributable to owners of the parent company for the period | (158,242,397.13) | (172,717,715.72) |
| Undistributed profits at the end of the period | (1,017,259,947.64) | (606,765,540.64) |

Breakdown of adjustments to undistributed profits as at the beginning of the period:

- 1). The effect of the retrospective adjustments according to ASBE and their new related requirements on the undistributed profits as at the beginning of the period amounted to RMB0.00.
- 2). The effect of the changes in accounting policies on the undistributed profits as at the beginning of the period amounted to RMB0.00.
- 3). The effect of corrections of significant accounting errors on the undistributed profits as at the beginning of the period amounted to RMB0.00.
- 4). The effect of the change of the scope of combination under common control on the undistributed profits as at the beginning of the period amounted to RMB0.00.
- 5). The effect of other adjustments on the undistributed profits as at the beginning of the period amounted to RMB0.00.

34. *Minority interests*

Minority interests attributable to minority shareholders of each subsidiary

Unit: RMB

| Name of subsidiary | Proportion of minority shareholding (%) | Balance at the end of the period | Balance at the beginning of the period |
|--------------------|--|--|--|
| Shouguang Baolong | 30 | (83,340,973.62) | (77,363,803.78) |
| MPM | 10 | (24,857.14) | (243,830.86) |
| Total | — | (83,365,830.76) | (77,607,634.64) |

123

35. *Operating revenue and operating costs*

Unit: RMB

| Item | Amount for the current period | | Amount for the last period | |
|----------------------|-------------------------------|----------------|----------------------------|------------------|
| | Revenue | Costs | Revenue | Costs |
| Principal operations | 774,515,255.89 | 721,967,610.83 | 1,510,822,002.24 | 1,468,395,267.79 |
| Other operations | 23,903,759.21 | 23,546,903.16 | 60,119,939.41 | 48,843,734.00 |
| Total | 798,419,015.10 | 745,514,513.99 | 1,570,941,941.65 | 1,517,239,001.79 |

Information on revenue:

Unit: RMB

| Contract category | Pipe products | Three kinds of pumping units | Petroleum machinery parts | Castings and forgings | Others | Total |
|---------------------------------------|-----------------------|-------------------------------------|----------------------------------|------------------------------|----------------------|-----------------------|
| Type of goods | — | — | — | — | — | — |
| Including: | | | | | | |
| Pipe products | 716,389,280.84 | — | — | — | — | 716,389,280.84 |
| Three kinds of pumping units | — | 14,110,813.66 | — | — | — | 14,110,813.66 |
| Petroleum machinery parts | — | — | 14,807,795.88 | — | — | 14,807,795.88 |
| Castings and forgings | — | — | — | 14,860,414.01 | — | 14,860,414.01 |
| Others | — | — | — | — | 38,250,710.71 | 38,250,710.71 |
| By business location | | | | | | |
| Including: | | | | | | |
| China | 575,660,124.99 | 8,262,062.28 | 1,070,194.70 | 14,860,414.01 | 35,915,943.54 | 635,768,739.52 |
| Outside China | 140,729,155.85 | 5,848,751.38 | 13,737,601.18 | — | 2,334,767.17 | 162,650,275.58 |
| Market or type of customers | | | | | | |
| Including: | | | | | | |
| Type of contracts | | | | | | |
| Including: | | | | | | |
| Revenue recognised at a point in time | 716,389,280.84 | 14,110,813.66 | 14,807,795.88 | 14,860,414.01 | 38,250,710.71 | 798,419,015.10 |
| Total | 716,389,280.84 | 14,110,813.66 | 14,807,795.88 | 14,860,414.01 | 38,250,710.71 | 798,419,015.10 |

124

Information on performance obligations:

The Company as primary obligor satisfies its obligations of supplying products to customers in a timely manner by reference to the category, standard and time requested by the customers in accordance with the provisions of the contracts. There are different payments terms for different customers and different products: domestic customers of pipes are normally subject to payment in advance of delivery, and domestic customers of oil casing are normally subject to payment terms of 3-6 months after invoicing for account 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 delivery 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 RMB565 million as at the end of the reporting period, RMB565 million of which were expected to be recognised as revenue in 2023.

36. Taxes and surcharges

Unit: RMB

| Item | Amount for the current period | Amount for the last period |
|--|--|-------------------------------|
| Urban maintenance and construction tax | 2,251,470.42 | 856,143.61 |
| Education surcharge | 969,370.21 | 609,894.36 |
| Resources tax | 185,169.00 | — |
| Property tax | 1,868,998.80 | 1,868,998.80 |
| Land use tax | 2,198,928.80 | 1,738,628.40 |
| Vehicle and vessel use tax | 9,405.90 | 8,985.90 |
| Stamp duty | 738,454.74 | 1,647,482.14 |
| Local water resource fund | 0.00 | 0.00 |
| Other taxes | 654,842.34 | 404,860.80 |
| Total | 8,876,640.21 | 7,134,994.01 |

37. Selling expenses

Unit: RMB

| Item | Amount for the current period | Amount for the last period |
|------------------------|--|-------------------------------|
| Employee compensations | 5,667,475.40 | 4,755,247.44 |
| Agency fees | 981,055.72 | 50,523.23 |
| Depreciation charges | 107,669.15 | 117,004.48 |
| Travelling expenses | 309,977.92 | 203,512.33 |
| Entertainment expenses | 1,212,647.65 | 1,317,534.91 |
| Transport expenses | 86,981.27 | — |
| Office expenses | 203,097.80 | 141,660.00 |
| Others | 1,130,248.42 | 539,328.45 |
| Total | 9,699,153.33 | 7,124,810.84 |

38. Administrative expenses

| | Unit: RMB | |
|-----------------------------------|-------------------------------|----------------------------|
| Item | Amount for the current period | Amount for the last period |
| Amortisation of intangible assets | 4,928,014.63 | 5,268,253.55 |
| Depreciation charges | 63,091,581.29 | 46,019,803.24 |
| Employee compensations | 40,291,548.48 | 48,119,060.92 |
| Travelling expenses | 434,985.15 | 381,959.62 |
| Machinery material consumables | 1,049,781.56 | 8,624,437.78 |
| Entertainment expenses | 1,482,147.92 | 1,868,752.56 |
| Board of directors' expenses | 787,901.42 | 707,975.29 |
| Utilities | 6,233,464.13 | 5,123,671.96 |
| Commissions | 4,891,968.88 | 2,584,096.45 |
| Repair charges | 1,197,102.64 | 10,118,951.22 |
| Others | 11,468,222.23 | 7,371,222.23 |
| Total | 135,856,718.33 | 136,188,184.82 |

39. Research and development expenditures

| | Unit: RMB | |
|--|-------------------------------|----------------------------|
| Item | Amount for the current period | Amount for the last period |
| Research and development of new products during the current year | 13,657,003.29 | 21,805,959.56 |
| Amortisation of non-patented technology for the current year | 1,851,355.56 | 3,298,509.96 |
| Total | 15,508,358.85 | 25,104,469.52 |

Other descriptions:

Note: As for the usage of new product R&D of current year, please see Note VII. 13.

40. Finance costs

| | Unit: RMB | |
|-------------------------|-------------------------------|----------------------------|
| Item | Amount for the current period | Amount for the last period |
| Interest expenses | 47,431,215.06 | 58,378,820.98 |
| Interest income | (2,911,129.74) | (3,752,773.33) |
| Foreign exchange losses | (2,133,951.94) | (3,432,565.42) |
| Other expenses | 1,232,790.19 | 2,844,144.00 |
| Total | 43,618,923.57 | 54,037,626.23 |

41. Other income

| | Unit: RMB | |
|-------------------------------|--------------------------------------|----------------------------|
| Source of other income | Amount for the current period | Amount for the last period |
| Work-based training subsidies | | |
| Others | 132,723.59 | 49,128.67 |
| Total | 132,723.59 | 49,128.67 |

42. Credit impairment losses

| | Unit: RMB | |
|--|--------------------------------------|----------------------------|
| Item | Amount for the current period | Amount for the last period |
| Loss on bad debts of other receivables | (440,434.82) | (86,169.72) |
| Loss on bad debts of accounts receivable | (2,799,943.61) | 4,843,687.17 |
| Loss on bad debts of bills receivable | 1,124,798.77 | 1,074,148.13 |
| Total | (2,115,579.66) | 5,831,665.58 |

43. Assets impairment losses

| | Unit: RMB | |
|---|--------------------------------------|----------------------------|
| Item | Amount for the current period | Amount for the last period |
| II. Loss on inventory valuation and loss on contract performance costs impairment | (1,465,146.60) | (15,000,113.67) |
| Total | (1,465,146.60) | (15,000,113.67) |

44. Gain on disposal of assets

| | Unit: RMB | |
|---|--------------------------------------|----------------------------|
| Source of gain on disposal of assets | Amount for the current period | Amount for the last period |
| Gains on disposal of fixed assets | 325,712.98 | 0.00 |
| Total | 325,712.98 | 0.00 |

45. Non-operating Income

Unit: RMB

| Item | Amount for the current period | Amount for the last period | Amount credited to non-recurring profit or loss for the current period |
|-------------|--------------------------------------|----------------------------|---|
| Others | 2,044,943.45 | 4,960,223.84 | 2,044,943.45 |
| Total | 2,044,943.45 | 4,960,223.84 | 2,044,943.45 |

46. Non-operating expenses

Unit: RMB

| Item | Amount for the current period | Amount for the last period | Amount charged to non-recurring profit or loss for the current period |
|--|--------------------------------------|----------------------------|--|
| Donations to external parties | 230,000.00 | 100,000.00 | 230,000.00 |
| Loss on scrapping and retirement of non-current assets | 495,310.90 | 252,500.84 | 495,310.90 |
| Estimated liabilities | — | — | — |
| Others | 17,430.32 | 708,728.14 | 17,430.32 |
| Total | 742,741.22 | 1,061,228.98 | 742,741.22 |

47. Income tax expenses

(1) List of income tax expenses

Unit: RMB

| Item | Amount for the current period | Amount for the last period |
|------------------------------|--------------------------------------|----------------------------|
| Deferred income tax expenses | 1,458,254.39 | 2,063,592.49 |
| Total | 1,458,254.39 | 2,063,592.49 |

(2) Reconciliations between accounting profit and income tax expenses

Unit: RMB

| Item | Amount for the current period |
|--|--------------------------------------|
| Total profit | (162,475,380.64) |
| Income tax expenses calculated at statutory/applicable tax rate | (24,371,307.10) |
| Effect of different tax rates applicable to subsidiaries | (11,423,742.81) |
| Effect of non-deductible costs, expenses and loss | 3,597,567.14 |
| Effect of utilisation of previously unrecognised deductible loss on deferred income tax assets | 743.63 |
| Effect of deductible temporary differences or deductible losses on deferred income tax assets unrecognised in the period | 38,525,851.87 |
| Effect of additions and deductions in research and development expenditures | (4,870,858.34) |
| Income tax expenses | 1,458,254.39 |

48. *Other comprehensive income*

Refer to Note VII.30 for details.

49. *Statement of cash flows line items*

(1) Other cash received relating to operating activities

Unit: RMB

| Item | Amount for the current period | Amount for the last period |
|-----------------------------------|--------------------------------------|----------------------------|
| Government grants | 132,723.59 | 49,128.67 |
| Interest income | 2,908,360.86 | 3,755,558.59 |
| Decrease in security deposits | 1,835,160.71 | 5,981,320.75 |
| Refund of value-added tax credits | — | 56,579,388.65 |
| Others | 1,602,799.67 | 5,164,109.37 |
| Total | 6,479,044.83 | 71,529,506.03 |

(2) Other cash paid relating to operating activities

Unit: RMB

| Item | Amount for the current period | Amount for the last period |
|---|----------------------------------|-------------------------------|
| Expenditures for research and development of new products | 8,572,105.83 | 15,768,813.14 |
| Consumables | 1,049,781.56 | 8,766,097.78 |
| Agency fees | — | — |
| Travelling expenses | 434,985.15 | 585,471.95 |
| Commissions | 4,891,968.88 | 3,342,594.97 |
| Repair charges | 1,197,102.64 | 10,118,951.22 |
| Utilities | 6,233,464.13 | 5,123,671.96 |
| Entertainment expenses | 1,482,147.92 | 3,186,287.47 |
| Handling charges by financial institutions | 1,242,185.83 | 2,844,144.00 |
| Increase in frozen bank deposits | 5,196,603.81 | 1,910,817.80 |
| Compensations for investors' claims | — | 3,667,304.14 |
| Others | 32,089,479.27 | 26,050,977.06 |
| Total | 62,389,825.02 | 81,365,131.49 |

(3) Other cash received relating to financing activities

Unit: RMB

| Item | Amount for the current period | Amount for the last period |
|-------------------------------|----------------------------------|-------------------------------|
| Decrease in financing margins | 32,048,500.00 | — |
| Total | 32,048,500.00 | — |

(4) Other cash paid relating to financing activities

Unit: RMB

| Item | Amount for the current period | Amount for the last period |
|-------------------------------|----------------------------------|-------------------------------|
| Increase in financing margins | — | 268,358,500.00 |
| Total | — | 268,358,500.00 |

50. Supplemental information of statement of cash flows

(1) Supplemental information of statement of cash flows

| | Unit: RMB | |
|---|----------------------------------|-------------------------------|
| Supplemental information | Amount for the current period | Amount for the last period |
| 1. Reconciliations of net profit to cash flows from operating activities: | | |
| Net profit | (163,933,635.03) | (183,171,062.61) |
| Add: Provision for impairment of assets | 3,580,726.26 | 9,168,448.09 |
| Depreciation of fixed assets, oil and gas assets and productive biological assets | 97,690,374.32 | 100,047,688.51 |
| Depreciation of right-of-use assets | — | 1,530,636.81 |
| Amortisation of intangible assets | 7,104,281.58 | 8,566,763.51 |
| Amortisation of long-term deferred expenses | — | — |
| Loss on disposal of fixed assets, intangible assets and other long-term assets | (325,712.98) | 220.00 |
| Loss on retirement of fixed assets | 461,794.85 | 199,568.74 |
| Loss on fair value changes | — | — |
| Finance expenses | 47,999,522.57 | 56,486,694.64 |
| Loss on investments | — | — |
| Decrease in deferred income tax assets | 1,557,479.81 | 2,162,817.91 |
| Increase in deferred income tax liabilities | — | — |
| Decrease in inventories | 169,101,650.70 | (342,544,964.34) |
| Decrease in trade receivables | (3,670,603.70) | (35,455,148.87) |
| Increase in trade payables | (183,336,476.03) | 439,915,187.72 |
| Others | — | — |
| Net cash flows generated from operating activities | (23,770,597.65) | 56,906,850.11 |
| 2. Significant investing and financing activities not involving cash receipts or payments: | | |
| Transfer of debts to capital | — | — |
| Convertible corporate bonds due within one year | — | — |
| Fixed assets under finance leases | — | — |
| 3. Net changes in cash and cash equivalents: | | |
| Balance of cash at the end of the period | 372,832,699.67 | 478,948,288.71 |
| Less: Balance of cash at the beginning of the period | 358,672,243.57 | 414,209,197.66 |
| Add: Balance of cash equivalents at the end of the period | — | — |
| Less: Balance of cash equivalents at the beginning of the period | — | — |
| Net increase in cash and cash equivalents | 14,160,456.10 | 64,739,091.05 |

(2) Composition of cash and cash equivalents

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|--|----------------------------------|--|
| I. Cash | 372,832,699.67 | 358,672,243.57 |
| Including: Cash on hand | 209,646.21 | 40,394.74 |
| Bank deposits readily available for payments | 19,497,376.84 | 212,528,645.34 |
| Other monetary funds readily available for payments | 353,125,676.62 | 146,103,203.49 |
| III. Balance of cash and cash equivalents at the end of the period | 372,832,699.67 | 358,672,243.57 |

Other descriptions:

At the end of the period, the Company had security deposits for bank acceptance bills with maturity date over 3 months of RMB72,910,000.00.

As at 30 June 2023, the Company had balances of monetary funds of RMB453,841,221.77, which was included in the statement of cash flows under the balance of cash at the end of the period amounting to RMB372,832,699.67. The difference was the security deposits for bank acceptance bills due over 3 months of RMB72,910,000.00 and the frozen bank deposits of RMB8,098,522.10 due to litigations. As it is restricted for use, it was not accounted for as cash and cash equivalents.

51. Assets with ownership or right to use restrictions

Unit: RMB

| Item | Book value at the end of the period | Reason for restriction |
|---------------------|-------------------------------------|---|
| Monetary funds | 433,131,291.60 | Security deposits and frozen for litigation |
| Bills receivable | 7,558,071.96 | Pledge of bills |
| Fixed assets | 342,981,934.52 | Charge for borrowings |
| Intangible assets | 195,998,183.84 | Charge for borrowings/seizure |
| Accounts receivable | 23,004,870.47 | Factoring financing |
| Total | 1,002,674,352.39 | |

52. Foreign currency monetary items

(1) Foreign currency monetary items

Unit: RMB

| Item | Balance in foreign currency at the end of the period | Translation rate | Balance translated to RMB at the end of the period |
|----------------------|--|------------------|--|
| Monetary funds | — | — | 7,976,355.36 |
| Including: USD | 1,103,869.54 | 7.2258 | 7,976,340.52 |
| EUR | 0.71 | 7.8771 | 5.59 |
| HKD | 10.03 | 0.92198 | 9.25 |
| Accounts receivable | — | — | 128,763,873.89 |
| Including: USD | 17,621,500.87 | 7.2258 | 127,329,440.99 |
| EUR | 182,101.65 | 7.8771 | 1,434,432.91 |
| HKD | — | — | — |
| Long-term borrowings | — | — | — |
| Including: USD | — | — | — |
| EUR | — | — | — |
| HKD | — | — | — |
| Accounts payables | — | — | 9,594,465.44 |
| Including: USD | 1,327,806.67 | 7.2258 | 9,594,465.44 |
| Contract liabilities | — | — | 8,596,790.63 |
| Including: USD | 1,189,735.48 | 7.2258 | 8,596,790.63 |

(2) Information on foreign operating entities including (in case of major 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.

53. Government grants

(1) General information of government grants

Unit: RMB

| Type | Amount | Presented as | Amount included in profit or loss for the current period |
|---|------------|--------------|--|
| Invention patents funds and cross-border e-commerce subsidies | 97,900.00 | Other income | 97,900.00 |
| Refund of handling fees for withholding individual income tax | 34,823.59 | Other income | 34,823.59 |
| Total | 132,723.59 | | 132,723.59 |

(2) Refund of government grants

Applicable Not applicable

Other descriptions:

The Company did not refund any government grants during the period.

134

VIII. Changes in scope of consolidation

1. Changes in scope of consolidation due to other reasons

Specify the changes in scope of consolidation due to other reasons (e.g. establishment of new subsidiaries, liquidation of subsidiaries) and its details:

Nil

IX. Interests in other entities

1. Interests in subsidiaries

(1) Structure of the business group

| Name of subsidiary | Principal place of operation | Place of registration | Business nature | Registered capital | Type of enterprise | Percentage of shareholding | | Type of legal entity | Method of acquisition |
|--------------------------|------------------------------|-----------------------|-------------------|------------------------|--------------------|----------------------------|----------|------------------------|---|
| | | | | | | Direct | Indirect | | |
| MPM | Hong Kong, China | Hong Kong, China | Trading | USD100 ten thousand | Limited company | 90.00% | 0.00% | For-profit corporation | Business combination under uncommon control |
| Shouguang Maolong | Shouguang, China | Shouguang, China | Manufacturing | RMB71,238 ten thousand | Limited company | 100.00% | 0.00% | For-profit corporation | Business combination under uncommon control |
| Molong Electromechanical | Shouguang, China | Shouguang, China | Manufacturing | USD100 ten thousand | Limited company | 0.00% | 100.00% | For-profit corporation | Business combination under uncommon control |
| Shouguang Baolong | Shouguang, China | Shouguang, China | Manufacturing | RMB15,000 ten thousand | Limited company | 70.00% | 0.00% | For-profit corporation | Establishment by investment |
| Weihai Baolong | Weihai, China | Weihai, China | Manufacturing | RMB2,600 ten thousand | Limited company | 61.54% | 38.46% | For-profit corporation | Business combination under uncommon control |
| Molong Logistic | Shouguang, China | Shouguang, China | Services | RMB300 ten thousand | Limited company | 100.00% | 0.00% | For-profit corporation | Establishment by investment |
| Molong I&E | Shouguang, China | Shouguang, China | Import and export | RMB1,000 ten thousand | Limited company | 100.00% | 0.00% | For-profit corporation | Establishment by investment |
| Molong Commercial | Shouguang, China | Shouguang, China | Trading | RMB1,000 ten thousand | Limited company | 100.00% | 0.00% | For-profit corporation | Establishment by investment |

(2) Significant non-wholly owned subsidiary

Unit: RMB

135

| Name of subsidiary | Percentage of shareholding of minority shareholders | Profit and loss attributable to minority shareholders for the current period | Dividends declared to minority shareholders for the current period | Balance of minority interests at the end of the period |
|--------------------|---|--|--|--|
| Shouguang Baolong | 30.00% | (5,977,169.84) | — | (83,340,973.62) |
| Total | | (5,977,169.84) | — | (83,340,973.62) |

Explanation that the shareholding ratio of minority shareholders of subsidiaries is different from the voting right ratio:

Other descriptions:

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

Unit: RMB

| Name of subsidiary | Balance at the end of the period | | Balance at the beginning of the period | | Total liabilities | Total liabilities | | | | | | |
|--------------------|----------------------------------|--------------------|--|---------------------|-------------------|-------------------|-------------------------|----------------|----------------|----------------|--------------|----------------|
| | Current assets | Non-current assets | Total assets | Current liabilities | | | Non-current liabilities | | | | | |
| Shouguang Baolong | 22,551,395.20 | 271,479,097.84 | 294,030,493.04 | 561,064,613.40 | 9,800,000.00 | 570,864,613.40 | 36,252,807.87 | 287,139,488.91 | 323,392,296.78 | 566,372,249.15 | 9,800,000.00 | 576,172,249.15 |

Unit: RMB

| Name of subsidiary | Amount for the current period | | | Amount for the last period | | | |
|--------------------|-------------------------------|-----------------|----------------------------|----------------------------|-----------------|----------------------------|----------------|
| | Operating revenue | Net profit | Total comprehensive income | Operating revenue | Net profit | Total comprehensive income | |
| Shouguang Baolong | 16,769,187.92 | (24,054,167.99) | (24,054,167.99) | 473,692,199.72 | (95,157,997.10) | (95,157,997.10) | (1,473,916.90) |

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

The Company has no major restrictions on the use of assets and settlement of the enterprise group.

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

The Company has no provision of financial or other support for structured entity that is consolidated into the consolidated financial statements.

(6) Other descriptions:

As at 30 June 2023, none of the Company's subsidiaries issued any share capital or debt securities.

2. *Interests in joint arrangements or associates*

(1) Summarised financial information of insignificant joint ventures or associates

Unit: RMB

| | Balance at the end of the period/Amount for the current period | Balance at the beginning of the period/Amount for the last period |
|---|---|--|
| Joint ventures: | | |
| Total amount of the following items based on percentage of shareholdings | — | — |
| Associates: | | |
| Gross carrying amount of investments | 1,857,463.06 | 1,857,463.06 |
| Total amount of the following items based on percentage of shareholdings | — | — |
| — Net profit | (216,238.68) | (287,370.63) |

(2) Significant restrictions on the ability of joint ventures or associates to transfer funds to the Company

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

(3) Excessive losses incurred by joint ventures or associates

None of the associates incurred any excessive losses.

(4) Unrecognised commitments associated with investment in joint ventures

The Company had no unrecognised commitments associated with investment in joint ventures.

(5) Contingent liabilities associated with investment in joint ventures or associates

The Company had no contingent liabilities associated with investment in joint ventures.

3. *Interest in structured entities not consolidated in the consolidated financial statements*

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

The Company had no structured entities not consolidated in the consolidated financial statements.

X. Risks associated with financial instruments

The Company's major financial instruments include borrowings, accounts receivable, accounts payable and others. Detailed information about these financial instruments are set out in this note VII. The risks associated with these financial instruments and the risk management policies adopted by the Company to mitigate such risks are described below. Management of the Company manages and monitors these risk exposures to ensure such risks are contained within a prescribed scope.

1. Objectives and policies of risk management

The Company engages in risk management with the aim of achieving an appropriate balance between risk and revenue, where the negative effects of risks against the Company'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 Company's risk management is to ascertain and analyse all types of risks exposures of the Company, 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 Company 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 Company which entered purchases and sales in USD, EUR and HKD, other principal operating activities of the Company are settled in RMB. As at 30 June 2023, 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 Company were denominated in RMB. The foreign exchange risk arising from these assets and liabilities in USD balances may affect the operating results of the Company.

Unit: RMB

| Item | 30 June 2023 | 31 December 2022 |
|----------------------------|-----------------------|------------------|
| Monetary funds — USD | 7,976,340.52 | 151,706,785.93 |
| Monetary funds — EUR | 5.59 | 16,321,897.63 |
| Monetary funds — HKD | 9.25 | 8.96 |
| Accounts receivable — USD | 127,329,440.99 | 79,476,262.12 |
| Accounts receivable — EUR | 1,434,432.91 | 998,067.10 |
| Accounts payable — USD | 9,594,465.44 | 18,283,104.23 |
| Contract liabilities — USD | 8,596,790.63 | 24,954,961.61 |
| Contract liabilities — EUR | — | 1,915,108.20 |

The Company closely monitors the effect of changes in foreign exchange rates on the Company.

The Company 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 Company, such as the appreciation of RMB, the Company 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 Company's interest rate risk arises from interest-bearing liabilities, such as borrowings from financial institutions. Financial liabilities issued at floating rate expose the Company to cash flow interest rate risk. Financial liabilities issued at fixed rate expose the Company to fair value interest rate risk. The Company determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 30 June 2023, the Company's interest-bearing liabilities were mainly floating-rate loan contracts denominated in RMB amounting to RMB444,500,000.00 (31 December 2022: RMB196,600,000.00) and fixed-rate loan contracts denominated in RMB and USD amounting to RMB1,699,190,527.20 (31 December 2022: RMB1,918,722,351.80).

The Company'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 Company aims at maintaining these fixed-rate bank loans at floating rates.

The Company'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 Company'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 Company sells steel products at market prices. Therefore, it is vulnerable to the fluctuation of these price.

139

(2) **Credit risk**

As at 30 June 2023, the maximum credit risk exposure that may cause financial loss to the Company mainly derived from the loss on financial assets of the Company due to the failure of performing obligations by contract counterparties. Specifically:

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 Company conducts a review on the determination and approval of credit limits, and carries out other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company 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 Company's credit risk is significantly reduced.

The Company maintains its working capital with reputable banks. Therefore, the credit risk for such is minimal.

The Company has adopted necessary policies to ensure that all the trade customers have good credit history. Apart from the top five accounts receivable, the Company has no other significant concentration of credit risk.

Total amount of top 5 account receivables: RMB392,071,890.44.

(3) Liquidity risk

Liquidity risk is the Company's impossibility to perform its financial obligations after the maturity date. In the management of the liquidity risk, the Company monitors and maintains a level of working capital deemed adequate by the management to perform the Company's obligations, thus will not cause loss or damage to the reputation of the Company. Moreover, the Company analyses its debt structure and deadline regularly and maintains sufficient fund. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. Meanwhile, the management keeps in touch with financial institutions and makes consultations on financing issues, to maintain enough credit limits and mitigate liquidity risk.

The Company considers borrowings from financial institutions as a main source of funds. As at 30 June 2023, the Company had unutilised credit facilities provided by financial institutions of RMB459,000,000.00 (31 December 2022: RMB438,000,000.00), of which the unutilised short-term borrowings of the Company amounted to RMB135,000,000.00 (31 December 2022: RMB402,000,000.00). Analysis of the financial assets and financial liabilities held by the Company based on the maturity of undiscounted remaining contractual obligations is as follows:

Amount at 30 June 2023:

| | Unit: RMB | | | | |
|---------------------------|------------------|---------------|--------------|--------------|------------------|
| Item | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total |
| Financial assets | | | | | |
| Monetary funds | 453,841,221.77 | — | — | — | 453,841,221.77 |
| Bills receivable | 60,192,674.87 | — | — | — | 60,192,674.87 |
| Accounts receivable | 364,398,811.59 | — | — | — | 364,398,811.59 |
| Financing receivables | 16,486,581.33 | — | — | — | 16,486,581.33 |
| Other receivables | 11,113,319.94 | — | — | — | 11,113,319.94 |
| Financial liabilities | | | | | |
| Short-term borrowings | 2,056,148,505.85 | — | — | — | 2,056,148,505.85 |
| Bills payable | 47,445,760.00 | — | — | — | 47,445,760.00 |
| Accounts payable | 509,925,689.87 | — | — | — | 509,925,689.87 |
| Other payables | 24,465,572.17 | — | — | — | 24,465,572.17 |
| Non-current liabilities | | | | | |
| due within one year | 49,329,277.41 | — | — | — | 49,329,277.41 |
| Other current liabilities | 24,881,369.20 | — | — | — | 24,881,369.20 |
| Long-term payables | — | 37,188,517.01 | 3,972,083.37 | — | 41,160,600.38 |

2. Sensitivity analysis

The Company applies sensitivity to analyse the rationality of technical risk variables and the effects of possible changes on profit and loss or shareholders' equity. As any risk variable seldom varies, and correlation among variables will play a major role in the ultimate amount of a special risk variable. Therefore, the followings are carrying out on the assumed condition that each variable change independently.

(1) Sensitivity analysis of foreign exchange

The assumption for analysing sensitivity to foreign exchange risk: all hedges of net investment in foreign operations and cash flow hedges are highly effective.

Based on the above assumption, with all other variables held constant, the post-tax effects of possible reasonable changes in exchange rates on profit and loss and equity for the current period are set out below:

Unit: RMB

| Item | Movement in exchange rate | 30 June 2023 | | 2022 | |
|------------------------|-----------------------------|-----------------------|--------------------------|----------------------|--------------------------|
| | | Impact on net profit | Impact on owners' equity | Impact on net profit | Impact on owners' equity |
| All foreign currencies | 5% appreciation against RMB | 5,038,057.87 | 5,038,057.87 | 6,895,808.83 | 6,895,808.83 |
| All foreign currencies | 5% depreciation against RMB | (5,038,057.87) | (5,038,057.87) | (6,895,808.83) | (6,895,808.83) |

(2) Sensitivity analysis of interest rate risk

Sensitivity analysis of interest rate risk is based on the following assumptions:

Changes in market interest rate affect the interest income or expense of financial instruments at variable interest rate;

For fixed rate financial instruments measured at fair value, the changes in market interest rates only affect its interest income or expenses;

The changes in fair value of derivative financial instrument and other financial assets and liabilities were calculated by the discounted cash flow method with the market interest rate at the balance sheet date.

Based on the above assumptions, on the basis that all other variables are held constant, the effect of reasonable changes in interest rate that may arise on the profit and loss and equity for the period after tax are set out below:

Unit: RMB

| Item | Movement in interest rate | 30 June 2023 | | 2022 | |
|--------------------------|---------------------------|-----------------------|--------------------------|----------------------|--------------------------|
| | | Impact on net profit | Impact on owners' equity | Impact on net profit | Impact on owners' equity |
| Variable-rate borrowings | 1% increase | (1,413,941.30) | (1,413,941.30) | (1,066,537.50) | (1,066,537.50) |
| Variable-rate borrowings | 1% decrease | 1,413,941.30 | 1,413,941.30 | 1,066,537.50 | 1,066,537.50 |

XI. Fair value disclosures

1. Others

As at 30 June 2023, the Company's financing receivables were measured at fair value. As the related bank acceptance bills had short maturities, the difference between their fair value and carrying amount was minimal.

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

XII. Related parties and related party transactions

1. Parent company of the Company

Explanation of the parent company of the enterprise

The ultimate controller of the Company is State-owned Assets Supervision and Administration Bureau of Shouguang City.

Other descriptions:

The controlling shareholder of the Company is Molong Holdings (墨龍控股) who holds 235,617,000 A shares of the Company, representing 29.53% of the total share capital of the Company. The actual controller of the Company is the Shouguang State-owned Assets Bureau.

2. Subsidiaries of the Company

Particulars of subsidiaries of the Company are set out in Note IX.1.

3. Joint ventures and associates of the Company

Details of the significant joint ventures or associates of the Company are set out in Note IX.3.

The following joint ventures or associates entered into related party transactions with the Company during the current period or had balances of related party transactions with the Company from the prior period :

| Name of joint venture or associate | Relationship with the Company |
|--|--------------------------------------|
| Karamay Yalong Petroleum Machinery Co., Ltd. | Associate of the Company |

4. Other related parties

| Name of other related party | Relationship between the other related party and the Company |
|---|---|
| Shouguang Molong Holdings Co., Ltd. (壽光墨龍控股有限公司) | The controlling shareholder of the Company |
| Shandong Shouguang Jinxin Investment Development Holdings Group Limited (山東壽光金鑫投資發展控股集團有限公司) | The controlling shareholder of the controlling shareholder of the Company |
| Shandong Shouguang Jinxin Investment Development Holdings Group Limited (山東壽光金鑫投資發展控股集團有限公司) | A subsidiary of Shouguang Jinxin |
| Weifang Huayuan Heat Co., Ltd. (濰坊華源熱力有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Xinjing Tourism Development Co., Ltd. (壽光市鑫景旅遊發展有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Rongyuan Agricultural Technology Co., Ltd. (壽光市融源農業科技有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Jintou Medical Services Co., Ltd. (壽光市金投醫療服務有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Jindun Motorist Training Co., Ltd. (壽光市金盾機動車駕駛員培訓有限責任公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Hi-tech Zone Investment and Development Group Co., Ltd. (壽光高新區投資開發集團有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Jinsheng Investment Co., Ltd. (壽光金盛投資有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Fenghui Agricultural Technology Co., Ltd. (壽光市豐匯農業科技有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Construction Engineering Quality Testing Co., Ltd. (壽光市建設工程質量檢測有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang High-tech Zone Infrastructure Development Co., Ltd. (壽光市高新區基礎設施開發有限公司) | A subsidiary of Shouguang Jinxin |
| Shandong Longxing Plastic Film Technology Co., Ltd. (山東龍興塑膜科技股份有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Kefa Investment Co., Ltd. (壽光科發投資有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang fruit and vegetable variety right trading center Co., Ltd. (壽光果菜品種權交易中心有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Heda Polar Ocean World Co., Ltd. (壽光合達極地海洋世界有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Xinhui Real Estate Co., Ltd. (壽光市鑫惠置業有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Gaotou Shenghui Photovoltaic Technology Co., Ltd. (壽光高投晟輝光伏科技有限公司) | A subsidiary of Shouguang Jinxin |
| Shandong Qingtai Medical Equipment Co., Ltd. (山東青泰醫療器械有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Gaotou Huibang Construction and Installation Engineering Co., Ltd. (壽光高投匯邦建築安裝工程有限公司) | A subsidiary of Shouguang Jinxin |
| Shandong Pusen Medical Equipment Co., Ltd. (山東普森醫療器械有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Ronggeng Agricultural Technology Co., Ltd. (壽光融耕農業科技有限公司) | A subsidiary of Shouguang Jinxin |
| Shandong Bolan Biotechnology Co., Ltd. (山東博嵐生物科技股份有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Jinhan Supply Chain Management Co, Ltd. (壽光金瀚供應鏈管理有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Tianyi New Energy Co., Ltd. (壽光天一新能源有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Gaotou Hongxin Industrial Park Operation and Management Co., Ltd. (壽光高投泓鑫產業園運營管理有限公司) | A subsidiary of Shouguang Jinxin |
| Shandong Chengsen Biotechnology Co., Ltd. (山東承森生物科技股份有限公司) | A subsidiary of Shouguang Jinxin |
| Shandong Chiming Salt Chemistry Co., Ltd. (山東池銘鹽化有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Hengze Industrial Development Co., Ltd. (壽光恒澤產業發展有限公司) | A subsidiary of Shouguang Jinxin |
| Weifang Aolong Guarantee Co., Ltd. (濰坊奧龍擔保股份有限公司) | A subsidiary of Shouguang Jinxin |

| Name of other related party | Relationship between the other related party and the Company |
|--|--|
| Shouguang Judianhu Haoyang Playground Co., Ltd. (壽光市巨澱湖浩洋遊樂園有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Haoyang Catering Co., Ltd. (壽光市浩洋餐飲有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Judianhu Haohan Playground Co., Ltd. (壽光市巨澱湖浩瀚遊樂園有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Jintou Heating Power Co., Ltd. (壽光市金投熱力有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Guoyu New Energy Co., Ltd. (壽光市國譽新能源科技有限公司) | A subsidiary of Shouguang Jinxin |
| Jinpeng (Shandong) Electronic Information Technology Co., Ltd. (金朋(山東)電子信息技術有限公司) | A subsidiary of Shouguang Jinxin |
| Shouguang Financial Investment Group Co., Ltd. (壽光市金融投資集團有限公司) | Companies with associated natural persons |
| Shouguang Industry Investment Holding Group Co., Ltd. (壽光市產業投資控股集團有限公司) | Companies with associated natural persons |
| Shandong Boyuan Pharmaceutical & Chemical Co., Ltd. (山東博苑醫藥化學股份有限公司) | Companies with associated natural persons |
| Shandong Jiuan Insurance Broker Co., Ltd. (山東九安保險經紀股份有限公司) | Companies with associated natural persons |
| Shandong Jiu'an Investment Management Co., Ltd. (山東九安投資管理有限公司) | Companies with associated natural persons |
| Shandong Qi'an Health Management Co., Ltd. (山東齊安健康管理有限公司) | Companies with associated natural persons |
| Shandong Ju'an Siwei Risk Management Consulting Co., Ltd. (山東居安思危風險管理諮詢有限公司) | Companies with associated natural persons |
| Guoyu Dehui Equity Investment Management (Shandong) Co., Ltd. (國鈺德慧股權投資管理(山東)有限公司) | Companies with associated natural persons |
| Shanghai Anqi Artificial Intelligence Technology Co., Ltd. (上海安齊人工智能科技有限公司) | Companies with associated natural persons |
| Shouguang Jintou Equity Investment Fund Management Co., Ltd. (壽光市金投股權投資基金管理有限公司) | Companies with associated natural persons |
| Shandong Global Software Co., Ltd. (山東環球軟件股份有限公司) | Companies with associated natural persons |
| Kunpeng Asset Management Co., Ltd. (昆朋資產管理股份有限公司) | Companies with associated natural persons |
| Lushang Life Service Co., Ltd. (魯商生活服務股份有限公司) | Companies with associated natural persons |
| Shouguang Jintou Asset Management Co., Ltd. (壽光市金投資產管理有限公司) | Companies with associated natural persons |
| Shouguang Jintou Agricultural Technology Development Group Co., Ltd. (壽光市金投農業科技發展集團有限公司) | Companies with associated natural persons |
| Shouguang ZRCB Country Bank Co., Ltd. (壽光張農商村鎮銀行股份有限公司) | Companies with associated natural persons |
| Shouguang Jintou Culture Industry Development Co., Ltd. (壽光市金投文化產業發展有限公司) | Companies with associated natural persons |
| Shouguang Jintou Non Financing Guarantee Co., Ltd. (壽光市金投非融資性擔保有限公司) | Companies with associated natural persons |
| Shouguang jinzheng financing guarantee Co., Ltd. (壽光市金政融資擔保有限公司) | Companies with associated natural persons |
| Weifang Huiyi Property Management Co., Ltd. (濰坊卉宜物業管理有限公司) | Companies with associated natural persons |
| Shouguang Jinkong Asset Management Co., Ltd. (壽光市金控資產管理有限公司) | Companies with associated natural persons |
| Shouguang Changxu Thermal Power Co., Ltd. (壽光昶旭熱力有限公司) | Companies with associated natural persons |
| Shouguang Chenxi Kangyang Medical Co., Ltd. (壽光市宸熙康養醫療有限公司) | Companies with associated natural persons |
| Shouguang Chengsai Agricultural Technology Co., Ltd. (壽光市誠賽農業科技有限公司) | Companies with associated natural persons |
| Shouguang Xiangrun Industry Co., Ltd. (壽光祥潤實業有限公司) | Companies with associated natural persons |
| Kunpeng (Shandong) Asset Management Co., Ltd. (昆朋(山東)資產管理有限公司) | Companies with associated natural persons |
| Qingdao Jinxin Huijin Finance Leasing Co., Ltd (青島金鑫匯金融租賃有限公司) | Companies with associated natural persons |

| Name of other related party | Relationship between the other related party and the Company |
|---|--|
| Shouguang Jindu Engineering Management Co., Ltd. (壽光市金都工程管理有限公司) | Companies with associated natural persons |
| Shouguang Cultural Tourism Investment and Development Group Co., Ltd. (壽光市文化旅遊投資發展集團有限公司) | Companies with associated natural persons |
| Shouguang High quality Development Co., Ltd. (壽光市高質量發展有限公司) | Companies with associated natural persons |
| Shouguang Xianglin Enterprise Management Co., Ltd. (壽光市祥霖企業管理有限公司) | Companies with associated natural persons |
| Shouguang Xunying New Energy Development Co., Ltd. (壽光市迅盈新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Ruisi New Energy Development Co., Ltd. (壽光市瑞思新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Linmao New Energy Development Co., Ltd. (壽光市霖茂新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Changyi New Energy Development Co., Ltd. (壽光市昌億新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Zhisen New Energy Development Co., Ltd. (壽光市智森新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Haochen New Energy Development Co., Ltd. (壽光市灝辰新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Xiangbo New Energy Development Co., Ltd. (壽光市祥博新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Dingchen New Energy Development Co., Ltd. (壽光市鼎辰新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Hongyu New Energy Development Co., Ltd. (壽光市鴻禹新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Mingrui New Energy Development Co., Ltd. (壽光市銘瑞新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Guangfa Electric Power Co., Ltd. (壽光市光發電力有限公司) | Companies with associated natural persons |
| Shouguang Yinchen New Energy Development Co., Ltd. (壽光市銀辰新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Junhong New Energy Development Co., Ltd. (壽光市駿宏新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Zhaohui New Energy Development Co., Ltd. (壽光市兆輝新能源開發有限公司) | Companies with associated natural persons |
| Shouguang Junhan New Energy Development Co., Ltd. (壽光市君瀚新能源開發有限公司) | Companies with associated natural persons |
| Beijing Aohe Industrial Co., Ltd. (北京奧荷實業有限公司) | Companies with associated natural persons |
| Shouguang Smart Real Estate Information Service Co., Ltd. (壽光市智慧房產信息服務有限公司) | Companies with associated natural persons |
| Shandong Cangsheng agricultural science and technology Co., Ltd. (山東倉聖農業科技有限公司) | Companies with associated natural persons |
| Shandong Zhimeng Holdings Co., Ltd. (山東智夢控股有限公司) | A legal person who holds more than 5% of the shares together with its parties in concert |
| Shouguang Panjin Property Co., Ltd. (壽光市磐金置業有限公司) | A legal person who holds more than 5% of the shares together with its parties in concert |
| Shouguang Hongsen Logistics Co., Ltd. (壽光市鴻森物流有限公司) | A legal person who holds more than 5% of the shares together with its parties in concert |
| Shouguang Ruisen New Building Materials Co., Ltd. (壽光市瑞森新型建材有限公司) | A legal person who holds more than 5% of the shares together with its parties in concert |
| TATA Health International Holdings Limited (TATA 健康國際控股有限公司) | Companies where supervisors have held offices in the past 12 months |

5. Related party transactions

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

List of sale of goods/rendering of services

Unit: RMB

| Related party | Subject matter of the related party transaction | Amount for the current period | Amount for the last period |
|--|---|-------------------------------|----------------------------|
| Karamay Yalong Petroleum Machinery Co., Ltd. | Oil pumps and accessories | 456,221.59 | 522,267.43 |

(2) Related guarantees

The Company as a guarantor

Unit: RMB

| Guaranteed party | Guarantee amount | Commencement date of the guarantee | Expiry date of the guarantee | Has the guarantee been fulfilled |
|-------------------|------------------|------------------------------------|------------------------------|----------------------------------|
| Shouguang Maolong | 0.00 | 30 June 2020 | 30 June 2023 | Yes |

The Company as a guaranteed party

Unit: RMB

| Guarantor | Guarantee amount | Commencement date of the guarantee | Expiry date of the guarantee | Has the guarantee been fulfilled |
|------------------|------------------|------------------------------------|------------------------------|----------------------------------|
| Shouguang Jinxin | 60,000,000.00 | 26 August 2021 | 25 August 2024 | Yes |

Description of related guarantee:

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

On 26 August 2021, the twelfth meeting of the sixth session of the board of directors of the Company considered and passed the “Proposal for Development of Finance Lease Business ” (《關於開展融資租賃業務的議案》). It was agreed that the Company should commence the sale-and-leaseback financing business with Yangtze United Financial Leasing Co., Ltd. (長江聯合金融租賃有限公司) with a total amount of not exceeding RMB6,000 ten thousand for a period of no longer than 36 months, and that Shouguang Jinxin (a controlling shareholder of the Company’s controlling shareholder) should undertake the joint liability guarantee for the Company for free. Details are available on the website of cninfo (<http://www.cninfo.com.cn>) in the announcement numbered 2021-052.

(3) Borrowings from/lending to related parties

Unit: RMB

| Related party | Amount of borrowings and lending | Commencement date | Expiry date | Descriptions |
|------------------|----------------------------------|-------------------|------------------|--------------|
| Borrowings | | | | |
| Shouguang Jinxin | 30,000,000.00 | 14 February 2023 | 15 February 2023 | — |
| Shouguang Jinxin | 20,000,000.00 | 23 March 2023 | 9 June 2023 | — |
| Shouguang Jinxin | 30,000,000.00 | 24 March 2023 | 3 April 2023 | — |
| Shouguang Jinxin | 20,000,000.00 | 27 March 2023 | 25 June 2023 | — |
| Shouguang Jinxin | 10,000,000.00 | 31 March 2023 | 9 June 2023 | — |
| Shouguang Jinxin | 20,000,000.00 | 31 March 2023 | 25 June 2023 | — |
| Shouguang Jinxin | 30,000,000.00 | 29 May 2023 | — | — |
| Shouguang Jinxin | 27,000,000.00 | 8 June 2023 | 8 June 2023 | — |
| Shouguang Jinxin | 40,000,000.00 | 25 June 2023 | — | — |
| Shouguang Jinxin | 10,000,000.00 | 29 June 2023 | — | — |
| Lending | — | — | — | — |

147

(4) Compensation of key management personnel

Unit: RMB

| Item | Amount for the current period | Amount for the prior period |
|---------------------|-------------------------------|-----------------------------|
| Total remunerations | 1,510,050.10 | 1,600,178.12 |

(5) Other connected transactions

During the report period, the Company entered into a lease contract with Shouguang Xiangrun Industry Co., Ltd. (壽光祥潤實業有限公司), pursuant to which the Company leased an office building for business office use for a term of three years commencing from 1 January 2023 to 31 December 2025, with free rent for the first year, RMB675,100 for the second year and RMB1,181,400 for the third year.

6. Amounts due from and due to related parties

(1) Receivables

Unit: RMB

| Item | Related party | Balance at the end of the period | | Balance at the beginning of the period | |
|---------------------|--|----------------------------------|------------------------|--|------------------------|
| | | Book balance | Provision of bad debts | Book balance | Provision of bad debts |
| Accounts receivable | Karamay Yalong Petroleum Machinery Co., Ltd. | 3,966,237.77 | 1,610,785.96 | 5,297,572.74 | 2,093,527.58 |

7. Undertakings by related parties

The Company continues to receive financial support from Shouguang Jinxin, the controlling shareholder of the controlling shareholder. On 10 February 2023, after the consideration and approval at the 3rd extraordinary meeting of the seventh session of the Board of Directors of the Company, Shouguang Jinxin, provided non-interest bearing borrowings of up to RMB500 million to the Company for a term of less than one year, which can be recycled within the loan amount and validity period. This financial assistance does not require the Company to provide any form of guarantee such as guarantee, mortgage and pledge. As of the end of the reporting period, the balance of the financial assistance from Shouguang Jinxin to the Company is RMB80 million, and Shouguang Jinxin can provide timely assistance according to the Company's capital needs within its support quota. In addition, Shouguang Jinxin will actively assist the Group in expanding its financing channels and business scope, and support the Group to become better and stronger.

148

XIII. Share-based payments

1. General information of 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 Company had no share-based payments during the period.

XIV. Commitments and contingencies

1. Significant commitments

Significant commitments at the balance sheet date

Nil

2. Contingencies

(1) Material contingencies at the balance sheet date

As the litigation matters involving Shouguang Baolong, a subsidiary, have not yet been decided, the Company evaluated the possible compensation liabilities in the future after consulting legal opinions, and based on the principle of prudence, accrued an estimated liability of RMB9.8 million for the litigation matters.

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

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

3. Others

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

XV. Events subsequent to the balance sheet date

1. Profit Distribution

| | |
|---|-----|
| Amount of dividends to be distributed for every ten shares (RMB) | 0 |
| Number of bonus shares to be distributed for every ten shares (shares) | 0 |
| Number of shares to be transferred into share capital for every ten shares (share) | 0 |
| Amount of dividends declared for every ten shares upon consideration and approval (RMB) | 0 |
| Number of bonus shares declared for every ten shares upon consideration and approval (shares) | 0 |
| Number of shares declared to be transferred into share capital for every ten shares upon consideration and approval (share) | 0 |
| Profit distribution scheme | Nil |

2. Sales Return

As at the date of this financial report, the Company had no sales return.

3. Descriptions of other events subsequent to the balance sheet date

Except for the disclosure of events subsequent to the balance sheet date as described above, the Company has no other material events subsequent to the balance sheet date.

XVI. Other significant events

1. Segment information

(1) Basis for determining reportable segments and accounting policies

(1) Basis for determining reportable segments

Based on its internal organisational structure, management requirements and internal reporting system, the Group's operating businesses are divided into five reportable segments, which are determined for the basis of internal organizational structure, management requirements and internal reporting system. Management of the Group regularly evaluates the operating results of these reportable segments for the purposes of making decisions on resource allocation to and performance evaluation of these segments. The main products provided by the Group's reportable segments include oil casing, three kinds of pumping units, petroleum machinery parts, castings and forgings, and others.

(2) Accounting policies for the reportable segments

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

(2) Financial information of reportable segments

Unit: RMB

| Item | Pipe products | Three kinds of pumping units | Petroleum machinery parts | Castings and forgings | Others | Unallocated | Intersegment elimination | Total |
|-------------------------------------|------------------|------------------------------|---------------------------|-----------------------|----------------|------------------|--------------------------|------------------|
| Operating revenue | — | — | — | — | — | — | — | — |
| Revenue from external sales | 716,389,280.84 | 14,110,813.66 | 14,807,795.88 | 14,860,414.01 | 38,250,710.71 | — | — | 798,419,015.10 |
| Revenue from inter-segment sales | — | — | — | — | — | — | — | — |
| Total segment operating revenue | 716,389,280.84 | 14,110,813.66 | 14,807,795.88 | 14,860,414.01 | 38,250,710.71 | — | — | 798,419,015.10 |
| Total operating revenue as reported | 716,389,280.84 | 14,110,813.66 | 14,807,795.88 | 14,860,414.01 | 38,250,710.71 | — | — | 798,419,015.10 |
| Segment expenses | 684,455,826.42 | 12,167,658.66 | 12,115,961.51 | 18,602,891.52 | 38,213,116.02 | 2,115,579.66 | — | 767,671,033.79 |
| Segment operating profit | 31,933,454.42 | 1,943,155.00 | 2,691,834.37 | (3,742,477.51) | 37,594.69 | (2,115,579.66) | — | 30,747,981.31 |
| Adjusted for: | — | — | — | — | — | — | — | — |
| Administrative expenses | — | — | — | — | — | 135,856,718.33 | — | 135,856,718.33 |
| Research and development expenses | — | — | — | — | — | 15,508,358.85 | — | 15,508,358.85 |
| Finance costs | — | — | — | — | — | 43,618,923.57 | — | 43,618,923.57 |
| Investment income | — | — | — | — | — | — | — | — |
| Gains on disposal of assets | — | — | — | — | — | 325,712.98 | — | 325,712.98 |
| Other income | — | — | — | — | — | 132,723.59 | — | 132,723.59 |
| Operating profit as reported | 31,933,454.42 | 1,943,155.00 | 2,691,834.37 | (3,742,477.51) | 37,594.69 | (196,641,143.84) | — | (163,777,582.87) |
| Non-operating income | — | — | — | — | — | 2,044,943.45 | — | 2,044,943.45 |
| Non-operating expenses | — | — | — | — | — | 742,741.22 | — | 742,741.22 |
| Total profit | 31,933,454.42 | 1,943,155.00 | 2,691,834.37 | (3,742,477.51) | 37,594.69 | (195,338,941.61) | — | (162,475,380.64) |
| Income tax | — | — | — | — | — | 1,458,254.39 | — | 1,458,254.39 |
| Net profit | 31,933,454.42 | 1,943,155.00 | 2,691,834.37 | (3,742,477.51) | 37,594.69 | (196,797,196.00) | — | (163,933,635.03) |
| Total segment assets | 1,462,066,873.31 | 76,946,330.69 | 53,003,776.69 | 1,140,837,033.24 | 252,748,561.53 | 735,938,873.96 | — | 3,721,541,449.42 |
| Total segment liabilities | 905,506,498.11 | 20,836,098.45 | 26,731,470.04 | 781,891,172.21 | 34,644,238.89 | 1,205,387,704.28 | — | 2,974,997,161.98 |

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

In the first half of 2023 and 2022, the Group derived all revenue from external sales from the PRC and overseas. As all of its assets were located in the PRC, revenue from external sales by origin of revenue is disclosed as follows:

Unit: RMB

| Revenue from external sales | Amount for the current period | Amount for the last period |
|-----------------------------|-------------------------------|----------------------------|
| PRC (excluding Hong Kong) | 635,768,739.52 | 1,507,525,783.97 |
| Hong Kong | — | — |
| Other overseas regions | 162,650,275.58 | 63,416,157.68 |
| Total | 798,419,015.10 | 1,570,941,941.65 |

XVII. Notes to principal line 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 | | | | | Balance at the beginning of the period | | | | |
|---|----------------------------------|------------|-------------------------|----------------|-----------------------|--|------------|-------------------------|----------------|-----------------------|
| | Book balance | | Provision for bad debts | | Book value | Book balance | | Provision for bad debts | | Book value |
| | Amount | Percentage | Amount | Provision rate | | Amount | Percentage | Amount | Provision rate | |
| Including: | | | | | | | | | | |
| Accounts receivable provided for bad debts on a collective basis | 752,098,470.13 | 100.00% | 105,435,486.36 | 14.02% | 646,662,983.77 | 662,770,579.31 | 100.00% | 102,449,762.97 | 15.46% | 560,320,816.34 |
| Including: | | | | | | | | | | |
| Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on aging characteristics | 468,861,951.18 | 62.34% | 105,435,486.36 | 22.49% | 363,426,464.82 | 394,050,802.27 | 59.46% | 102,449,762.97 | 26.00% | 291,601,039.30 |
| Accounts receivable provided for bad debts on a collective basis as grouped for expected credit loss based on related parties within the scope of consolidation | 283,236,518.95 | 37.66% | — | — | 283,236,518.95 | 268,719,777.04 | 40.54% | — | — | 268,719,777.04 |
| Total | 752,098,470.13 | — | 105,435,486.36 | — | 646,662,983.77 | 662,770,579.31 | — | 102,449,762.97 | — | 560,320,816.34 |

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

Unit: RMB

| Name | Balance at the end of the period | | |
|---------------|----------------------------------|-------------------------|----------------|
| | Book balance | Provision for bad debts | Provision rate |
| Within 1 year | 365,502,214.58 | 3,655,022.15 | 1.00% |
| 1-2 years | 2,416,459.32 | 1,208,229.66 | 50.00% |
| 2-3 years | 523,052.05 | 392,289.04 | 75.00% |
| 3-4 years | — | — | — |
| 4-5 years | 1,601,864.77 | 1,361,585.05 | 85.00% |
| Over 5 years | 98,818,360.46 | 98,818,360.46 | 100.00% |
| Total | 468,861,951.18 | 105,435,486.36 | — |

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

Unit: RMB

| Name | Balance at the end of the period | | |
|-------------------|----------------------------------|-------------------------|----------------|
| | Book balance | Provision for bad debts | Provision rate |
| Shouguang Maolong | 262,168,172.67 | — | — |
| MPM | 21,068,346.28 | — | — |
| Total | 283,236,518.95 | — | — |

Basis for determining the group:

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

Applicable Not applicable

Disclosure by age

Unit: RMB

| Age | Balance at the end of the period |
|---------------------------|----------------------------------|
| Within 1 year (inclusive) | 627,670,387.25 |
| 1 to 2 years | 2,416,459.32 |
| 2 to 3 years | 523,052.05 |
| Over 3 years | 121,488,571.51 |
| 4 to 5 years | 1,601,864.77 |
| Over 5 years | 119,886,706.74 |
| Total | 752,098,470.13 |

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

Provisions for bad debts for the current period:

Unit: RMB

| Type | Balance at the beginning of the period | Movement during the current period | | | | Balance at the end of the period |
|--|--|------------------------------------|----------------------|-----------|--------|----------------------------------|
| | | Provision | Recovery or reversal | Write-off | Others | |
| Provision for bad debts of accounts receivable | 102,449,762.97 | 2,985,723.39 | — | — | — | 105,435,486.36 |
| Total | 102,449,762.97 | 2,985,723.39 | — | — | — | 105,435,486.36 |

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

There were no accounts receivable actually written off during the current period.

(4) Balance of five largest accounts receivable as at the end of the period by debtors

Unit: RMB

| Name of entity | Balance of accounts receivable at the end of the period | Percentage of the total balance of accounts receivable at the end of the period | Balance of bad debt provision at the end of the period |
|----------------|---|---|--|
| Entity I | 262,168,172.67 | 34.86% | 0.00 |
| Entity II | 130,500,500.33 | 17.35% | 1,305,005.00 |
| Entity III | 122,833,464.95 | 16.33% | 1,228,334.65 |
| Entity IV | 50,585,077.68 | 6.73% | 50,585,077.68 |
| Entity V | 46,222,835.06 | 6.15% | 462,228.35 |
| Total | 612,310,050.69 | 81.42% | — |

153

(5) Accounts receivable derecognised on transfer of financial assets

As at 30 June 2023, the Company had no accounts receivable derecognised on the transfer of financial assets.

(6) Amount of assets or liabilities arising from transfer of accounts receivable with continuous involvement

As at 30 June 2023, the Company had no assets or liabilities arising from transfer of accounts receivable with continuous involvement.

2. Other receivables

Unit: RMB

| Item | Balance at the end of the period | Balance at the beginning of the period |
|-------------------|----------------------------------|--|
| Other receivables | 449,662,976.42 | 734,091,673.64 |
| Total | 449,662,976.42 | 734,091,673.64 |

(1) Other receivables

1) Other receivables by payment nature

Unit: RMB

| Payment nature | Balance at the end of the period | Balance at the beginning of the period |
|--|----------------------------------|--|
| Staff turnover loans | 744,000.00 | 684,000.00 |
| Deposits/margins | 9,130,630.60 | 3,029,305.84 |
| Accounts due from/to other entities | 1,162,549.78 | 1,214,849.14 |
| Related parties within the scope of consolidation | 439,207,798.36 | 729,388,042.10 |
| Less: Provision for bad debts of other receivables | (582,002.32) | (224,523.44) |
| Total | 449,662,976.42 | 734,091,673.64 |

154

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 (non-credit impaired) | Stage 3 Lifetime expected credit loss (credit impaired) | Total |
|--|---|--|--|------------|
| Balance at 1 January 2023 | 168,187.72 | 56,335.72 | — | 224,523.44 |
| Balance at 1 January 2023 during the current period | | | | |
| Charge for the current period | 4,452.45 | 502,172.06 | — | 506,624.51 |
| Reversal for the current period | 149,145.63 | — | — | 149,145.63 |
| Balance as at 30 June 2023 | 23,494.54 | 558,507.78 | — | 582,002.32 |

Movements of book balance of significant changes in loss allowance for the current period

Applicable Not applicable

Disclosure by age

Unit: RMB

| Age | Balance at the end of the period |
|---------------------------|---|
| Within 1 year (inclusive) | 373,594,984.99 |
| 1 to 2 years | 1,400,884.84 |
| 2 to 3 years | 2,810,000.00 |
| Over 3 years | 72,439,108.91 |
| 3 to 4 years | 1,800,987.63 |
| 4 to 5 years | 0.00 |
| Over 5 years | 70,638,121.28 |
| <hr/> | |
| Total | 450,244,978.74 |

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

Unit: RMB

| Type | Balance at the beginning of the period | Movement during the current period | | | | Balance at the end of the period |
|---|---|---|-----------------------------|------------------|---------------|---|
| | | Provision | Recovery or reversal | Write-off | Others | |
| Provisions for bad debts of other receivables | 224,523.44 | 506,624.50 | 149,145.63 | — | — | 582,002.32 |
| <hr/> | | | | | | |
| Total | 224,523.44 | 506,624.50 | 149,145.63 | — | — | 582,002.32 |

- 4) *Other receivables actually written off during the current period*
 There were no other receivables actually written off during the current period.

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

Unit: RMB

| Name of entity | Nature of payment | Balance at the end of the period | Age | Percentage of the total balance of other receivables at the end of the period | Balance of bad debt provision at the end of the period |
|--|---------------------------|----------------------------------|----------------|---|--|
| Shouguang Maolong | Amounts due from entities | 342,980,360.69 | Within 1 year | 76.18% | — |
| Molong Logistic | Amounts due from entities | 25,600,000.00 | Within 5 years | 5.69% | — |
| Molong Logistic | Amounts due from entities | 70,627,437.67 | Over 5 years | 15.69% | — |
| Shaanxi Energy Chemical Industry Exchange Co., Ltd. | Security deposits | 6,000,000.00 | Within 1 year | 1.33% | — |
| Shaanxi Energy Chemical Industry Exchange Co., Ltd. | Security deposits | 257,236.60 | 1-2 years | 0.06% | — |
| CNPC Chuanqing Drilling Engineering Company Limited | Security deposits | 1,164,196.00 | Within 1 year | 0.26% | — |
| Shouguang Social Insurance Management Center (Work Injury) | Insurance | 82,351.30 | Within 1 year | 0.02% | 12,352.70 |
| Shouguang Social Insurance Management Center (Work Injury) | Insurance | 994,248.24 | 1-2 years | 0.22% | 546,836.53 |
| Total | | 447,705,830.50 | | 99.45% | 559,189.23 |

6) *Government grants receivable*

Nil

7) *Other receivables derecognised on transfer of financial assets*

As at 30 June 2023, the Company had no other receivables derecognised on transfer of financial assets.

8) *Amount of assets or liabilities arising from transfer of other receivables with continuous involvement*

As at 30 June 2023, there were no assets or liabilities arising from transfer of other receivables with continuous involvement.

Other descriptions:

As at 30 June 2023, the Company did not have any pledged other receivables.

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 | 1,762,019,921.73 | 208,000,000.00 | 1,554,019,921.73 | 1,362,019,921.73 | 208,000,000.00 | 1,154,019,921.73 |
| Total | 1,762,019,921.73 | 208,000,000.00 | 1,554,019,921.73 | 1,362,019,921.73 | 208,000,000.00 | 1,154,019,921.73 |

(1) Investment in subsidiaries

Unit: RMB

| Investee | Balance at the beginning of the period (Book value) | Movements during the current period | | | | Balance at the end of the period (Book value) | Balance of impairment provision at the end of the period |
|-------------------|---|-------------------------------------|------------------------|--------------------------|--------|---|--|
| | | Increase in investment | Decrease in investment | Provision for impairment | Others | | |
| Shouguang Maolong | 1,006,743,691.73 | 400,000,000.00 | — | — | — | 1,406,743,691.73 | 0.00 |
| Weihai Baolong | 117,000,000.00 | — | — | — | — | 117,000,000.00 | 103,000,000.00 |
| MPM | 7,276,230.00 | — | — | — | — | 7,276,230.00 | 0.00 |
| Shouguang Baolong | 0.00 | — | — | — | — | 0.00 | 105,000,000.00 |
| Molong Logistic | 3,000,000.00 | — | — | — | — | 3,000,000.00 | 0.00 |
| Molong I&E | 10,000,000.00 | — | — | — | — | 10,000,000.00 | 0.00 |
| Molong Commercial | 10,000,000.00 | — | — | — | — | 10,000,000.00 | 0.00 |
| Total | 1,154,019,921.73 | 400,000,000.00 | — | — | — | 1,554,019,921.73 | 208,000,000.00 |

157

4. Operating revenue and operating costs

Unit: RMB

| Item | Amount for the current period | | Amount for the prior period | |
|----------------------|-------------------------------|----------------|-----------------------------|----------------|
| | Revenue | Costs | Revenue | Costs |
| Principal operations | 732,694,331.57 | 674,105,184.79 | 617,523,324.34 | 584,928,781.23 |
| Other operations | 38,071,840.40 | 35,937,862.86 | 56,689,020.51 | 52,722,656.98 |
| Total | 770,766,171.97 | 710,043,047.65 | 674,212,344.85 | 637,651,438.21 |

Information related to revenue:

Unit: RMB

| Contract category | Pipe products | Three kinds of pumping units | Petroleum machinery parts | Others | Total |
|---------------------------------------|-----------------------|-------------------------------------|----------------------------------|----------------------|-----------------------|
| Type of goods | | | | | |
| Including: | | | | | |
| Pipe products | 702,973,915.02 | — | — | — | 702,973,915.02 |
| Three kinds of pumping units | — | 14,110,813.66 | — | — | 14,110,813.66 |
| Petroleum machinery parts | — | — | 13,737,601.18 | — | 13,737,601.18 |
| Others | — | — | — | 39,943,842.11 | 39,943,842.11 |
| By business location | | | | | |
| Including: | | | | | |
| China | 575,280,700.42 | 8,262,062.28 | — | 39,939,602.69 | 623,482,365.39 |
| Outside China | 127,693,214.60 | 5,848,751.38 | 13,737,601.18 | 4,239.42 | 147,283,806.58 |
| Revenue recognised at a point in time | 702,973,915.02 | 14,110,813.66 | 13,737,601.18 | 39,943,842.11 | 770,766,171.97 |
| Total | 702,973,915.02 | 14,110,813.66 | 13,737,601.18 | 39,943,842.11 | 770,766,171.97 |

Information on performance obligations:

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

Information on transaction price allocated to remaining performance obligations:

The corresponding revenue from performance obligations that have been contracted but not yet performed or completed amounted to RMB565 million as at the end of the reporting period, RMB565 million of which were expected to be recognised as revenue in 2023.

XVIII. Supplementary information

1. Breakdown of extraordinary profits or losses for the current period

Applicable Not applicable

Unit: RMB

| Item | Amount | Descriptions |
|--|--------------|---|
| Gains or losses arising from disposal of non-current assets (including the written-offs that have been provided for impairment of assets) | (131,293.77) | Mainly comprised of the losses on disposal and retirement of certain assets of the Company. |
| Government grant recognised in current profit and loss (excluding those grants that are closely related to the Company's normal business operation, that met the requirements of national policy, and that were continuously granted in accordance with the certain standard amount or volume prescribed by the State) | 132,723.59 | Mainly comprised of the cross-border e-commerce subsidies received and the refunds of handling fees for withholding and remitting of individual income tax during the current period. |
| Non-operating income and expenses other than the above items | 1,759,208.98 | Mainly comprised of the transfer of non-repayable accounts payable during the current period. |
| Less: Effect on income tax | 85,813.61 | — |
| Effect on minority interests | 201,640.89 | — |
| Total | 1,473,184.30 | — |

159

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

Applicable Not applicable

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

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

Applicable Not applicable

2. Return on net assets and earnings per share

| Profit for the reporting period | Weighted average return on net assets | Earnings per share | |
|--|---------------------------------------|--------------------------------------|--|
| | | Basic earnings per share (RMB/share) | Diluted earnings per share (RMB/share) |
| Net profit attributable to ordinary shareholders of the Company | -17.42% | (0.1983) | (0.1983) |
| Net profit after extraordinary gains or losses attributable to shareholders of the Company | -17.58% | (0.2002) | (0.2002) |

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

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

(1) Differences in net profit and net assets in the financial report as disclosed in accordance with IASs and PRC GAAP

Applicable Not applicable

(2) Differences in net profit and net assets in the financial report as disclosed under the overseas accounting standards and PRC GAAP

Applicable Not applicable

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

Nil