



# 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)

# 2020

# Environmental, Social and Governance Report

## **About this report**

Shandong Molong Petroleum Machinery Company Limited (the “Company”, “We” or “Shandong Molong”) and its subsidiaries (the “Group”) publishes its environmental, social and governance report (this “Report” or “ESG Report”), which summarises the principles of corporate social responsibility practices and sustainability concepts of the Group for the financial year ended 31 December 2020, and explains the relationship between us and our major stakeholders, and our vision and commitments to corporate social responsibility.

## **Basis of preparation**

This Report is prepared according to the Environmental, Social and Governance Reporting Guidelines (the “Guidelines”) in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”) and the scope it covered is in compliance with the disclosure principles under the Guidelines. We have also complied with the “Comply or Explain” provisions under the Guidelines to address the environmental and social impacts from various business and operating activities of the Group accordingly. For information on the corporate governance of the Group, please visit the official website of the Company ([www.molonggroup.com](http://www.molonggroup.com)) and refer to the 2020 Annual Report of the Company.

## **Reporting period and scope**

This Report covers the period between 1 January 2020 and 31 December 2020 (this “Year” or the “reporting period”). It focuses on the headquarters of the Group located in Shouguang of Shandong and the subsidiaries under the operating control of the Company. Specifically:

- Shandong Molong Petroleum Machinery Company Limited
- Shouguang Baolong Petroleum Equipment Co., Ltd. (“Shouguang Baolong”)
- Shouguang Maolong New Materials Technology Development Co., Ltd. (“Shouguang Maolong”)
- Weihai Baolong Special Petroleum Materials Co., Ltd. (“Weihai Baolong”)

## **Reporting language**

This Report is published in traditional Chinese and English and is available for download from the official website of the Company ([www.molonggroup.com](http://www.molonggroup.com)) and the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)).

## **Valuable feedback**

To continuously improve the environmental, social and governance performance of the Group, we value and welcome stakeholders and the public to share with us their views on this Report. Should you have any enquiries and recommendations, please contact the Group via the following channels:

Shandong Molong Petroleum Machinery Company Limited  
Address : No. 999 Wen Sheng Street, Shouguang City, Shandong Province  
Postal code : 262700  
Telephone : 0536-5100890  
Email : [dsh@molonggroup.com](mailto:dsh@molonggroup.com)

## Chairman's Statement

In 2020, China concluded the building of a moderately prosperous society and brought down the curtain on the “13th Five-Year” Plan. In response to the raging COVID-19 pandemic and fierce industry competition, the Company kept a close eye on preventing and controlling the pandemic on the one hand while resumed work and production on the other hand, through which we walked onto a successful pathway that enabled us, as an energy equipment manufacturing enterprise, to prevent the pandemic scientifically and move into high-quality development.

The pressure and challenges bring by various uncertainties have prompted the Company to actively refine its business strategy by prioritising the stabilisation of the partnership with long-term and quality customers, taking the initiative to align product structure as well as engaging in further development of the castings and forgings market. In 2020, the Company actively expanded the applications and sales channels of pipe products, which effectively combined the Oil Country Tubular Goods (OCTG) products and other social pipe markets to enable positive sales adjustments. With market demand in mind, the Company completed over 10 initiatives in new product development and technology and process improvement, with emphasis being placed on high value-added products. The Company also reinforced its marketing effort in high-end castings and forgings, which resulted in further improvement in output and sales and significant year-on-year increase in operating revenue. In order to optimise production strategy and realise intensive production management, the Company disposed part of its land and fixtures.

In 2020, the Company insisted on having pandemic prevention and control measures in place to duly facilitate the resumption of work and production, leading the entire industry on the path of speedy recovery. With independent innovation as the main theme, the Company strengthened its technological innovation capabilities and core competence and demonstrated strong R&D capabilities in the field of special equipment for energy equipment. The Company has undertaken more than 70 national and provincial-level related scientific research projects. We are the leading enterprise in China's energy equipment base with Shandong Provincial Enterprise Technology Center, Shandong Petroleum Special Pipe Engineering Technology Research Center, and National Accreditation Laboratory 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, creating a enterprises-based and market-oriented technology innovation system with in-depth integration of production, education and research as well as the best innovation ecosystem of the industry. HI smelt smelt reduction technology is a smelt reduction 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 all the technical intellectual property rights of HI smelt, the only HI smelt industrial chemical plant in the world, rich experience in HI smelt plant operation and maintenance and strong equipment R&D and manufacturing capabilities. The Company has obtained HI smelt smelt reduction technology series patents and authorisations. After the identification of scientific and technological achievements organised by the Chinese Society for Metals, Shandong Molong HI smelt reduction technology has reached the international leading level. 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 win-win partnership with mass customers. 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.

The Company paid great attention to the creation of social value and placed our focus of fulfilling social responsibility on actively participating in social services. We have spared no effort to join social services and charity activities with a view to rewarding the society within our capacity. In 2020, the Company, with the aim to help poverty alleviation, donated RMB12 ten thousand to relocate and expand the quinoa processing plant in Dongxiang County, Gansu Province. We positively responded to the call for blood donation of Epidemic Prevention and Control Office of Shouguang City by way of initiating and organising around 100 staff members to participate in voluntary blood donation public welfare activities and proactively participating in social welfare undertakings, which demonstrated the social responsibility and commitment of the Company. This ESG Report reviews the Company's efforts in fulfilling its social responsibilities in 2020, with the aim to further strengthen the Company's social responsibilities, encourage the sharing of benefits between the Company and all sectors of society, especially with stakeholders, and enhance mutual understanding and acknowledgement. By fulfilling corporate social responsibilities in a better way, we can make additional and greater contributions to the development of economy and society.

Chairman: Yang Yun Long  
Shandong Molong Petroleum Machinery Company Limited

## Highlights of 2020

<b>R&amp;D</b>		
Total R&D investment	5301.34	RMB ten thousand
<b>Products</b>		
Material disputes and litigations related to product liabilities	0	Case
Serious incidents lead to recalling products	0	Case
<b>Environment</b>		
Incidents lead to significant environmental risk	0	Case
<b>Safety</b>		
Rate of work-related fatalities	0	%
Fatal work-related incidents and accidents involving serious injury	0	Case
<b>Staff</b>		
Staff training coverage	100	%
Relief fund	4.5	RMB ten thousand
<b>Community</b>		
Donation to alleviate poverty	12	RMB ten thousand

## About Shandong Molong

Shandong Molong Petroleum Machinery Company Limited is an A + H listed company specialised in and integrates design, R&D, processing and manufacturing, sales and service and import and export of energy equipment. The main products included petroleum-drilling machinery equipment, petroleum and natural gas transportation equipment, petroleum and natural gas exploitation equipment and major critical components and castings and forgings products. The Company's products were mainly used in petroleum, natural gas, coalbed methane, shale gas and other energy drilling, machinery processing, urban pipe network, etc. The Company is the major supplier and strategic supplier of PetroChina, Sinopec, CNOOC and Yanchang Oilfield.



A picture depicting the office area of Shandong Molong

## Development history

- In 1986, the Company was found.

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- In 1987, the Company entered the petroleum machinery industry.

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- In 1994, Shandong Molong Holdings Company was established.

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- In 2001, the People's Government of Shandong Province approved the establishment of Shandong Molong Petroleum Machinery Company Limited.

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- On 15 April 2004, Shandong Molong's H-shares were successfully listed on the Growth Enterprise Market (now GEM) of the Stock Exchange, becoming the first private company in Weifang, and the first domestic company in the petroleum machinery industry, to list offshore.

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- On 7 February 2007, Shandong Molong successfully migrated the listing of its H-shares from the Growth Enterprise Market to the Main Board, becoming the first among the 134 H-share companies in the Growth Enterprise Market to seal migration successfully.

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- On 21 October 2010, Shandong Molong's A-shares were listed on the Shenzhen Stock Exchange, becoming the first homecoming H-share company listed in Shenzhen Stock Exchange with A+H-share dual listing (Stock code of A-shares: 002490; Stock code of H-shares: 00568).

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- In 2012, Shandong Molong acquired HIs melt technology from Rio Tinto Group.

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- In 2013, we established HIs melt technology production facilities. Shouguang Maolong New Materials Technology Development Co., Ltd. was established and commenced operation.

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- In November 2014, after on-site review and assessment by the China National Accreditation Service for Conformity Assessment (CNAS), the Company's experiment centre officially passed the CNAS accreditation.

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- In May 2018, HIs melt technology was identified as an international advanced technology upon its technological achievements assessed by domestic casting and forging experts organised by China Metal Association.

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- In September 2020, Zhang En Rong, the original controlling shareholder and actual controller of the Company, and Shandong Shouguang Jinxin Investment Development Holdings Group Limited entered into the Voting Rights Nomination Agreement, and the actual controller of the Company has changed to the State-owned Assets Supervision and Administration Bureau of Shouguang City.

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## **Business Philosophy**



The Group 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 ongoing extension of production chains, the Company has realised year-on-year growth in terms of economic benefits and consistently enhanced its industry influence as it is ranked among the Top 100 Mechanical Enterprises in Shandong Province, the Top 100 Enterprises in Weifang City and Large-scale Enterprises in Shouguang City, making it a leading petroleum machinery enterprise in Shandong Province. The accolades we have include the “Shandong High-tech Enterprise”, the “Most Creditworthy and Trustworthy Client for Banks in Shandong Province”, the “Grade A Credible Taxpaying Enterprise”, the “Grade AAA Credible Enterprise for Agricultural Bank of China” and the “Model Industrial Enterprise in China”. Our "Molong" brand has won the award of “Famous Brand in Shandong Province” and “Famous brand of China”. The reputation and market competitiveness of the Company’s products are greatly enhanced by 9 of its products being named as “Shandong Famous Products”.

Shandong Molong upholds the principle of “founding business with integrity and giving back to the society with pride”. The Group will strengthen its investment in technology research and development, expand the production capacity of high-grade petroleum pipes, align product mix and improve overall performance. By consistently extending the production chain, we will be able to provide high-quality products for oilfield users, bring fruitful return to investors and keep our rapid development pace, with the aim to become an internationally renowned petroleum equipment manufacturing service provider.

## **Sustainable Development Management**

### **Sustainable Development Strategies**

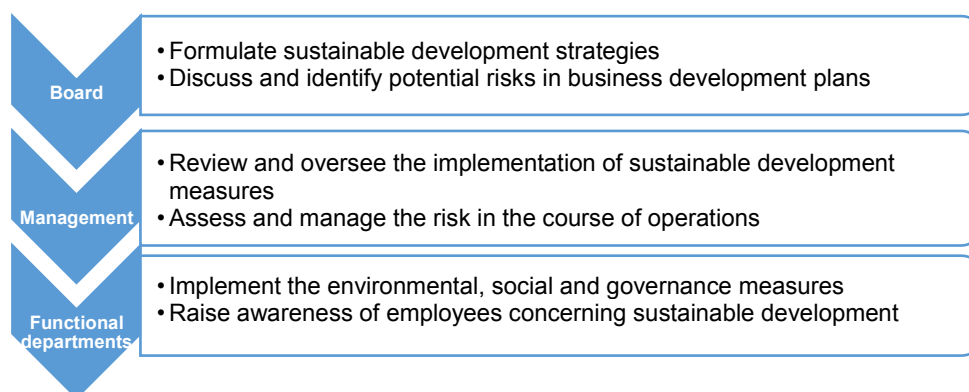
Pursuing maximum short-term financial return to reward shareholders is no longer the only objective of corporate management given the increasing market concern over corporate behavior. As a responsible company, the Group focuses on corporate social responsibility management and commits to integrate the concept of sustainable development with the Company’s overall strategy, policies and business plans. While promoting business development, we also actively reduce various negative impacts that may be caused to the environment by business operations and commit to ignite more positivity to the society. We engage in open and transparent communication, either regularly or irregularly, with all stakeholders, including customers, employees, community organisations and government authorities, through diversified channels to understand their expectations on corporate social responsibility, which will then enable the Group to achieve the corporate sustainable development objectives and make greater contributions to social development.

### **ESG Governance Structure**

The Board of Directors of the Group is the highest decision-making body of the Group’s ESG (Environmental, Social and Governance) management, and assumes full responsibility for the Group’s environmental, social and governance strategies and reporting matters. In 2019, we established the environmental, social and governance working team that comprised of the Company’s executive directors, senior management and representatives of various major functional departments. The team is accountable to the Board and is responsible for coordinating and determining the effectiveness of the Group’s environmental, social and governance risk management as well as the internal control system to ensure that all departments have consistently implemented all of the Company’s ESG policies.



Set out below are the specific duties of the environmental, social and governance working team:



### Communication with stakeholders

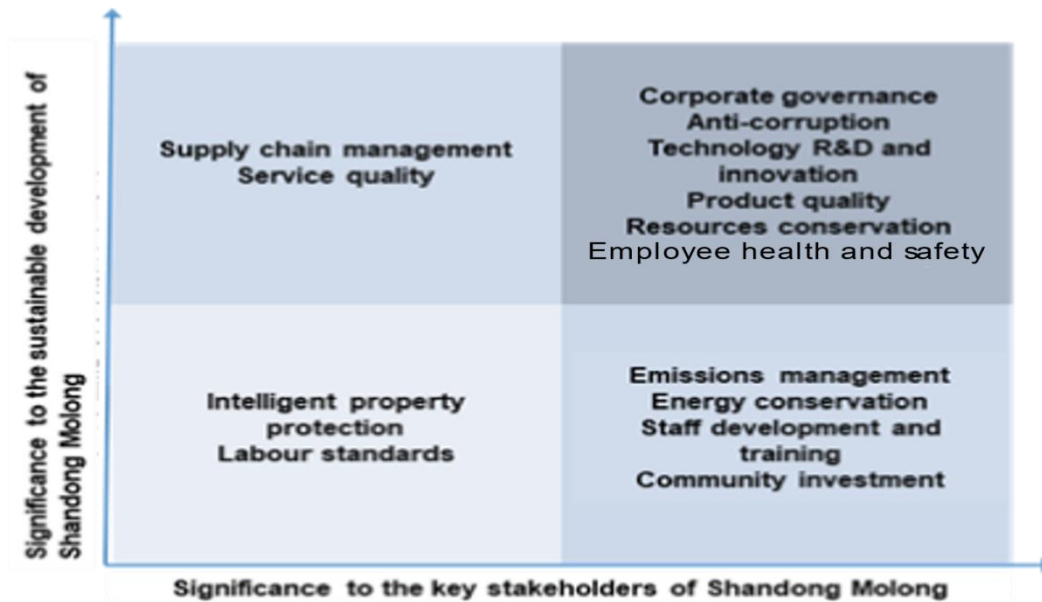
The Group attaches great importance to the communication with stakeholders and keeps close communication with them so as to have an in-depth understanding on their expectations and concerns over the Group's sustainable development and duly respond to their demands. The Group would formulate and align its development objectives on this basis to eventually achieve harmonious and mutual development of the Company and stakeholders.

Stakeholders	Expectations and needs	Modes of communication
Shareholders/investors	Steady development and business compliance Good investment return Effective risk management Larger market share	General meetings Results presentations Press releases/announcements Investor surveys Enquiry calls
Government/regulators	Environmental compliance Corporate governance standard Community development	Phone calls/correspondence exchanges Site visits Regular reports
Suppliers and distributors	Integrity and mutual benefits Fair purchasing Long-term and stable partnership	On-site surveys and assessments Communication on quality Open purchase tenders Phone calls/correspondence exchanges
Staff	People-oriented Rational remuneration policy Harmonious employment relationship Safe workplace	Staff trainings Union activities Meetings of employee representatives Collection of feedback and reasonable suggestions
Customers and consumers	Honesty, trustworthiness, fairness and mutual benefits Product quality Comprehensive post-sales service system	Market service hotlines Sales offices Opinion survey

Mass public in community	Promoting social harmony and stability Support social services Promoting energy conservation and emission reduction	On-site survey Environmental education Social welfare activities
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### Materiality analysis

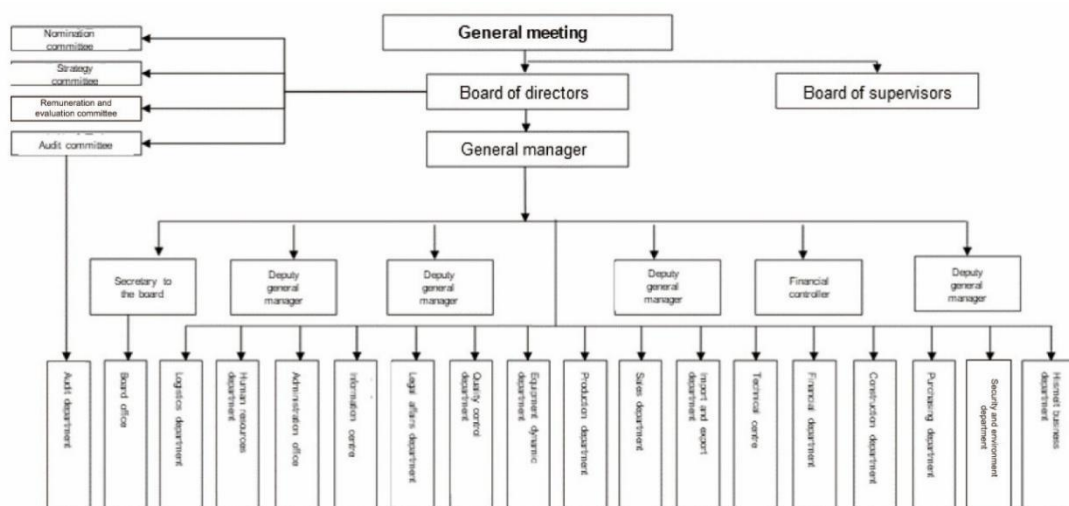
During the reporting period, we engaged in effective communication with various internal and external stakeholders. Based on the analysis and summary of the communication, we identified the following ESG issues from two perspectives, namely the significance to stakeholders and the significance to the sustainable development of the Group, and assessed the significance of such issues, from which we formed the following materiality analysis matrix.



## Section 1 Responsibility governance

### 1.1 Corporate governance

The Group firmly believes that good corporate governance would allow more effective response to the requirements of sustainable development, which in turn will establish and realise long-term strategies and objectives to respond to various opportunities and challenges. Over the years, the Group has devoted enormous amounts of resources and manpower to formulate appropriate corporate management practices that based on business needs, and consistently improved its operating management standards through ongoing improvement in corporate governance structure. The Board plays a leading role in the governance structure and is responsible for overseeing the formulation and implementation of the Group's strategies and related policies, ensuring that its operation complies with national regulations and related system and procedures. We are committed to maintaining the accountability and transparency of our business operations and striking a balance between economic return, social development and environmental protection.



Organisation structure

### Investor relations

The Group puts strong emphasis on maintaining good investor relations and continues to build and improve communication channels with investors. In accordance with the requirements of the Stock Exchange on information disclosure of listed companies, we disclose corporate information to shareholders and investors in a timely and accurate manner based on the true, accurate and complete principles.

We strive to build communication channels with investors and put the Company's address, contact number, fax, email address on our official website and [www.cninfo.com.cn](http://www.cninfo.com.cn) for investors to have easy access to communicate with the Company. We actively listen to investors and duly answer their queries, through which we can enhance the understanding and recognition of investors towards the Company while delivering their reasonable opinions and suggestions to the Company's management in a timely manner.



**Communication channels with investors**

During the reporting period, we organised two investor exchange activities, namely the online “Annual Result Presentation” held via [www.p5w.net](http://www.p5w.net) in April and the “Online Collective Reception Day for Investors of Shandong Listed Companies”, to further strengthen the transparency of corporate information disclosure and protect the interests of all investors.

### Caring for Investors, Acting Together

During the reporting period, we launch an investor protection campaign by the theme of “Caring for Investors, Acting Together – Learning and Implementing the Revised Securities Law to Protect the Legitimate Interests of Shareholders”. Through this campaign, we navigate investors to establish proper investment concepts from all angles to better protect their legitimate interests. In the future, we will continue to strengthen the quality of corporate information disclosure, improve corporate transparency and actively engage in investor interaction and communication, with the aim to create a good atmosphere for investor relations.



## 1.2 Internal control and compliance

Compliance serves as the cornerstone of the Company's steady development. The Group strictly complies with national laws and regulations. The Board places great importance on internal control and risk management and is responsible for establishing and maintaining adequate internal control over financial reporting for the Group and assessing the overall effectiveness of those internal controls.

The Company has an Internal Audit Department which plays a major role in monitoring the internal governance of the Company. The major tasks of the Internal Audit Department are reviewing the financial condition and management of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis. We have taken many steps to enhance our internal control in 2020, such as having all departments internal control inspection and appraisal, strengthening the checks and supervision of implementation of the internal control systems by the Audit Department and according to some weakness found during examination of the internal control, further improving the internal control system and strengthening the implementation of all the internal control systems.

During the reporting period, the Internal Audit Department issued reports to the senior management covering various operational and financial units of the Company and also conducted reviews of areas of concern identified by the Company's management. The Company provides management accounts to the Board on quarterly basis and performs internal control review and auditing on annual basis. The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

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(1) To develop and review the Group's policies and practices on corporate governance and make recommendations;

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(2) To review and monitor the training and continuous professional development of directors and senior management;

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(3) To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements;

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(4) To develop, review and monitor the code of conduct and compliance manual for the employees and directors of the Group; and

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(5) To review the Group's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

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### **1.3 Anti-corruption management**

The Group strictly adheres to relevant laws and regulations, including the Contract Law of the People's Republic of China, the Company Law of the People's Republic of China, the Anti-Monopoly Law of the People's Republic of China and the Anti-unfair Competition Law of the People's Republic of China, and has established an audit committee in the governance structure, with responsibilities to formulate, review and monitor the corporate governance policies and practices as well as consistently strengthen internal control and supervision to prohibit any forms of bribery, extortion, fraud and money laundering. We actively promote anti-corruption education and provide anti-corruption training for new recruits to foster a clean and honest corporate culture. During the reporting period, the Company did not organise any trainings relevant to anti-corruption to avoid mass gathering amid the pandemic.

The Group has established an easy access for lodging complaints and formulated special handling routines to register complaints, verify clues and duly report the findings to real-name whistleblowers. We encourage employees to promptly report to the audit committee through various reporting channels such as phone, email and mail when they discover any acts that violate the laws and regulations as well as the code of conduct and ethics of the Company. Upon investigation, the audit committee will report the case to the management or the Board and hand out punishment in accordance with the relevant regulations of the Group. If the act is against the law, it will be reported to the judicial authority in accordance with the law.

The Group has a whistleblower protection mechanism in place. During the process, the Company strictly keeps the personal information of whistleblowers confidential and prohibits any illegal discrimination or retaliation. As at the end of the reporting period, the Group has not been aware of any corruption issues and related complaints.

## Section 2 Strive for excellence and innovation

### 2.1 Quality control

The Group treats product quality as its top priority and invests significant amount of capital every year to establish and improve various inspection and monitoring methods, ensuring product quality from multiple aspects. The Group has long been accredited ISO 19001 quality management system certification, obtained the ISO 14001 and OHSAS 18001 management system certification in 2009, and passed the DNV plant certification in 2020, which enables the Group to establish a complete quality control system and operate it smoothly. 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.



Sucker rods



Export product – valves



Floating ball valve



Premium thread and API products



Small valve series



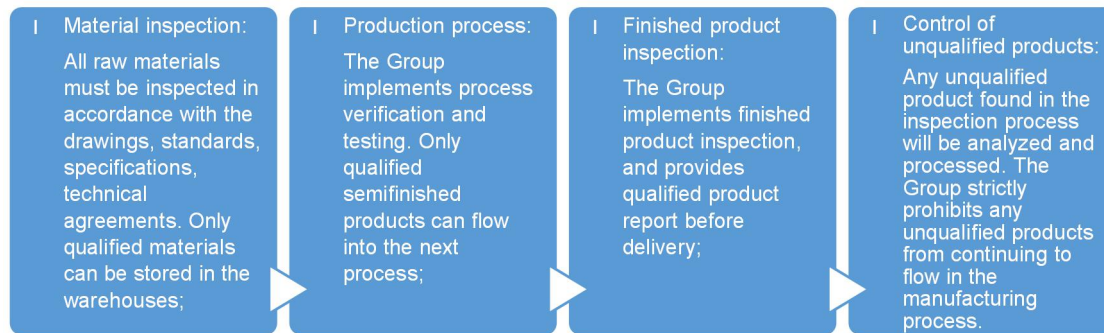
Casings

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#### Key products of Shandong Molong

In order to better achieve the goals of the Group in terms of product quality and ensure the products we provide can meet the requirements of customers and applicable laws and regulations, the Group complies with applicable laws relating to health and safety standards, advertising and labelling. The Group has developed its own quality (Q), environmental (E) and safety (S) management system and prepared its QES Management Manual based on GB/T19001-2016 Quality Management System Requirements, GB/T45001-2020 Occupational Health and Safety Management System Requirements, GB/T24001-2016 Environmental Management System Requirements and API Spec Q1 Specification for Quality Management System Requirements for Manufacturing Organizations for the Petroleum and Natural Gas Industry.

All products of the Group must be tested for quality. The design, manufacturing, installation and test of the products must comply with the requirements of relevant standards, specifications and technical requirements as well as meet the requirements of relevant design parameters. In addition, all products must undergo and pass strict quality and safety verification:



The Group has developed specific measures covering the quality of products and services and safety, to ensure a compliance with the legislation and regulations. Upon receiving any complaints, the Company will immediately assess such complaints and conduct an investigation on the matter in order to identify the problem and make amends as soon as practicable. We provide a 12-month warranty period for the use of our products. During the warranty period, we will repair and replace any products for free if their failures are arising out of quality issues.

In 2020, the quality control department organised 16 quality and system trainings (including quality, safety and health trainings), which were available to all staff. As of the end of this reporting period, there were no material disputes or related litigation threatened against the Group relating to product liability and no material product recall.

## 2.2 Customer management

The Group, in processing product trading, exporting and reselling, insists on complying with related compliance policies and relevant laws and regulations, including being reasonably prudent to ensure it does not violate any trade regulation laws. All employees shall be subject to necessary internal guidelines in product sales and customer contact. In addition, the Group has also clearly defined the responsibilities of different departments in anti-corruption work, such as, records of financial transactions, the audit of business partners, regular internal audit, to ensure the effective implementation of the policy.

### Information security and protection

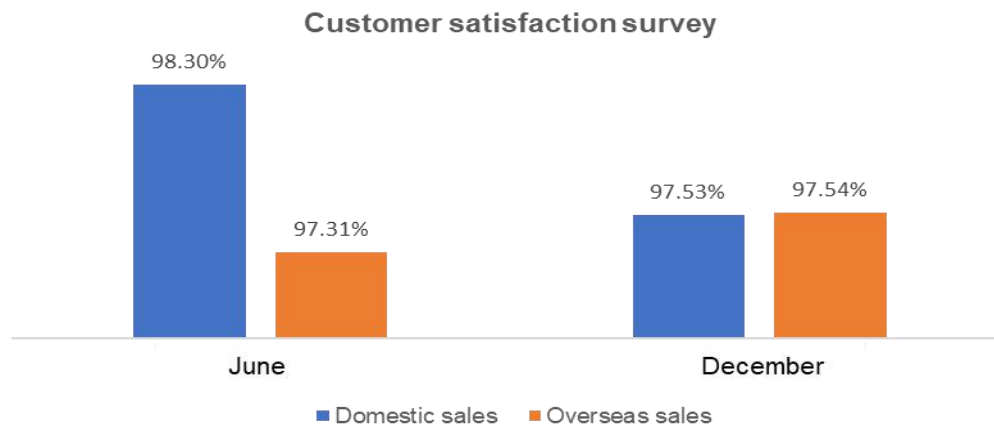
The Company strictly adheres to relevant laws and regulations, such as the Cybersecurity Law of the People’s Republic of China and the Administrative Measures for the Graded Protection of Information Security, and established relevant systems, including the Information System Management System, the Server Room Management System, the Cybersecurity Protection and Management System and the Computer Management Rules to actively engage in information security and management. The Company includes confidentiality clauses in its management rules and requires regional (professional) entities to strictly protect the source and content of sensitive confidential information when managing customer information.

In order to ensure information security, the Group has recruited full-time (part-time) staff to manage computer system and network under a centralised approach, with the aim to strengthen information security management in the production and operation process, standardise work procedures and prevent divulging the information and data of suppliers, partners and customers. The Group regularly supervises and inspects whether staff with access to confidential information have complied with non-disclosure provisions and will take strong actions to deal with any violation and divulgence. During the reporting period, the Group was not exposed to any risks or incidents related to information security.



## Customer satisfaction survey

The Group conducts customer satisfaction surveys regularly and visits customer occasionally to extensively gather customers' opinions, with the aim to consistently maintain the Group's customer satisfaction level. The marketing system conducts customer satisfaction surveys twice a year, which is once every six months. The customer satisfaction survey rates on product quality, delivery quality, service quality and compatibility.



Moreover, the Group has set up 12 permanent sales and service offices in major domestic oil fields to provide customers with timely services in terms of product provision and technical support. The Group is committed to:

1. Putting quality and customer needs as its priorities;
2. Strictly complying with the requirements of standard in production and inspection and wholeheartedly devoting to the manufacture of excellent products;
3. Implementing “triple guarantee” on products, which means sales personnel, technical experts, and after-sales service engineers will provide timely and comprehensive round-the-clock after-sales services all year round;
4. Establishing dedicated after-sales service agencies at the oilfield where the Company's products are used and guaranteeing to arrive at the scene for service within 24 hours after receiving the user's queries on quality;
5. Preparing an emergency plan for any potential issues in using the products. Whenever a problem arises, the Group would ensure oilfield continue its production before analyzing the causes and working out solutions.

The export customers of the Group are generally distributors. In case of complaints, the salesperson will promptly input customer feedbacks into the information feedback module under the auxiliary management system. Upon review by relevant department, the salesperson will inform the customers (also applicable for domestic customers) the investigation results, solutions or corrective and preventive measures. In 2020, the Group did not have any customer complaints that were actually caused by the Company's product quality or services.

## 2.3 Technology innovation

The Group focuses on technology innovation as well as research and development. In recent years, the Group has obtained over 70 patents and has more than 70 products listed as the Provincial Technology Innovation Projects of Shandong Province. In December 2009, as engaged by the Department of Science and Technology of Shandong Province, we established the “Shandong Petroleum Special Pipe Engineering Technology Research Center”. In 2010, we established a post-doctoral scientific research workstation, which is the “first domestic post-doctoral scientific research workstation in the industry”, under the approval of the Ministry of Human Resources and Social Security. With its strong scientific research capabilities, the Company’s technology center was recognised as a provincial enterprise technology center in Shandong Province.

The Group formed a professional and stable scientific research team through internal nurturing and external introduction of talents, and collaboration with tertiary colleges and scientific research institutes, to enable it to establish a technology innovation system that is enterprise-based and market-oriented with in-depth integration of production, education and research.

During the reporting period, the Group has strengthened its effort in developing hi-tech products with, and providing services for, oilfield enterprises. Bimetallic composite pipe, a newly developed product, has been using in Xinjiang oilfields. 125V high-torque casings and 110TS casings have been put in use in the Changning Block of PetroChina’s Southwest Oil and Gas Field. Customers are now provided with high value-added pipe products, such as seamless steel pipes for axles, hydraulic strut pipes and cold-drawing seamless steel pipes, in bulk. The products developed by the Group, including bimetallic composite pipe, seamless steel pipes for axles, hydraulic strut pipes and cold-drawing seamless steel pipes, will significantly reduce the purchasing costs of customers while enhancing product performance and productivity.

In the future, we will continue to establish our foothold in pipe products, improve corporate innovation capabilities, strengthen our effort in developing high-precision products and special-purpose products as well as market expansion. By extending the use and sales of high-alloy steel pipes, we achieve effective integration between, and a positive adjustment in sales of, the Oil Country Tubular Goods (OCTG) products, boiler tube and high-alloy steel pipe markets.



Experiment centre

### Protection of intelligent property rights

In 2020, the Group’s technical department has developed a variety of new products with different specifications to continuously meet customer requirements. Through our tireless effort over the years, the “Molong” trademark is named as a famous trademark of Shandong Province, and our products have become a key export brand for nurturing and development in Shandong Province.

The Group encourages its employees to apply for patents and present papers. As at 31 December 2020, the Group had 12 invention patents and 64 utility model patents. In 2020, the Group applied for 1 utility model patent. We applied to register 39 trademarks and have 327 members in the innovative R&D team. The total investment in innovation and R&D this year amounted to RMB5,301.34 ten thousand.

## Section 3 Win-win cooperation

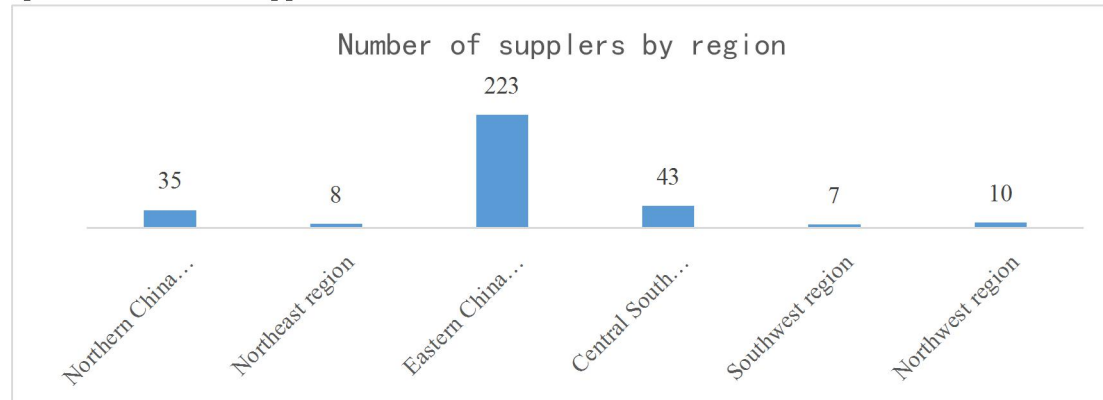
### 3.1 Supplier management

#### Admittance of suppliers

The Group has established a strict supplier admission and review system and formulated the Material Procurement and Management System. The Group, according to a series of quantitative criteria, such as, the compliance conditions, price, quality, supply stability, timely delivery rate, incoming material passing rate, customer complaints and after-sales service, strictly selects suppliers and, according to the evaluation results of suppliers, maintains a long-term relationship with them. The Group implements a stringent test and control flow in the process of production. In the incoming material warehousing and production stage, the Group continues to monitor the quality of materials provided by external suppliers. Meanwhile, the Group also implements different warehouse storage managements according to the production materials provided by suppliers.

Meanwhile, we require all suppliers to sign a contract with terms binding both parties. The contract should adopt a standardised version prepared by the corporate legal department of the Group. The supplier selection should be determined by the sequence of direct vendors, source vendors, state-owned enterprises, listed companies, agents and distributors. The supplier is also subject to business result assessment and corresponding industry screening. Finally, the qualification provided by the supplier is subject to the review by Tianyancha and Qcc.com one by one.

During the reporting period, the Group has been exposed to no significant risks related to the supply chain in the environment and society aspects. As at 31 December 2020, the Group had approximately 326 qualified suppliers, all of which are located in China. Set out below is the specific location of suppliers:



#### Supplier assessment

Any introduction of new suppliers to the Group are subject to the review by the purchasing department and the audit department. Supplier evaluation form and questionnaire are regularly updated and archived. We treat all suppliers fairly and equally as we arrange public tender to procure all types of supplies. The payment is made proportionately in accordance with the type of product.

The Group also evaluates performance of suppliers on a monthly and annual basis. The Group will request suppliers to formulate measures to rectify any deficiencies identified, otherwise they will be disqualified.

In 2020, we discovered that certain bid-winning individual suppliers have breached the contract during our audit and inspection. We have dealt with them in a timely manner. In view of the default of bid-winning suppliers we discovered, we imposed penalties on them and disqualified them in accordance with relevant policies.

## Supplier training

The Group actively conducts supplier training, including jointly promoting probity with suppliers, consolidating the concept of both parties in this regard through regular education and integrating probity education activities with daily interactions with partners, to jointly foster a probity atmosphere and impose a probity culture. For suppliers whose external contractors are stationed onsite for construction and maintenance services, their employees are subject to onsite training, safety training and onsite simulation drill. The training for onsite workers is also provided in conjunction with staff of the supplier from time to time.

## 3.2 Sunshine procurement

The Group has, through ongoing improvement in relevant management system of the supply chain, implemented stringent protection measures to advocate sunshine procurement. The Group's audit department will formulate audit arrangement every year and visit the key departments of each subsidiary for auditing purpose. Due to the huge amount of money involved in some projects, we have stipulated in the bidding policy that all offers must be available at the Group's website with the identity of bidders withheld so as to enhance the bidding transparency and keep fairness intact.

Meanwhile, we strictly implement the Bidding Management System in the process of cooperating with suppliers, through which we purchase materials and services through an open and fair bidding process. We will enter into a contract as well as the Letter of Undertaking with a partner at the same time, stipulating that the partner must not have any corruption behaviours during our cooperation. Currently, we have signed the Letter of Undertaking with all suppliers to promote a more responsible and fair industry ecology from the procurement perspective.

## 3.3 Collaboration between industry, colleges and scientific research institutes

During the reporting period, the Group, through a professional scientific research team formed by internal nurturing, external introduction of talents and collaboration with tertiary colleges and scientific research institutes, continued to strengthen its strategic cooperation with industry top-notch institutes, namely Tsinghua University, University of Science Technology Beijing, CNPC Tubular Goods Research Institute, Shandong Province Metallurgical Engineering Co., Ltd. and Shougang Group, with the aim to further leverage their respective strengths, deepen the collaboration between industry, colleges and scientific research institutes as well as jointly build a landmark for the new era.



Strategic cooperation with Tsinghua University

## Section 4 Environmental protection

### 4.1 Green and low carbon

The Group fully implements a green and low-carbon development strategy to actively responds to climate changes and explore various energy saving and consumption reduction measures. We strictly comply with China's environmental protection legislations, regulations, policies and standards, including Environmental Protection Laws, Water Pollution Prevention and Control Law, Environmental Noise Pollution Prevention and Control Law, Air Pollution Prevention and Control Law and Prevention and Control of Environment Pollution Caused by Solid Wastes, Energy Conservation Law, Law on Promoting Clean Production as well as other laws and regulations and normative documents as to the governance of exhaust emission and wastes discharged to water and land. The Group has established a QES (Quality, Environment, Occupational Health and Safety) management system and passed the ISO 14001 environmental management system certification.

#### Environmental emergency management

We continue to improve the environmental emergency management mechanism and strengthen our ability to respond to, and coordinate with, environmental emergencies. The Group has engaged a qualified firm to prepare its emergency plans for sudden environmental incidents, which have been filed to environmental authorities after reviewed by experts. They also organised trainings and drills to strengthen the control over environmental risks and rectification of potential hazards, which is effective in preventing the occurrence of environmental emergencies and lowering environmental risks. During the reporting period, the Group did not experience any incidents with significant environmental risks.

#### Green management

The Group strives to become a resource-saving and environment-friendly green company by digging deep into green production and green office development.

Green production	Green office
<ul style="list-style-type: none"><li>• Optimises the production processes and flows, improves the utilisation rate of production materials, and reduces the quantity of waste materials;</li><li>• Uses environmental-protection and emission-reduction production materials, and fully uses cleaner energy for production;</li><li>• Adopts new technologies or green processes to reduce pollutants.</li></ul>	<ul style="list-style-type: none"><li>• Reducing the use of resources at office, such as setting the printer mode from single-sided printing to double-sided printing;</li><li>• Wholly achieves paperless office within the Group;</li><li>• Reminds employees and visitors to save water during daily operation;</li><li>• Using automatic faucets and LED energy-saving lights in the office buildings</li><li>• Reminds employees to control the power and fuel for running the office air conditioning, lighting, machinery and equipment and vehicles;</li><li>• Uses energy-saving power supply for plant lighting, transparent tiles, and take full advantage of natural lighting.</li></ul>

Meanwhile, we actively promote and educate employees on green environmental protection. During the reporting period, we instill low-carbon and environmental protection awareness to employees through organising them to watch environmental protection alert and educational videos as well as promoting environmental protection to employees on the World Environment Day.



**Organise employees to watch environmental protection alert and educational videos**



**Promotion on World Environment Day**

## 4.2 Emission management

To meet industry standards and the requirements of local environmental authorities, and proactively cooperate with local environmental inspection authorities for carrying out regular supervisory inspections, we have engaged third-party inspection units to monitor all discharge data, such as waste water, exhaust gas and noise, on irregular basis. Currently, our online automatic inspection equipment is connected with the government platform and all inspection results are regularly reported in the Pollution Source Monitoring Information Sharing System of Shandong Province. All of the Company's factories have applied for discharge permits. Wastewater, exhaust gas and noise pollution are controlled under the measures required by the discharge permit. We strictly comply with the emission standards set out in the discharge permit.

### Wastewater and exhaust gas

The exhaust gas pollutants generated by the Group mainly include volatile organic compounds (VOCs), nitrogen oxides (NO<sub>x</sub>), sulphur dioxide (SO<sub>2</sub>), particulate matter, chlorides and benzene. We have also built a large-scale sewage recycling system to substantially reduce sewage discharge volume.

#### Wastewater treatment measures

- The Company has equipped production lines in all production complexes with integrated sewage treatment facilities which were in normal operation.
- Wastewater generated from production process were treated and recycled. Only domestic wastewater is discharged so that water resources can be fully utilised.

#### Exhaust gas treatment measures

- Through coal-to-gas, all fuels are changed into natural gas, which is cleaner and can help reducing sulphur dioxide emissions to extremely low level. With two sets of SCR denitrification systems in place, the emission of nitrogen oxides can be reduced
- The Company has equipped production lines in all production complexes with denitration and electrostatic/electric precipitator and fabric filter, to ensure effective treatment and discharge of exhaust gas, fine dusts and particulate matter generated from the production process.

In 2020, the total volume of wastewater discharged by the Group was approximately 9,226 tonnes. Comparing to 2019, the total volume of wastewater discharged by the Group this year has decreased by 16,480 tonnes, which is mainly attributable to the pandemic and the drop in order that result in the production reduce of multiple lines, less working hours and fewer volume of domestic wastewater discharged.

Set out below is the total emission of exhaust gas pollutants by the Group in 2020:

Type of pollutants	Unit	Emissions
Nitrogen oxides (NO <sub>x</sub> )	Tonnes	21.588
Sulphur dioxide (SO <sub>2</sub> )	Tonnes	25.921
Volatile organic compounds (VOCs)	Tonnes	1.689
Particulate matter	Tonnes	5.832
Chloride	Tonnes	1.292
Benzene	Tonnes	0
Toluene	Kg	1.58
Xylene	Tonnes	0

### Solid waste discharge

The Group implements strict regulations on the disposal of hazardous wastes. We have installed temporary storage warehouses for hazardous wastes in various industrial parks and entered into Hazardous Waste Disposal Contracts with a qualified third-party, engaging it to treat all hazardous waste generated by the Group at the end of each year in a centralised manner. Meanwhile, the Company strictly implements waste classification and enters into the Paid Service Contract with the municipal environmental and sanitation authority, pursuant to which all domestic waste is cleared and transported by the municipal environmental and sanitation authority in a centralised manner. General solid waste is disposed either by means of external sales or internal use by the Company.

#### Waste discharge management measures

optimises the production processes and flows, improves the utilisation rate of production materials, and reduces the quantity of waste materials

classifies hazardous wastes, labels hazardous wastes, and finally engages qualified subcontractors for recycling and disposal of such hazardous wastes

carries out a simple classification of general wastes, and sells them to the recyclable waste collectors on a regular basis

recycles scrap iron produced in the processing processes

prepares annual hazardous waste management plan, sets up indicators of amount of wastes generated by relevant departments, conducts a monthly assessment, and, if necessary, takes appropriate control measures to reduce waste

reduces the leakage of various types of oil by strengthening management

strengthens quality control to reduce waste caused by poor quality

In 2020, the total volume of hazardous waste generated by the Group was approximately 8.7862 tonnes, meaning that each tonne of product has generated approximately 0.015 kg of hazardous waste. Comparing to 2019, the total volume of hazardous waste generated by the Group this year has decreased by 8.5738 tonnes, which is mainly attributable to the pandemic and the drop in order that result in the production reduce of multiple lines of the Company.

In 2020, the total volume of non-hazardous waste generated by the Group was approximately 35.5 ten thousand tonnes, meaning that each tonne of product has generated approximately 0.061 kg of non-hazardous waste. Comparing to 2019, the total volume of non-hazardous waste generated by the Group this year has increased by 13.41 tonnes, which is mainly attributable to the increasingly mature technology of Shouguang Maolong that results in a surge in production when compares to that of 2019, which in turn generates more general non-hazardous waste.

### Greenhouse gas emission

To prevent and reduce environmental pollution caused by greenhouse gas emissions, the Group implements the following measures to reduce its own greenhouse gas emissions.

Measures to reduce greenhouse gas emission	prefers to select low-energy-consumption and high-energy-efficiency products and renewable energy so as to reduce energy consumption;
	avoids unnecessary business trips to reduce carbon emission from transport vehicles (e.g. airplanes) taken for business tips;
	prefers to select local suppliers so as to reduce energy consumption generated from transportation of cargo;
	promotes the importance of "Reducing Carbon Emission" among supply chains;
	sets up ventilation, dust removal, decontamination and filtering system in the plants so as to reduce exhaust gas emission and pollution;
uses environmental protection materials for decoration of the office building. Air quality detection is conducted prior to using such materials. Only qualified materials can be put into use.	

In 2020, the total greenhouse gas emission of the Group was approximately 542.74 ten thousand tonnes carbon dioxide equivalent and each tonne of product generated approximately 9.33 tonnes of carbon dioxide equivalent<sup>1</sup>. Comparing to 2019, the total greenhouse gas emission of the Group this year decreased which is mainly attributable to the drop in crude oil price, the decline in oilfield drilling rates this year, the reduction in the Company's product orders and a decrease in production.

<sup>1</sup> The greenhouse gas emission data covered Shandong Molong Petroleum Machinery Company Limited, Shouguang Baolong Petroleum Equipment Co., Ltd. and Shouguang Maolong New Materials Technology Development Co., Ltd.



### **4.3 Use of resources**

#### **Energy consumption**

The Group continues to improve its energy management system by equipping with corresponding energy measuring instruments and preparing statistical reports by types of energy, such as water and electricity, to allow more reasonable and effective energy utilisation and resource allocation.

The energy consumed by the Group is mainly electricity, diesel and natural gas. In 2020, the total direct and indirect energy consumption of the Group is about 12.85 ten thousand tonnes of standard coal, meaning that each tonne of product has an energy consumption of approximately 0.22 tonnes of standard coal<sup>2</sup>. Comparing to 2019, the total energy consumption decreased, which was also attributable to the reduction in the Company's product orders and a corresponding decrease in energy consumption.

#### **Use of water resources**

The Group uses tap water provided by the government to ensure reliable quality and sufficient water supply. During the reporting period, the Group did not experience any suspension in water supply for no reason. In order to avoid wasting water and improve water utilisation efficiency, we strictly require the use of recycling water in the product production devices. Water-saving signs are displayed at the office room, washroom, pantry, dining room and employee dormitory to call on all employees to save water.

In 2020, the total volume of water utilised by the Group was approximately 105.08 ten thousand cubic metres, meaning that each tonne of product has utilised 1.81 cubic metres of water.

#### **Use of packaging materials**

Based on business characteristics and customer needs, the Group mainly uses materials such as protective covers and caps to carry out simple packaging of products. In 2020, the Group consumed approximately 52.37 ten thousand casing caps, approximately 52.35 ten thousand casing covers, and approximately 9.84 ten thousand line pipe covers. The decreased consumption of covers, caps and other materials was mainly attributable to the year-on-year decrease in production of major products of the Company in 2020.

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<sup>2</sup> The consolidated energy consumption data covered Shandong Molong Petroleum Machinery Company Limited, Shouguang Baolong Petroleum Equipment Co., Ltd. and Shouguang Maolong New Materials Technology Development Co., Ltd.

## Section 5 Caring for employees

### 5.1 Employee employment

The Group regards employees as its valuable assets and is in strict compliance with national laws and regulations such as the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and the Trade Union Law of the People's Republic of China. We strive to provide employees with a good and safe working environment so as to comply with the Labour Contract Law of the People's Republic of China and relevant employment laws and regulations.

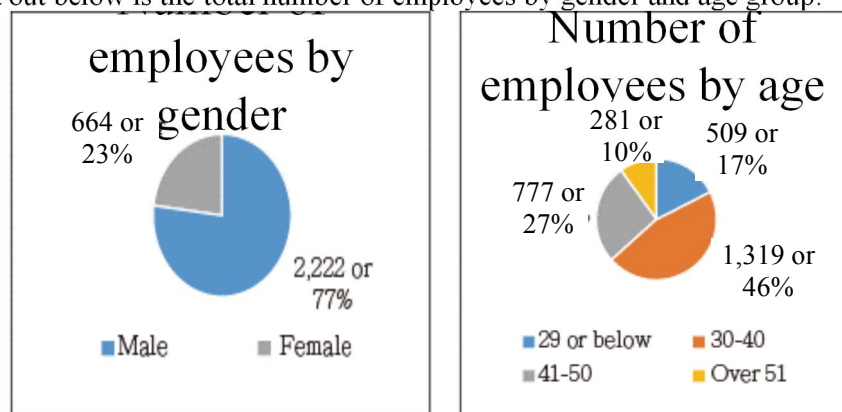
#### Labour standard

The Group strictly complies with the laws and regulations on child labour in the locations where it operates. All applicants must provide identification documents for verification. We would never hire minors under 16 years of age. The Group does not encourage overtime work and opposes to forced labour by upholding the principle of striking a balance between family and work. All overtime requests, if necessary, must be approved by the department manager. We control overtime working hours through a strict approval process to ensure that we comply with local labour laws and employees are able to rest and maintain physical and mental health, preventing employees from suffering significant drop in quality of life and potential work-related injuries due to long hours of work. During the reporting period, the Group did not receive any complaints or breach of law notices regarding employment of labour.

#### Equal employment opportunities

We are committed to offering equal employment opportunities and constantly improving a fair and just human resources management system, from which we strive to ensure that all employees enjoy fair treatment in terms of salary and dismissal, recruitment and promotion, working hours, leaves and benefits. We embrace a diversity and inclusive culture and oppose to any discriminatory treatment or discrimination arising due to gender, race, nationality, physical condition, religion and marital status of employees. When recruiting employees, we insist on fair selection based on the abilities and skills of each applicant and would not reject any applications due to the abovementioned factors. Meanwhile, we support the career development of women by providing equal development platforms and promotion opportunities for female employees, enhancing the leadership of female employees through various channels and measures and encouraging more female employees to take up management positions.

During the reporting period, the Group had a total of 2,886 full-time employees in Mainland China. Set out below is the total number of employees by gender and age group:



In order to ensure a higher quality of staff recruitment as well as standardise the mechanism regarding staff recruitment and resignation, we formulated and strictly observed relevant human resources management standards, such as the Staff Recruitment Management System and the Staff Reward and Punishment Management System, in the course of work, to the effect that there are rules to follow in staff recruitment, movement and resignation. Before entering into employment contract with employees, we will give them enough time to read and understand the relevant content of the contract. Employment contract could only be signed after the employee fully understand the contract.

In 2020, the staff turnover rate of the Group is 15%. Set out below is the staff turnover rate breakdown by gender and age group:

Staff turnover rate by gender	
Male	12%
Female	3%

Staff turnover rate by age group	
29 or below	6%
30-40	6%
41-50	2%
51 or above	1%

### Remuneration and benefits

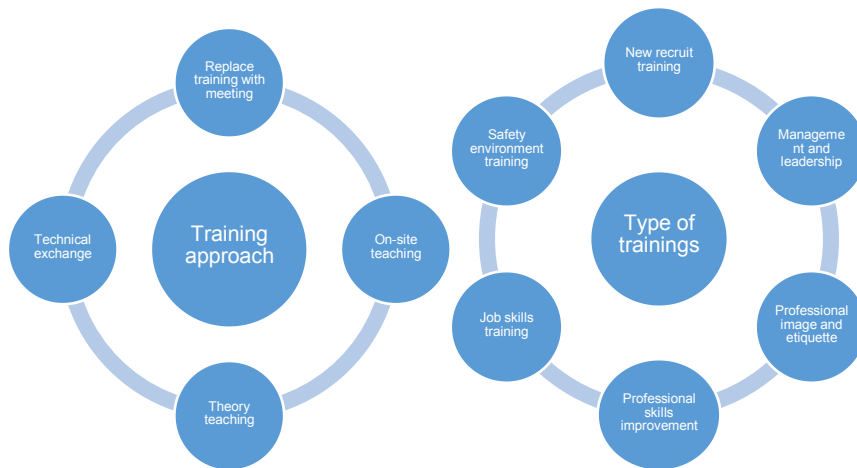
We formulated the Remuneration Audit Process Regulation to establish a fair, just and motivating remuneration system and structure. On the basis of ensuring the basic salary and income of employees, we provide employees with performance-linked incentive and implement salary adjustment policy for employees in a timely manner through regular assessments of their performance, skill level and job outcome, with the aim to encourage outstanding employees staying in the Company. In addition, the wages of the Group and other subsidiaries have reached the local minimum wage level (including Hong Kong).

Meanwhile, we purchase additional commercial insurance for employees who have reached certain years of service to enlarge the protection for them, and implement a calculation method for length of employment decreasing based on seniority. In addition to the basic benefits of five insurances, namely endowment insurance, medical insurance, unemployment insurance, employment injury insurance and maternity insurance, the housing provident fund and paid leaves, the Company also provides additional benefits such as free shuttle bus, employee dormitory, food allowance and employee physical examination.

## 5.2 Staff development

### Staff training

We emphasise on talent training. By providing occupation and career planning and organising various training for employees, we can improve the quality and capability of employees and realise corporate and staff development at the same time. At the end of each year, the human resources department will, on the basis of the Company's strategic objectives and development needs, prepare the training plan for next year, which covers training needs analysis, content, timing, participants and training effectiveness evaluation.



In 2020, the Company provided over 230 tertiary safety trainings to new employees. The total number of internal and external trainings completed by all departments amounted to over 200.

The number of participants was 2,886, representing a coverage of 100% (of which mid-level management and junior staff accounted for 4% and 96%) respectively.

The average number of hours spent by junior staff in training was 150 hours in total (calculated on the basis of 0.5 hour of training per day for 300 days in a year); the average number of hours spent by mid-level management in training was 72 hours in total (calculated on the basis of 6 hours of training per month for 12 months each year); the average number of hours spent by senior management in training was 48 hours in total (calculated on the basis of 4 hours of training per month for 12 months each year)

### Development pathway

The Company has an open promotion pathway in place that provides a broad career platform for capable employees to grow and become the backbone of the Company’s sustainable development. We have devised a two-way development pathway, which allows employees to choose either vertical rank promotion or horizontal career conversion to broaden their skills in accordance with their personal development interests and ability characteristics. As such, employees can enjoy more promotion opportunities and have greater room for development.

#### Key career development initiatives in 2020

Apply and obtain qualifications for independent evaluation of skilled talents

Formulate management measures for skilled talents and determine management measures for, and remuneration of, talents

Organise skilled workers to participate in occupation/job skill level assessment. A total of 397 employees (141 are lathe workers, 166 are fitters and 90 are electricians) have been assessed this year, of which 140 employees are senior workers or above.

3 comrades have been developed from junior employees to mid-level managers based on their performance and work skills

Establish a talent pool to communicate with reserve talents at any time if necessary, and transfer and train those who meet the job requirements

### Support industry talent development

For the purpose of completely responding to the Notice on Comprehensively Launching Independent Evaluation of Corporate Skilled Talents promulgated by Shandong Human Resources and Social Security Department and provide a clear career development pathway to industry workers, we have comprehensively launched independent evaluation of corporate skilled talents to provide effective guarantee for a clear pathway to identify skilled talents,

The Company has already possessed with independent certification of qualifications for three occupations (trades), namely lathe (computer numeric control), fitter and electrician, and four levels of worker, namely junior worker, intermediate worker, senior worker and technician. During the reporting period, the Company completed the vocational skill upgrade of 90 employees and issued the first batch of national vocational skill level certificates of Weifang City for them. Employees are remunerated in accordance with the level of their certificates.

## 5.3 Caring for employees

### Communication with employees

An effective communication system is indispensable for business management. The Company has a workers' union in place, which representatives are elected by each department and unit, to regularly convene workers' representative meetings to seek opinions and suggestions from employees as well as duly handle and provide feedback.

### Staff satisfaction survey

We value the opinions and suggestions of our employees and are committed to creating a better working environment. We set up suggestion boxes at office buildings and workshops and regularly open the boxes to check and gather opinions of employees. We will also promptly handle the opinions and suggestions of employees and make improvement accordingly. The result will be announced regularly.

During the reporting period, we conducted staff satisfaction survey on workshop working environment, annual remuneration, staff quarter environment and canteen environment and made corresponding improvements and took actions in response to certain employee opinions and suggestions.

### Life of employees

We uphold the philosophy of work-life balance. By organising a series of diversified and colourful staff activities, such as basketball, tug-of-war, bicycle slow ride, three-legged race, volleyball and rope skipping competitions, we encourage employees to have more physical exercises, strengthen their physical fitness, release their work pressure and return to office in a better shape.



**Staff basketball competition**



**New Year's Eve party**

Meanwhile, we have set up a cultural and sports centre in each of our industrial park, which comprised of entertainment venues such as library, internet cafe, table tennis room, snooker room, chess and card room and KTV room, with fitness facilities such as table tennis tables, snooker tables, treadmills and rally machines available, with the aim to enhance employees' sense of belonging, create a harmonious and happy workplace and enrich employees' leisure life.



**Library**



**Table tennis room**

Moreover, the Company actively takes a series of measures to constantly improve the working and living environment of employees, assist employees to maintain their mental strength as well as relieve their physical and mental stress to live a relaxed life.

Install air conditioners at staff quarter

Timely replace old computers, photocopiers, fax machines and other working equipment

Provide periodicals and magazines on maintaining mental health and hygiene for free to employees at cultural and sports centre

Establish a promotion column to convey the knowledge of mental health and stress management to employees

Invite experts to prepare reports regularly and offer employees with healthcare and health items

## **5.4 Employee health**

Adhering to the approach of “safety first, precaution is key and go for integrated treatment”, the Group strives to provide a safe and healthy working environment for its employees and workers. We strictly comply with relevant laws and regulations, namely the Production Safety Law of the People’s Republic of China, the Regulation on Work-related Injury Insurance of the People’s Republic of China, the Laws of the People’s Republic of China on Occupational Diseases and the Regulation on Management of Labour Protection, to constantly improve the health and safety management system and have obtained the ISO 45001 occupational health and safety management system certification.

Production safety standardisation refers to the establishment of a safety responsibility system, the formulation of safety management system and operation rules, the identification of potential hazards and the monitoring of significant sources of danger, the establishment of preventive mechanisms the standardisation of production behaviours, so that each production process complies with the requirements of relevant production safety laws and regulations and standards, and that people (personnel), machinery (machinery), materials (materials), method (working methods), environment (environment) and measurement (measurement) are in good state for production, with constant improvement and strengthening of the enterprise’s production safety standard.

The production safety dual system refers to the Production Safety Risk Hierarchical Management and Control System and the Production Safety Hidden Hazard Identification and Management System.

Each production project of the Group is subject to evaluation by project supervisors and safety officers. We comply with national and industry standards for procuring and inspecting protective equipment and strictly implement safety measures and emergency plans in the course of production. For the specific requirements of each type of work, we manage to achieve on-demand distribution, regular replacement and onsite supervision.

### **Safety measures**

The Group highly values staff health and safety. With “zero accidents” as our objective, we keep expanding our investment in safety initiatives to duly eliminate potential safety hazards in the production and operation process, ensuring employee safety during production. We install dust removal equipment, silent doors, toxic and harmful gas collection and other processing facilities in each industrial park to effectively alleviate the harm caused by dust, noise and toxic and harmful gases to employees. We formulate work safety guidelines in accordance with the job requirements of different positions and regularly provide employees with safety training as well as conduct onsite safety inspections. Meanwhile, we provide employees with appropriate personal protection equipment, such as safety helmets, protective glasses, protective masks, protective gloves, safety belts as well as half-face and full-face filter respirators, and require workers to use and wear them properly when entering the production plant.

The Group takes corresponding measures to ensure that all technical staff, including electricians and welding workers, received specialised trainings and possessed with all required licenses or qualifications. At the same time, we post production safety guidelines on the bulletin board to raise the safety awareness of production staff. Employees are authorised to stop operations whenever there is a threat to personal safety to prevent the occurrence and deterioration of work-related accidents. Moreover, we monitor workplace occupational hazards every year and ensure that front-line staff take more than 1-day leave per week to keep themselves in good shape to work.

In 2020, the Company did not involve in any cases in relation to the breaching of relevant occupational health and safety laws. The number of working days lost due to work-related injuries was 849.2 days. In 2020, the number of employees having work-related injuries is 25, which caused working day lost due to receiving treatment, rehabilitation and training. Set out below is the safety indicators:

Safety Indicators	Unit	Data
Number of work-related fatalities	Worker	0
Percentage of work-related fatalities	%	0
Working days lost due to work-related injuries	Day	849.2

*Note: The working days lost due to work-related injuries represents the sum of the working days lost by each injured worker.*

### Safety culture

The Group values employee opinions and suggestions on occupational health and safety and devotes strong effort in promoting production safety and promptly rewards employee who made positive contribution to ongoing improvement of occupational health and safety. Meanwhile, the Group arranges medical institutions with relevant qualifications to conduct physical examinations for staff, who are subject to occupational disease hazards, every year to track their health issues and incorporates occupational health and safety management into the performance appraisal of each department. A specialised department is responsible for, either regularly or irregularly, monitor and supervise occupational health and safety management.

During the reporting period, we held safety knowledge competitions and launched health and safety training and emergency drills in order to strengthen the safety knowledge of employees and their ability to respond to and deal with safety incidents, which aims to effectively prevent and control potential accidents or emergencies and minimise the consequences of potential accidents.





## Section 6 Helping the community

### 6.1 Community service

We always adhere to the concept of establishing a harmonious society and a harmonious community. With relevant policies and measures in place, we are able to understand the needs of the community where we operate as well as maintain a harmonious and sustainable relationship with the stakeholders there. We also actively call on and lead all employees to participate in various community exchange activities, with the aim to jointly build an excellent community environment and promote the humanities construction of the community in which we operate.

The Group paid great attention to the creation of social value and actively respond to the call of the country to alleviate poverty by participating in social services. In 2020, we donated RMB12 ten thousand for relocating and expanding the quinoa processing plant in Dongxiang County, Gansu Province to alleviate poverty. We have also established support funds to care for and subsidise employees who have financial difficulties, so as to create a harmonious working atmosphere. In 2020, the Company paid a total of RMB4.5 ten thousand out of the support funds for aiding employees with financial difficulties.

### 6.2 Providing aid amid the pandemic

Fighting the pandemic is a battle for all people. It requires the effort of all parties to win the battle against the pandemic. Shandong Molong, as a responsible company, always insists on giving back to the society within its capacity to demonstrate its social responsibility and accountability as a listed company.

#### Responding to the call to fight the pandemic with “enthusiasm”

During the reporting period, in response to the call for voluntary blood donation by the Office of Pandemic Prevention and Control Leading Team of Shouguang City in Shandong Province, we immediately advocated to organise voluntary blood donation activities and received positive responses from about 100 employees.

Among the employees who participated in blood donation, there were seniors who had been with us for many years, new recruits who just joined us and many other employees who participated in voluntary blood donation activities in multiple occasions. With the active participation of everyone, we received a total volume of 16,000 ml in blood donation this time.



## Annex: Index for ESG Reporting Guide of Shandong Molong for 2020

<i>Subject Areas, Aspects, General Disclosures and KPIs</i>				
<i>Aspect</i>	<i>Particulars</i>	<i>Section</i>	<i>Note</i>	
<b>A: Environment</b>				
A1: Emissions	<p>General Disclosures:</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.</p> <p>Note: Air emissions include NO<sub>x</sub>, SO<sub>x</sub>, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.</p>		/	
	KPI A1.1	The types of emissions and respective emissions data.	<b>Environmental protection- Emissions management</b>	/
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		During the reporting period, the Group made amendments and improvements to the calculation methods of greenhouse

<i>Subject Areas, Aspects, General Disclosures and KPIs</i>				
<i>Aspect</i>	<i>Particulars</i>		<i>Section</i>	<i>Note</i>
				gas emissions, the data therefore fluctuated greatly compared with that of 2019.
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		/
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		/
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	<b>Environmental protection-Green and low carbon</b>	/
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	<b>Environmental protection-Emissions management</b>	/
A2: Use of resources	<p>General Disclosure</p> <p>Policies on efficient use of resources including energy, water and other raw materials.</p> <p>Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.</p>		<b>Environmental protection-Use of resources</b>	/

***Subject Areas, Aspects, General Disclosures and KPIs***

<b><i>Aspect</i></b>	<b><i>Particulars</i></b>		<b><i>Section</i></b>	<b><i>Note</i></b>
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	<b>Environmental protection-</b> Use of resources	During the reporting period, the Group revised and improved the total energy consumption calculation method, the data therefore fluctuated greatly compared with that of 2019.
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	<b>Environmental protection-</b> Emissions management	/
	KPI A2.3	Description of the energy efficiency initiatives set and steps taken to achieve these goals.		/

***Subject Areas, Aspects, General Disclosures and KPIs***

<b><i>Aspect</i></b>	<b><i>Particulars</i></b>		<b><i>Section</i></b>	<b><i>Note</i></b>
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives set and steps taken to achieve these goals.		/
	KPI A2.5	Total packaging material used for finished products (in Metric Tons) and, if applicable, with reference to per unit produced.	<b>Environmental protection- Use of resources</b>	/
A3: The Environment and Natural Resources	General Disclosure Policies on minimising the issuer’s significant impact on the environment and natural resources.		<b>Environmental protection-Green and low carbon</b>	/
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.		/
A4: Climate Change	General Disclosure The issuer identifies and discloses the potential impact of climate-related risks on the business.		<b>Environmental protection-Green and low carbon</b>	/
	KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	<b>Environmental protection- Emissions management</b>	/

<b>B: Society</b>			
B1: Employment	<p>General Disclosure</p> <p>Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti- discrimination, and other benefits and welfare.</p>		<p><b>Caring for employees- Employee employment</b></p> <p>/</p>
	KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	/
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	/
B2: Health and Safety	<p>General Disclosure</p> <p>Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to providing a safe working environment and protecting employees from occupational hazards.</p>		<p><b>Caring for employees- Employee health</b></p> <p>/</p>
	KPI B2.1	Number and rate of work-related fatalities.	/
	KPI B2.2	Lost days due to work injury.	/
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	/

B3: Development and Training	General Disclosure  Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.  Note: Training refers to vocational training. It may include internal and external courses paid by the employer.		<b>Caring for employees-Staff development</b>	/
	KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).		/
	KPI B3.2	The average training hours completed per employee by gender and employee category.		/
B4: Labour Standards	General Disclosure  Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour		<b>Caring for employees- Employee employment</b>	/
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.		/
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.		/
B5: Supply Chain Management	General Disclosure  Policies on managing environmental and social risks of the supply chain.		<b>Win-win cooperation- Supplier management, Sunshine procurement</b>	/
	KPI B5.1	Number of suppliers by geographical region.		<b>Win-win cooperation-</b>

	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supplier management	/
B6: Product Responsibility	<p>General Disclosure</p> <p>Information on:  (a) the policies; and  (b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress</p>		<p><b>Strive for excellence and innovation-</b> Quality control</p>	/
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.		/
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.		/
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	<p><b>Strive for excellence and innovation-</b> Customer management</p>	/
	KPI B6.4	Description of quality assurance process and recall procedures.	<p><b>Strive for excellence and innovation-</b> Quality control</p>	/
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	<p><b>Strive for excellence and innovation-</b> Customer management</p>	/



B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering		<b>Responsibility governance- Anti-corruption management</b>	/
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.		/
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.		/
B8: Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		<b>Helping the community- Community service, Providing aid amid the pandemic</b>	/
	KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).		/
	KPI B8.2	Resources contributed (e.g. money or time) to the focus area.		/