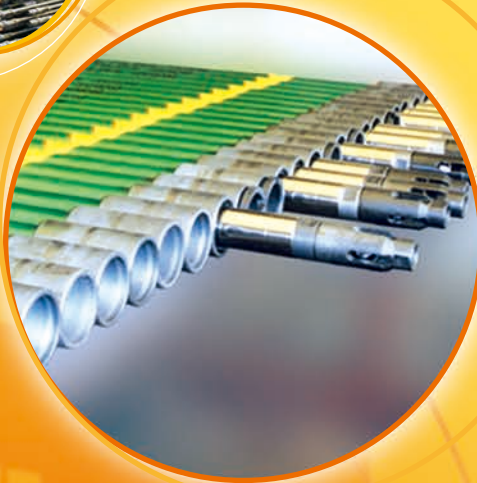
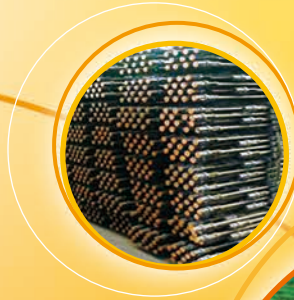




# 山東墨龍石油機械股份有限公司

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)



**2013**  
Annual  
Report



# I. Important, Contents and Definitions

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## Important

The board of directors (the “Board”), the supervisory committee (the “Supervisory Committee”) and the directors (the “Directors”), supervisors (the “Supervisors”) and senior management (the “Senior Management”) of the Company hereby warrant that there are no false representations, misleading statements or material omissions contained in this report (the “Report”), and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents. This Report has been prepared in both Chinese and English. For any discrepancies, the Chinese version shall prevail.

All Directors, Supervisors and the Senior Management are able to guarantee the truthfulness, accuracy and completeness of the annual report or disagree with the content of the annual report.

All directors attended the Board meeting for considering this report.

The Company’s profit distribution plan considered and approved by the Board is: does not recommend the payment of final dividend for the year ended 31 December 2013.

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# I. Important, Contents and Definitions

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## Definitions

“Company”, “the Company”, and “Shandong Molong” refer to Shandong Molong Petroleum Machinery Company Limited, and the Company and its subsidiaries are collectively referred to as “the Group” in this report; “SZSE” refer to Shenzhen Stock Exchange, “SEHK” refer to the Stock Exchange of Hong Kong Limited, “Listing Rules of Shenzhen Stock Exchange” refer to the Rules Governing Listing of Stocks on Shenzhen Stock Exchange, “Listing Rules of SEHK” refer to the Rules Governing the Listing of securities on the Stock Exchange of Hong Kong Limited, unless otherwise specified.

## Major Risk Alerts

1. When there is any extraordinary fluctuation in global petroleum drilling industry, it will directly lead to the fluctuation of product demand, and we will adjust product structure and market deployment in accordance with changes in market on a timely basis.
2. When there is any extraordinary fluctuation in raw material price, it will directly affect the production cost of the product and result in direct impact on the price of products.
3. When the exchange rate of Renminbi appreciates, it will lower the competitiveness of products in the international market, and we will adopt measures on expanding the coverage of market to avoid the risks resulted from any change in exchange rate of Renminbi.

## II. Company Profile



### I. Company Information

Stock Abbreviation	山東墨龍
Stock Code	A shares: 002490 H shares: 00568
Stock Exchange of Listed Securities	A shares: Shenzhen Stock Exchange H shares: The Stock Exchange of Hong Kong Limited
Legal Chinese name of the Company	山東墨龍石油機械股份有限公司
Abbreviation of the Chinese name	山東墨龍
Legal English name of the Company	Shandong Molong Petroleum Machinery Co.,Ltd
Abbreviation of the English name	Shandong Molong
Legal Representative of the Company	Zhang En Rong
Registered Address of the Company	No. 999 WenSheng Street, Shouguang City, Shandong Province
Postal Code of Registered Address	262700
Office Address	No. 999 WenSheng Street, Shouguang City, Shandong Province
Postal Code of office address	262700
Website of the Company	<a href="http://www.molonggroup.com">http://www.molonggroup.com</a>
Email Address	<a href="mailto:sdml@molonggroup.com">sdml@molonggroup.com</a>

### II. Contact Information

	<b>The Secretary of the Board</b>	<b>Securities Affairs Representative</b>
Name	Zhao Hong Feng	Wang Peng Hua
Office Address	No. 999 WenSheng Street, Shouguang City, Shandong Province	No. 999 WenSheng Street, Shouguang City, Shandong Province
Telephone	(86)-0536-5100890	(86)-0536-5789083
Facsimile	(86)-0536-5100888	(86)-0536-5100888
Email Address	<a href="mailto:zhf@molonggroup.com">zhf@molonggroup.com</a>	<a href="mailto:wph@molonggroup.com">wph@molonggroup.com</a>

#### **Principal place of business in Hong Kong**

Suite A, 11th Floor  
Ho Lee Commercial Building  
38-44 D' Aguilar Street  
Central  
Hong Kong

### III. Information Disclosure and Places for Inspection of the Company's Annual Report

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



## II. Company Profile

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### IV. Registry Changes

	<b>Date of Registration</b>	<b>Registered Address</b>	<b>Legal Person Business License</b>	<b>Registration Number with tax bureau</b>	<b>Organization No.</b>
First Registration	30 December, 2001	No. 99 Beihuan Road, Shouguang City, Shandong Province	3700001807083	370783734705456	73470545-6
Report the Final Registration	28 August, 2012	No. 999 WenSheng Street, Shouguang City, Shandong Province	370000400000030	370783734705456	73470545-6
Changes in principal operations (if any) since the Company's listing			No change		
All changes in controlling shareholders (if any)			No change		

### V. Other Relevant Information of the Company

#### Auditor Retained by the Company

Auditor	Shinewing Certified Public Accountants Ltd., (Special General Partner)
Office Address	9th Floor, Fuhua building A, No. 8 Chaoyangmen north Street, Dongcheng District, Beijing
Name of Signature certified public accountants	Wang Gong Yong, Kan Jing Ping

### III. Summary of Financial and Operating Results



#### I. Major Financial Data and Indicators for the Year of the Group

Unit: RMB

Item	2013	2012	Year-on-year Increase/Decrease (%)	2011
Operating Revenue	<b>2,272,034,335.20</b>	2,952,063,832.16	-23.04%	2,738,691,830.21
Net profit attributable to equity holders of Listed Company	<b>-175,722,248.47</b>	134,263,035.30	-230.88%	168,330,282.50
Net profit after extraordinary gains or losses attributable to equity holders of Listed Company	<b>-196,511,294.56</b>	88,497,742.61	-322.05%	139,722,024.21
Net cash flows from operating activities	<b>-155,479,887.20</b>	445,930,901.29	-134.87%	87,628,575.07
Basic earning per Share (RMB)	<b>-0.22</b>	0.17	-229.41%	0.21
Diluted earning per Share (RMB)	<b>-0.22</b>	0.17	-229.41%	0.21
Net Assets Income Rate (%)	<b>-6.31%</b>	4.73%	-11.04%	6.14%

Item	2013	2012	Year-on-year Increase/Decrease (%)	2011
Total assets	<b>5,793,466,052.68</b>	5,285,750,978.82	9.61%	4,688,931,436.70
Net assets attributable to shareholders of Listed Company (owners' interests attributable to shareholders of List Company)	<b>2,674,103,955.73</b>	2,889,416,712.61	-7.45%	2,795,014,393.18



### III. Summary of Financial and Operating Results

#### II. Extraordinary Gains or Losses Items

Item	Unit: RMB			Instruction
	2013	2012	2011	
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	<b>-370,184.13</b>	-187,450.15	-276,322.51	—
Government grant recognised in current profit and loss (excluding those grants that are closely related to the Company's business and that were granted in accordance with the standard amount or volume prescribed by the State)	<b>12,615,077.46</b>	49,141,000.00	31,474,069.50	—
Current profits and losses of the capital cost of non-financial companies charge	<b>5,657,305.93</b>			
Reversal of bad debt provision for accounts receivable provided for impairment separately		4,650,513.63	50,816.55	—
Non-operating gain or loss other than the above	<b>1,539,573.50</b>	185,257.13	2,599,256.20	—
Effect of extraordinary gains or losses on income tax	<b>-2,899,186.46</b>	8,011,893.61	5,229,933.99	—
Effect of extraordinary gains or losses on minority shareholders interest (after tax)	<b>1,551,913.13</b>	12,134.31	9,627.46	—
Total	<b>20,789,046.09</b>	45,765,292.69	28,608,258.29	



## IV. Directors' Report

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### I. Overview

During 2013, amidst the global economic downturn, the frequent fluctuation in global oil price, prolonged low level of steel price, weak demand of overseas markets and declining growth of domestic economy, the energy equipment industry has presented a trend of higher professional level and increasing market competition. Facing the new challenges from shale gas and offshore petroleum, the Company has organized and planned for project constructions, continuously increased its investments in technology and research and development of new products, steadily expanded its market coverage, integrally enhanced the management, proactively overcome the influence from internal and external difficulties and factors, so as to ensure stable operation of the Company.

### II. Analysis on the Principal Operations of the Company

#### 1. Overview

The Company realized operating revenue of RMB2,272,034,355.20 for the reporting period, representing a decrease of 23.04% when compared with last year. Total loss was RMB203,717,361.31, representing a decrease of 222.83% when compared with last year. Net loss attributable to shareholders of the Company amounted to RMB175,722,248.47, representing a decrease of 230.88% when compared with last year. Net loss after non-operating profit and loss was RMB196,511,294.56, dropped by 322.05% when compared with last year.

The Company's review and summary of the progress of the development strategies and the operating plans previously disclosed during the reporting period

- (1) In terms of domestic market, the Group's major customers were major oil fields in the PRC, including Daqing Oil Field (大慶油田), Changqing Oil Field (長慶油田), Xinjiang Oil Field (新疆油田), Liaohe Oil Field (遼河油田), Qinghai Oil Field (青海油田), Talimu Oil Field (塔里木油田), Huabei Oil Field (華北油田), Jidong Oil Field (冀東油田) and Jilin Oil Field (吉林油田), under PetroChina Company Limited and its subsidiaries (collectively, the "PetroChina Group"), as well as the Shengli Oil Field (勝利油田), Zhongyuan Oil Field (中原油田), Jiangsu Oil Field (江蘇油田) and Jiangnan Oil Field (江漢油田), under China Petroleum & Chemical Corporation and its subsidiaries (collectively, the "Sinopec Group"). During the reporting period, the Group developed closer business cooperation with existing oil field customers and acclaimed positive feedback. The revenue generated from the oil fields under the PetroChina Group and the Sinopec Group aggregately accounted for 25.86% of the Group's main operating revenue.



## IV. Directors' Report

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- (2) For overseas market, during the reporting period, the Group continued to develop its business in the Middle East, South America, North Africa and Australia, and acquired several new customers, mainly by selling casing and tubing, line pipe products and sucker rods. In addition, the Group has obtained certifications for its casing and tubing products from a number of national oil companies during the reporting period. Through expanding customer base and obtaining product certifications from internationally renowned oil companies, the Group has further increased its market shares in overseas, and its popularity in the international oil drilling equipment market. Currently, the Group has established and maintained good and long-term cooperative relationships with many overseas oil suppliers and oil field service companies, which boosts the Group's sales in the overseas markets. During the reporting period, the Group's revenue from exports accounted for approximately 32.52% of the Group's total operating revenue.
- (3) For product development, leveraging on the scientific research advantages of "Shandong Provincial Enterprise Technology Center" and "Shandong Molong Post-Doctoral Research Station", the Group continued to strengthen its technological cooperation with research institutes such as Xi'an Jiaotong University, Northeastern University, and Xi'an Tubular Products Research Institute of CNPC, to increase its efforts in developing new products, expand product structures and enrich product offerings. The Group has successfully developed products including large inner diameter tube, Cr anti-CO<sub>2</sub> corrosion casing, and anti-H<sub>2</sub>S tube, anti-hydrogen sulfide corrosion tube, extra-long and thick tube, suspension pillar tube, thin-walled high-pressure alloy tube, nickel plated anticorrosion sucker rod, acidic line pipe, and other new products which was bulk supplied to domestic and overseas customers. In particular, eight types of products, namely, level 3 deoxidization smelting clean steel technology, CO<sub>2</sub> corrosion resistance of the super 13 Cr, 9 Cr anti-CO<sub>2</sub> oil pipe and casing, large diameter tubing, MLC-1 special fastener technology, ML110SS anti-H<sub>2</sub>S oil pipe and casing, corrosion resistance and anti-wear efficient leaf roller, anticorrosive anti-air anti-decyclising valve pump have passed the Shandong provincial technology innovation project evaluation. Moreover, the Company has applied for the registration of 10 utility model patents in respect of anti-air and anti-disengagement oil-well tube pump, well bailing tubing connector, lathe rotary tool, heat treatment equipment for casing products, anti-paraffin anti-dust wear-resistant oil-well pump, seamless tube surface oil removal device, automatic oil casing buttress thread deburring equipment, tube-end diameter heat-shrinking mold, a type of sucker rod coupling, a pipe heating anti-oxidation device; and 2 invention patents in respect of oil casing twisting machine torque calibration method and its corresponding calibration device, flat gate valve casting method.

## IV. Directors' Report



### 2. Income

By industry	Items	2013	2012	Unit: '0000 tons
				Year-on-year Increase/decrease (%)
Special equipment manufacturing	Sales volume	41.62	47.62	-12.6%
	Production volume	40.73	49.53	-17.77%
	Inventories	15.05	15.94	-5.58%

The main customer sales situation of company:

Total sales to top 5 customers (RMB)	935,695,249.80
The percentage of the total sales for the year attributable to the total sales to top 5 customers (%)	41.18%

Information on top 5 customers:

Serial number	Name of customer	Saleroom (Unit: RMB)	Percentage of total sales of the year (%)
1	PetroChina Company Limited	469,437,332.43	20.66%
2	Hebei Zhongtai Steel Pipe Manufacturing Co., Ltd.	150,245,890.00	6.61%
3	Campex Inc.	119,719,265.08	5.27%
4	Petroleum Pipe Co., Ltd	114,529,130.90	5.04%
5	CNOOD Asia Limited	81,763,631.39	3.60%
Total		935,695,249.80	41.18%



## IV. Directors' Report

### 3. Cost

#### By product

Unit: RMB

By product	Item	2013		2012		Year-on-year Increase/Decrease (%)
		Amount	Attributable to the percentage of the operating costs (%)	Amount	Attributable to the percentage of the operating costs (%)	
Tubings & Casings	Materials	<b>1,397,010,177.57</b>	<b>76.9%</b>	1,910,388,972.23	82.11%	-5.21%
Tubings & Casings	Depreciation	<b>149,269,240.34</b>	<b>8.22%</b>	156,116,307.44	6.71%	1.51%
Tubings & Casings	Labour Cost	<b>77,690,118.75</b>	<b>4.28%</b>	47,695,742.21	2.05%	2.23%
Tubings & Casings	Expenses	<b>192,645,818.35</b>	<b>10.6%</b>	212,420,549.46	9.13%	1.47%
Three kinds of pumping units	Materials	<b>62,247,999.04</b>	<b>72.9%</b>	53,514,484.10	78.41%	-5.51%
Three kinds of pumping units	Depreciation	<b>3,561,674.01</b>	<b>4.17%</b>	3,398,828.35	4.98%	-0.81%
Three kinds of pumping units	Labour Cost	<b>11,104,753.96</b>	<b>13%</b>	4,634,145.48	6.79%	6.21%
Three kinds of pumping units	Expenses	<b>8,475,770.91</b>	<b>9.93%</b>	6,702,107.31	9.82%	0.11%
Petroleum machinery	Materials	<b>68,654,364.58</b>	<b>83.05%</b>	120,052,543.17	85.92%	-2.87%
Petroleum machinery	Depreciation	<b>4,641,531.41</b>	<b>5.61%</b>	4,429,312.87	3.17%	2.44%
Petroleum machinery	Labour Cost	<b>5,562,204.69</b>	<b>6.73%</b>	6,650,955.60	4.76%	1.97%
Petroleum machinery	Expenses	<b>3,813,090.87</b>	<b>4.61%</b>	8,593,146.42	6.15%	-1.54%
Others	Materials	<b>35,708,875.81</b>	<b>77.31%</b>	41,851,137.86	82.38%	-5.07%
Others	Depreciation	<b>3,039,810.61</b>	<b>6.58%</b>	2,900,825.41	5.71%	0.87%
Others	Labour Cost	<b>5,556,835.22</b>	<b>12.03%</b>	1,585,039.45	3.12%	8.91%
Others	Expenses	<b>1,881,675.27</b>	<b>4.07%</b>	4,465,543.84	8.79%	-4.72%

#### Explanations

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

#### Overview of the Company's major suppliers

Total purchase amount of the top 5 suppliers (RMB)	975,318,004.64
Percentage of the total purchase amount of the top 5 suppliers to the total purchase amount of the year (%)	57.89%

## IV. Directors' Report



Information of the Company's top 5 suppliers

Serial number	Name of the suppliers	Purchases (Unit: RMB)	Percentage of the total purchases for the year (%)
1	Lin Qu Tian Tai De Long Casting Co. Ltd	329,752,767.74	19.57%
2	Shandong Longsheng Steel Co., Ltd	282,800,620.06	16.79%
3	Shandong Shouguang Juneng Special Steel Co., Ltd	172,068,701.22	10.21%
4	Qingzhou Tian Tai De Long Casting Co. Ltd	117,037,583.40	6.95%
5	Shandong Luli Steel Co., Ltd	73,658,332.22	4.37%
Total		975,318,004.64	57.89%

### 4. Expenses

Profit and loss	Notes	Amount of current period	Amount of prior period	Amount of variation(%)
Administrative expenses	Note 1	160,067,797.95	96,130,216.28	66.51%
Finance costs	Note 2	48,572,195.33	37,123,383.67	30.84%
Assets impairment loss	Note 3	135,334,752.52	10,038,077.83	1,248.21%
Non-operating income	Note 4	14,701,734.82	49,857,539.87	-70.51%
Income tax expense	Note 5	-26,109,087.98	25,688,302.21	-201.64%

Note 1: The increase in administrative expenses was mainly due to the increase in amortisation of intangible assets and the increase in research and development expenditures for this year.

Note 2: The increase in finance costs was mainly due to the accrued interests charged for the bonds issued during this year.

Note 3: The increase in assets impairment loss was mainly due to the increase in provisions of impairment for inventories, intangible assets and goodwill.

Note 4: The decrease in non-operating income was mainly due the reduction of the government grants received during this year when compared with the same period of last year.

Note 5: The decrease in income tax expense was mainly due to the substantial decline in gross profit for this year when compared with last year.



## IV. Directors' Report

### 5. R&D expenditures

Item	2013	2012	Change (%)
R&D expenses	<b>84,073,324.61</b>	100,222,770.67	-16.11%
Net assets	<b>2,674,103,955.73</b>	2,889,416,712.61	-7.45%
Revenue from operations	<b>2,272,034,335.20</b>	2,952,063,832.16	-23.04%
Percentage of net assets (%)	<b>3.14%</b>	3.47%	-0.33%
Percentage of revenue from operations (%)	<b>3.70%</b>	3.40%	0.30%

### 6. Cash flow

Item	2013	2012	Unit: RMB Year-on-year increase/ decrease (%)
Subtotal of cash inflow from operating activities	<b>1,784,567,129.40</b>	2,605,219,787.13	-31.5%
Subtotal of cash outflow from operating activities	<b>1,940,047,016.60</b>	2,159,288,885.84	-10.15%
Net cash flow from operating activities	<b>-155,479,887.20</b>	445,930,901.29	-134.87%
Subtotal of cash inflow from investing activities	<b>580,760.10</b>	1,035,777.38	-43.93%
Subtotal of cash outflow from investing activities	<b>460,056,878.79</b>	649,837,780.57	-29.2%
Net cash flow from investing activities	<b>-459,476,118.69</b>	-648,802,003.19	-29.18%
Subtotal of cash inflow from financing activities	<b>2,419,950,440.00</b>	2,211,613,329.80	9.42%
Subtotal of cash outflow from financing activities	<b>1,837,525,834.37</b>	1,990,216,146.89	-7.67%
Net cash flow from financing activities	<b>582,424,605.63</b>	221,397,182.91	163.07%
Net increase in cash and cash equivalents	<b>-38,546,441.97</b>	18,456,785.73	-308.85%

The underlying reasons of the variation of more than 30% between the comparative figures are:

1. For this reporting period, cash inflow from operating activities was RMB1,784.57 million, representing a decrease of 31.50% when compared with the same period of last year, which was mainly due to the decline in the Company's revenues for this year.
2. For this reporting period, net cash flow from operating activities was -RMB155.48 million, representing a decrease of 134.87% when compared with the same period of last year, which was mainly due to the prepayments as the main payment method for purchase of materials for this year, and the decrease in accounts payable, leading to a higher cash outflow from operating activities.
3. Cash inflow from investing activities was RMB580,760.10, representing a decrease of 43.93% when compared with the same period of last year, which was mainly due to the higher gains on disposal resulting from more fixed asset disposals during the same period of last year.

## IV. Directors' Report



4. Net cash flow from financing activities was RMB582.42 million, representing an increase of 163.07% when compared with the same period of last year, which was mainly due to the unmatured bonds issued by the Company during this year.
5. Net increase in cash and cash equivalents was –RMB38.55 million, representing a decrease of 308.85% when compared with the same period of last year, which was mainly due to the increase in restricted cash denominated in other currencies as at the end of this year when compared with that as at the beginning of the year.

### III. Principal Operations by Industry and by Product

Unit: RMB

	Revenue from operations	Cost of sales	Gross profit margin (%)	Year-on-year increase/decrease in revenue from Operations (%)	Year-on-year Increase/decrease in cost of sales (%)	Year-on-year increase/decrease in gross profit margin (%)
<b>By industry</b>						
Special equipment manufacturing	2,228,208,692.23	2,030,863,941.39	8.86%	–23.31%	–21.45%	–2.15%
<b>By product</b>						
Tubings & Casings	2,010,891,871.31	1,861,137,634.15	7.45%	–22.6%	–20.01%	–3.00%
Three kinds of pumping units	79,849,248.22	65,845,793.09	17.54%	–4.07%	–3.52%	–0.47%
Petroleum machinery	122,082,387.45	90,207,865.42	26.11%	–29.46%	–35.44%	6.84%
Others	15,385,185.25	13,672,648.73	11.13%	–69.8%	–73.09%	10.84%
<b>Geographical segment</b>						
PRC	1,503,496,377.27	1,435,608,394.57	4.52%	–14.34%	–10.24%	–4.36%
Abroad	724,712,314.96	595,255,546.82	17.86%	–36.99%	–39.63%	3.59%



## IV. Directors' Report

### IV. Analysis of Assets, liabilities condition

#### 1. Significant changes in assets

Unit: RMB

	31 December 2013		31 December 2012		Percentage change (%)	Explanation on the major changes
	Amount	Percentage of total assets (%)	Amount	Percentage of total assets (%)		
Funds	<b>597,770,865.98</b>	<b>10.32%</b>	483,870,151.44	9.15%	1.17%	Mainly as a result of The issuance of company bonds to raise funds.
Accounts receivables	<b>563,772,597.42</b>	<b>9.73%</b>	455,105,433.22	8.61%	1.12%	Mainly as a result of bill collected the method of payment during the year.
Inventory	<b>1,155,180,417.60</b>	<b>19.94%</b>	1,220,618,577.83	23.09%	-3.15%	Mainly as a result of to reduce stock and increased provision for inventory write-down during the year.
long-term equity investment	<b>60,881,784.30</b>	<b>1.05%</b>	58,634,400.43	1.11%	-0.06%	Mainly as a result of the company's subsidiaries mainly caused by the equity method accounting earnings.
Fixed assets	<b>1,710,839,377.57</b>	<b>29.53%</b>	1,833,866,660.51	34.69%	-5.16%	Mainly as a result of increased caused by the current depreciation.
Construction in progress	<b>442,414,993.81</b>	<b>7.64%</b>	134,351,091.69	2.54%	5.1%	Mainly as a result of the investment of a 90 tons electric furnace and technical innovation of casting plant overall relocation project planned investment, caused by these new project.



## IV. Directors' Report



### 2. Significant changes in liabilities

Unit: RMB

Item	2013		2012		Percentage change (%)	Explanation on the major changes
	Amount	Percentage of total assets (%)	Amount	Percentage of total assets (%)		
Short-term borrowings	1,367,290,846.00	23.6%	1,030,006,883.57	19.49%	4.11%	Mainly because we have increased the borrowings from external sources to meet our needs in the daily operation.

## V. Core Competence Analysis

During the reporting period, the group with four domestic oil companies to further strengthen the cooperation, the API products and special mass, personalized product supply new products in the domestic each big oil fields and blocks under the success of Wells, the oil well pipe seamless pipe sales soared, high pressure chemical fertilizer pipe, large diameter thick wall pipe, A333 Gr. 6 by customer experiments, such as low temperature pipe began to bulk supply market. Overseas markets, oil casing pipe, line pipe products by Russia, Iran, uzbekistan, Egypt, and other national oil company, product certification, get more customers, large diameter casing, casing series special deduction, ML-FJ direct-connect buckle casing new products such as bulk supply the customer, to further expand the overseas market share and also improve the visibility of a company in the international energy equipment market.

In terms of development of new products, with the scientific research advantages of "Province-class Enterprise Technical Center of Shandong Province" and "Shandong Molong post-doctoral research station", the Group continued to strengthen its technological cooperations with various research institutes to increase its efforts to develop high-end products, expand product structures and enrich product categories. The Group has successfully developed products including the large inner diameter tube, Cr anti-CO<sub>2</sub> corrosion casing, and anti-H<sub>2</sub>S tube, Anti-hydrogen sulfide corrosion tube, extra-long and thick tube, suspension pillar tube, thin-walled high-pressure alloy tube, nickel plating anticorrosion sucker rod, acidic line pipe, large-diameter pipe, anti-paraffin anti-dust wear-resistant oil-well pump and other new products which was bulk supplied to domestic and overseas customers. Continuous development and introduction of new products to the market enables the Company to respond swiftly, thus enhancing our resistance to risk.



## IV. Directors' Report

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### VI. Investment Situation Analysis

#### 1. Use of proceeds

##### (1) Usage of total proceeds

Unit: RMB'0000

Total proceeds	49,600
Use of total proceeds during the Reporting Period	49,600
Accumulated use of total proceeds	49,600
Total proceeds with uses changed during the Period under Review	0
Accumulated total proceeds with use changed	0
Ratio of accumulated total proceeds with uses changed (%)	0%

##### General descriptions of the use of proceeds

The company bonds issued by the Company raised a total amount of RMB500 million. After deducting the underwriting fees payable to the underwriter of RMB4.0 million, the actual proceeds was RMB496 million which was received on June 14, 2013. As at December 31, 2013, the Company has earned an interest of RMB 20,744.66 from the proceeds deposited with banks and incurred other expenses of RMB380. Out of the proceeds, the Company has utilized RMB495,999,980.00 during the year. The accumulative amount utilized was RMB495,999,980.00. Interest generated from the balance of unutilized proceeds was RMB20,384.66.

## IV. Directors' Report



### 2. Analysis of main subsidiaries, joint stock company

Name of company	Company Type	Industry	The main products or services	Registered capital	Total assets (Unit: RMB)	Net assets (Unit: RMB)	Operating revenue (Unit: RMB)	Operating profit (Unit: RMB)	Net profit (Unit: RMB)
Shouguang Baolong	Subsidiary	Manufacturing	Manufacture and sales of oil equipment	150,000,000	1,008,183,680.33	201,310,386.02	1,405,507,245.71	-10,358,428.67	-6,119,554.08
Molong Logistic Company	Subsidiary	Servicing	Warehouse (not including restricted items), loading of goods, logistic information enquiry	3,000,000	9,733,432.27	2,879,210.52	210,142.00	-2,411.41	-2,461.41
Weihai Baolong	Subsidiary	Manufacturing	Manufacture and sales of metal material specialized for petroleum use	26,000,000	437,584,955.57	330,226,759.01	289,281,170.62	-34,175,363.90	-33,808,455.44
Maolong new materials	Subsidiary	Manufacturing	Manufacture and sales of: petroleum equipment and accessories; high pressure isolation switch, high pressure electrical appliances, voltage electrical appliances and complete equipment; processing and sales of alloy accessories	12,380,000	71,336,772.74	57,894,512.07	—	198,446.19	133,196.53
Molong Electro-mechanical Equipment	Subsidiary	Manufacturing	Manufacture and sales of outer thickening oil well tubing and electrical complete equipment	USD1,000,000	91,146,537.26	52,398,263.67	92,010,725.23	5,513,717.02	4,624,354.22
Maolong Recycle	Subsidiary	Trading	Trading of scrap metals	500,000	7,197,206.88	1,603,305.73	17,493,458.83	-979,404.86	392,023.82
Baolong Recyclable Resource	Subsidiary	Trading	Trading and sales of scrap metals	300,000	2,523,618.75	2,498,639.54	—	-1,613.34	-5,866.22
MPM International Limited	Subsidiary	Trading	Acquisition and sales of petroleum extraction and chemical machinery electric equipment	USD1,000,000	194,544,937.16	12,859,372.61	4,481,033.38	-286,001.27	-286,001.27
Yalong Oil Machinery Co. Ltd (亞龍石油機械公司)	Joint stock company	Manufacturing	Design, produce and sales of machinery Equipment: sales of hardware & electric material, electronic products, construction materials, steel products	6,400,000	17,305,433.76	8,643,970.93	21,497,231.46	406,710.66	285,396.30
Shouguang Maolong Microfinance Company Limited	Joint stock company	Servicing	Origination of loans in Shouguang City; development of small enterprise business; management	150,000,000	161,334,891.71	160,283,605.40	11,139,523.23	9,971,511.02	7,705,883.26



## IV. Directors' Report

### 3. Other investments during the reporting period

Unit: RMB'0000

Name of projects	Aggregate investment	The annual investment amount	Accumulated investment as at the end of the Reporting Period	Project progress	Benefits realized during the Reporting Period
Φ1200 mm forging expansion project	6,800	1,669	4,887	100%	N/A
Casting plant overall relocation technical transformation project	56,000	18,249	18,484	33.01%	N/A
90 tons of electric arc furnace	25,000	15,433	24,277	97.11%	N/A
Total	87,800	35,351	47,648		

## VII. Prospect of the Future Developments of the Company

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

According to the "World Energy Outlook" published by the U.S. International Energy Agency, a steady economic growth worldwide is forecasted and the demand for crude oil will keep a growth trend, the demand for crude oil will achieve 110 million barrels daily in 2025 with annual growth for oil consumption of 1.4% from now to 2025 while the annual growth rate for oil production is 1.25%, which is slightly lower than the oil consumption yearly growth. Therefore, from the medium to long terms analysis, the scale of oil exploration and drilling special equipment industry will continue to expand with a prosperous market.

According to the forecast in the "World Energy Outlook" published by the U.S. International Energy Agency, the annual growth rate in oil consumption in China will maintain at 3.5% from now to 2025, which is higher than the global growth rate.

Meanwhile, the U.S. International Energy Agency states in order to avoid the oil crisis, it is necessary to invest intensively in the crude oil production industry, to improve the basic infrastructure and to enhance the oil extraction ability of existing facilities over the next 20 years to deal with the increase in demand and the decline in the output of oil.

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



### **2. In line with its strategic plans, the work of the Company will focus on the following areas in 2014**

- (i) In respect of research and development of products, the Group will put further efforts on the research and development of high value-added products and exclusive production rights owned non-API products. In 2014, the Group will continue to build a more comprehensive spectrum of series of products such as high-end aluminum casing (strong and high bearable), strong anti-pressure+anti-H<sub>2</sub>S corrosion casing, L80-9Cr anti-CO<sub>2</sub> corrosion casing, ultra 13Cr and anti- H<sub>2</sub>S+CO<sub>2</sub> corrosion casing, ML110-9Cr anti-CO<sub>2</sub> corrosion casing, API acid conduit pipes, economy special thread casing, and anti-corrosion special casing, with an aim to satisfy the specific demand from domestic and overseas customers for the exploration of oil, natural gas, shale gas, and coalbed methane.
- (ii) In respect of new product development, the Group will actively research on more accommodating products based on the specific market demand and trend of oil, natural gas, shale gas and coalbed methane. For shale gas and coalbed methane exploration equipment, the Group will offer more customized, accommodating and low-cost products based on its existing supply capacity in order to enhance its competitiveness in the industry.
- (iii) In respect of domestic market, the Group will further strengthen and fortify the good cooperative relationship with CNPC Group, Sinopec Group, CNOOC and Yanchang Petroleum. In addition, the Group will tap further into the markets of shale gas and coalbed methane equipment, safety device for coal mining industry, and high-pressure boiler tube.
- (iv) In respect of overseas market, the Group will thoroughly consider the trading policy of various oil producing countries and the development and demand of overseas regional market. The Group will also strive for market development in South America, Middle East, Africa, Russia and West Asia by increasing its volume of supply, to diversify its market concentration. Meanwhile, long-term cooperation with overseas oil supplier with market resources, service advantages and good reputations will be reinforced, with a view to earning a greater market share.

### **3. Major risk factor for development strategy and business goals of company**

- (i) When there is any extraordinary fluctuation in global petroleum drilling industry, which directly lead to the fluctuation of product demand, we will adjust our product structure and market deployment in accordance with changes in market on a timely basis.
- (ii) Extraordinary fluctuation in raw material prices will directly affect production cost and result in direct impact on the price of our products.
- (iii) Appreciation of RMB will lower the competitiveness of our products in the international market. We will adopt measures to expand our product market coverage to avoid Renminbi fluctuation risk.



## IV. Directors' Report

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### VIII. Distribution of profit and dividend payment by the Company

#### **Formulation, implementation and adjustment of profit distribution policy, especially cash dividend policy, during the reporting period**

The Group adopted the Accounting Standards for enterprises — basic standards and 38 specific accounting standards, accounting standard for business enterprises application guidelines, accounting standards for enterprises to explain announcement explanation and other relevant provisions issued from the Ministry of Finance the People's Republic of China on 15 February 2006. On 26 January 2014, the Ministry of Finance of the People's Republic of China has issued six specific accounting standards, Accounting Standards for enterprises no. 9 — employee compensation and Accounting Standards for enterprises no. 30—presentation of financial statements, Accounting Standards for enterprises no. 33 — consolidated financial statements and Accounting Standards for enterprises no. 39 — fair value, Accounting Standards for enterprises no. 40 — the joint venture arrangement and Accounting Standards for enterprises no. 2 — long-term equity investment. Since 1 January 2013, the Group began to adopt the above six new or revised accounting standards.

Implement the new standard, not our group project have made a significant impact on the recognition and measurement of financial statements. The group financial statements is in accordance with the provisions of the code on the new presentation and disclosure.

Profit distribution and the proposals on conversion of capital reserves into share capital during the year:

#### Details of profit distribution or conversion of capital reserves into share capital

In 2013, the board of directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2013.

#### The profit distribution plans and the conversion plans of conversion of capital reserves into share capital in the past three years (the reporting period inclusive)

In 2011, the Company implemented profit distribution and the proposals on conversion of capital reserves into share capital: based on the total share capital of 398,924,200 shares of the company as at 31 December 2011, all shareholders received RMB1.00 (tax inclusive) for every 10 shares; all shareholders were conversed and increased 10 shares for every 10 shares by the use of share capital reserves.

In 2012, the Company implemented profit distribution plan: based on the total share capital of 797,848,400 shares of the company as at 31 December 2011, the Company distributed of RMB0.5 (including tax) for every 10 shares held by all shareholders.

In 2013, the board of directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2013.

## IV. Directors' Report



### Bonus cash payment for the last three years

Unit: RMB

Cash bonus year	Amount for profit for cash bonus (including tax)	Net profit attributable to equity holders of the Company for the cash bonus year	Ratio of cash bonus to net profit attributable to equity holders of the Company
2013	0.00	-175,722,248.47	0.00%
2012	39,892,420.00	134,263,035.30	29.71%
2011	39,892,420.00	168,330,282.50	23.70%

## IX. Social Responsibility Report

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

### 1. Safeguarding shareholders' interest

The Company has established a relatively well-established governance structure and a comprehensive internal control system. Such measures guaranteed the soundness and the level of control of the decision making mechanism of the Company on material issues. During the reporting period, the Company convened two general meetings. 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 realize mutual growth of our staff and the enterprise through 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 create a harmonious working environment.

### 3. Actively participate in social services

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



## IV. Directors' Report

### X. Registration report on reception of research investigations, communications and interviews during the reporting period

Time of reception	Place of reception	Manner of reception	Types of Parties accommodated	Parties accommodated	Main topics of discussion and information provided
8 May 2013	Shouguang, Shandong	On-site research and investigation	Organization	Guosen Securities (HK) Brokerage Co., Ltd	Introduce company production operations, to visit the company production line.

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

#### 1. Results

The Group's profit for the current year and the state of financial affairs of the Group and the Company at that date are set out in the consolidated financial statements on pages 62 to 80 of the annual report.

#### 2. Financial Summary

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

##### Results

	For the year ended 31 December				
	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Total revenue from operation	<b>2,272,034</b>	2,952,064	2,738,692	2,703,907	2,075,551
(Loss) Profit from operations	<b>(217,502)</b>	116,716	166,268	276,717	270,746
Total (loss) profit	<b>(203,717)</b>	165,854	200,065	324,484	324,280
Net (loss) profit	<b>(177,608)</b>	140,166	169,042	276,980	273,822
Minority interests	<b>(1,886)</b>	5,903	712	831	5,507
Net (loss) profit attributable to shareholders of the Company	<b>(175,722)</b>	134,263	168,330	276,149	268,315
Basic (loss) earnings share (RMB)	<b>(0.22)</b>	0.17	0.21	0.41	0.41



## IV. Directors' Report



### Assets and Liabilities

	For the year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	<b>5,793,466</b>	5,285,751	4,688,931	4,586,411	3,256,607
Total liabilities	<b>3,057,345</b>	2,332,464	1,835,954	1,843,207	1,942,972
Net assets	<b>2,736,121</b>	2,953,287	2,852,978	2,743,203	1,313,634

### 3. Changes in Share Capital

Details of changes in the share capital of the Company for 2013 are set out in in note 5 to the consolidated financial statements.

### 4. Reserves and Distributable Reserves

Details of changes in the reserves of the Group for 2013 are set out in note 5 to consolidated financial statements.

### 5. Property, Plant and Equipment, and Investment Properties

Details of changes in the property, plant and equipment and investment properties of the Group for 2013 are set out in note 5 to the consolidated financial statements.

### 6. Capitalised Interest

For 2013, the Group had capitalised interest amounting to RMB17.01 million.

### 7. Directors' and Supervisors' Service Contracts or Letters of Appointment

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

### 8. Special Committee

Details of the Audit Committee and the Remuneration and Evaluation Committee held under the Board are set out in "10. The Board Committees of the Company" in the section VIII of this annual report.

### 9. Continuing Related Party Transactions

For continuing related party transaction with Yalong Oil Well Pump in 2013, please refer to note 6 to the consolidated financial statements. This continuing related party transaction didn't consist the "Connected Transactions" or "Continuing Connected Transactions" under Charter 14A of Listing Rules from the Stock Exchange.



## IV. Directors' Report

### 10. According to the Hong Kong Securities and Futures Ordinance, disclosure of Directors', Supervisors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures

As at 31 December 2013, interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Group and to the Stock Exchange, were as follows:

#### Long positions in the Shares

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total issued share capital
Zhang En Rong	Beneficial	279,517,000	51.60%	35.03%
Lin Fu Long	Beneficial	34,216,000	6.32%	4.29%
Zhang Yun San	Beneficial	30,608,000	5.65%	3.84%

Name	Type of interest	Number of H shares	Percentage of H shares	Percentage of total issued share capital
Zhang Yun San	Beneficial	1,576,000	0.62%	0.20%

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

### 11. Annual Salary of the Directors, Supervisors and Senior Management

As for the situation of salary of the Directors, Supervisor and Senior Management got from the Company in 2013, please refer to section VII of this annual report.

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

None of the Directors or Supervisors or their respective associates (as defined under the Rule 1.01 of the Listing Rules of the SEHK) was granted by the Company or its subsidiaries any rights or options to acquire any shares in or debentures of the Company or had exercised any such rights in 2013.



### 13. Share Option Scheme

The Company does not have any share option scheme.

### 14. Substantial Shareholders

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

### 15. Directors' Interests in Contracts

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted at the end of 2013 or at any time in 2013.

### 16. Material Contracts

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

### 17. Purchase, Sale or Redemption of Securities

None of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company in 2013.

### 18. Pre-emptive Rights

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

### 19. Corporate Governance

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

### 20. Sufficiency of Public Float

According to information of the Company available to the public and to the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float throughout the current year and up to the date of this report.



## V. Material Matters

### I. Material Litigation or Arbitration

The Company had no Material Litigation or Arbitration during the Reporting Period.

The Company had no situation of the media questioned during the Reporting Period.

### II. Degree of Performance

#### 1. Undertakings made by the Company and shareholders interested in 5% or more of the shares of the Company made in the reporting period or subsisting to the reporting period

Item	Acceptor	Commitment to content	Commitment of time	Period for acceptance	Degree of performance
Share reform commitment	/	/	/	/	/
Undertaking made in offering documents or shareholding alternation documents	/	/	/	/	/
Undertaking made during asset reconstruction	/	/	/	/	/
Undertaking made on initial public offering or refinancing	Zhang En Rong, Zhang Yun San	Within 36 months since the date of the listing of the A Shares, shares shall not be transferred or entrusted to others to manage, and not be purchased by the Company. Also, they also committed that the shares transferred by them shall not exceed 25% of the total shares of the Company held by them during the terms of office after the above period expires, and they shall not transfer the shares held by them within half a year after leaving.	On 21 October 2010	36 months	During the Reporting period, the above officials strictly performed their commitment items.
Other undertakings made to minority shareholders of the Company	/	/	/	/	/
Does the undertaking performed timely?			Yes		
The status of the implementation of undertaking		During the Reporting period, strictly implemented the commitment items.			



### III. The Auditors Engaged by the Company During the Reporting Period

#### Appointed accounting firm

Name of the domestic accounting firm	Shinewing Certified Public Accountants Ltd., (Special General Partner)
Reward of the domestic accounting firm (Unit: RMB'0000)	90
Continued term of service of the domestic accounting firm	1 years
Name of CPA	Wang Gong Yong, Kan Jing Ping

### IV. The status of the issue of corporate bonds by the Company

The Company received "Reply Letter in relation to the approval on the issue of corporate bonds by Shandong Molong Petroleum Machinery Company Limited from CSRS" (the Zhengjian Xuke [2012] No. 1735) on 31 December 2012 and was approved to make an public issuance of corporate bonds with face value not exceeding RMB1.00 billion.

According to the Shandong Molong Petroleum Machinery Co., Ltd. (phase I) issuance of corporate bonds in 2012 announcement, Dragon Petroleum Machinery Co., Ltd. Shandong ink 2012 corporate bonds (phase I) issuance of RMB500 million , the price is RMB100 each, facing the social public investors public offering online and offline combined book-building allotment for institutional investors. In this issue company bonds issue work has ended on 14 June 2013, the issuance of RMB500 million, the annual interest rate is 5.2%.



## VI. Changes in Share Capital and Shareholders

### I. Changes In Share Capital

Item	Prior to the change		Bonus Issue of Shares	After the change	
	Number of shares	Percentage (%)		Sub-total Number of shares	Percentage (%)
I. Shares subject to lock-up	396,478,000	49.69%	-120,182,250	276,295,750	34.63%
I.1 Other domestic shares	396,478,000	49.69%	-120,182,250	276,295,750	34.63%
Comprising:					
Domestic natural person shares	396,478,000	49.69%	-120,182,250	276,295,750	34.63%
II. Shares not subject to lock-up					
II.1 RMB ordinary shares	401,370,400	50.31%	120,182,250	521,552,650	65.37%
II.2 Overseas-listed foreign shares (H shares)	145,244,000	18.2%	120,182,250	265,426,250	33.27%
	256,126,400	32.1%	—	256,126,400	32.1%
III. Total number of shares	797,848,400	100%	0	797,848,400	100%

### II. Issuance and listing of securities in the Last Three Years

In 2012, based on the total share capital of 398,924,200 shares, the total share capital of the Company has been increased to 797,848,400 shares by using the share capital reserves to converse and issue 10 Bonus Shares for every existing 10 shares to all the shareholders, which was considered and approved at the 2011 Annual General Meeting and Class Meetings of the Company.

On 7 June 2013, the company issued three-year corporate bonds, price RMB100, total RMB500 million, the annual interest rate of 5.2%.

As at 31 December 2013, no staff shares of the Company have been issued in the last three years.

## VI. Changes in Share Capital and Shareholders



### III. Shareholders' Profiles

#### Domestic Shares of RMB1.00 each of the Company

Unit: Share

Name of Shareholders	Nature of Shareholders	Percentage of shareholding (%)	Shares at the end of the year	Shares change this year	Number of Restricted shares held	Number of non-restricted shares held
Zhang En Rong	Domestic natural person	35.03%	279,517,000	—	209,637,750	69,879,250
Lin Fu Long	Domestic natural person	4.29%	34,216,000	—	25,662,000	8,554,000
Zhang Yun San	Domestic natural person	3.84%	32,184,000	—	22,956,000	9,228,000
Xie Xin Cang	Domestic natural person	2.68%	21,410,000	—	10,705,000	10,705,000
Cui Huan You	Domestic natural person	1.16%	9,238,000	—	0	9,238,000
Liu Yun Long	Domestic natural person	1.15%	9,170,000	—	7,335,000	1,835,000
Liang Yong Qiang	Domestic natural person	0.85%	6,819,000	—	0	6,819,000
Zhou Yin Xu	Domestic natural person	0.10%	808,860	—	0	808,860
Li Yuan	Domestic natural person	0.10%	788,800	—	0	788,800

#### H Shares of RMB1.00 each of the Company

Name of Shareholders	Nature of Shareholders	Percentage of shareholding (%)	Shares at the end of the year	Shares change this year	Number of Restricted shares held	Number of non-restricted shares held
HKSCC Nominees Limited	Overseas legal person	32.03%	255,521,890	—	0	255,521,890
Zhang Yun Sun	Overseas natural person	0.20%	1,576,000	—	0	1,576,000

Note: No Strategic investors or legal placement become the top ten shareholders upon placing of new shares.

#### Connected relationship or concert-party relationship among the above shareholders

Zhang En Rong is the controlling shareholder of the Company and the father of Zhang Yun San, a director of the Company. Save as disclosed, the Company has no further information as to whether the other shareholders have connected relationships or are acting in concert.



## VI. Changes in Share Capital and Shareholders

### Shareholdings of the major shareholders of non-restricted shares

Name of Shareholders	Shares at the end of the year	Class of shares
HKSCC Nominees Limited	255,521,890	H share
Zhang En Rong	69,879,250	A share
Xie Xin Cang	10,705,000	A share
Cui Huan You	9,238,000	A share
Zhang Yun San	7,652,000	A share
	1,576,000	H share
Lin Fu Long	8,554,000	A share
Liang Yong Qiang	6,819,000	A share
Liu Yun Long	1,835,000	A share
Zhou Yin Xu	809,160	A share
Li Yuan	788,800	A share

Notes:

- (1) The Company has no further information as to whether there is connected relationship or concerted-party relationship among each of the shareholders of non-restricted shares as above, and between the shareholders of non-restricted shares and other shareholders of the Company.
- (2) No Shareholders participate in the margin trading business.

## 2. Controlling shareholders of the Company

### Natural person

Name of controlling shareholders	Citizenship	Whether obtained the residential right from other countries or districts
Zhang En Rong The occupation and duties in the past 5 years	China Director and Chairman of Shandong Molong Petroleum Machinery Co., Ltd.	No



## VI. Changes in Share Capital and Shareholders

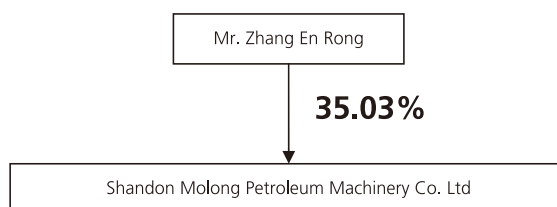


### 3. Beneficial controller of the Company

#### Natural person

Name of beneficial controller	Citizenship	Whether obtained the residential right from other countries or districts
Zhang En Rong The occupation and duties in the past 5 years	China Director and Chairman of Shandong Molong Petroleum Machinery Co., Ltd.	No

Chart illustrating the relationship between the Company and the beneficial controllers:





## VI. Changes in Share Capital and Shareholders

### 4. Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2013, so far as it is known to the Directors, Supervisors or chief executive of the Company, the following persons (other than a Director, Supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares and underlying shares and debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register to be kept under section 336 of the SFO:

#### Long positions in the Shares of the Company

Name	Type of interest	Number of H Shares	Percentage of H Shares	Percentage of total registered capital
Desmarais Paul G. (Note 1)	Interest of controlled corporation	30,500,000	11.91%	3.82%

Note 1: According to the best knowledge of the Directors of the Company and the disclosure of interest notices filed by Desmarais Paul G, Desmarais Paul G is deemed to be interested in 30,500,000 H Shares held by the companies controlled by him as at 31 December 2013.

Save as disclosed above, no persons (other than being a Director, Supervisor or chief executive of the Company) who had, or were deemed or taken to have 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 Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register required to be kept under section 336 of the SFO.

# VII. Directors, Supervisors, Senior Management and Employees



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

Name	Position	Duty state	Sex	Age	Term start date	Term end date	Shares held at the beginning of the year (A share)	Shares change this year (A share)	Shares held at the end of the year (A share)
Zhang En Rong	Chairman of Company	Current	M	74	28 June 2013	27 June 2016	279,517,000	0	279,517,000
Zhang Yun San	Deputy Chairman and General Manager	Current	M	52	28 June 2013	27 June 2016	32,184,000	0	32,184,000
Lin Fu Long	Executive Director	Current	M	62	28 June 2013	27 June 2016	34,216,000	0	34,216,000
Guo Huan Ran	Executive Director	Current	M	46	28 June 2013	27 June 2016	0	0	0
Xie Xin Cang	Executive Director	Former	M	52	25 May 2010	28 June 2013	21,410,000	0	21,410,000
Xiao Qing Zhou	Non-executive Director	Current	M	65	28 June 2013	27 June 2016	0	0	0
Guo Hong Li	Non-executive Director	Current	M	58	28 June 2013	27 June 2016	0	0	0
Wang Chun Hua	Independent non-executive Director	Current	F	61	28 June 2013	27 June 2016	0	0	0
John Paul Cameron	Independent non-executive Director	Current	M	49	28 June 2013	27 June 2016	0	0	0
Qin Xue Chang	Independent non-executive Director	Current	M	48	28 June 2013	27 June 2016	0	0	0
Chau Shing Yim, David	Independent non-executive Director	Former	M	51	12 May 2010	28 June 2013	0	0	0
Liu Huai Duo	Supervisor	Current	M	38	25 May 2012	24 May 2015	0	0	0
Fan Ren Yi	Supervisor	Current	M	49	25 May 2012	24 May 2015	0	0	0
Zhang Jiu Li	Supervisor	Current	M	49	25 May 2012	24 May 2015	0	0	0
Zhang Shou Kui	Deputy general manager	Current	M	44	25 May 2012	27 June 2016	0	0	0
Liu Yun Long	Deputy general manager	Former	M	45	28 March 2010	28 March 2013	14,670,000	5,500,000	9,170,000
Yang Jin	Financial Controller of Company	Current	M	50	29 March 2012	27 June 2016	0	0	0
Zhao Hong Feng	Secretary to the Board	Current	M	35	26 October 2012	27 June 2016	0	0	0
Total (excluding H share)							381,997,000	5,500,000	376,497,000

## II. Employment

Major work experience and employment of Directors, Supervisors and Senior Managers of the Company.

### 1. Directors

#### Executive Directors

**Mr. Zhang En Rong**, Chinese nationality with no right of permanent residence abroad, is the chairman of the Company and an executive Director. Mr. Zhang, born in January 1940, Junior college degree, is a founder of the Company and is responsible for the overall strategic planning, management and business development of the Group. Mr. Zhang was the legal representative and factory manager of Shandong Shouguang Petroleum Machinery Parts Factory, Shandong Shouguang Petroleum Machinery Factory and Weifang Molong Industrial Company from 1987 to 1993 and the general manager of Shandong Molong Holdings Company from 1994 to 2001, Mr. Zhang has been the Chairman of the Company since 2001. Mr. Zhang is the father of Mr. Zhang Yun San, an executive Director of the Company.



## VII. Directors, Supervisors, Senior Management and Employees

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Mr. Zhang En Rong was a member of the 12th session, 13th session and 14th session of the Weifang City People's Congress of the PRC, a member of the 5th session and the 6th session of the Shandong Shouguang City Committee of the Chinese People's Political Consultative Conference. Mr. Zhang was granted the "Good Enterprise Management Personnel" certificate in 1988 and 2001, and the "Wealth Attainment and Development of Shandong medal of Shandong Province" in 2004.

**Mr. Zhang Yun San**, Chinese nationality with no right of permanent residence abroad, is an executive Director, the deputy chairman, and the general manager of the Company. Mr. Zhang, born in January 1962, Bachelor Degree, is a founder of the Company. He is responsible for assisting the chairman of the Board in the overall strategic planning and management and business development of the Group. Mr. Zhang has served in Weifang Molong Industrial Company since 1993 and served in the Company as deputy general manager from 1994 to 2001, deputy chairman and deputy general manager from 2001 to 2007, and has served as deputy chairman and general manager since 2007. He has abundant experience in the development, manufacture and sales of petroleum drilling and extraction machinery and the management of the Group. Mr. Zhang is the son of Mr. Zhang En Rong, an executive Director of the Company.

Mr. Zhang held an advanced certificate in Training Course of Chinese Communist Party School for Entrepreneurs and was granted the "Excellent Private Enterpriser of Weifang City" in 2004, "Top Ten Young Entrepreneurs of Weifang City" and "Advanced Person of Enterprise Technology Innovation of Weifang" in 2005, "Excellent Chief Information Officer of Weifang City" and "Outstanding Person of Shouguang of the Year" in 2006, and was appointed as the member of the 10th session of the Weifang City People's Congress of the PRC and the member of the 15th session of the Shouguang City People's Congress of the PRC in 2007; awarded "Outstanding Entrepreneur of Weifang", "Outstanding Communist Party Member"; and was awarded the "Model Worker of Shandong Province" in 2008, "Top Ten Persons of 'Moving State Duty' of Weifang in 2007", and was awarded "Outstanding Entrepreneur of Shouguang City" in 2010 and 2011. Mr. Zhang was a member of the 15th session and is currently a member of the 16th session of the Standing Committee of Shouguang City People's Congress of the PRC, Deputy Chairman of Shouguang City Association of Entrepreneurs and Vice President of Shouguang City Industries and Commerce Association.

**Mr. Lin Fu Long**, Chinese nationality with no right of permanent residence abroad, is an executive Director and responsible for major project management of the Group. Mr. Lin, born in November 1952, high school diploma, is a founder of the Company. Mr. Lin was deputy manager of Petroleum Machinery Parts Factory, Petroleum Machinery Factory and Weifang Molong from 1989 to 1993, deputy general manager of Molong Holdings from 1994 to 2001 and director and general manager of the Company from 2001 to 2007. Mr. Lin was awarded the "Capable Sales Person" title by the Shouguang City People's Government in 1994.

**Mr. Guo Huan Ran**, Chinese nationality, born in April 1967, executive master of business administration degree from Tsinghua University, is deputy general manager of the Company. Mr. Guo has served in the Company since March 1991 as technician, and held workshop supervisor and production director of the Company from 1994 to 2001. Mr. Guo has extensive experience in areas including production management and technology research and development of petroleum drilling and extraction machinery. Mr. Guo has directed the innovation of various items for export, such as liner for mud pump and valve body. Some of the products, such as "Special Centralizer for Electrical Submersible Pump System", won the third prize of "Science and Technology Achievements Award from Village & Township Enterprises Administration of Agriculture of People's Republic of China". Mr. Guo has been granted the title of "Outstanding Young Entrepreneur of Shouguang City" in November 2007.

## VII. Directors, Supervisors, Senior Management and Employees

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### Non-executive directors

**Mr. Xiao Qing Zhou**, born in June 1949, a Chinese national with no right of permanent residence abroad, Bachelor Degree, is a non-executive Director of the Company. Mr. Xiao has rich experience in managing listed company. He served as the director of Shandong Haihua Group Company Limited (山東海化集團有限公司). He has attended the training for senior management of listing company organised by SZSE for many times and obtained a certificate of training for senior management (independent director) from SZSE (深圳證券交易所高管 (獨立董事) 培訓字(05418)號證書). Mr. Xiao is currently a consultant of Haihua Group and the chairman of Shandong Hengwei Investment Management Co., Ltd. (山東恒偉投資管理有限公司). Mr. Xiao has served as a non-executive Director of the Company since 6 May 2011.

**Mr. Guo Hong Li**, born in September 1956, a Chinese national with no right of permanent residence abroad, Bachelor Degree, is a non-executive Director of the Company. Mr. Guo has more than 30 years of experience in financial industry. Has held director of Shouguang City Credit Cooperatives, director of Shouguang City Bank, governor, deputy governor in Shouguang Branch of Agricultural Bank. Now he is general manager of the Weifang Binhai Yufeng Pawn Loan Co., Ltd..

### Independent non-executive Directors

**Ms. Wang Chun Hua**, born in November 1953, a Chinese national with no right of permanent residence abroad, is an independent non-executive Director and the chairman of nominations committee of the Company. Ms. Wang, graduated from Shandong University with a bachelor degree, is now retired. Ms. Wang has over 20 years of experience in the court work and had held various positions in Shandong Shouguang People's Court including the judge, associate chief judge and the chief judge of the No. 1 Criminal Justice Division, vice-president, president and the Party secretary. Ms. Wang had been appointed as the Vice Chairman of the eighth session of the Shouguang City Committee of the Chinese People's Political Consultative Conference. Ms. Wang has served as independent non-executive Director of the Company since 12 May 2009.

**Mr. John Paul Cameron**, born in May 1965, a British national, is an independent non-executive Director and the chairman of the remuneration and assessment committee of the Company. He holds a Master of Science degree in investment analysis from the University of Stirling in Scotland, UK, a Bachelor of Arts degree in Economics and a Bachelor of Arts degree in Mathematics from Carleton University in Ottawa, Canada. Mr. Cameron's extensive public market experience includes detailed knowledge of both corporate governance as well as knowledge of the North American and UK Oil and Gas industry. Mr. Cameron has over 15 years as a professional investor and public company analyst. He worked as a Senior Fund Manager at JO Hambro Capital Management Group (London, UK) and as a Fund Manager at F&C Special Utilities Trust (London, UK). Mr. John Paul Cameron is Chairman and CEO of East Wind Consulting Limited Company and Chairman of Dongfang Shangjin Investment Consulting (Beijing) Co., Ltd. Mr. John Paul Cameron has served as an independent non-executive Director of the Company since 12 May 2009.



## VII. Directors, Supervisors, Senior Management and Employees

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**Mr. Qin Xue Chang**, born in July 1966, a Chinese national with no right of permanent residence abroad, is an independent non-executive Director and the chairman of audit committee, senior accountants, senior Chinese certified public accountants, securities and futures industry chartered certified public accountants, graduated from Shanxi University of Finance and Economics, was assigned to Weifang bureau of certified public accountants in 1988, he has held various positions including directors of successive development, consulting and training department, foreign business department, office director, public department director and deputy director, director, deputy director of the accountants, he is currently the Haoxin Wintop (Shandong) Certified Public Accountants, Shandong Hengchang Auction Co., Ltd., chairman, general manager, Shandong Wintop Assets Appraisal co., Ltd., chairman, Weifang Chamber of Commerce, vice president of the International Chamber of Commerce in Shandong Province, Shandong Youth entrepreneur association director, certified public accountant association, committee member of Weifang, Weifang Straight Authority Youth Federation vice chairman, Weifang, chairman of the Union Modern Placement Services, Shandong Economic and Trade Vocational College part-time professor.

### 2. Supervisory

**Mr. Liu Huai Duo**, born in October 1975, a Chinese national with no right of permanent residence abroad, is the chairman of the supervisory committee of the Company (the "Supervisory Committee"). Mr. Liu graduated from Liaoning Sciences and Technologies College with a junior college degree in industrial automation instrument. Mr. Liu has abundant experience and techniques in electric automatization and PLC Programmable control. Mr. Liu has served in the Company since 2000, he is currently the team dispatcher of 180 High-grade Special Pipe Factory.

**Mr. Zhang Jiu Li**, Bachelor Degree, a Chinese national with no right of permanent residence abroad, is a supervisor of the Company and a senior accountant. Mr. Zhang Jiu Li has over ten years' experience in accounting, auditing, assets appraisal and business administration. He has served as member of Shouguang Personal Bureau and manager of Shouguang Bureau of Finance. Mr. Zhang is currently the director of Shouguang Shengcheng Limited Liability Accounting Firm, Party Branch Secretary and holds a concurrent post of chairman of Shouguang Private Enterprise Promotion and Development Association, vice-chairman of Shouguang Association of Industry and Commerce, and vice-chairman of Shouguang Accounting Association.

**Mr. Fan Ren Yi**, a Chinese national with no right of permanent residence abroad, is a Supervisor of the Company. Mr. Fan, born in November 1965, is a certified public accountant in the PRC. He has been appointed as a supervisor since 29 March 2003. Mr. Fan Ren Yi obtained a bachelor's degree from Xian Jiaotong University. He was the vice general manager and CFO of Shandong Charming Home-Textiles Co., Ltd., and is now chief finance officer of the Shouguang Dongyu Hongxiang Timber Co. Ltd.

## VII. Directors, Supervisors, Senior Management and Employees

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### 3. Senior Management

As for the information about Zhang Yun San, the general manager, and Guo Huan Ran, deputy general manager, please refer to "1. Directors" of "II. Employment" in this section. Other senior managements are as follows:

**Mr. Zhang Shou Kui**, born in August 1970, a Chinese national with no right of permanent residence abroad, executive master of business administration degree from Tsinghua University School of Continue Education, is deputy general manager of the Company. Mr. Zhang has served in Shouguang Oil Machinery Factory (壽光石油機械廠) since 1990 as inspector, the chief of inspection station from 1994 to 2001. He has held consecutively the positions of general manager of branch plant, manager of production department and deputy general manager in the Group since 2001, and he has extensive experiences in production management. Mr. Zhang is responsible for organizing the Group's production.

**Mr. Yang Jin**, born in March 1964, graduated from Shandong Economics College with qualification in economic management, a Chinese national with no right of permanent residence abroad, is the financial controller of the Company. Mr. Yang Jin joined Shandong Molong Petroleum Machinery Company Limited in 2008 and served as the manager of the Legal Affairs Division; he served also as the manager of the Human Resources Division in 2009; and from 2009–2012, he served as the assistant of the general manager, and from March 2012 till now, he has served as the financial controller of the Company.

**Mr. Zhao Hong Feng**, born in August 1979, graduated from Huabei Institute of Technology (華北理工大學) with a degree in business administration, a Chinese national with no right of permanent residence abroad, is the deputy general manager and board secretary of the Company. Since Mr. Zhao Hong Feng joined Shandong Molong Petroleum Machinery Company Limited in 2003, he has served as the salesperson of the Import and Export division, the investor relation manager, the director of the board office, the securities officer, deputy general manager, board secretary, etc. Since October 2012 up till now, Mr. Zhao has served as the deputy general manager and board secretary of the company.



## VII. Directors, Supervisors, Senior Management and Employees

### 4. Company Secretary

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

Major position at the subsidiaries of the Group:

Name	Name of subsidiaries	Position(s)	Whether receiving any remuneration or allowance from the shareholder unit
Zhang Yun San	MPM INTERNATIONAL LIMITED	Executive Director	No
Guo Huan Ran	Shouguang Baolong Petroleum Material Company Limited	Chairman	No
Guo Huan Ran	Shouguang Molong Electro-mechanical Equipment Company Limited	Director	No
Guo Huan Ran	Weihai Baolong Special Petroleum Materials Co., Ltd	Director	No
Guo Huan Ran	Shouguang Maolong Micro-credit Co., Ltd	Chairman	No
Lin Fu Long	Shouguang Maolong New Materials Technology Development Co., Ltd.	Executive Director	No
Zhang Shou Kui	Shouguang Mihe Water Company Limited	Director	No



## VII. Directors, Supervisors, Senior Management and Employees



### III. Remunerations of Directors, Supervisors and Senior Management

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

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

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

Name	Position	Sex	Age	Duty state	Total remuneration Received from the Company during the reporting period (RMB'0000)	Total remuneration received from shareholder unit	Actual payment for the remuneration during the reporting period (RMB'0000)
Zhang En Rong	Chairman	M	74	Current	70.19	0.00	70.19
Zhang Yun San	Deputy Chairman and General Manager	M	52	Current	60.25	0.00	60.25
Lin Fu Long	Executive Director	M	62	Current	30.19	0.00	30.19
Guo Huan Ran	Executive Director	M	46	Current	40.76	0.00	40.76
Xie Xin Cang	Non-executive Director	M	52	Former	0	0.00	0
Xiao Qing Zhou	Non-executive Director	M	65	Current	3	0.00	3
Guo Hong Li	Non-executive Director	M	58	Current	3	0.00	3
Wang Chun Li	Independent non-executive Director	F	61	Current	3	0.00	3
John Paul Cameron	Independent non-executive Director	M	49	Current	7.1	0.00	7.1
Qin Xue Chang	Independent non-executive Director	M	48	Current	3	0.00	3
Chau Shing Yim, David	Independent non-executive Director	M	51	Former	3	0.00	3
Liu Huai Duo	Supervisor	M	38	Current	9.74	0.00	9.74
Fan Ren Yi	Supervisor	M	49	Current	1	0.00	1
Zhang Jiu Li	Supervisor	M	49	Current	1	0.00	1
Liu Yun Long	Deputy general manager	M	45	Former	2.9	0.00	2.9
Zhang Shou Kui	Deputy general manager	M	44	Current	19.47	0.00	19.47
Yang Yin	Financial controller of the Company	M	50	Current	36.59	0.00	36.59
Zhao Hong Feng	Deputy general Manager and Secretary to the Board	M	35	Current	12.62	0.00	12.62
Total					306.81	0.00	306.81



## VII. Directors, Supervisors, Senior Management and Employees

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### IV. Change of directors, supervisors and senior managers

Name	Position	Type	Date of appointment/ departure	Reasons
Guo Huan Ran	Executive Director	appointed	28 June 2013	
Qin Xue Chang	Independent non-executive Director	appointed	28 June 2013	
Chau Shing Yim, David,	Independent non-executive Director	departed	28 June 2013	End of term
Xie Xin Cang	Executive Director	departed	28 June 2013	End of term
Liu Yun Long	Deputy general Manager	departed	28 June 2013	End of term

### V. Change of key technical team or key technical staff (other than Directors, Supervisors and Senior Management)

During the reporting period, there is no changes of key technical team or key technical staff.

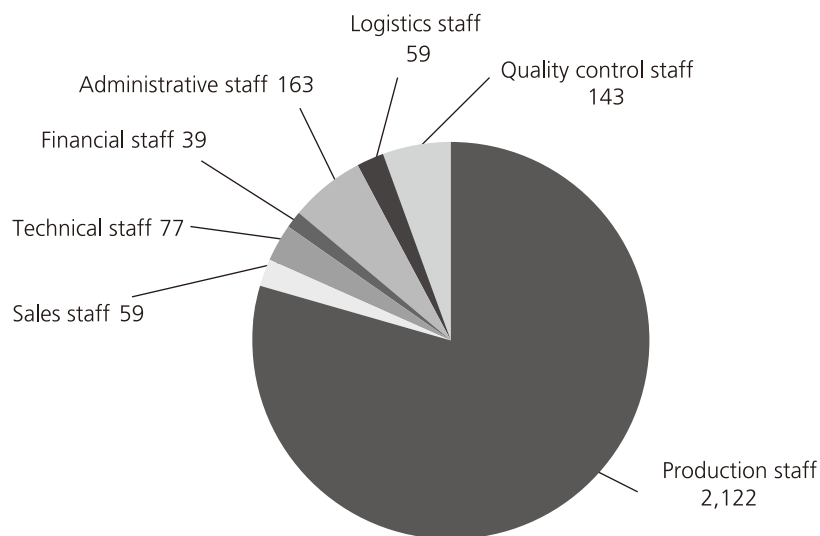
# VII. Directors, Supervisors, Senior Management and Employees



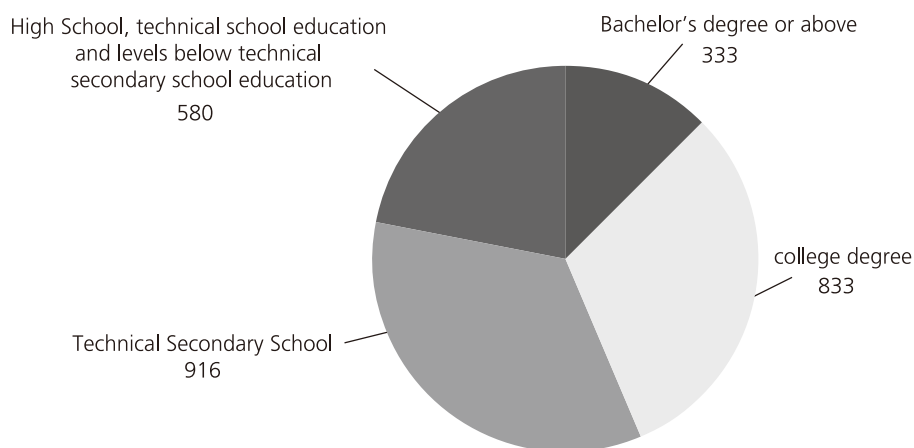
## VI. Personnel of the Company

At the end of the reporting period, the Group had 2,662 employees in aggregate, including 2,122 production staffs, 59 sales staffs, 77 technical staffs, 39 financial staffs, 163 administrative staffs, 59 logistics staffs, 143 quality control staffs. By level of education, there were 333 employees with bachelor's degree or above, 833 employees with college degree, 916 employees with technical secondary school education and 580 employees with high school, technical school education and levels below technical secondary school education. There was no ex-employees or retired employees for which the Company owed any obligations.

**Diagram of number of Professionals Structures**



**Analytic Diagram of Academic Structures of the Company**





## VIII. Corporate Governance Report

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### I. Corporate Governance

During the reporting period, under the requirements of Company Law (《公司法》), Securities Law (《證券法》), Code of Corporate Governance for Listed Companies (《上市公司治理準則》) and listing rules of Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》) in the PRC, and other requirements of the relevant provisions of China Securities Regulatory Commission, and also the Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), the Company has established a high standard of governance structure and sound internal management system to improve the company's standard operation level. The Board considers there is no material deviation of the Company in its corporate governance from the documentary regulatory requirements provided for listed companies in respect of corporate governance.

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

## VIII. Corporate Governance Report

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- (IV) Supervisors and the Supervisory Committee:** The Supervisors possess professional knowledge and work experience in legal, accounting and other areas and are elected by way of cumulative voting. They monitor the financial affairs and supervise the lawful and regulatory performance of duties by the Company's Directors, the General Manager and other members of the senior management, and safeguard the legal rights and interests of the Company and shareholders. The Company has formulated rules of procedure for the Supervisory Committee meetings. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles and the Rules of Procedure for Supervisory Committee Meetings.
- (V) Performance appraisal and incentive mechanism:** During the year, the Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and personal performance in accordance with the Articles of the Company. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of the Company.
- (VI) Information disclosure and transparency:** the Secretary to the Board of Directors is responsible for handling information disclosure, arranging receptions of visiting shareholders and answering enquiries on behalf of the Company. Relevant information is disclosed in strict compliance with Rules on Fair Information Disclosure by Companies Listed on the Shenzhen Stock Exchange and the Articles in a true, accurate, complete and timely manner, ensuring that all shareholders have equal access to information. There were no instances of majority shareholders or de facto controllers owning information otherwise not publicly disclosed or other irregularities in corporate governance during 2013.
- (VII) Stakeholders:** the Company respects the legal rights and interests of banks and other stakeholders such as creditors, employees, consumers, and suppliers, and works actively with these stakeholders to promote the sustainable and healthy development of the Company.



## VIII. Corporate Governance Report

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### II. Disclosures in accordance with the Listing Rules of the Stock Exchange

#### 1. Comply with the requirements set out in the “Corporate Governance Code”

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

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

The Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) was amended and revised as the Corporate Governance Code (the “Revised CG Code”) which became effective on 1 April 2012.

The Company has adopted the principles and complied with the former and revised CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance, which shall also be revised from time to time in accordance with the Listing Rules. During the reporting period, the Board considers the Company has complied with the code provisions as set out in the CG Code.

#### 2. Securities Transactions by Directors

In accordance with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules, the Company has adopted codes of conduct relating to securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code. The Model Code is also applicable to the senior management of the Company. Having making specific enquiries, all Directors have confirmed that they had fully complied with the Model Code throughout 2013.

#### 3. The Composition and Responsibilities of the Board

The Board is responsible for planning and overseeing the overall development and management of the Group with the objective of enhancing Shareholders’ value. The Board, led by the Chairman, is responsible for the approval and monitoring of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company’s performance and oversight of the works of management. In 2013, the Board comprised nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. Biographical details of the Directors are set out in Part II-1 of section VII in this annual report. Pursuant to Rule 3.13 of the Listing Rule, the Company has received the written confirmation of independence from each independent non-executive Director. The independent non-executive Director will only be regarded as independent by the Board if it is confirmed that such Director does not have any other direct or indirect relationship with the Group. The Chairman of the Board, Mr. Zhang En Rong, is the father of Mr. Zhang Yun San, an executive Director. Beside from this, there is no financial, business and relatives relationship among members of the Board.

## VIII. Corporate Governance Report



In 2013, the Board had convened eight meetings and the Directors shall meet more frequently as and when required. At least 14 days' notice of all regular Board meetings is given to all Directors, and all Directors are given the opportunity to include matters for discussion in the agenda. The individual attendance record of each Director at such Board meetings is shown as follows:

Members of Directors	Position	Number of meetings attended/ Total number of meetings
Zhang En Rong	Chairman and executive Director	5/5
Zhang Yun San	Vice Chairman and executive Director	5/5
Lin Fu Long	Executive Director	5/5
Xie Xin Cang	Executive Director (departed on 28 June 2013)	2/2
Guo Huan Ran	Executive Director (appointed on 28 June 2013)	3/3
Xiao Qing Zhou	Non-executive Director	5/5
Guo Hong Li	Non-executive Director	5/5
Chau Shing Yim David	Independent non-executive Director (departed on 28 June 2013)	2/2
Qin Xue Chang	Independent non-executive Director (appointed on 28 June 2013)	3/3
John Paul Cameron	Independent non-executive Director	5/5
Wang Chun Hua	Independent non-executive Director	5/5

*Note 1:* The term of appointment of Mr. Xie Xin Cang was expired on 28 June 2013 and the Board has decided not to renew his appointment. Mr. Guo Huan Ran has been appointed as an executive director on 28 June 2013 with a term of 3 year, whose appointment has been effective from the date on which the resolution regarding his appointment was passed at the 2012 AGM.

*Note2:* The term of appointment of Mr. Chau Shing Yim David was expired on 28 June 2013 and the Board has decided not to renew his appointment. Mr. Qin Xue Chang has been appointed as an Independent non-executive Director on 28 June 2013 with a term of 3 year, whose appointment has been effective from the date on which the resolution regarding his appointment was passed at the 2012 AGM.

*Note 3:* Mr. John Paul Cameron and Mr. Chau Shing Yim, David attended the Board meetings through telephone conference, which according to the Articles of the Company, should also be considered as valid attendance.

All the Directors have access to relevant information timely. They also have access to the advice and services of the company secretary of the Company, who is responsible for providing the Directors with Board papers and related materials. Where queries are raised by the Directors, prompt and full responses will be given as soon as possible.

Should a significant potential conflict of interest involving a substantial shareholder of the Company or a Director arise, the matter will be discussed at a duly convened Board meeting, as opposed to being dealt with by a written resolution. Independent Non-Executive Directors with no conflict of interest will be present at meetings dealing with such conflict issues. Independent Non-Executive Directors are identified in all corporate communications containing the names of the Directors. An updated list of the Directors identifying the Independent Non-Executive Directors and the roles and functions of the Directors is maintained on the website of the Company and the website of the Stock Exchange.

### 4. Skills, Knowledge, Experience and Attributes of Directors

All Directors of the Board had served in office during the year. Every Director committed sufficient time and attention to the affairs of the Company. The Directors also demonstrate their understanding and commit to high standards of corporate governance. The Executive Director brings his perspectives to the Board through his deep understanding of the Group's business. The Non-Executive Directors and the Independent Non-Executive Directors contribute their own skills and experience, understanding of local and global economies, and knowledge of capital markets as well as the business of the Group. The Company is responsible for arranging and funding suitable continuous professional development programmes for all Directors to hone and refresh their knowledge and skills.



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### 5. Induction and training

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

Pursuant to the Code Provision A.6.5 of the Revised CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure their contribution to the Board remains informed and relevant. During the Year, all Directors had participated in appropriate continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

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

#### Training Records

<b>Name</b>	<b>Type of trainings</b> <i>(Note 1)</i>	<b>Training matters</b> <i>(Note 2)</i>
Zhang En Rong		
Zhang Yun San	a, b	i, ii, iii, iv
Lin Fu Long	a, b	i, ii, iii, iv
Xie Xin Cang (departed on 28 June 2013)	a, b	i, ii, iii, iv
Guo Huan Ran (appointed on 28 June 2013)	a, b	i, ii, iii, iv
Xiao Qing Zhou	a, b	i, ii, iii, iv
Guo Hong Li	a, b	i, ii, iii, iv
Chau Shing Yim David (departed on 28 June 2013)	a, b	i, ii, iii, iv
Qin Xue Chang (appointed on 28 June 2013)	a, b	i, ii, iii, iv
John Paul Cameron	a, b	i, ii, iii, iv
Wang Chun Hua	a, b	i, ii, iii, iv

#### Note 1:

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

#### Note 2:

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



## VIII. Corporate Governance Report

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

### 6. Directors' and officers' liability insurance and indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors. Throughout 2013, no claim had been made against the Directors and the officers of the Company.

### 7. Chairman and General Manager

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

### 8. The term of appointment of Directors

Each of the Executive Directors, Non-executive Directors and Independent Non-executive Directors has entered into a service contract or appointment letter with the Company. In respect of the term of appointment, please refer to Part I of section VII (Directors, Supervisors, Senior Management and Employees) of this annual report. The Directors have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of our Company and shall then be eligible for re-election at that meeting.

The term of the fourth Board of Directors of the Company will be expired on June 2016. The Board has proposed that Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long and Mr. Guo Huan Ran to be reappointed as the Executive Directors of the Company and Mr. Xiao Qing Zhou and Mr. Guo Hong Li to be reappointed as the Non-Executive Directors of the Company and Mr. John Paul Cameron Mr. Qin Xue Chang and Ms. Wang Chun Hua as the Independent Non-Executive Directors of the Company, for the term commencing on the date of the AGM and ending on the date of the conclusion of the fourth appointment period for the Board (June 2016).

Resolutions will be proposed by the Board at the AGM to appoint and re-appoint the Directors and to authorise the Board and the remuneration committee of the Company to determine their remunerations in accordance with the Articles of Association of the Company. Subject to the Shareholders' approval, the Company will enter into a service contract with the elected directors, which is subject to termination by the either party giving not less than one months' written notice. The directors are also subject to retirement and re-election at the annual general meeting of the Company in accordance with the Articles of Association.

In accordance with the terms of appointment, Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long, Mr. Guo Huan Ran, Mr. Xiao Qing Zhou, Mr. Guo Hong Li, Mr. Qin Xue Chang, Mr. John Paul Cameron and Ms. Wang Chun Hua will retire from the position of Director, but being eligible, shall be able to offer themselves for re-election.



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

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

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

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

### 10. The Board Committees of the Company

#### (A) Discharge of duties by the strategy committee of the Board

The Strategy Committee was established on 26 December 2012 and its current members are Mr. Zhang Yun San, Mr. Qin Xue Chang, Mr. John Paul Cameron and Ms Wang Chun Hua, with Mr. Zhang Yun San as the Chairman of the Committee. The Strategy Committee of the Board discharged of its duties with diligence in accordance with the related requirements of the China Securities Regulatory Commission, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange and the implementation rules of the Strategy Committee of the Board of the Company.

#### (B) The Audit Committee

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

(1) The following major tasks were completed during 2013:

1. It conducted pre-audit communication with auditing institution engaged by the Company in respect of the financial report auditing on pre-auditing work, reviewed the 2012 auditing report and financial report and submitted such reports to the Board of the Company;
2. It reviewed the first quarter financial statements for the three months ended 31 March 2013, which was passed to the Board for approval.
3. It reviewed the 2013 interim financial statements for the six months ended 30 June 2013, which was passed to the Board for approval.
4. It reviewed the third quarter financial statements ended 30 September 2013, which was passed to the Board for approval.

## VIII. Corporate Governance Report

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- (2) It reviewed the resolution in respect of the change of external auditor of the Company.
- (3) Auditing work conducted on the 2013 financial report of the Company was as follows:
  1. It reviewed the 2013 auditing plan and the related information of the Company with the auditing certified public accountants and the finance department of the Company prior to the on site audit and negotiated and determined the schedule of an audit of the 2013 financial statements of the Company with Shinewing Certified Public Accountants Ltd.;
  2. It reviewed the draft of financial statements of the Company prior to an annual on-site audit performed by the auditing certified public accountants and issued its approval to audit;
  3. It kept in close contact with the auditors upon the annual on-site audit and issued a letter to the auditors to urge the submission of the auditors' report on schedule;
  4. It reviewed the financial statements of the Company again upon the issue of draft opinion on the annual audit by the auditing certified public accountants, and considered the financial statements of the Company true, accurate and complete to reflect the overall position of the Company;
  5. At the first meeting of the audit committee in 2013, the auditors' report on the annual audit issued by the certified public accountants was approved and then was passed to the Board;
  6. It reviewed the report on internal audit and internal control of the Company for the year ended 31 December 2013.

The Audit Committee is provided with sufficient resources to perform its duties. Latest terms of reference of the Audit Committee can be viewed on the website of the Company and the website of the Stock Exchange. The major roles of the Audit Committee include the following:

- (a) to act as the key representative body for overseeing the relationship with the external auditors;
- (b) to review the Company's annual and interim financial statements; and
- (c) to evaluate the effectiveness of the Group's internal control and risk management systems.



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

<b>Members of the Audit Committee</b>	<b>Duties</b>	<b>Number of meetings attended/ Total number of meetings</b>
Chau Shing Yim David	Committee Chairman and Independent non-executive Director (departed on 28 June 2013)	2/2
Qin Xue Chang	Committee Chairman and Independent non-executive Director (appointed on 28 June 2013)	2/2
Wang Chun Hua	Independent non-executive Director	4/4
John Paul Cameron	Independent non-executive Director	4/4

### (C) The Nomination Committee

The Nomination Committee was established on 18 January 2005 and its current members are Ms. Wang Chun Hua, Mr. Zhang Yun San, Mr. Qin Xue Chang and Mr. John Paul Cameron, with Ms. Wang Chun Hua as the Chairperson of the Nomination Committee. In the reporting period, the nomination committee held one meeting in total, at which, the principal matters considered included nomination of Mr. Guo Huan Ran as candidates for executive director and Mr. Qin Xue Chang as candidates for Independent non-executive Director of the Company, which then was passed to the 2012 Annual Shareholders' Meeting for consideration and approval. The individual attendance record of each member of the Nomination Committee is tabulated as follows:

<b>Members of the Nomination committee</b>	<b>Duties</b>	<b>Number of meetings attended/ Total number of meetings</b>
Wang Chun Hua	Committee Chairman and Independent non-executive Director	1/1
Zhang Yun San	Deputy Chairman and executive Director	1/1
John Paul Cameron	Independent non-executive Director	1/1
Chau Shing Yim David	Independent non-executive Director (departed on 28 June 2013)	1/1
Qin Xue Chang	Independent non-executive Director (appointed on 28 June 2013)	0/0

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

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

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

### (D) The Remuneration and Assessment Committee

The remuneration and assessment committee of the Company was established on 18 January 2005 and its current members are Mr. John Paul Cameron, Mr. Zhang Yan San, Mr. Qin Xue Chang and Ms. Wang Chun Hua. Mr. John Paul Cameron is the Chairman of the Remuneration and Evaluation Committee. It was primarily responsible for formulating the remuneration and assessment for the Directors and the Senior Management of the Company and formulating and examining the remuneration package of the Directors and the Senior Management of the Company, and accountable to the Board. The remuneration and assessment committee does not determine the remuneration for the Directors and the Senior Management directly, but advised its remuneration to the Board according to their job performance. In the reporting period, the remuneration and assessment committee formulated the 2013 remuneration package of the Directors and the Senior Management of the Company, which then was passed to the Board for approval, based on the production and operation conditions of 2013 and assessment of the Directors and the Senior Management of the Company.

The Remuneration and Assessment Committee had met 1 time during 2013. Attendance of each member of the committee is shown in the table below:

Members of the Remuneration and Assessment Committee	Duties	Number of meetings attended
Mr. John Paul Cameron ( <i>Chairman</i> )	Committee Chairman and Independent non-executive Director	1/1
Mr. Zhang Yun San	Deputy Chairman and executive Director	1/1
Ms. Wang Chun Hua	Independent non-executive Director	1/1
Mr. Qin Xue Chang	Independent non-executive Director	1/1

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

## 11. Internal Control

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

The Company has an Internal Audit Department which plays a major role in monitoring the internal governance of the Company. The major tasks of the Internal Audit Department are reviewing the financial condition and management of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis. The Company has taken many steps to enhance the internal control of the Company in 2013, 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.



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During the 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.

### 12. Ability of Going Concern

By 31 December 2013, there was no uncertainty or conditions of a material nature that would affect the Company's ability to continue as a going concern.

### 13. Investor Relations

During 2013, the Company has not amended its Articles. The latest Articles can be viewed on the website of the Company and the website of the Stock Exchange.

### 14. Others

There is no incompliance of Companies Law and relevant requirements of CSRC in respect of corporate governance.

Progress of the corporate governance works and the formulation and implementation of the management policy on personnel with insider information.

During the reporting period, the Company strictly complied with the regulations and requirements of the "Management Policy on Information Disclosure", "Internal Reporting System of Material Information" and "Registration and Filing System of Personnel with Insider Information". We have also seriously performed our information disclosure duties, diligently carried out the confidential and management works with respect to insider information and strictly controlled and prevented the leak of insider information in order to eliminate insider trading of the securities of the Company. After performing self-inspection, during the reporting period, the relevant departments of the Company were capable of carrying out registration for the personnel with insider information and management of external parties with access to sensitive information. There was no incidence of illegal trading of the securities of the Company and illegal trading of the securities of the Company by the Directors, Supervisors and Senior Management of the Company. The listed company and the relevant personnel did not face regulatory measures and administrative penalties arising from the implementation of the Registration and Filing System of Personnel with Insider Information and suspected insider trading.



### 15. Communication with shareholders

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

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

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

#### Constructive use of general meetings

The Board values the general meetings as the principal opportunities for the Directors to meet shareholders of the Company and to develop a balanced understanding of the views of the shareholders. During 2013, two general meetings (i.e. AGM held on 28 June 2013 and EGM held on 13 December 2013) was held by the Company. The attendance record of the Directors at the general meetings is set out below:

#### *Directors Attendance*

<b>Name</b>	<b>Attended in person</b>
Mr. Zhang En Rong ( <i>Chairman</i> )	2/2
Mr. Zhang Yun San ( <i>Vice Chairman</i> )	2/2
Mr. Lin Fu Long	2/2
Mr. Xie Xin Cang (departed on 28 June 2013)	1/1
Mr. Guo Huan Ran (appointed on 28 June 2013)	1/1
Mr. Xiao Qing Zhou	2/2
Mr. Guo Hong Li	2/2
*Mr. Chau Shing Yim David (departed on 28 June 2013)	1/1
Mr. Qin Xue Chang (appointed on 28 June 2013)	1/1
*Mr. John Paul Cameron	2/2
Ms. Wang Chun Hua	2/2

\*Note: Mr. John Paul Cameron and Mr. Chau Shing Yim, David attended the general meetings through telephone conference once, which according to the Articles of the Company, should also be considered as valid attendance.

Notice of general meetings, annual report, financial statements and related papers were posted to shareholders of the Company for their consideration at least 20 clear business days prior to the general meetings.



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The resolutions passed and resolved at the general meetings are shown as below:

### 1. Resolutions passed in AGM:

The Meeting Time	Date	Name of Conference Bill	Resolutions	Date of Announcement	Media for publication
2012 annual general meeting	28 June 2013	2012 annual Report and annual Report Summary	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	2012 Director's Report	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	2012 Supervisors Report	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	2012 Audited Consolidated Financial Statements and Auditor's Report	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	Re-appoint auditor for 2013	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	Re-appoint Mr. Zhang En Rong as an executive directors	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	Re-appoint Mr. Zhang Yun San as an executive directors	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	Re-appoint Mr. Lin Fu Long as an executive directors	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	Appoint Mr. Guo Huan Ran as an executive directors	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	Re-appoint Mr. Xiao Qing Zhou as a non-executive directors	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	Re-appoint Mr. Guo Hong Li as a non-executive directors	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	Re-appoint Mr. John Paul Cameron as an independent non-executive directors	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	Re-appoint Wang Chun Hua as independent non-executive directors	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	Appoint Qin Xue Chang as independent non-executive directors	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	Apply for the Comprehensive credit line (not over RMB8.2 billion) in 2013 from PRC banks	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	To the subsidiary Shouguang Baolong provide guarantee	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2012 annual general meeting	28 June 2013	Distribution of 2012 final dividend and bonus	Passed	1 July 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>



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## 2. Resolutions passed in EGM

The Meeting Time	Date	Name of Conference Bill	Resolutions	Date of Announcement	Media for publication
2013 First provisional extraordinary general meeting	13 December 2013	Auditor changes	Passed	16 December 2013	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>

## 16. The independent trustee proposes the objection situation to the company related item

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

## 17. Other description of independent directors

In the reporting period, independent non-executive Directors of the Company issued their independent opinions on the connected proposals pursuant to the related laws and regulations, to perfect the corporate governance structure, safeguard the rights and interests of company and all shareholders has played a positive role.



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### 18. Shareholders' Rights

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

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

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

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

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

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

The board of supervisors don't issue the shareholders' meeting notification within the rule time, it will be as the board of supervisors not convene and preside over the shareholders' meeting, continuous ninety days above alone or combined owned 10% above (contain 10%) shares of one or more shareholders (including shareholders agent) may make the call and preside over the meeting.

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

#### (b) Procedures for putting forward proposals at a Shareholders' meeting

The shareholders that alone or combined hold more than 3% shares in the company, they can put forward proposals and submit to convene by written before the shareholders' general meeting 20 days. Regarding the proposal that according with the provisions of article eighty-two, the Company should notice other shareholders after two working days receiving the temporary proposal, and they should issue a form letter and publish announcement before the shareholders' meeting scheduled date 14 days, and will submit the temporary proposal to the shareholders' meeting to review.

## VIII. Corporate Governance Report



Detailed procedures for shareholders to propose a person for election as a Director have been mentioned in the Articles of Association of the Company and are available on the Company's website.

### (c) Enquiries to the Board

Should shareholders have any enquiries to the Board of the Company, they are engaged to contact the Company by the following means:

Contact Information	For Holder of H Shares	For Holder of Domestic Shares
	<b>Principal place of business in Hong Kong</b>	<b>Registered Address in the PRC</b>
	Suite A, 11th Floor Ho Lee Commercial Building 38-44 D'Aguilar Street Central Hong Kong	No. 999 Wensheng Street Shouguang City Shandong Province The PRC

### III. Particulars about the Separation of Businesses, Personnel, Assets, Organizations, and Finance from the Controlling Shareholder

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

### IV. Assessment and incentive mechanism for the Senior Management in the reporting period

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



## IX. Internal Control

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### I. Progress of Internal Control

The Company has, taken into consideration the characteristics of the Company, set up a relatively more comprehensive and systematic internal control system which conformed with the characteristics of corporate operation in accordance with the requirements of the relevant laws and regulations such as the "Company Law of the People's Republic of China", "Securities Law of the People's Republic of China", "Guidelines for Standardized Operation of Companies Listed on the Small and Medium-Sized Enterprise Board" and "Basic Standard for Enterprise Internal Control". This is to guarantee the materialization of operating goals, sound and compliance operation, safety of assets and the truthfulness and completeness of accounting information, Besides, the Company has established general meeting, Board of Directors, Supervisory Committee and an internal corporate structure which is in tandem with the business nature and scale of operation with clearly defined responsibilities and the function of mutual monitoring. The Company has further supplemented and improved the internal control system in accordance with the relevant requirements of the regulatory departments of the Company and the practical situation of the Company.

### II. The Board's representation about the responsibilities for internal control

The Board and all directors of the Company hereby warrant that there are no false representations, misleading statements or material omissions contained in this report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of its content. It is the responsibility of the Board of the Company to set up a well-established internal control system and ensure its effective implementation. The Supervisory Committee is responsible for monitoring the establishment and implementation of the internal control system by the Board. The management bears the responsibility of organizing and leading the daily operation of corporate internal control. The goals of corporate internal control is to establish and continuously improve the internal control system and procedures with a view to promoting the compliance of laws, regulations and company's policies, ensuring the legal and compliance operation, safeguarding the safety and completeness of assets. Moreover, it is to guarantee the truthfulness and completeness of the financial report and relevant information, perking up the operation efficiency and results of the Company and promoting the materialization of the development strategies of the Company. Due to the inherent constraints of internal control, only reasonable guarantees could be offered in respect of the above targets.

### III. Basis of establishing internal control of financial reports

This evaluation report aims at assessing the effectiveness of the design and operation of the internal control system of the Company as at 31 December 2013 in accordance with the requirements of the "Basic Standard for Enterprise Internal Control" (hereinafter referred to as the "Basic Standard"), the "Implementation Guidelines for Enterprise Internal Control" (hereinafter referred to as the "Implementation Guidelines", "Guidelines for Assessment of Enterprise Internal Control" (hereinafter referred to as the "Assessment Guidelines") jointly issued by five ministries including the Ministry of Finance of the People's Republic of China and on the basis of the daily supervision and specific supervision of internal control.

### IV. Self-assessment report on internal control

Particulars of material deficiencies in internal control detected during the reporting period  
which was contained in the self-assessment report on internal control

No material deficiency was detected during the reporting period.

Date of disclosure of the full context  
of the self-assessment report on  
internal control

Index of full disclosure of self-  
assessment report on internal  
controls

www.cninfo.com.cn, announcement named "2013 Assessment Report on Internal  
Control of Shandong Molong Petroleum Machinery Company Limited"



### V. Auditors' report on internal control

#### Auditors' opinion contained in the Auditors' report on internal control

The Company has conducted self-assessment on the design and operation of the internal control system of the Company as at 31 December 2013 in accordance with the Basic Standard and Implementation Guidelines and the requirements of other relevant laws and regulations. During the reporting period, the Company has established the internal control system with respect to the businesses and issues within the scope of assessment and guaranteed its effective implementation. Such measure fulfilled the goal of corporate internal control and was free from material and significant deficiencies. From the reference date of the self-assessment report on internal control to the date of issue of the self-assessment report on internal control, no material changes in internal control have occurred which would have a substantial effect on the conclusion of assessment. We noted that the internal control system shall be compatible with the scale of operation, business scope, competition status and risk level of the Company and shall be timely adjusted in accordance with the changes in situation. The Company would adhere to the two-pronged strategy of organic growth and external expansion. Leveraging on the domestic and overseas platforms of capital market, we will further strengthen our basic management, continuously improve the internal control system, regulate the implementation of internal control system, enhance the regulation and inspection of internal control, beef up the efficiency and execution ability of risk control, and to improve the risk control capability in a consistent manner in order to strive for further development of the Company, in which we believe will in turn create stable and continuous growth and investment reward for our shareholders.

Date of disclosure of the full context of the Auditors' report on internal control 1 April 2014

Index of full disclosure of Auditors' report on internal control [www.cninfo.com.cn](http://www.cninfo.com.cn), announcement named "2013 Assessment Report on Internal Control of Shandong Molong Petroleum Machinery Company Limited"

Any non-standard opinions set out in the Auditors' Report on Internal Control issued by accountants

Yes  No

Auditors' Report on Internal Control issued by accountants was in line with Directors' opinions contained in Self-assessment Report

Yes  No

### VI. Establishment of Accountability System for Major Errors in Information Disclosure in Annual Reports and its Implementation

In order to avoid material errors in information disclosure in the Annual Report and manage accountability, the Company established the 2010 "Accountability System on Material Errors with respect to Major Errors in Information Disclosure of Annual Report". During the reporting period, the Company conducted stringent self-inspection in accordance with the "Accountability System on Material Errors with respect to Major Errors in Information Disclosure of Annual Report". No major accounting discrepancy, material omission and violation of accounting regulations and corporate accounting standards were detected in periodic reports and the Company did not identify material deficiencies with respect to the internal control of financial reporting during the reporting period.



XYZH/2013JNA3028

TO THE SHAREHOLDERS OF  
**SHANDONG MOLONG PETROLEUM MACHINERY COMPANY LIMITED**  
(established in the People's Republic of China with limited liability)

We have audited the accompanying financial statements of Shandong Molong Petroleum Machinery Company Limited (the "Company"), which comprise the company's and consolidated balance sheets as at 31 December 2013, the company's and consolidated income statements, the company's and consolidated statements of change in shareholders' equity and the company's and consolidated cash flow statements for the year then ended, and the notes to the financial statements.

## I. Management's Responsibility for the Financial Statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the financial statements in accordance with Accounting Standards for Business Enterprises to achieve: fair presentation of the financial statements; (2) designing, implementing and maintaining internal control that is necessary to enable that the financial statements are free from material misstatement whether due to fraud or error.

## II. Certified Public Accountants' Responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. China Standards on Auditing require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the certified public accountants' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Certified Public Accountants consider the internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## III. Audit Opinion

In our opinion, the financial statements of the Company present fairly, in all material respects, the Company's and consolidated financial position as of 31 December 2013, and the Company's and consolidated results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

**Shinewing Certified Public Accountants Ltd.,  
(Special General Partner)**

*Chinese Certified Public Accountant*  
Beijing, PRC  
31 March 2014



# Consolidated Balance Sheet

31/12/2013

				Units: RMB	
Items	Notes	<b>Balance at the end of the year</b>	Balance at the beginning of the year		
<b>Current assets:</b>					
Cash and bank balances	V.1	<b>597,770,865.98</b>	483,870,151.44		
Settlement reserve		—	—		
Lendings to Banks and Other Financial Institutions		—	—		
Financial assets at fair value through profit or loss		—	—		
Bills receivable	V.2	<b>135,159,594.04</b>	197,194,589.32		
Accounts receivable	V.3	<b>563,772,597.42</b>	455,105,433.22		
Prepayments	V.4	<b>47,775,985.84</b>	33,896,626.16		
Insurance receivables		—	—		
Reinsurance receivables		—	—		
Reinsurance contract reserve receivables		—	—		
Interests receivable	V.5	<b>4,606,049.44</b>	—		
Dividend receivables		—	—		
Other receivables	V.6	<b>31,160,536.48</b>	18,953,847.29		
Financial assets purchased under agreements to resell		—	—		
Inventories	V.7	<b>1,155,180,417.60</b>	1,220,618,577.83		
Non-current assets due within one year		—	—		
Other current assets	V.8	<b>47,778,203.78</b>	41,379,809.50		
<b>Total current assets</b>		<b>2,583,204,250.58</b>	2,451,019,034.76		



# Consolidated Balance Sheet



31/12/2013

Units: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
<b>Non-current assets:</b>			
Loans and advances from other parties		—	—
Available-for-sales investments		—	—
Held-to-maturity investments		—	—
Long term receivables		—	—
Long-term equity investment	V.9	<b>60,881,784.30</b>	58,634,400.43
Investment properties		—	—
Fixed assets	V.10	<b>1,710,839,377.57</b>	1,833,866,660.51
Construction in progress	V.11	<b>442,414,993.81</b>	134,351,091.69
Construction materials		—	—
Disposal of fixed assets		—	—
Biological asset		—	—
Oil and nature gas		—	—
Intangible assets	V.12	<b>486,672,315.83</b>	378,586,638.46
Development expenditure	V.13	—	7,077,238.89
Goodwill	V.14	<b>83,483,383.21</b>	132,723,383.21
Long-term deferred expenses		<b>159,722.28</b>	243,055.56
Deferred income tax assets	V.15	<b>46,005,562.05</b>	19,249,475.31
Other non-current assets	V.16	<b>379,804,663.05</b>	270,000,000.00
<b>Total non-current assets</b>		<b>3,210,261,802.10</b>	2,834,731,944.06
<b>Total assets</b>		<b>5,793,466,052.68</b>	5,285,750,978.82



# Consolidated Balance Sheet

31/12/2013

Units: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
<b>Current liabilities:</b>			
Short-term borrowings	V.18	<b>1,367,290,846.00</b>	1,030,006,883.57
Borrowings from the Central Bank		—	—
Customer bank deposits and due to banks and other financial institutions		—	—
Placements from banks and other financial institutions		—	—
Financial liabilities at fair value through profit or loss		—	—
Bills payable	V.19	<b>427,566,182.16</b>	603,403,515.62
Accounts payable	V.20	<b>548,559,433.90</b>	570,841,701.67
Receipts in advance	V.21	<b>92,679,015.92</b>	25,837,981.59
Funds from selling out and repurchasing financial assets		—	—
Bank charges and commission payable		—	—
Salaries payable	V.22	<b>22,842,605.99</b>	18,425,303.12
Taxes payable	V.23	<b>34,382,133.48</b>	33,669,386.02
Interests payable	V.24	<b>24,239,399.58</b>	6,968,896.69
Dividends payable		—	—
Other payables	V.25	<b>26,790,378.33</b>	24,475,042.80
Amounts due to reinsurers		—	—
Insurance contract reserve		—	—
Customer brokerage deposits		—	—
Securities underwriting brokerage deposits		—	—
Non-current liabilities within one year		—	—
Other current liabilities	V.26	<b>1,808,000.00</b>	—
<b>Total current liabilities</b>		<b>2,546,157,995.36</b>	2,313,628,711.08
<b>Non-current liabilities:</b>			
Long-term borrowings		—	—
Bonds payable	V.27	<b>496,777,777.77</b>	—
Long-term payables		—	—
Specific payable		—	—
Provision		—	—
Deferred income tax liabilities	V.15	<b>10,792,803.04</b>	11,603,555.23
Other non-current liabilities	V.28	<b>3,616,000.00</b>	7,232,000.00
<b>Total non-current liabilities</b>		<b>511,186,580.81</b>	18,835,555.23
<b>Total liabilities</b>		<b>3,057,344,576.17</b>	2,332,464,266.31

# Consolidated Balance Sheet



31/12/2013

Units: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
<b>Shareholders' equity:</b>			
Share capital	V.29	<b>797,848,400.00</b>	797,848,400.00
Capital reserve	V.30	<b>849,500,658.42</b>	849,500,658.42
Less: Treasury stock		—	—
Special reserve	V.31		
Surplus reserve	V.32	<b>168,908,489.86</b>	168,908,489.86
General risk provision		—	—
Undistributed profits	V.33	<b>857,482,430.32</b>	1,073,097,098.79
Foreign currency translation differences		<b>363,977.13</b>	62,065.54
<b>Total equity attributable to shareholders of the Company</b>		<b>2,674,103,955.73</b>	2,889,416,712.61
Minority interests	V.34	<b>62,017,520.78</b>	63,869,999.90
<b>Total shareholders' equity</b>		<b>2,736,121,476.51</b>	2,953,286,712.51
<b>Total liabilities and shareholders' equity</b>		<b>5,793,466,052.68</b>	5,285,750,978.82

Legal Representative:

Accountant-in-charge:

Partner-in-charges:



# Company's Balance Sheet

31/12/2013

Units: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
<b>Current assets:</b>			
Cash and bank balances	XIII.1	<b>477,333,126.10</b>	469,439,865.77
Financial assets at fair value through profit or loss		—	—
Bills receivable	XIII.2	<b>117,939,796.64</b>	181,652,729.32
Accounts receivable	XIII.3	<b>562,804,031.40</b>	461,652,893.75
Prepayments	XIII.4	<b>434,575,347.30</b>	135,378,309.84
Interests receivable	XIII.5	<b>4,606,049.44</b>	—
Dividend receivables		—	—
Other receivables	XIII.6	<b>252,454,655.05</b>	222,102,947.24
Inventories	XIII.7	<b>898,794,179.36</b>	989,379,929.85
Non-current assets due within one year		—	—
Other current assets	XIII.8	<b>1,870,576.46</b>	1,521,778.24
<b>Total current assets</b>		<b>2,750,377,761.75</b>	2,461,128,454.01
<b>Non-current assets:</b>			
Available-for-sales investments		—	—
Held-to-maturity investments		—	—
Long term receivables		—	—
Long-term equity investment	XIII.9	<b>652,069,921.73</b>	652,069,921.73
Investment properties		—	—
Fixed assets	XIII.10	<b>1,317,036,319.12</b>	1,392,000,620.11
Construction in progress	XIII.11	<b>199,649,242.90</b>	45,916,706.90
Construction materials		—	—
Disposal of fixed assets		—	—
Biological asset		—	—
Oil and nature gas		—	—
Intangible assets	XIII.12	<b>236,648,160.28</b>	284,671,539.96
Development expenditure	XIII.13	—	<b>5,527,255.20</b>
Goodwill		—	—
Long-term deferred expenses		—	—
Deferred income tax assets	XIII.14	<b>35,775,939.76</b>	14,135,986.30
Other non-current assets	XIII.15	<b>259,788,383.05</b>	33,000,000.00
<b>Total non-current assets</b>		<b>2,700,967,966.84</b>	2,427,322,030.20
<b>Total assets</b>		<b>5,451,345,728.59</b>	4,888,450,484.21

# Company's Balance Sheet



31/12/2013

Units: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
<b>Current liabilities:</b>			
Short-term borrowings	XIII.17	1,223,404,006.00	980,006,883.57
Financial liabilities at fair value through profit or loss		—	—
Bills payable	XIII.18	427,566,182.16	653,403,515.62
Accounts payable	XIII.19	330,301,216.50	377,503,612.67
Receipts in advance	XIII.20	218,914,621.07	25,536,367.16
Salaries payable	XIII.21	16,941,477.46	13,068,782.18
Taxes payable	XIII.22	19,831,397.51	13,406,043.28
Interests payable	XIII.23	24,202,101.43	6,968,896.69
Dividends payable		—	—
Other payables	XIII.24	16,898,117.61	13,490,303.33
Non-current liabilities within one year		—	—
Other current liabilities	XIII.25	1,808,000.00	—
<b>Total current liabilities</b>		<b>2,279,867,119.74</b>	<b>2,083,384,404.50</b>
<b>Non-current liabilities:</b>			
Long-term borrowings		—	—
Bonds payable	XIII.26	496,777,777.77	—
Long-term payables		—	—
Specific payable		—	—
Provision		—	—
Deferred income tax liabilities	XIII.14	690,907.42	457,855.65
Other non-current liabilities	XIII.27	3,616,000.00	7,232,000.00
<b>Total non-current liabilities</b>		<b>501,084,685.19</b>	<b>7,689,855.65</b>
<b>Total liabilities</b>		<b>2,780,951,804.93</b>	<b>2,091,074,260.15</b>



# Company's Balance Sheet

31/12/2013

Units: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
<b>Shareholders' equity:</b>			
Share capital	XIII.28	<b>797,848,400.00</b>	797,848,400.00
Capital reserve	XIII.29	<b>849,481,990.92</b>	849,481,990.92
Less: Treasury stock		—	—
Special reserve	XIII.30	—	—
Surplus reserve	XIII.31	<b>168,908,489.86</b>	168,908,489.86
General risk provision		—	—
Undistributed profits	XIII.32	<b>854,155,042.88</b>	981,137,343.28
<b>Total shareholders' equity</b>		<b>2,670,393,923.66</b>	2,797,376,224.06
<b>Total liabilities and shareholders' equity</b>		<b>5,451,345,728.59</b>	4,888,450,484.21

Legal Representative:

Accountant-in-charge:

Partner-in-charges:

# Consolidated Income Statements



For the year ended 31 December 2013

				Units: RMB	
Items	Notes	Amount of this year	Amount of last year		
<b>I. Total revenue from operations</b>	V.38	<b>2,272,034,335.20</b>	2,952,063,832.16		
Including: operating revenue	V.38	<b>2,272,034,335.20</b>	2,952,063,832.16		
Interest income		—	—		
Earned insurance premium		—	—		
Brokerage and commission income		—	—		
<b>II. Total costs of operations</b>		<b>2,491,933,547.21</b>	2,836,551,935.91		
Including: Operating cost	V.38	<b>2,076,430,070.86</b>	2,624,241,003.24		
Interest expenses		—	—		
Brokerage and commission expenses		—	—		
Surrenders		—	—		
Net amount of compensation paid		—	—		
Net amount of reserves for reinsurance contract		—	—		
Insurance dividend payments		—	—		
Reinsurance premium		—	—		
Business tax and surcharges	V.39	<b>4,776,682.05</b>	1,568,674.39		
Selling expenses	V.40	<b>66,752,048.50</b>	67,450,580.50		
Administrative expenses	V.41	<b>160,067,797.95</b>	96,130,216.28		
Finance costs	V.42	<b>48,572,195.33</b>	37,123,383.67		
Asset impairment losses	V.43	<b>135,334,752.52</b>	10,038,077.83		
Add: Gains from changes in fair value		—	—		
Investment income	V.44	<b>2,397,383.87</b>	1,203,776.32		
Including: Gains from investment in associates and joint ventures	V.44	<b>2,397,383.87</b>	1,203,776.32		
Exchange gain (loss)		—	—		
<b>III. Operating (loss) profit</b>		<b>(217,501,828.14)</b>	116,715,672.57		
Add: Non-operating income	V.45	<b>14,701,734.82</b>	49,857,539.87		
Including: Gain from disposal of non-current assets	V.45	<b>266,062.03</b>	109,479.26		
Less: Non-operating expenses	V.46	<b>917,267.99</b>	718,732.89		
Including: Loss from disposal of non-current assets	V.46	<b>636,246.16</b>	296,929.41		
<b>IV. Total (loss) profit</b>		<b>(203,717,361.31)</b>	165,854,479.55		
Less: Income tax (credit) expenses	V.47	<b>(26,109,087.98)</b>	25,688,302.21		
<b>V. Net (loss) profit</b>		<b>(177,608,273.33)</b>	140,166,177.34		
Net (loss) profit attributable to shareholders of the Company		<b>(175,722,248.47)</b>	134,263,035.30		
Net (loss) profit attributable to minority interests		<b>(1,886,024.86)</b>	5,903,142.04		
<b>VI. (Loss) earnings per share:</b>					
(i) Basic (loss) earnings per share	V.50	<b>(0.22)</b>	0.17		
(ii) Diluted (loss) earnings per share	V.50	<b>(0.22)</b>	0.17		



# Consolidated Income Statements

For the year ended 31 December 2013

Items	Notes	Amount of this year	Units: RMB Amount of last year
<b>VII. Other comprehensive income</b>	V.51	<b>335,457.33</b>	35,226.82
(i) Items that maybe reclassified subsequently to profit or loss		<b>335,457.33</b>	35,226.82
(ii) Items that will not be reclassified subsequently to profit or loss		—	—
<b>VIII. Total comprehensive (expense) income</b>		<b>(177,272,816.00)</b>	140,201,404.16
Total comprehensive (expense) income attributable to owners of the Company		<b>(175,420,336.88)</b>	134,294,739.43
Total comprehensive (expense) income attributable to minority interests		<b>(1,852,479.12)</b>	5,906,664.73

Legal Representative:

Accountant-in-charge:

Partner-in-charges:



# Company's Income Statements



For the year ended 31 December 2013

Items	Notes	Units: RMB	
		Amount of this year	Amount of last year
<b>I. Operating revenue</b>	XIII.36	<b>2,363,939,820.73</b>	3,052,778,099.41
Less: Operating cost	XIII.36	<b>2,154,288,320.31</b>	2,791,289,027.71
Business tax and surcharges	XIII.37	<b>3,375,630.88</b>	8,449.89
Selling expenses	XIII.38	<b>66,713,373.49</b>	67,336,718.75
Administrative expenses	XIII.39	<b>133,822,864.73</b>	83,061,658.17
Finance costs	XIII.40	<b>49,497,316.44</b>	31,511,115.16
Asset impairment losses	XIII.41	<b>77,163,649.75</b>	(2,082,443.15)
Add: Gains from changes in fair value		—	—
Investment income		—	—
Including: Gains from investment in associates and joint ventures		—	—
<b>II. Operating (loss) profit</b>		<b>(120,921,334.87)</b>	81,653,572.88
Add: Non-operating income	XIII.42	<b>13,089,000.95</b>	43,545,998.65
Including: Gain from disposal of non-current assets	XIII.42	<b>158,637.07</b>	50,716.12
Less: Non-operating expenses	XIII.43	<b>664,448.17</b>	598,324.37
Including: Loss from disposal of non-current assets	XIII.43	<b>570,448.17</b>	228,262.37
<b>III. Total (loss) profit</b>		<b>(108,496,782.09)</b>	124,601,247.16
Less: Income tax (credit) expenses	XIII.44	<b>(21,406,901.69)</b>	15,169,093.30
<b>IV. Net (loss) profit</b>		<b>(87,089,880.40)</b>	109,432,153.86
<b>V. Earnings (loss) per share:</b>			
(i) Basic earnings (loss) per share		—	—
(ii) Diluted earnings (loss) per share		—	—
<b>VI. Other comprehensive income</b>			
(i) Items that maybe reclassified subsequently to profit or loss		—	—
(ii) Items that will not be reclassified subsequently to profit or loss		—	—
<b>VII. Total comprehensive (expense) income</b>		<b>(87,089,880.40)</b>	109,432,153.86

Legal Representative:

Accountant-in-charge:

Partner-in-charges:



# Consolidated Statements of Cash Flow

For the year ended 31 December 2013

Items	Notes	Amount of this year	Amount of last year
Units: RMB			
<b>I. CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash receipts from the sale of goods or rendering of services		<b>1,695,587,727.38</b>	2,387,932,830.74
Net increase in customer bank deposits and due to banks and other financial institutions		—	—
Net increase in borrowings from central bank		—	—
Net increase in placements from other financial institutions		—	—
Premiums received from original insurance contracts		—	—
Net cash received from reinsurance business		—	—
Net increase of policy holder deposits and investment funds		—	—
Net increase from disposal of tradable financial assets		—	—
Interest, handling charges and commission received		—	—
Net increase in placements from banks and other financial institutions		—	—
Net increase in repurchase business capital		—	—
Receipts of tax refunds		<b>56,589,186.91</b>	148,142,100.34
Other cash receipts relating to operating activities	V.53	<b>32,390,215.11</b>	69,144,856.05
<b>SUB-TOTAL OF CASH INFLOWS FROM OPERATING</b>		<b>1,784,567,129.40</b>	2,605,219,787.13
Cash payments for goods purchased and services received		<b>1,539,933,337.41</b>	1,839,625,964.15
Net increase in loans and advances to customers		—	—
Net increase in deposits with central bank and other financial institutions		—	—
Original insurance contract claims paid		—	—
Interest, brokerage charges and commissions paid		—	—
Policyholder dividend paid		—	—
Cash paid to and on behalf of employees		<b>128,190,623.61</b>	130,784,088.05
Payments of all types of taxes		<b>53,480,068.57</b>	59,357,454.59
Other cash payments relating to operating activities	V.53	<b>218,442,987.01</b>	129,521,379.05
<b>SUB-TOTAL OF CASH OUTFLOWS ACTIVITIES</b>		<b>1,940,047,016.60</b>	2,159,288,885.84
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>(155,479,887.20)</b>	445,930,901.29

# Consolidated Statements of Cash Flow



For the year ended 31 December 2013

Items	Notes	Amount of this year	Amount of last year
Units: RMB			
<b>II. CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash receipts from disposals of investments		—	—
Cash receipts from disposals of investments		<b>150,000.00</b>	150,000.00
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		<b>430,760.10</b>	885,777.38
Net cash receipts from disposals of subsidiaries and other business units		—	—
Other cash receipts relating to investing activities		—	—
<b>SUB-TOTAL OF CASH INFLOWS From INVESTING ACTIVITIES</b>		<b>580,760.10</b>	1,035,777.38
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		<b>460,056,878.79</b>	604,837,780.57
Cash payments to acquire investments		—	45,000,000.00
Net increase in pledged loans		—	—
Net cash payments for acquisition of subsidiaries and other business units		—	—
Other cash payments relating to investment activities		—	—
<b>SUB-TOTAL OF CASH OUTFLOWS From INVESTING ACTIVITIES</b>		<b>460,056,878.79</b>	649,837,780.57
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(459,476,118.69)</b>	(648,802,003.19)
<b>III. CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash receipts from investors		—	—
Including: Cash receipts from the shareholders of subsidiaries		—	—
Cash receipts from borrowings		<b>2,419,950,440.00</b>	2,142,713,329.80
Cash receipts from issuance of bonds		—	—
Other cash receipts relating to financing activities	V.53	—	68,900,000.00
<b>SUB-TOTAL OF CASH INFLOWS From Financial Activities</b>		<b>2,419,950,440.00</b>	2,211,613,329.80



# Consolidated Statements of Cash Flow

For the year ended 31 December 2013

Items	Notes	Amount of this year	Amount of last year
Cash repayments of amounts borrowed		<b>1,644,983,802.57</b>	1,824,018,658.73
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		<b>104,780,057.80</b>	86,017,488.16
Including: Cash payments to the minority shareholders for distribution of dividends or profits		—	—
Other cash payments relating to financing activities	V.53	<b>87,761,974.00</b>	80,180,000.00
<b>SUB-TOTAL OF CASH OUTFLOWS</b>		<b>1,837,525,834.37</b>	1,990,216,146.89
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>582,424,605.63</b>	221,397,182.91
<b>IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		<b>(6,015,041.71)</b>	(69,295.28)
<b>V. NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(38,546,441.97)</b>	18,456,785.73
Add : Beginning balance of cash and cash equivalents		<b>369,092,906.46</b>	350,636,120.73
<b>VI. ENDING BALANCE OF CASH AND CASH EQUIVALENTS</b>		<b>330,546,464.49</b>	369,092,906.46

Legal Representative:

Accountant-in-charge:

Partner-in-charges:

# Company's Statements of Cash Flow



For the year ended 31 December 2013

Items	Notes	Amount of this year	Amount of last year
Units: RMB			
<b>I. CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash receipts from the sale of goods or rendering of services		<b>1,794,898,879.59</b>	2,419,764,636.46
Receipts of tax refunds		<b>56,589,186.91</b>	140,337,116.18
Other cash receipts relating to operating activities	XIII.47	<b>182,848,756.23</b>	57,292,000.44
<b>SUB-TOTAL OF CASH INFLOWS FROM OPERATING</b>		<b>2,034,336,822.73</b>	2,617,393,753.08
<hr/>			
Cash payments for goods purchased and services received		<b>1,974,469,802.45</b>	2,121,219,646.41
Cash paid to and on behalf of employees		<b>92,862,687.68</b>	93,990,478.41
Payments of all types of taxes		<b>27,831,033.32</b>	36,827,292.25
Other cash payments relating to operating activities	XIII.47	<b>229,993,595.31</b>	328,877,973.26
<b>SUB-TOTAL OF CASH OUTFLOWS ACTIVITIES</b>		<b>2,325,157,118.76</b>	2,580,915,390.33
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>(290,820,296.03)</b>	36,478,362.75
<hr/>			
<b>II. CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash receipts from disposals of investments		—	—
Cash receipts from returns on investments		—	—
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		<b>230,760.10</b>	849,893.85
Net cash receipts from disposals of subsidiaries and other business units		—	—
Other cash receipts relating to investing activities		—	—
<b>SUB-TOTAL OF CASH INFLOWS FROM INVESTMENT ACTIVITIES</b>		<b>230,760.10</b>	849,893.85



# Company's Statements of Cash Flow

For the year ended 31 December 2013

Items	Notes	Amount of this year	Amount of last year
Units: RMB			
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		<b>295,150,529.18</b>	266,339,548.53
Cash payments to acquire investments		—	—
Net cash payments for acquisition of subsidiaries and other business units		—	—
Other cash payments relating to investment activities		—	—
<b>SUB-TOTAL OF CASH OUTFLOWS From Investment Activities</b>		<b>295,150,529.18</b>	266,339,548.53
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(294,919,769.08)</b>	(265,489,654.68)
<b>III. CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash receipts from investors		—	—
Cash receipts from borrowings		<b>2,242,530,650.00</b>	1,885,229,653.80
Cash receipts from issuance of bonds		—	—
Other cash receipts relating to financing activities	XIII.47	—	68,900,000.00
<b>SUB-TOTAL OF CASH INFLOWS From FINANCIAL ACTIVITIES</b>		<b>2,242,530,650.00</b>	1,954,129,653.80
Cash repayments of amounts borrowed		<b>1,611,450,852.57</b>	1,524,975,617.73
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		<b>96,012,579.44</b>	79,369,872.28
Other cash payments relating to financing activities	XIII.47	<b>87,761,974.00</b>	80,180,000.00
<b>SUB-TOTAL OF CASH OUTFLOWS FROM FINANCING ACTIVITIES</b>		<b>1,795,225,406.01</b>	1,684,525,490.01
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>447,305,243.99</b>	269,604,163.79
<b>IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		<b>(6,119,075.06)</b>	(73,390.74)
<b>V. NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(144,553,896.18)</b>	40,519,481.12
Add : Beginning balance of cash and cash equivalents		<b>354,662,620.79</b>	314,143,139.67
<b>VI. ENDING BALANCE OF CASH AND CASH EQUIVALENTS</b>		<b>210,108,724.61</b>	354,662,620.79

Legal Representative:

Accountant-in-charge:

Partner-in-charges:

# Consolidated Statement of Changes in Shareholder's Equity



For the year ended 31 December 2013

Units: RMB

Items	Current year										Total equity
	Share capital	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Translation differences	Minority interests		
<b>I. Balance at the end of the previous year</b>	797,848,400.00	849,500,658.42	—	—	168,908,489.86	—	1,073,097,098.79	62,065.54	63,869,999.90	2,953,286,712.51	
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—	
Others	—	—	—	—	—	—	—	—	—	—	
<b>II. Balance at the beginning of the current year</b>	797,848,400.00	849,500,658.42	—	—	168,908,489.86	—	1,073,097,098.79	62,065.54	63,869,999.90	2,953,286,712.51	
(i) Net profit	—	—	—	—	—	—	(215,614,668.47)	301,911.59	(1,852,479.12)	(217,165,236.00)	
(ii) Other comprehensive income	—	—	—	—	—	—	(175,722,248.47)	—	(1,886,024.86)	(177,608,273.33)	
Total comprehensive income	—	—	—	—	—	—	—	—	—	—	
(iii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	(175,722,248.47)	301,911.59	33,545.74	335,457.33	
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—	
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	
3. Others	—	—	—	—	—	—	—	—	—	—	
(iv) Profit distribution	—	—	—	—	—	—	(39,892,420.00)	—	—	(39,892,420.00)	
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	
2. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—	
3. Distribution to shareholders	—	—	—	—	—	—	(39,892,420.00)	—	—	(39,892,420.00)	
4. Others	—	—	—	—	—	—	—	—	—	—	
(v) Transfer of shareholders' equity	—	—	—	—	—	—	—	—	—	—	
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	
4. Others	—	—	—	—	—	—	—	—	—	—	
(vi) Special	—	—	—	—	—	—	—	—	—	—	
1. Withdraw	—	—	—	11,695,395.27	—	—	—	—	—	11,695,395.27	
2. Utilise	—	—	—	(11,695,395.27)	—	—	—	—	—	(11,695,395.27)	
(vii) Other	—	—	—	—	—	—	—	—	—	—	
<b>IV. Balance at the end of the current year</b>	797,848,400.00	849,500,658.42	—	—	168,908,489.86	—	857,482,430.32	363,977.13	62,017,520.78	2,736,121,476.51	



# Consolidated Statement of Changes in Shareholder's Equity

For the year ended 31 December 2013

Units: RMB

Items	Equity attributable to the shareholders of the Company										Total equity
	Share capital	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Translation differences	Minority interests		
<b>I. Balance at the end of the previous year</b>	398,924,200.00	1,248,424,858.42	—	—	157,965,274.48	—	989,669,698.87	30,361.41	57,963,335.17	2,852,977,728.35	
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	
Effects of the connection of prior-year accounting errors	—	—	—	—	—	—	—	—	—	—	
Others	—	—	—	—	—	—	—	—	—	—	
<b>II. Balance at the beginning of the current year</b>	398,924,200.00	1,248,424,858.42	—	—	157,965,274.48	—	989,669,698.87	30,361.41	57,963,335.17	2,852,977,728.35	
<b>III. Changes in the current year</b>	398,924,200.00	(398,924,200.00)	—	—	10,943,215.38	—	83,427,399.92	31,704.13	5,906,664.73	100,308,984.16	
(i) Net profit	—	—	—	—	—	—	134,263,035.30	—	5,903,142.04	140,166,177.34	
(ii) Other comprehensive income	—	—	—	—	—	—	—	31,704.13	3,522.69	35,226.82	
(iii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	134,263,035.30	31,704.13	5,906,664.73	140,201,404.16	
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—	
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	
3. Others	—	—	—	—	—	—	—	—	—	—	
(iv) Profit distribution	—	—	—	—	—	—	—	—	—	—	
1. Transfer to surplus reserves	—	—	—	—	10,943,215.38	—	(50,835,635.38)	—	—	(39,892,420.00)	
2. Transfer to general risk provision	—	—	—	—	10,943,215.38	—	(10,943,215.38)	—	—	—	
3. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	
4. Others	—	—	—	—	—	—	(39,892,420.00)	—	—	(39,892,420.00)	
(v) Transfer of shareholders' equity	398,924,200.00	(398,924,200.00)	—	—	—	—	—	—	—	—	
1. Transfer of capital reserve to share capital	398,924,200.00	(398,924,200.00)	—	—	—	—	—	—	—	—	
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	
4. Others	—	—	—	—	—	—	—	—	—	—	
(vi) Special	—	—	—	—	—	—	—	—	—	—	
1. Withdraw	—	—	—	—	—	—	—	—	—	—	
2. Utilise	—	—	—	—	—	—	—	—	—	—	
(vii) Other	—	—	—	—	—	—	—	—	—	—	
<b>IV. Balance at the end of the current year</b>	797,848,400.00	849,500,658.42	—	—	168,908,489.86	—	1,073,097,098.79	62,065.54	63,869,999.90	2,953,286,712.51	



# Company's Statement of Changes in Shareholder's Equity



For the year ended 31 December 2013

Units: RMB

Items	This year							
	Share capital	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Total equity
<b>I. Balance at the end of the previous year</b>	<b>797,848,400.00</b>	<b>849,481,990.92</b>	—	—	<b>168,908,489.86</b>	—	<b>981,137,343.28</b>	<b>2,797,376,224.06</b>
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
<b>II. Balance at the beginning of the current year</b>	<b>797,848,400.00</b>	<b>849,481,990.92</b>	—	—	<b>168,908,489.86</b>	—	<b>981,137,343.28</b>	<b>2,797,376,224.06</b>
<b>III. Changes in the current year</b>	—	—	—	—	—	—	<b>(126,982,300.40)</b>	<b>(126,982,300.40)</b>
(i) Net profit	—	—	—	—	—	—	<b>(87,089,880.40)</b>	<b>(87,089,880.40)</b>
(ii) Other comprehensive income	—	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	—	<b>(87,089,880.40)</b>	<b>(87,089,880.40)</b>
(iii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—
1. Capital injection from shareholders	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(iv) Profit distribution	—	—	—	—	—	—	<b>(39,892,420.00)</b>	<b>(39,892,420.00)</b>
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—
2. Transfer to general risk provision	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	<b>(39,892,420.00)</b>	<b>(39,892,420.00)</b>
4. Others	—	—	—	—	—	—	—	—
(v) Transfer of shareholders' equity	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(vi) Special	—	—	—	—	—	—	—	—
1. Withdraw	—	—	—	<b>4,952,778.10</b>	—	—	—	<b>4,952,778.10</b>
2. Utilise	—	—	—	<b>(4,952,778.10)</b>	—	—	—	<b>(4,952,778.10)</b>
(vii) Other	—	—	—	—	—	—	—	—
<b>IV. Balance at the end of the current year</b>	<b>797,848,400.00</b>	<b>849,481,990.92</b>	—	—	<b>168,908,489.86</b>	—	<b>854,155,042.88</b>	<b>2,670,393,923.66</b>



# Company's Statement of Changes in Shareholder's Equity

For the year ended 31 December 2013

Units: RMB

Items	Last year							
	Share capital	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Total equity
<b>I. Balance at the end of the previous year</b>	398,924,200.00	1,248,406,190.92	—	—	157,965,274.48	—	922,540,824.80	2,727,836,490.20
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
<b>II. Balance at the beginning of the current year</b>	398,924,200.00	1,248,406,190.92	—	—	157,965,274.48	—	922,540,824.80	2,727,836,490.20
<b>III. Changes in the current year</b>	398,924,200.00	(398,924,200.00)	—	—	10,943,215.38	—	58,596,518.48	69,539,733.86
(i) Net profit	—	—	—	—	—	—	109,432,153.86	109,432,153.86
(ii) Other comprehensive income	—	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	—	109,432,153.86	109,432,153.86
(iii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—
1. Capital injection from shareholders	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(iv) Profit distribution	—	—	—	—	10,943,215.38	—	(50,835,635.38)	(39,892,420.00)
1. Transfer to surplus reserves	—	—	—	—	10,943,215.38	—	—	10,943,215.38
2. Transfer to general risk provision	—	—	—	—	—	—	(10,943,215.38)	(10,943,215.38)
3. Distribution to shareholders	—	—	—	—	—	—	(39,892,420.00)	(39,892,420.00)
4. Others	—	—	—	—	—	—	—	—
(v) Transfer of shareholders' equity	398,924,200.00	(398,924,200.00)	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	398,924,200.00	(398,924,200.00)	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(vi) Special	—	—	—	—	—	—	—	—
1. Withdraw	—	—	—	—	—	—	—	—
2. Utilise	—	—	—	—	—	—	—	—
(vii) Other	—	—	—	—	—	—	—	—
<b>IV. Balance at the end of the current year</b>	797,848,400.00	849,481,990.92	—	—	168,908,489.86	—	981,137,343.28	2,797,376,224.06

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## I. General Information

Shandong Molong Petroleum Machinery Company Limited (hereunder the "Company") is a joint stock limited company registered in the People's Republic of China, its place of registration and principal place of business is No. 999 Wen Sheng Street, Shouguang City, Shandong Province. The Company's predecessor company is Molong Holdings, which was established jointly by Zhang En Rong, Lin Fu Long, Zhang Yun San, Xie Xin Cang, Liu Yun Long, Cui Huan You, Liang Yong Qiang, Shengli Oil Field Kaiyuan Oil Exploitation Company Limited (勝利油田凱源石油開發有限責任公司) and Gansu Industrial University Alloy Materials Factory (甘肅工業大學合金材料總廠) on 27 December 2001 with the approval from Office for Restructuring the Economic System of Shandong Province (山東省經濟體制改革辦公室) with the letter Lu Ti Gai Han Zi [2001] No. 53 (魯體改函字[2001]53號文). On 30 December 2001, the Company obtained the business license for enterprise natural person (registration number: Qi Gu Lu Zong Zi No. 004025 (企股魯總字第004025號)) with a registered capital of RMB40,500,000.00, total number of shares of 40,500,000 shares of RMB1 each.

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

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

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

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

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

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



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## I. General Information (continued)

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

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

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

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

The Company and its subsidiaries (hereunder refer as to the "Group") are principally engage in the manufacturing and sales of oil well pumps, oil well sucker rods, oil pumping machinery, oil pumping pipes, petroleum machinery, textile machinery, petroleum equipment and accessories, high pressure isolation switch, high pressure electrical appliances, related electrical equipment, metal material specialized for petroleum use and the acquisition of scrap metal; development of petroleum machinery and its associated products; information service on commodities (excluding agency); import and export within the scope of qualification certificate.

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

## II. Significant Accounting Policies and Accounting Estimates

### 1. Basic of preparation

The financial statements have been prepared on a going concern basis and in accordance with Application Guidance for Accounting Standard for Business Enterprises (ASBEs) issued by the Ministry of Finance of the People's Republic of China (MoF). Also, the financial statements have been prepared according to the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Provisions on Financial Reporting (revised 2010) issued by the China Securities Regulatory Commission, the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

### 2. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 31 December 2013 and the results of their operations and their cash flows for the year ended 31 December 2013.

### 3. Financial year

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



1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 4. Reporting currency

The functional currency of the Company and those subsidiaries established in the PRC is Renminbi (“RMB”). The functional currency of the overseas subsidiary is based on the primary economic environment where it operates.

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

### 5. Basis of preparation and principle of measurement

The Group's financial statements have been prepared on an accrual basis. Except for certain financial instruments which are measured at fair value, the financial statements are prepared under the historical cost convention.

### 6. Business combination

Business combination refers the event or transaction that the Company combines two or more separate enterprises as one reporting entity. The Company shall recognise the assets and liabilities derived from business combination at the combination date or acquisition date. A combination date or acquisition date is the date on which the Company effectively obtains control of the company being absorbed.

Business combination is classified into business combination under common control and not under common control.

#### (1) Business combinations involving entities under common control

The assets and liabilities acquired through a business combination involving enterprise under common control is measured by the acquirer according to the carrying amount recorded by the acquirer's at the combination date. The difference between the consideration of combination and the carrying amount of the acquired net assets is included in capital reserve; if the capital reserve is not sufficient, it is adjusted in retained earnings.

#### (2) Business combinations involving entities not under common control

The cost of business combinations is the aggregate of the fair value, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquire. When the costs of business combinations exceed the acquirer's identifiable net assets, the difference is recognised as goodwill. When the costs of business combination less than the acquirer's identifiable net assets, after reassessment, the difference is included in the profit or loss in the current period. When the costs of business combination less than the acquirer's identifiable net assets, after reassessment, the difference is included in the profit or loss in the current period.

#### (3) Transactions with minority interests

After obtaining the control over a subsidiary, out of all or part of the minority interests in the subsidiary obtained from its minority shareholders, the assets and liabilities of the subsidiary shall be stated at the amounts calculated continuously from the date of acquisition or merger in the consolidated financial statements. The difference between the increase in the cost of long-term equity investments as a result of acquisition of minority interests and the share of net assets of the subsidiary calculated continuously from the date of the acquisition or merger based on the new shareholding proportion shall be adjusted against the capital surplus. If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining difference shall be adjusted against retained earnings.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 7. Basis for preparation of consolidated financial statements

The scope of consolidation in the consolidated financial statements is determined on the basis of control. Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Subsidiaries are all entities over which the Group has the power to control.

All significant intra-group balances and transactions are eliminated on consolidation. The portion of subsidiaries' equity that is not attributable to the Company is treated as minority interests and presented as "minority interests" in the consolidated balance sheet within shareholders' equity. The portion of net profits or losses of subsidiaries for the period attributable to minority interests is presented as "minority interests" in the consolidated income statement below the "net profit" line item.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

When preparing the consolidated financial statements, if the Company acquired the subsidiary through business combination not involving enterprise under common control, the separate financial statements shall be adjusted based on the fair value of identifiable net asset at the acquisition date. If the subsidiary is acquired through business combination involving enterprise under common control, the consolidated financial statements shall include the carrying amount of assets, liabilities, operating result and cash flow of the subsidiary at the beginning of the current period.

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between the aggregate of the consideration received on disposal and the fair value of any retained interest and the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognised as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

### 8. Cash and cash equivalents

Cash and cash equivalents represent the Group's treasury cash and deposit withdrawn on demand and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of value change.



1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 9. Foreign currency transactions and translation of financial statements denominated in foreign currency

#### (1) Foreign currency transactions

The Group's transactions in currencies other than RMB are recorded at the rates of exchanges prevailing on the dates of the transactions.

On balance sheet date, foreign currency monetary items are translated into RMB at the spot 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. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items denominated in foreign currency measured at historical cost shall continue to be translated at the spot exchange rate at the date of transaction.

#### (2) Translation of financial statements denominated in foreign currency

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

### 10. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group categorises inputs for the fair value measurements into three levels. The Group would use the inputs by the order of Level 1, Level 2 and Level 3.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 11. Financial instruments

#### (1) Financial assets

##### (1) Classification of financial assets

Financial assets are initially classified as financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables and available for sales financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

FVTPL is financial assets held principally for the purpose of selling in the near term.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity.

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

Available-for-sale financial assets are non-derivatives that are either designated or not classified as other financial assets.

##### (2) Recognition and measure of financial assets

The financial asset of the Company becomes a party of financial contract, which is initially recognised at its fair value in balance sheet. Transaction cost related to the acquisitions of financial assets at fair value through profit or loss is expensed to the profit or loss as incurred. Transaction costs are included in the carrying amount of assets at initial recognition.

After initial recognition, the Company shall measure the financial assets at FVTPL and available-for-sale financial assets at their fair values. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current period.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 11. Financial instruments (continued)

#### (1) Financial assets (continued)

##### (3) Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Impairment loss is recognised when there is objective evidence of impairment occurred.

On disposal, the differences between the consideration received and the carrying amount of assets after deducting the accumulated fair value adjustments previously recorded in equity are recorded as investment income. At the same time, the accumulated gains or losses recognised shareholders' equity in prior periods are transferred to the statement of profit or loss.

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place. Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in reserve.

##### (4) Transfers of financial assets

Financial asset that satisfied any of the following criteria shall be derecognised: (1) the contract right to recover the cash flows of the financial asset has terminated; (2) the financial asset, along with substantially all the risk and return arising from the ownership of the financial asset, has been transferred to the transferee; and (3) the financial asset has been transferred to the transferee, and the transferor has given up the control on such financial asset, though it does not assign maintain substantially all the risk and return arising from the ownership of the financial asset.

When the entity does not either assign or maintain substantially all the risk and return arising from the ownership of the financial asset and does not give up the control on such financial asset, to the extent of its continuous involvement in the financial asset, the entity recognises it as a related financial asset and recognises the relevant liability accordingly. The extent of the continuous involvement is the extent to which the entity exposes to changes in the value of such financial assets.

On derecognition of a financial asset, the difference between the following amounts is recognised in profit or loss for the current period: the carrying amount and the sum of the consideration received and any accumulated gain or loss that had been recognised directly in equity.

If a part of the financial assets qualifies for derecognition, the carrying amount of the financial asset is allocated between the part that continues to be recognised and the part that qualifies for derecognition, based on the fair values of the respective parts. The difference between the following amounts is recognised in profit or loss for the period: the sum of the consideration received and the carrying amount of the part that qualifies for derecognition and the aforementioned carrying amount.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 11. Financial instruments (continued)

#### (2) Financial liabilities

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

Financial liabilities measured at fair value with its changes included in the profit or loss for the current period include financial liabilities designated to be measured at fair value with its changes included in profit or loss for the current period.

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable (including transferred non-cash assets or new financial liability) is recognised in profit or loss.

#### (3) Offsetting financial assets and financial liabilities

Where the Group has a legal right that is currently enforceable to set off the recognised financial assets and financial liabilities, and intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

#### (4) Equity instruments

Equity instruments are any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

For equity instruments, the price received during the issue shall be added to shareholder's equity after reducing the transaction fees.

Consideration and transaction costs paid by the Company for repurchasing self-issued equity instruments are deducted from shareholders' equity.

The distribution (excluding the dividends) to the equity instrument holders by the Group shall reduce the shareholder's equity. The Group shall not recognise the changes of the equity instruments' fair value.



1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 12. Accounts receivable

Accounts receivable includes trade receivables, other receivables and etc. The Groups trade receivables derived from sales of goods and services rendered are initially recognised at contracts price or fair values agreed with buyers or service receivers clients.

Provision for bad debts are assessed by single item and by the Group at the same time.

#### (1) Single item with significant accounts receivable and provided for bad debts in single item

Judgment basis or amount standard for single item with significant amount	The Group recognises accounts receivable of over RMB300 million and other receivables of over RMB200 million as single item with significant accounts receivable.
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Provision method for single item with significant amount and provided for bad debts in single item	The Group conducts impairment test for single item with significant accounts receivable separately, and tests financial assets without impairment separately, including conducting impairment test on financial asset groups with similar credit risk characteristics. For accounts receivable with impairment loss recognised in single item test, they ceased to be included in accounts receivable portfolio with similar risk characteristics for impairment test.
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#### (2) Accounts receivable provided for bad debts by the Group

##### Basis for determining portfolio

Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test	The Group considers the credit risk for single items with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item test is relatively low, and no bad debt provision is required, unless there is evidence showing that credit risk of certain accounts receivable is relatively large.
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#### (3) Single item with insignificant accounts receivable but provided for bad debts separately

Reasons for bad debts provision by single item	The Group conducts impairment test for single item with insignificant accounts receivable, and recognizes the amount of present value of future cash flow lower than the carrying value as impairment loss.
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Provision method for bad debts provision	Individual determination method
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# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 13. Inventory

Inventories of the Group mainly include raw materials, products and finished products.

Inventories are initially measured at cost. Cost of inventories includes purchasing cost, processing cost and other expenses that help deliver the inventories to the current location and situation. When inventories are delivered, weight average method is adopted to determine the actual cost of inventories delivered.

At the balance sheet date, inventories are calculated at the lower of cost and net realisable value.

If the net present values of the inventories are lower than the cost, provision for impairment is recognised. The provisions for finished goods and large-amount raw materials are made on the excess of their costs over their lower net realisable values on an item-by-item basis. Other inventories items are assessed on collective basis.

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 realizable value for raw material for held for production are determined by the estimated selling price of finished goods less the estimated cost to completion, selling expenses and taxes.

The inventory taking system shall be on a perpetual basis.

Packaging materials and low-value consumable are amortised by one-time written-off.

### 14. Long-term equity investments

Long-term equity investments include the Company's investment in entities, including investments in jointly ventures that the Group have control, common control or significant influence.

A jointly controlled enterprise in is an enterprise which operates under joint control.

#### (1) Basis of determining existence of control and significant influence over investees

The definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns.

Significant influences refers to the rights to participate in making decisions on the financial and operating policies of an enterprise, but not to control or do joint control together with other parties over the formulation of these policies. In determining whether the Company is able to exercise control over the investee, the effect of potential voting rights over the investee is considered, such as convertible debts and warrants currently exercisable, etc. Associates are the investees that the Group has significant influence on their financial and operating policies.



1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 14. Long-term equity investments (continued)

#### (2) Initial Measurement of Long-term Equity Investment

The initial investment cost of a long-term equity investment acquired through a business combination under common control of a single enterprise is the carrying amount of the cost invested by the owners at combination date.

The difference between the consideration paid and the carrying amount of the net assets acquired is included in capital reserve. If the capital reserve is not sufficient, it is adjusted in retained earnings.

The initial investment cost of the long-term equity investment acquired through a business combination without common control of a single enterprise shall be the aggregate cost of assets given. When the costs of business combinations exceed the acquirer's identifiable net assets, the difference is recognised as goodwill. When the costs of business combination less than the acquirer's identifiable net assets, after reassessment, the difference is included in the profit or loss in the current period.

The audit fee, legal fee, valuation, consultancy and other expenses related to the business combination is recognised in the statement of profit or loss of the current period.

The initial investment cost of long-term equity investment acquired by payment of cash shall be actual purchase price that has been paid.

For the long-term equity investment acquired by the issue of equity securities, the initial investment cost shall be the fair value of the securities issued.

For a long-term equity investment acquired through an exchange of non-monetary assets or debt restricting transaction, the initial investment cost shall be determined in accordance with relevant accounting standards.

#### (3) Subsequent measurement of long-term equity investments

##### (1) The calculation of long-term equity investments cost

Investments in subsidiaries are accounted for using the cost method.

Investments in subsidiaries are adjusted by equity method when there is addition or recovery of investment. The cash dividends or profit distribution declared by the investees are recognised as investment income in profit or loss.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 14. Long-term equity investments (continued)

#### (3) Subsequent measurement of long-term equity investments (continued)

##### (2) The equity method for long-term investments

Under the equity method, there is no adjustment to the long-term investment when initial investment cost is higher than the carrying amount of the net assets acquired. If the investment cost is lower than the carrying amount of the net assets acquired, the difference is recognised to the statement of the profit and loss.

Under the equity method, the net profit and loss and other comprehensive income of the long-term investments attributable to the Group are recognised in the investment income and other comprehensive income respectively, and the carrying amount of the long-term investments is also be adjusted. When the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by that amount attributable to the Group. Changes in shareholders' equity of the investee other than net profit or loss are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognised as other comprehensive income which is included in the capital reserve. The Group recognises its share of the investee's net profit or loss based on the fair value of the investee's individual separately identifiable assets, etc at the acquisition date after making appropriate adjustments.

The Group recognises its share of the investee's net profit or loss and other comprehensive income after adjustments, if there is any difference between accounting policies and accounting period in the Group and in the investee.

Unrealised profits or losses resulting from the Group's transactions with its associates and joint ventures are recognised as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated.

The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled enterprise is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognised according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognising its share of those profits only after its share of the profits exceeds the share of losses previously not recognised.

#### (4) Disposal of long-term equity investments

When the Group dispose the long-term investments without losing the control over the investee, the difference of consideration received and the net assets disposed is recognised in the statement of equity. Please refer to note II. 7 for the details of the disposal of long-term investments in subsidiaries with losing control over the subsidiaries.



1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 14. Long-term equity investments (continued)

#### (4) Disposal of long-term equity investments (continued)

On disposal of a long-term investment, the difference between the carrying amount of the investment and the actual consideration paid is recognised in current profit or loss. Where the equity method is adopted, the amount attributable to the long-term equity investments previously included shareholders' equity shall be transferred to current profit or loss on a pro-rata basis.

#### (5) Impairment loss of long-term equity investments

On balance sheet date, the carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts, the impairment loss is recognised in profit and loss and cannot be reversed once recognised.

### 15. Investment Property

Investment property is land or building held to earn rentals and/or for capital appreciation.

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

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

The Group reassesses and adjusts the estimated useful life, estimated residual value and depreciation (amortisation) rates of investment property annually.

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset and related taxes) is included in the profit or loss for the year which the property is derecognised.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 16. Fixed assets

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

Fixed assets include buildings, machinery and equipment, electronic, and other equipment and vehicles.

The cost of an item of property, plant and equipment shall be recognised as fixed assets when it is probable that future economic benefits associated will flow to the Group and the cost of can be measured reliably. The cost for fixed asset is measured at cost at the time when it is acquired. The cost of fixed asset purchased from outsiders includes purchase prices, import tax and other related taxes and other expenses incurred to bring required expenses incurred to bring the assets to the condition of intended use. Fixed asset acquired by an investor is measured at the agreed considerations as specified in the investment contracts or agreements, or the fair value where the agreed consideration as specified in the contracts or agreements is not justified. The fixed asset acquired under a finance lease is measured at the lower of its fair value and the present value of the minimum lease payment at the date of inception of the lease.

Subsequent expenditures incurred for a fixed asset, such as maintenance expenses and renovation and improvement expenses, are included in the cost of fixed asset when they meet the recognition criteria of a fixed asset, and the carrying amount of the replaced parts is derecognised. The subsequent expenditures incurred for a fixed asset are recognised in profit or loss for the current period in which they are incurred when they do not meet the criteria of a fixed asset.

Depreciation is provided for all fixed assets, except for the fixed assets that are fully depreciated yet still used in operation and lands that are accounted separately for depreciation. Fixed assets are depreciated using the straight-line method to measure the cost or expenses of the assets for the current period based on the usage of the assets. The useful lives, estimated residual rates and depreciation rate of each type of the fixed asset of the Group are as follows:

Items	Categories	Depreciation period (year)	Estimated	Annual Depreciation Rate (%)
			Residual Value Rate (%)	
1	Buildings	20	5	4.75
2	Machinery	5–20	5	19.00–4.75
3	Electronic equipment	3–5	5	31.67–19.00
4	Vehicles	5	5	19.00
5	Other equipment	5	5	19.00





1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 16. Fixed assets (continued)

The Group re-assesses the estimated useful life and estimated net residual value of a fixed asset and the depreciation method at the end of each financial year. Any changes will be dealt with as changes on accounting estimates.

A fixed asset acquired under finance lease with reasonably certainty that the Group will obtain ownership by the end of lease term, the period of expected use is the useful life of the asset. Otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

A fixed asset is derecognised on disposal or it is expected that there shall be no economic benefit arising from using or after disposal. Where the fixed assets are sold, transferred, retired or damaged, the income received after disposal after deducting the carrying amount and related taxes are recognised in profit or loss for the current period.

### 17. Construction in Progress

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

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

### 18. Borrowing costs

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

Borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalisation of borrowing costs can commence only when all of the following 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. The amount of other borrowing costs incurred shall be recognised as an expense in the period in which they are incurred.

Qualifying assets are assets (fixed assets, investment properties, inventories) that necessarily takes a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

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



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 18. Borrowing costs (continued)

During capitalisation period, exchange difference arising from specific-purpose borrowings denominated in foreign currency is capitalised while exchange difference arising from general-purpose borrowings denominated in foreign currency is recognised in profit or loss.

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months. Capitalisation of borrowing costs shall cease when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale.

### 19. Intangible Assets

The Company's intangible assets mainly include land use right, patented technology, non-patented technology, software, and etc.

Intangible assets are measured at the initial costs at acquisition. The cost of a purchased intangible asset is determined by the expenditures actually incurred and other costs. The cost of an intangible asset invested by an investor is determined in accordance with the value stipulated in the investment contract or agreement, except where the value stipulated in the contract or agreement is not fair, fair value will be used.

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use. The cost of land use right is amortised evenly over the whole period of the right. The cost of software use right and non-patented technology of the Group is amortised evenly over the shorter period of the expected useful life, the contractual beneficial period and the useful life specified in the law. The amortisation charge shall be recognized as cost of an intangible asset or profit or loss for the current period by the object of benefit derives from the assets.

The estimated useful life and amortisation method of intangible asset with finite useful life is re-assessed at the end of each financial year. Any changes will be dealt with as changes on accounting estimates.

The estimated useful life of intangible assets with indefinite infinite useful life is reviewed in each accounting period. Where there is objective evidence to prove that the useful life of an intangible asset is finite, the Group shall estimate the useful life and amortise that intangible asset over its estimated useful life.

If there is any sign indicating that an intangible asset may be impaired, the intangible asset will be tested for impairment at the end of the year. An intangible asset with infinite useful lives are tested for impairment annually, irrespective of whether there is any sign to indicating that the asset may be impaired.

If the recoverable amount of an intangible asset is less than its carrying amount, the difference is recognised as an impairment loss (Please refer to Note II. 23). Once an impairment loss on the intangible asset is recognised, it will not be reversed in a subsequent accounting period.



1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 20. Research and Development Expenditure

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.

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

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

- (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (2) the management's intention to complete the intangible asset and use or sell it;
- (3) probable economic benefits to the Group, including a market for the output of the intangible asset or the intangible asset itself and benefits to the Group for internal use;
- (4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;
- (5) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Expenditure on the development phase which does not meet the above conditions is included in the profit or loss in the 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 intangible asset in subsequent period. The capitalised expenditure in the development phase shall be recognised as intangible asset when the asset is ready to its intended use.

### 21. Goodwill

Goodwill are the amount at the acquisition date or purchasing date, of the investment cost or cost of business combination not involving enterprises under common control, that exceeds the acquirer's interest in the fair value of the investees' or acquirer's identifiable net assets.

Goodwill related to subsidiaries is presented in consolidated financial statements as a separate item. Goodwill related to joint ventures and associates are included in the carrying amount of long-term equity investment.

### 22. Long-term prepaid expenses

Long-term prepaid expenses of the Group are expenditures such as property renovation cost, which have incurred but shall be undertaken in more than 1 year of amortisation period (not including 1 year) of the current and future periods. They are amortised evenly over the estimated benefit period.

If the long-term prepaid expenses are no longer beneficial to the subsequent accounting periods, the unamortised balance is then fully transferred to profit or loss for the period.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 23. Impairment for Non-financial Assets

The Group assesses at each balance sheet date whether there is any indication that may be impaired, as fixed assets, construction in progress, intangible assets with finite useful life, investment properties measured at cost, investment in subsidiaries, associates, joint ventures, and etc, if there is any indication that an assets may be impaired. If the recoverable amount of an asset is less than its carrying amount, the difference shall be recognised as an impairment loss. Recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flow expected to be derived from the asset. Provision for impairment is provided and recognised on individual asset basis. If it is not possible to estimate the recoverable amount of the individual asset, the Company determines the recoverable amount of the asset's cash-generate unit to which the asset belongs. An asset's cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill on the financial statements shall be tested for impairment annually, irrespective of whether there is any indication that the asset may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination. An impairment loss shall be recognised for a cash-generating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit first. Next, it shall be allocated to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

Once an impairment loss on the non-financial assets is recognised, it will not be reversed in a subsequent accounting period.

### 24. Employee Benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. They include short-term salaries, post-employment benefits, termination benefits and other long-term staff welfare.

Short-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service. Short term wages include wages or salaries, bonuses, allowances and subsidies, social security contributions (e.g. medical insurance, injury insurance and birth insurance), housing funds, union running costs, employee education costs, short-term paid leaves, short-term profit sharing schemes, non-monetary welfare and other short-term salaries. The Group recognises employee remuneration payables as liabilities during the accounting period in which employees render their services and allocates it to related cost of assets and expenses based on the beneficiaries of the services.

Termination benefits are employee benefits payable as a result of either: (1) an entity's decision to terminate an employee's employment before the normal retirement date; or (2) an employee's decision to accept voluntary redundancy in exchange for those benefits. The Group accounts for these termination benefits as charge to the profit or loss for current period when the Group has made a formal plan for termination of the employment relationship or an offer for voluntary redundancy which will be implemented immediately without realistic possibility of withdrawal and the Group estimated liability for compensation arising from the termination of employment with employees.

Other long-term employee benefits include all employee remunerations other than short term wages, post-employment benefits and termination benefits.



1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 25. Provision

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: (a) the obligation is a present obligation of the Group; (b) it is probable that an outflow of economic benefits will be required to settle the obligation and (c) 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.

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

### 26. Production Safety Fee

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

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

The provision of production safety fee is recognised in profit and loss for the year and "special reserve" account shown separately under owner's equity. When using the reserve for maintaining production safety fee, debit "special reserve", and credit "cash and cash equivalent" if the fee is expenses nature. When using the reserve for maintaining production safety fee of fixed asset, debit "construction in progress" for the amount recorded in the cost of related assets, credit "bank and cash". When the status of the project is ready for intended use, the costs of such Production safety fee should be recognised as fixed assets. If the balance of "special reserve" is fully offset during the year, the production safety fee is recognised in profit and loss for the year.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 27. Revenue recognition

The Group's revenue is mainly from sale of goods and rendering of services. Details of revenue recognition are as follows:

#### (1) Sales of goods

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

#### (2) Rendering of services

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

When the provision of services is commenced and completed in different accounting year, the revenue is recognised percentage of completion method at the balance sheet date the outcome of the transaction can be estimated reliably. The percentage of completion shall be determined by the cost incurred and the estimated whole cost. When the outcome of a transaction involving the rendering of services cannot be estimated reliably and it is probable that the cost incurred will be recovered, revenue shall be recognised only to the extent of the expenses recognised that are recoverable. When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense for the year.

### 28. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration, excluding the investments injection from the government and the capital reserves nature as ruled by the government, in which is capital nature but not classified as government grants.

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. For a fixed quota for the allocation of the grant, it is measured at the amount receivable.

If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount (RMB1).

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 28. Government grants (continued)

The Group's government grants are classified as capital nature and expenditure nature. For capital nature, the grants are obtained to purchase or construct any form of long-term assets. The grants other than capital nature are classified as expenditure nature. If the grant conditions are not stated specifically, the principal stated above applies.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Reversal of recognised government grant will be set off to the carrying amount of relevant deferred income. Any excess of the reversal to the carrying amount of deferred income will be recognised in the profit or loss in current period. In case there is no relevant deferred income, reversal will be directly recognised in the profit or loss in current period.

### 29. Deferred income tax assets and deferred income tax liabilities

Deferred tax assets and liabilities are recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deductible tax losses and tax deduction in future financial years which are approved by tax regulation are treated as deductible temporary differences and recognised as deferred tax assets. No deferred tax liabilities are recognised in respect of temporary difference arising from the initial recognition of goodwill. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. At the end of the reporting period, deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Group may limit the deferred tax assets to the amount of taxable temporary difference. When there are no sufficient taxable liabilities to match with the relevant deferred tax assets, the recognised deferred tax assets will be reduced. When the taxable liabilities are sufficient, the reduced amount would be reversed.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 29. Deferred income tax assets and deferred income tax liabilities (continued)

Deferred tax assets and deferred tax liabilities will be set off when the following criteria are met:

- (1) Deferred tax assets and deferred tax liabilities are derived from the same tax bureau and the same entity of the Group;
- (2) The entity of the Group has the statutory right to set off the income tax assets and income tax liabilities in the current period.

### 30. Leasing

Leases are classified as finance lease or operating lease by the Group at initial recognition. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### (1) The Group as finance lessee

At the commencement of the lease, the leased assets should be recognised at the lower of the fair value of the present value of the minimum payment. The difference between the carrying amount and the present value of the minimum payment will be recognised as future finance charges to be amortised over the lease term. The minimum lease payment less future finance charges will be presented as non-current liabilities and maturity within one year non-current liabilities.

When it is probable the ownership of the leased assets will be obtained after the lease term, the depreciation of leased assets will be over the useful lives of the leased assets. Otherwise, the depreciation will be over the shorter of lease term of useful lives of the leased assets.

#### (2) The Group as finance lessor

At the commencement of the lease, the initial recognition amount of finance lease receivables and balances without guarantee will be the sum of minimum receipt amount and initial expenses. The difference of carry amount and the sum of minimum receipt amount, initial direct costs and balances without guarantee is treated as unrealised finance income allocating to each of period during the lease period. Finance income is recognised according to each period using effective income method.

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

The recognised loss of unguaranteed residual value that might be recovered, which would be return in the original recognized amount of investment and recalculated lease implicit interest rate. The financing revenue would be recognized according to modified net value of lease investment and the lease implicit interest rate.

It might be accounted to the current profit or loss when the contingent rental actual occurs.



1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 30. Leasing (continued)

#### (3) The Group as operating lessee

Lease payment for operating lease is recognised as related asset cost or profits and losses for the current period using the straight-line method over the lease term. The initial direct cost is directly accounted in profit or loss for the current period. Contingent rent is recognised as profit or loss for the current period upon occurrence.

#### (4) The Group as operating lessor

Rental income is recognised in profit or loss for the current period using the straight-line method over the lease term. The initial direct cost where the amount is larger is capitalised when incurred, and accounted for as profit or loss for the current period on the same basis as recognition of rental income over the entire lease period. Contingent rental is accounted for as profit or loss for the period in which it is incurred.

### 31. Recognition of taxation

Income tax is recognised using balance sheet approach. Income tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax expenses or income are recognised in profit or loss for the period, except when they arise from transactions or events that are directly recognised in shareholders' equity, in which case they are recognised in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

Current tax is the amount of income tax payables to tax department in accordance with the requirement of tax laws for events and transactions in the current period. Deferred tax is recognised using the balance sheet liability method for temporary differences between the carrying amounts of certain assets or liabilities and their tax base which results in deferred tax assets and deferred tax liabilities.

### 32. Segment information

The Group's operating segments are allocated based on internal organisation structure, management requirement and internal reporting system. The segment information is disclosed based on the operating segments.

Operating segments are satisfied the criteria of the Group's components that including the component will generate income or incur expenses during the daily operation, the Group is able to assess the operating result of the component and decide the resources allocation, and the Group is able to obtain the component's financial position, operating result, cash flow and etc accounting information. If there are two or more operating segments which are similar in economic feature, they will be combined into one operating segment after satisfied with certain criteria.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 33. Significant Changes Accounting Policies and Accounting Estimates

#### (1) Changes in accounting policies and their impacts

The financial statements were prepared in accordance with Basic Standard and 38 specific standards of the ASBEs issued by the MoF on 15 February 2006, and the Application Guidance for ASBEs, Interpretations of ASBEs and other relevant regulations. Since 26 January 2014, MoF issued ASBEs No. 2 — Long-term equity investment, ASBEs No. 9 — Employee benefits, ASBEs No. 30 — Presentation of financial statements, ASBEs No. 33 — Consolidated financial statements, ASBEs No. 39 — Fair value measurement and ASBEs No. 40 — Joint arrangements and the Group early adopted the above accounting policies since 1 January 2013.

The application of the amendments will have significant effect on the Group's financial statements. The Group's financial statements had been reclassified and disclosed accordingly.

#### (2) Changes in accounting estimates

There is no change in accounting estimate requiring disclosure during this reporting period.

### 34. Prior period adjustment

There is no prior period adjustment on the consolidated financial statements of the Group for the year.

### 35. Critical accounting estimate and judgments

Preparing the financial statements, the management of the Company us required to make estimation and assumptions. These estimations and assumptions may affect the carrying amounts of accounting policy, assets, liabilities, revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the accounting estimations and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### (1) Impairment loss of accounts receivable

As set out in note II. 11, as the end of the reporting period, the Group reviews whether impairment loss evidence on accounts receivable which are stated at amortised cost exists. If there is impairment loss evidence, the Group assesses the amount of impairment loss to be recognised. Impairment evidence includes information shown the expected future cash flow of individual or a group of accounts receivable decreases significantly, negative credit information of individual or a group of accounts receivable and etc. Impairment loss will be written back is there is evidence shown that the impairment on accounts receivable could be recovered subsequently.

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 35. Critical accounting estimate and judgments (continued)

#### (2) Provision for inventories

As set out in note II. 13, the Group assesses the net realisable value of inventories periodically and makes allowance for inventories which the cost is higher than the net realisable value. Net realisable value is determined by the Group using the selling price of same product less its estimated future completion cost, selling expenses and related taxes. When the estimated actual selling price or cost is different with prior period, the management of the Group will make relevant adjustment on the net realisable value. The carrying amount of inventories on the statement of financial position may be adjusted as there may be a difference between the actual future outcomes and the estimation based on the experience. Therefore, the provision for inventories may be different due to the actual outcomes are not same as estimation. The adjustment on provision for inventories will affect the profit or loss of current period.

#### (3) Estimated impairment of goodwill

The Group performs test for impairment of goodwill annually. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated.

The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

If the pre-tax discount rate adopted by the management of the Group in the future cash flow is higher than the current period, impairment loss will be provided for the goodwill by the Group.

If the actual gross profit margin or pre-tax discount rate is higher or lower than the estimation by the management, the recognised impairment loss on goodwill could not be reversed.

#### (4) Estimation on impairment loss on fixed assets

The Group performs impairment test on fixed assets like buildings and plant and machinery which have impairment indicators at the end of the reporting period. The recoverable amounts of fixed assets have been determined based on the discounted future cash flow and the fair value of the assets, taking into account the disposal charges. These calculations and valuations require the use of accounting estimates.

If the gross profit margin adopted by the management of the Group in the future cash flow of the asset group or portfolio of asset group is lower than the current period, impairment loss will be provided for the fixed assets by the Group.

If the discount rate adopted by the management of the Group in the future cash flow is higher than the current period, impairment loss will be provided for the fixed assets by the Group.

If the actual gross profit margin or pre-tax discount rate is higher or lower than the estimation by the management, the recognised impairment loss on fixed assets could not be reversed.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## II. Significant Accounting Policies and Accounting Estimates (continued)

### 35. Critical accounting estimate and judgments (continued)

#### (5) Estimation on impairment loss on intangible assets

Amortisation will not be provided by the Group for intangible assets with infinite useful lives. Intangible assets with infinite useful lives will be tested for impairment annually. The useful lives of intangible assets will be tested in each of the accounting period. If there is evidence stating that the useful lives of intangible assets are definite, amortisation will be provided over the useful lives of the intangible asset.

If there is any impairment indicator for the intangible asset, the intangible asset will be tested for impairment at the end of the reporting period. As to intangible assets with infinite useful life, impairment test will be performed annually.

If the gross profit margin adopted by the management of the Group in the future cash flow of the asset group or portfolio of asset group is lower than the current period, impairment loss will be provided for the intangible assets by the Group.

If the discount rate adopted by the management of the Group in the future cash flow is higher than the current period, impairment loss will be provided for the intangible assets by the Group.

If the actual gross profit margin or pre-tax discount rate is higher or lower than the estimation by the management, the recognised impairment loss on intangible assets could not be reversed.

#### (6) Estimation on recognition of deferred tax assets

Deferred tax assets are estimated based on the expected taxable profits and applicable tax rate of future financial years. The realisation of deferred tax assets depends on whether it is probable that the Group has sufficient taxable profits. The change of tax rate in the future and realization of temporary difference may affect the income tax expense (credit) and the deferred taxation. The estimation set out above may have significant adjustment on the deferred taxation.

#### (7) Useful life of fixed assets and intangible assets

The Group assesses annually the useful life of fixed assets and intangible assets. The determination of the useful lives involves management's estimation based on the historical experience on the similar assets and the industrial benchmark with expected renovation of technology. If the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## III. Taxation

### 1. Main tax types and tax rates

Tax Type	Basis of taxing	Tax rate
Value-added tax	Note 1	17%
Business tax	Operation Revenue	5%
Building tax	Note 2	Note 2
Urban maintenance and construction tax	Value-added tax and business tax payables	7%
Education surtax	Value-added tax and business tax payables	3%
Education surcharge	Value-added tax and business tax payables	2%
Deed tax	Transfer price for housing and land use rights	3%–5%
Land value increment tax	Increment on transfer of state-owned land use rights, construction on land and its ancillaries	4-level ultra progressive tax rate
Business income tax	Taxable income	15%–25%

Note 1: Value-added tax payable is the balance after output tax minus import tax. Output tax is calculated at 17% of sales volume calculated under requirements of relevant tax laws. Export commodities are subject to taxation method of "exemption, reduction and rebate".

Note 2: Real estate tax is subject to the tax base of the remaining value of real estate after a one-off reduction of 30% of consumption of the original real estate value, and is subject to a tax rate of 1.2% per annum. For leased housing, the tax base is the rental income for the year, and is subject to a tax rate of 12% per annum.

Note 3: Rate of income tax of the Company and subsidiaries are as follows:

Name of the Company and subsidiaries	Rate of income tax
The Company	15%
Shouguang Molong Logistic Company Limited ("Molong Logistic Company")	25%
MPM International Limited ("MPM Limited")	16.5%
Shouguang Baolong Petroleum Material Company Limited ("Shouguang Baolong")	25%
Shouguang Maolong Machinery Company Limited ("Maolong Machinery")	25%
Shouguang Molong Electro-mechanical Equipment Company Limited ("Molong Electro-mechanical Equipment")	25%
Shouguang Maolong Old Metals Recycle Company Limited ("Maolong Recycle")	25%
Weihai Baolong Company Limited ("Weihai Baolong")	25%
Wendeng Baolong Recyclable Resource Company Limited ("Baolong Recyclable Resource")	25%



# Notes to the Financial Statements

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1 January 2013 to 31 December 2013

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

## III. Taxation (continued)

### 2. Tax Incentives and Approvals

*Note:* According to the "Notice Regarding the List of Shandong Province Proposed Advanced Technology Enterprise in 2011" (關於山東省2011年擬通過複審認定高新技術企業名單的通知) (Lu Ke GaoZi[2011]206號) from Technology Office of Shandong Province, Finance Office of Shandong Province, State Administration of Taxation of Shandong Province, Local Taxation Bureau of Shandong Province on 31 October 2011, the Company's qualification of Advanced Technology Enterprise was passed the review. The Company was subject to an enterprise income tax rate of 15% for the three consecutive years since 1 December 2011.

### 3. Change of tax rate or tax incentives policy

During the period, there is no change in the Group's applied tax rate and tax incentives policy comparing to last period.

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## IV. Business Combination & Consolidated Financial Statements

### 1. Details of Subsidiaries

Name of company	Type of organisation	Place of registration	Place of Operation	Nature of Business	Registered Capital	Business Scope	Investment at the end of the year	Other amount substantively constituted as net investment	Percentage of shareholding	Percentage of voting rights	Legal person	Code of Organisation	Included in Consolidated Financial Statements	Amounts of profit or loss for the year attributable to minority shareholders' equity
Subsidiaries acquired through business consolidation not under common control														
<b>2nd tier Subsidiaries</b>														
MPM Limited	LLC	Hong Kong, PRC	Hong Kong, PRC	Trade	US\$1,000,000.00	Acquisition and sales of petroleum extraction and chemical machinery electric equipment	RMB7,276,230.00	—	90.00	90.00			Yes	Nil
Maelong Machinery	LLC (legal entity wholly-owned)	Shouguang, Shandong Province	Shouguang, Shandong Province	Manufacturing	RMB12,380,000.00	Research and development, technological promotion and services for energy equipment and new material; Petroleum drilling equipment, tools and accessories; Metal cast	RMB306,743,691.73	—	100.00	100.00	Lin Fu Long	72481440-5	Yes	Nil
<b>3rd tier Subsidiaries</b>														
Molong Electro-mechanical Equipment	LLC (sino-foreign joint venture)	Shouguang, Shandong Province	Shouguang, Shandong Province	Manufacturing	US\$1,000,000.00	Manufacture and sales of outer thickening oil well tubing and electrical complete equipment	RMB15,011,813.88	—	100.00	100.00	Zhang Huan Jun	73261459-3	Yes	Nil
Baolong Recyclable Resource	LLC	WeiHai, Shandong Province	WeiHai, Shandong Province	Trade	RMB300,000.00	Trading and sales of scrap metals	RMB271,156.08	—	100.00	100.00	Zhang Jin Hui	76576543-5	Yes	Nil
Maelong Recycle	LLC	Shouguang, Shandong Province	Shouguang, Shandong Province	Trade	RMB500,000.00	Trading of scrap metals	RMB500,000.00	—	100.00	100.00	Liu Yun Long	74566977-X	Yes	Nil
Subsidiaries acquired through establishment or investment														
<b>2nd tier Subsidiaries</b>														
Shouguang Baolong	LLC	Shouguang City, Shandong Province	Shouguang City, Shandong Province	Manufacturing	RMB150,000,000.00	Manufacture and sales of petroleum equipment	RMB105,000,000.00	—	70.00	70.00	Gyo Huan Ran	66139842-3	Yes	Nil
WeiHai Baolong	LLC	WeiHai City, Shandong Province	WeiHai City, Shandong Province	Manufacturing	RMB26,000,000.00	Manufacture and sales of petroleum special metal materials	RMB270,602,708.10	—	100.00	100.00	Zhang Jin Hui	75638729-2	Yes	Nil
Molong Logistic Company	LLC (legal entity wholly-owned)	Shouguang City, Shandong Province	Shouguang City, Shandong Province	Service	RMB3,000,000.00	Goods storage (exclude contraband), cargo work, empty distribution and logistics information consultant	RMB3,000,000.00	—	100.00	100.00	Zhang Jin Chuan	57939315-6	Yes	Nil

Note: as at the end of the year, there is no bond issued by subsidiaries of the Company.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## IV. Business Combination & Consolidated Financial Statements (continued)

### 2. Changes in the Scope of Consolidation

During the year ended 31 December 2013, there is no change in companies included in the scope of consolidation.

### 3. Exchange Rate for Financial Statement in Foreign Operations

When the Company prepared these consolidated financial statements, assets and liabilities denominated in foreign currencies in MPM Limited were translated at the rate of US\$1 : RMB6.0969; income and expenses in the income statement and items affecting profit distribution were exchanged at the average rate of US\$1 : RMB6.1786.

## V. Notes to the Consolidated Financial Statements

Unless otherwise stated, the term of 'beginning of the year' refers to 1 January 2013 and the term of 'end of the year' refers to 31 December 2013. 'This year' refers to the year ended 31 December 2013. 'Previous year' refers to the year ended 31 December 2012. The following notes to the financial statements are presented in RMB.

### 1. Cash and bank balances

Items	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
Cash on hand						
RMB	42,463.38	—	42,463.38	38,135.44	—	38,135.44
Cash in Bank						
RMB	167,468,536.00	—	167,468,536.00	110,780,295.88	—	110,780,295.88
USD	5,625,959.86	6.0969	34,300,914.66	4,072,848.42	6.2855	25,599,876.14
HKD	174.98	0.7862	136.57	1,440.86	0.8109	1,180.23
EURO	0.01	8.4189	0.08	0.01	8.3176	0.08
Other funds						
RMB	361,694,237.29	—	361,694,237.29	347,450,663.67	—	347,450,663.67
USD	5,620,000.00	6.0969	34,264,578.00	—	—	—
Total			597,770,865.98			483,870,151.44

- (1) As at the end of the year, other fund held by the Group included bank acceptance security deposit of RMB201,454,237.29 (as at the beginning of the year: RMB292,478,163.67), borrowings and deposit for letter of credit of RMB130,444,578.00 (as at the beginning of the year: Nil), deposit for letter of guarantee of RMB64,060,000.00 (as at the beginning of the year: RMB54,972,500.00).
- (2) As at the end of the year, other fund held by the Group included bank acceptance bills deposit with maturity date over 3 months of RMB154,462,427.49 (as at the beginning of the year: RMB89,777,244.98), borrowings and deposit for letter of credit with maturity date over 3 months of RMB73,901,974.00 (as at the beginning of the year: Nil); and deposit for letter of guarantee with maturity date over 3 months of RMB38,860,000.00 (as at the beginning of the year: RMB25,000,000.00).



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 2. Bills Receivable

#### (1) Classification of bills receivable

Items	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance notes	135,159,594.04	197,194,589.32
Total	135,159,594.04	197,194,589.32

#### (2) Pledged bills receivable

(1) As at the end of the year, bills receivable amounted RMB84,193,244.79 was pledged to bank in exchange of equivalent amount of bills payables. These bills receivables will be matured by 24 March 2014.

(2) As at the end of the year, the top five pledged bills receivable are as follows:

Items	Bills Endorser	Date of issue	Date of maturity	Amount	Remark
Bank acceptance bills	China Petroleum & Chemical Co., Ltd, Supplies Equipment Department	2013-11-13	2014-2-12	10,000,000.00	
Bank acceptance bills	China Petroleum & Chemical Co., Ltd, Supplies Equipment Department	2013-10-17	2014-1-17	6,073,547.46	
Bank acceptance bills	Xinjiang Petroleum Administration Bureau, Financial Asset Department	2013-11-22	2014-2-22	5,636,237.50	
Bank acceptance bills	Xinjiang Petroleum Administration Bureau, Financial Asset Department	2013-11-22	2014-2-22	5,000,000.00	
Bank acceptance bills	Weishanhu Daizhuang Coal Transport and Marketing Company	2013-9-4	2014-3-4	3,000,000.00	
Total				29,709,784.96	



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 2. Bills Receivable (continued)

#### (2) Pledged bills receivable (continued)

(3) As at the end of the year, the top five bills endorsed to other parties but not mature are as follows:

Items	Bills Endorser	Date of issue	Date of maturity	Amount	Remark
Bank acceptance bills	Guangdong Taidu Steel Company Limited	2013-11-19	2014-5-19	10,000,000.00	
Bank acceptance bills	Chengdu Xinjinyinxin Materials Company Limited	2013-11-29	2014-5-29	10,000,000.00	
Bank acceptance bills	Hebei Zhongtai Steel Pipe Manufacture Co., Ltd.	2013-7-29	2014-1-29	10,000,000.00	
Bank acceptance bills	Liaoning Xinbeifang Reli Group Company Limited	2013-11-26	2014-05-26	10,000,000.00	
Bank acceptance bills	Shandong Jinguan Chemical Co., Ltd	2013-8-28	2014-2-28	10,000,000.00	
Total				50,000,000.00	

(4) As at the end of the year, the Group had no bills receivable discounted before the maturity date (as at the beginning of the year: RMB50,000,000).

### 3. Accounts Receivable

Items	Balance at the end of the year	Balance at the beginning of the year
Accounts receivable	574,636,787.15	460,345,374.25
Less: provision of bad debt	10,864,189.73	5,239,941.03
Net amount	563,772,597.42	455,105,433.22

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 3. Accounts Receivable (continued)

#### (1) Aging analysis of accounts receivable

Prior to accepting new customers, the Group accesses the credit quality of potential customers and offers credit limit in accordance with internal credit assessment policies. Apart from requiring new customers to pay in advance, the Group offers tailor-made credit policies to individual customers. The Group allows an average credit for 3 months to general customers and 6 months for major customers. For domestic sales, the Group recognises revenue and accounts receivable when goods are delivered to and accepted by the customers. The inclusion of relevant accounts receivable in aging analysis begins at this date. For export sales, the Group recognises revenue and accounts receivable when risk and rewards of exported goods transferred to customer under "Free on Board" (FOB) and "Carriage and Insurance Paid to" (CIP) arrangement. The inclusion of relevant accounts receivable in aging analysis begins at this date. The aging analysis of accounts receivable are as follows:

Aging	Balance at the end of the year	Balance at the beginning of the year
Within one year	552,166,395.76	452,653,405.89
More than one year but within two years	10,739,610.15	1,799,900.20
More than two years but within three years	700,000.00	491,300.86
More than three years	166,591.51	160,826.27
Net amount	563,772,597.42	455,105,433.22

The Group accesses that the above accounts receivable which are past due but not impaired are fully recoverable according to past payment records and creditability.

#### (2) Risk Classification of Accounts Receivable

Items	Balance at the end of the year				Balance at the beginning of the year			
	Carrying amount		Provision of bad debts		Carrying amount		Provision of bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Single item with significant accounts receivable and provided for bad debts in single item	15,417,953.39	2.68	8,796,479.57	57.05	3,284,636.96	0.71	3,284,636.96	100.00
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test	557,151,123.60	96.96	—	—	455,105,433.22	98.86	—	—
Single item with insignificant accounts receivable but provided for bad debts separately	2,067,710.16	0.36	2,067,710.16	100.00	1,955,304.07	0.43	1,955,304.07	100.00
Total	574,636,787.15	100.00	10,864,189.73	100.00	460,345,374.25	100.00	5,239,941.03	100.00



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 3. Accounts Receivable (continued)

#### (2) Risk Classification of Accounts Receivable (continued)

(1) Single item with significant accounts receivable and provided for bad debts in single item

Companies	Carrying amount	Provision for bad debt	Ratio (%)	Reason for provision
Shengli Oilfield Highland Petroleum Equipment Co., Ltd.	3,284,636.96	3,284,636.96	100.00	Aging over three years with low possibility of recovery
SBI Company (USA)	3,794,051.91	3,794,051.91	100.00	Aging over three years with low possibility of recovery
Wenlai Jinlong Investment Company Limited, Beijing Office	8,339,264.52	1,717,790.70	20.60	Aging over one years with uncertainty in recovery
Total	15,417,953.39	8,796,479.57		

(2) Single item with insignificant accounts receivable but provided for bad debts separately

Companies	Carrying amount	Provision for bad debt	Ratio (%)	Reason for provision
South China Petrochemical Group	1,921,727.16	1,921,727.16	100.00	Aging over three years with low possibility of recovery
Hanting Energy Service Company Limited	89,283.00	89,283.00	100.00	Aging over three years with low possibility of recovery
Shandong Gaoke Equipment Sets Co., Ltd	40,700.00	40,700.00	100.00	Aging over three years with low possibility of recovery
Zibo Zhongxin Electricity Company Limited	16,000.00	16,000.00	100.00	Aging over three years with low possibility of recovery
Total	2,067,710.16	2,067,710.16		

(3) There is no reversal of provision for bad debt or recovery of impaired accounts receivable during this year.

(4) There is no accounts receivable written off as uncollectible during this year and previous year.

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 3. Accounts Receivable (continued)

(5) At the end of the reporting period, the balances of accounts receivable do not include receivable from shareholders holding 5% or more of the Company's voting capital.

(6) The top five amounts of accounts receivable are as follows:

Companies	Relationship	Amount	Aging	Proportion (%)
Xinjiang Uyghur Autonomous Region Petroleum Administration Bureau	Customer	43,960,276.43	Within one year	7.65
Campex Inc.	Customer	43,949,929.21	Within one year	7.65
LUKOIL Uzbekista Operating Company	Customer	35,268,957.10	Within one year	6.14
China Petroleum & Chemical Co., Ltd, Supplies Equipment Department	Customer	34,630,043.68	Within one year	6.03
North China Petroleum Administration Bureau	Customer	33,555,803.17	Within one year	5.84
Total		191,365,009.59		33.31

(7) Accounts receivable due from related parties are as follows:

Companies	Relationship	Balance at the end of the year			Balance at the beginning of the year		
		Amount	Proportion (%)	Provision for bad debt	Amount	Proportion (%)	Provision for bad debt
Yalong Oil Pump Company Limited (Note)	Associate	1,044,301.65	0.18	—	2,716,477.70	0.59	
Total		1,044,301.65	0.18	—	2,716,477.70	0.59	

Note: Yanlong Oil Pump Company Limited is abbreviated to "Yalong Oil Pump" in this annual report.

(8) Accounts receivable denominated in foreign currencies are as follows:

Foreign currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
USD	21,409,826.96	6.0969	130,533,573.99	11,968,252.64	6.2855	75,226,451.95
Euro	498,013.45	8.4189	4,192,725.43	498,013.45	8.3176	4,142,276.67
Total			134,726,299.42			79,368,728.62

(9) As at 31 December 2013, the Group had no pledged accounts receivable.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 4. Prepayments

#### (1) Aging of prepayments

Items	Balance at the end of the year		Balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within one year	47,650,707.35	99.74	33,836,143.94	99.82
One to two years	97,064.27	0.20	32,268.00	0.10
Two to three years	—	—	—	—
More than three years	28,214.22	0.06	28,214.22	0.08
<b>Total</b>	<b>47,775,985.84</b>	<b>100.00</b>	<b>33,896,626.16</b>	<b>100.00</b>

#### (2) The top five balances of prepayments are as follows:

Entities	Relationship	Amount	Proportion (%)	Aging	Reason for unsettled
Shandong Shouguang Juneng Special Steel Co., Ltd.	Raw material suppliers	16,448,948.51	34.43	Within one year	Raw materials not received yet
Dongge Lianxing Metal Products Co., Ltd.	Raw material suppliers	9,504,544.92	19.89	Within one year	Raw materials not yet received
Shandong Xiwang Special Steel Company Limited	Raw material suppliers	4,224,197.40	8.84	Within one year	Raw materials not yet received
China National Minerals Co., Ltd.	Raw material suppliers	2,530,394.74	5.30	Within one year	Raw materials not yet received
Shouguang Shihua Natural Gas Co., Ltd.	Natural gas suppliers	2,359,155.21	4.94	Within one year	Natural gas not yet consumed
<b>Total</b>		<b>35,067,240.78</b>	<b>73.40</b>		

(3) As at the end of the year, the balances of prepayments do not include prepayments to shareholders holding 5% or more of the Company's voting capital.

(4) As at the end of the year, there is no prepayments denominated in foreign currency.

### 5. Interests Receivable

As at the end of the year, the Group had interests receivable of RMB4,606,049.44 representing interest from pledged deposits. There is no interest past due and not received by the Group.

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 6. Other Receivables

Items	Balance at the end of the year	Balance at the beginning of the year
Other receivables	31,279,655.73	19,072,966.54
Less: provision of bad debt	119,119.25	119,119.25
Net amount	31,160,536.48	18,953,847.29

#### (1) Aging Analysis of Other Receivables

Aging	Balance at the end of the year	Balance at the beginning of the year
Within one year	20,385,704.75	8,140,362.48
One to two years	405,474.02	3,545,825.81
Two to three years	3,122,000.00	2,160,000.00
More than three years	7,247,357.71	5,107,659.00
Net amount	31,160,536.48	18,953,847.29

#### (2) Risk Classification of Other Receivables

Items	Balance at the end of the year				Balance at the beginning of the year			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Single item with significant other receivables and provided for bad debts in single item	—	—	—	—	—	—	—	—
Single item with insignificant other receivable and single item with significant other receivable but not impaired under single item impairment test	31,160,536.48	99.62	—	—	18,953,847.29	99.38	—	—
Single item with insignificant other receivables but provided for bad debts separately	119,119.25	0.38	119,119.25	100.00	119,119.25	0.62	119,119.25	100.00
Total	31,279,655.73	100.00	119,119.25	—	19,072,966.54	100.00	119,119.25	—



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 6. Other Receivables (continued)

#### (2) Risk Classification of Other Receivables (continued)

Other receivables of insignificant amount, individually provided for bad debts

Companies	Carrying amount	Provision for bad debt	Ratio (%)	Reason for provision
Wang Lixue	40,000.00	40,000.00	100.00	No recovery with long aging
Shouguangshi Gong An Ju	5,000.00	5,000.00	100.00	No recovery with long aging
Shouguang City Government San Den Office	6,470.00	6,470.00	100.00	No recovery with long aging
Shouguang vegetable Oil Plant	2,750.00	2,750.00	100.00	No recovery with long aging
Other Individuals	64,899.25	64,899.25	100.00	No recovery with long aging
<b>Total</b>	<b>119,119.25</b>	<b>119,119.25</b>		

(3) The Group had no other receivables which was fully or significantly provided for bad debt in previous years recovered or partially recovered by debt restructuring or other alternatives during the year.

(4) There is no other receivable written off as uncollectible during this year and previous year.

(5) As at 31 December 2013, the balances of other receivables do not include receivables from shareholders holding 5% or more of the Company's voting capital.

(6) The top five balances of other receivables are as follows:

Companies	Relationship	Amount	Aging	Proportion (%)	Nature
Shouguang City Yangkou Town Finance Department	Non-related party	14,530,000.00	Within one Year	46.45	Deposit for project development
Gucheng Street Offices	Non-related party	7,161,707.00	Over three Years	22.90	Current account
People's Government of Wendeng City Gaocun Town	Non-related party	3,000,000.00	Two to three Years	9.59	Current account
West Centre of Shanghai Petroleum Exchange Company Limited	Non-related party	1,314,923.00	Within one Year	4.20	Deposit for tendering
Sinochem International Tendering Co., Ltd.	Non-related party	800,000.00	Within one Year	2.56	Deposit for tendering
<b>Total</b>		<b>26,806,630.00</b>		<b>85.70</b>	



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 6. Other Receivables (continued)

#### (7) Government grants receivables

Entities	Type of subsidies	Balance at the end of the year	Aging	Time	Estimated settlement	
					Amount	Sourcing document
Shouguang Finance Bureau	Awards	1,130,077.45	Within one year	First quarter in 2014	1,130,077.45	Shou-Cai-Yu No. [2013] 6 (壽財預 [2013] 6號)
Total		1,130,077.45			1,130,077.45	

Note: The Group have received the above-mentioned government subsidies of RMB1,130,077.45 on 27 January 2014 and 27 March 2014.

## 7. Inventories

### (1) Classification

Items	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Allowance for inventories	Net amount	Carrying amount	Allowance for inventories	Net amount
Raw material	309,153,108.34	20,577,712.50	288,575,395.84	248,613,503.61	1,195,540.88	247,417,962.73
Work-in-progress	398,817,315.92	10,117,042.74	388,700,273.18	453,148,290.87	1,180,252.74	451,968,038.13
Entrusted processing materials	15,031,673.43	198,651.68	14,833,021.75	13,819,291.21	—	13,819,291.21
Finished goods	484,165,435.40	21,093,708.57	463,071,726.83	511,401,336.43	3,988,050.67	507,413,285.76
Total	1,207,167,533.09	51,987,115.49	1,155,180,417.60	1,226,982,422.12	6,363,844.29	1,220,618,577.83



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 7. Inventories (continued)

#### (2) Allowance for inventories

Items	Balance at the beginning of the year	Allowance made during this year	Reduction during this year		Balance at the end of the year
			Reversal of allowance	Written-off	
Raw material	1,195,540.88	19,382,171.62	—	—	20,577,712.50
Work-in-progress	1,180,252.74	9,246,768.65	112,061.14	197,917.51	10,117,042.74
Entrusted processing materials	—	198,651.68	—	—	198,651.68
Finished goods	3,988,050.67	18,365,890.76	579,293.20	680,939.66	21,093,708.57
<b>Total</b>	<b>6,363,844.29</b>	<b>47,193,482.71</b>	<b>691,354.34</b>	<b>878,857.17</b>	<b>51,987,115.49</b>

#### (3) Reasons for providing allowance for inventories

Items	Reasons for providing allowance	Reasons for reversal during this year	Reversal to balance of inventories at 31 December 2013 (%)
Raw material	Long aging and low value in use	—	—
Work-in-progress	Cost higher than net realisable value	Increase in price which is higher than cost	0.03
Entrusted processing materials	Cost higher than net realisable value	—	—
Finished goods	Cost higher than net realisable value	Increase in price which is higher than cost	0.12
<b>Total</b>			<b>0.15</b>

(4) As at the end of the year, the Group had no pledged or frozen inventories.

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 8. Other current assets

Items	Balance at the end of the year	Balance at the beginning of the year
Prepaid value-added tax	39,819,829.62	39,243,016.22
Prepaid income tax	7,106,700.55	1,289,983.67
Other prepaid taxes	851,673.61	846,809.61
Total	47,778,203.78	41,379,809.50

### 9. Long-term Equity Investment

#### (1) Classification of Long-term Equity Investment

Items	Balance at the end of the year	Balance at the beginning of the year
Long-term equity investment using the equity method	10,000,000.00	10,000,000.00
Long-term equity investment using the cost method	50,881,784.30	48,634,400.43
Including: associates	50,881,784.30	48,634,400.43
Total long-term equity investments	60,881,784.30	58,634,400.43
Less: Provision for long-term equity investment	—	—
Net amount of long-term equity investment	60,881,784.30	58,634,400.43

#### (2) Analysis of Long-term Equity Investment

Items	Balance at the end of the year	Balance at the beginning of the year
Listed	—	—
Unlisted	60,881,784.30	58,634,400.43
Total	60,881,784.30	58,634,400.43



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 9. Long-term Equity Investment

#### (3) Analysis of Long-term Equity Investment under Cost Method and Equity Method

Investee company	Shareholding (%)	Voting right (%)	Cost of investment	Balance as at the beginning of the year	Increase or decrease in investment during this year	Share of result using equity method	Cash dividend declared	Other movement	As at the end of the year	Provision for impairment	Impairment loss recognised during this year
<b>Cost method</b>											
Shouguang Mihe Water Company Limited	9.73	9.73	10,000,000.00	10,000,000.00	—	—	—	—	10,000,000.00	—	—
Total			10,000,000.00	10,000,000.00	—	—	—	—	10,000,000.00	—	—
<b>Using equity method</b>											
Yalong Oil Pump	30.00	30.00	1,888,500.00	2,720,890.78	—	85,618.89	150,000.00	—	2,656,509.67	—	—
Shouguang Maolong microfinance Co., Ltd. (Note)	30.00	30.00	45,000,000.00	45,913,509.65	—	2,311,764.98	—	—	48,225,274.63	—	—
Subtotal			46,888,500.00	48,634,400.43	—	2,397,383.87	150,000.00	—	50,881,784.30	—	—
Total			56,888,500.00	58,634,400.43	—	2,397,383.87	150,000.00	—	60,881,784.30	—	—

Note: Shouguang Maolong microfinance Co., Ltd. is abbreviated to "Maolong Microfinance" in this annual report.

#### (4) Investment in associates

Investee Companies	Type of Organisation	Place of Registration	Place of Operation	Legal Person	Code of Organisation	Business Scope	Registered Capital	Percentage of shareholding (%)	Percentage of voting rights (%)
Associates									
Yalong Oil Pump	LLC	Karamay, Xinjiang	Karamay, Xinjiang	Luo Jie	22895641-2	Manufacturing	640	30.00	30.00
Maolong microfinance	LLC	Shouguang, Shandong	Shouguang, Shandong	Guo Huan Ran	59260577-4	Service	15,000	30.00	30.00
Total							15,640		

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 9. Long-term Equity Investment (continued)

#### (4) Investment in associates (continued)

Investee Companies	Balance at the end of the year	Liabilities at 31 December 2013	Net assets at 31 December 2013	Revenue during this year	Net profit during this year
<b>Associate</b>					
Yalong Oil Pump	17,305,433.76	8,661,462.83	8,643,970.93	21,497,231.46	285,396.30
Maolong microfinance	161,334,891.71	1,051,286.31	160,283,605.40	11,139,523.23	7,705,883.26
Total	178,640,325.47	9,712,749.14	168,927,576.33	32,636,754.69	7,991,279.56

Note: Significant accounting policies and accounting estimates adopted by associates is consistent with the Group.

- (5) There is no impairment indicators and the Group does not provide impairment loss for long-term equity investment.
- (6) As at 31 December 2013, there is no restriction on the Group of transferring capital from investee companies which the Group had long-term equity investment.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 10. Fixed Assets

#### (1) Details of fixed assets

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
<b>Costs</b>	2,499,449,631.04	62,792,950.31	10,981,019.51	2,551,261,561.84
Including: Buildings	439,321,276.04	2,735,953.96	—	442,057,230.00
Machinery & Equipment	1,958,298,608.33	50,155,785.64	10,005,206.24	1,998,449,187.73
Electronic & other equipment	87,588,190.23	8,689,368.93	357,700.44	95,919,858.72
Vehicles	14,241,556.44	1,211,841.78	618,112.83	14,835,285.39
<b>Accumulated depreciation</b>	649,376,634.72	180,201,740.43	5,362,526.69	824,215,848.46
Including: Buildings	77,018,026.67	20,905,918.70	—	97,923,945.37
Machinery & Equipment	513,670,625.51	146,076,896.04	4,710,383.41	655,037,138.14
Electronic & other equipment	49,540,004.51	11,519,872.25	321,088.18	60,738,788.58
Vehicles	9,147,978.03	1,699,053.44	331,055.10	10,515,976.37
<b>Net book amount</b>	1,850,072,996.32	—	—	1,727,045,713.38
Including: Buildings	362,303,249.37	—	—	344,133,284.63
Machinery & Equipment	1,444,627,982.82	—	—	1,343,412,049.59
Electronic & other equipment	38,048,185.72	—	—	35,181,070.14
Vehicles	5,093,578.41	—	—	4,319,309.02
<b>Provision for impairment</b>	16,206,335.81	—	—	16,206,335.81
Including: Buildings	4,986,478.28	—	—	4,986,478.28
Machinery & Equipment	11,219,857.53	—	—	11,219,857.53
Electronic & other equipment	—	—	—	—
Vehicles	—	—	—	—
<b>Net carrying amount</b>	1,833,866,660.51	—	—	1,710,839,377.57
Including: Buildings	357,316,771.09	—	—	339,146,806.35
Machinery & Equipment	1,433,408,125.29	—	—	1,332,192,192.06
Electronic & other equipment	38,048,185.72	—	—	35,181,070.14
Vehicles	5,093,578.41	—	—	4,319,309.02

- (1) During this year, depreciation expenses of RMB174,839,213.74 was recognised in profit or loss (during previous year: RMB173,734,066.80).
- (2) During this year, the amount of fixed assets transferred from construction in progress was RMB48,865,661.66.
- (3) During this year, the Group recognised loss on disposal of fixed assets amounted to RMB370,184.13.
- (4) As at the end of the year, the Group had no fixed assets pledged or guaranteed.
- (5) As at the end of the year, the Group had no temporarily idle fixed asset.

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 10. Fixed Assets

(2) The Group's buildings classified by locations and lease terms are as follows:

Items	Balance at the end of the year	Balance at the beginning of the year
In China	339,146,806.35	357,316,771.09
Medium lease term (10–50 years)	339,146,806.35	357,316,771.09
Outside China	—	—
Total	339,146,806.35	357,316,771.09

(3) Fixed assets that have not been granted with title certificates are as follows:

Fixed assets that have not been granted with title certificate	Balance at the end of the year		Balance at the beginning of the year	
	Cost	Carrying amount	Cost	Carrying amount
Logistic Park Plant	11,080,983.50	10,552,496.18	11,152,202.50	11,152,202.50
140 Plant	9,651,174.86	8,734,313.18	9,651,174.86	9,192,744.02
New Dormitory Building	6,095,893.00	5,106,580.26	6,095,893.00	5,396,135.22
Total	26,828,051.36	24,393,389.62	26,899,270.36	25,741,081.74

Items	Reason for not granted with title certificate	Estimated time of completion of application
Logistic Park Plant	Application in progress	2014
140 Plant	Application in progress	2014
New Dormitory Building	Application in progress	2015

(4) Please refer to note II.23 for the Group's accounting policy for impairment of fixed assets.

(5) As at the end of the year, the Group had no fixed assets pledged or guaranteed.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 11. Construction in Progress

#### (1) Details of Construction in Progress

Items	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Provision for impairment	Net amount	Carrying amount	Provision for impairment	Net amount
φ1200mm Petroleum Pipeline Expansion Project	—	—	—	32,180,097.24	—	32,180,097.24
Casting Plant Relocation and Technological Improvement Project	184,835,037.90	—	184,835,037.90	2,345,894.05	—	2,345,894.05
90 tons electric arc furnace Project	242,765,750.91	—	242,765,750.91	88,434,384.79	—	88,434,384.79
Others	14,814,205.00	—	14,814,205.00	11,390,715.61	—	11,390,715.61
<b>Total</b>	<b>442,414,993.81</b>		<b>442,414,993.81</b>	<b>134,351,091.69</b>		<b>134,351,091.69</b>

#### (2) Major changes in construction projects

Items	Balance at the beginning of the year	Additions	Reductions		Balance at the end of the year
			Transferred to fixed assets	Other reduction	
φ1200mm Petroleum Pipeline Expansion Project	32,180,097.24	16,685,564.42	48,865,661.66	—	—
Casting Plant Relocation and Technological Improvement Project	2,345,894.05	182,489,143.85	—	—	184,835,037.90
90 tons electric arc furnace Project	88,434,384.79	154,331,366.12	—	—	242,765,750.91
<b>Total</b>	<b>122,960,376.08</b>	<b>353,506,074.39</b>	<b>48,865,661.66</b>		<b>427,600,788.81</b>



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 11. Construction in Progress (continued)

#### (2) Major changes in construction projects (continued)

Projects	Budget amount	Investment to budgeted (%)	Progress (%)	Accumulated interest capitalised	Including: capitalised interest amount during this year	Interest capitalised during this year (%)	Sources of Fund
φ1200mm Petroleum Pipeline Expansion Project	68,000,000.00	101.40	100.00	2,124,718.08	973,320.51	5.23	Loan from financial institution and self-raised
Casting Plant Relocation and Technological Improvement Project	560,000,000.00	33.01	33.01	9,154,954.26	9,154,954.26	5.23	Loan from financial institution and self-raised
90 tons of electric arc furnace project	250,000,000.00	97.11	97.11	8,113,124.33	6,876,840.58	6.00	Loan from financial institution and self-raised
Total	878,000,000.00			19,392,796.67	17,005,115.35		

During this year, interest capitalisation rate is 5.23% and 6% for the Company and Shouguang Baolong respectively (previous year: 6.48% and 6% respectively).

- (3) The Group's construction in progress does not have any impairment indicators, no provision is provided.
- (4) At the end of the reporting period, the Group's construction in progress have no ownership issue or access right restriction due to pledge or any other reason.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 12. Intangible Assets

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
<b>Costs</b>	474,373,387.07	199,077,714.68	—	673,451,101.75
Including: Land use rights	224,286,488.49	162,366,390.00	—	386,652,878.49
Software	770,036.72	—	—	770,036.72
Non-patent technology	247,250,591.86	36,707,424.68	—	283,958,016.54
Patent technology	2,066,270.00	3,900.00	—	2,070,170.00
<b>Accumulated Amortisation</b>	95,786,748.61	57,023,661.86	—	152,810,410.47
Including: Land use rights	18,013,617.12	4,917,948.03	—	22,931,565.15
Software	724,011.08	13,589.76	—	737,600.84
Non-patent technology	76,660,987.15	51,688,989.01	—	128,349,976.16
Patent technology	388,133.26	403,135.06	—	791,268.32
<b>Net book amount</b>	378,586,638.46	—	—	520,640,691.28
Including: Land use rights	206,272,871.37	—	—	363,721,313.34
Software	46,025.64	—	—	32,435.88
Non-patent technology	170,589,604.71	—	—	155,608,040.38
Patent technology	1,678,136.74	—	—	1,278,901.68
<b>Provision for impairment</b>	—	33,968,375.45	—	33,968,375.45
Including: Land use rights	—	—	—	—
Software	—	—	—	—
Non-patent technology	—	33,968,375.45	—	33,968,375.45
Patent technology	—	—	—	—
<b>Net carrying amount</b>	378,586,638.46	—	—	486,672,315.83
Including: Land use rights	206,272,871.37	—	—	363,721,313.34
Software	46,025.64	—	—	32,435.88
Non-patent technology	170,589,604.71	—	—	121,639,664.93
Patent technology	1,678,136.74	—	—	1,278,901.68

(1) The land-use right by geographical information and lease term:

Item	Balance at the end of the year	Balance at the beginning of the year
Land-use right in the PRC	363,721,313.34	206,272,871.37
Medium-term lease (10–50 years)	363,721,313.34	206,272,871.37
Land-use right outside the PRC	—	—
<b>Total</b>	<b>363,721,313.34</b>	<b>206,272,871.37</b>

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 12. Intangible Assets (continued)

- (2) During this year, RMB57,023,661.86 (previous year: RMB42,977,006.80) was recognised as amortisation expense for intangible assets in the consolidated income statements.
- (3) The Group performs the impairment review on intangible assets as stated in note II.23.

The recoverable amount of intangible assets — non-patented technology is based on a valuation carried out on 31 December 2013 by a professional appraisal association. The major assumption adopted in estimating future cash flows as recoverable amount is as follows:

The recoverable amounts of non-patented technology are based on estimated future cash flows in their economic lives. The discount rate ranging between 12.33% and 14.18% per annum, which represents the risk involved in the non-patented assets.

- (4) The Group's intangible assets are not frozen or pledged at the end of reporting period.

### 13. Development Expenditure

Item	Balance at the beginning of the year	Additions	Reductions		Balance at the end of the year
			Credited to profit or loss	Recognised as intangible assets	
Research stage	—	6,428,132.78	6,428,132.78	—	—
Development stage	7,077,238.89	77,645,191.83	48,015,006.04	36,707,424.68	—
<b>Total</b>	<b>7,077,238.89</b>	<b>84,073,324.61</b>	<b>54,443,138.82</b>	<b>36,707,424.68</b>	<b>—</b>

The development expenditure is 92.35% of total research and development expenditure of the current year. The internal generated intangible assets are 24.99% of the total intangible assets.

### 14. Goodwill

Name of investee	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year	Provision for impairment at the end of the year
Business consolidation not under common control	142,973,383.21	—	—	142,973,383.21	59,490,000.00
<b>Total</b>	<b>142,973,383.21</b>			<b>142,973,383.21</b>	<b>59,490,000.00</b>



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 14. Goodwill (continued)

- (1) The Group's goodwill was generated by Business consolidation not under common control.
- (2) RMB49,240,000.00 was recognised as impairment of goodwill during this year (Previous year: RMB10,250,000.00).
- (3) The Group performs the impairment review on goodwill as stated in note II.23.

The Group has performed impairment test. Carrying amount of goodwill has been allocation to three relevant asset groups, representing three cash generating units. The recoverable amount of each cash-generating unit is the higher of the asset group's fair value less costs to sell and its future cash flow. The recoverable amount of asset groups is based on a valuation carried out on 31 December 2013 by a professional appraisal association.

- ① Major assumptions for future cash flow are adopted in determining recoverable amount of asset groups are as follows:

For the purposes of impairment testing for asset group, the projection is based on financial budgets of the most recent five years approved by management while the future cash flows for the sixth year onwards is projected based on zero growth rate. The discount rate is 10.39%. Other key assumption for the future cash flows is the estimated gross margin, such estimation is based on the management's past performance and expectations for the market development.

- ② Major assumptions for the fair value less costs to sell are adopted in determining recoverable amount of asset groups are as follows:

For the purposes of impairment testing for asset group, fair value is determined by the market price while replacement cost is determined by the market price less cost of disposal.

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 15. Deferred tax assets and deferred tax liabilities

#### (1) Recognised deferred tax assets and deferred tax liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
<b>Deferred tax assets</b>		
Allowance for doubtful debts	1,653,166.35	809,529.04
Including: accounts receivable	1,635,298.46	791,661.15
other receivables	17,867.89	17,867.89
Provision for inventories	8,822,681.97	1,173,966.73
Salaries payable	4,011,082.70	3,299,529.41
Accumulated amortisation of intangible assets	14,169,891.49	9,552,641.92
Accumulated depreciation and impairment of fixed assets	1,674,226.04	1,907,905.37
Deductible losses	9,765,657.18	878,702.84
Deferred income	813,600.00	1,627,200.00
Impairment of intangible assets	5,095,256.32	—
<b>Total</b>	<b>46,005,562.05</b>	<b>19,249,475.31</b>
<b>Deferred tax liabilities</b>		
Fair value adjustments (Note 1)	8,577,624.92	8,902,130.64
Including: long-term equity investment	3,809.38	3,809.38
fixed assets	873,526.03	1,012,090.71
intangible assets	7,700,289.51	7,886,230.55
Interests receivable	690,907.42	457,855.65
Deductible losses arose from intra-group transaction	1,524,270.70	2,243,568.94
<b>Total</b>	<b>10,792,803.04</b>	<b>11,603,555.23</b>

Note 1: On 31 December 2007, the Company acquired 100% of interests in Maolong Machinery. The Company consolidates Maolong Machinery which is not under common control, the fair value of identifiable assets, liabilities and contingent liabilities in Maolong Machinery are used to prepare the consolidation statements, and the deductible temporary differences between fair value and book value are recognised as deferred tax liabilities.

Note 2: According to the profit forecast of the Group, the Group will be able to realise the deductible differences and temporary difference and against the taxable profit in the future periods, therefore deferred tax assets are recognised.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 15. Deferred tax assets and deferred tax liabilities (continued)

#### (2) Details of unrecognised tax assets are shown as follows:

Item	Balance at the end of the year	Balance at the beginning of the year
Deductible temporary differences	—	—
Deductible losses	32,169,750.03	56,390.99
Total	32,169,750.03	56,390.99

Note: The future taxable profit of Weihai Baolong and Molong Logistic Company, the subsidiaries of the Company, are not probable to be available against the deductible temporary difference, the deferred tax assets are not recognised as at 31 December 2013 base on prudence.

#### (3) The year of expiry of the deductible losses not recognised as deferred tax assets

Item	Balance at the end of the year	Balance at the beginning of the year	Note
2017	3,604,023.09	56,390.99	—
2018	28,565,726.94	—	—
Total	32,169,750.03	56,390.99	—

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 15. Deferred tax assets and deferred tax liabilities (continued)

#### (4) Details of temporary difference of tax payables and deductible temporary difference items

Item	Balance at the end of the year	Balance at the beginning of the year
Deductible temporary differences:		
Allowance for doubtful debts	10,983,308.98	5,359,060.28
Including: accounts receivable	10,864,189.73	5,239,941.03
other receivables	119,119.25	119,119.25
Provision for inventories	51,987,115.49	6,363,844.29
Salaries payable	22,820,921.79	18,425,303.12
Accumulated amortisation of intangible assets	64,174,988.10	38,330,493.58
Accumulated depreciation and impairment of fixed assets	6,696,904.15	7,631,621.50
Deductible losses	55,642,845.66	3,514,811.37
Deferred income	5,424,000.00	7,232,000.00
Impairment provision of intangible assets	33,968,375.45	—
<b>Subtotal</b>	<b>251,698,459.62</b>	<b>86,857,134.14</b>
Temporary difference of tax payables:		
Fair value adjustments	34,310,499.70	35,608,522.54
Including: long term equity investments	15,237.51	15,237.51
fixed assets	3,494,104.09	4,048,362.82
intangible assets	30,801,158.10	31,544,922.21
Interests receivable	4,606,049.44	3,052,370.97
Unrealised loss of intra-group transaction	10,161,804.67	14,957,126.30
<b>Total</b>	<b>49,078,353.81</b>	<b>53,618,019.81</b>



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 16. Other non-current assets

Items	Balance at the end of the year	Balance at the beginning of the year
Including: Prepayments for acquisition of land use rights (Note 1)	143,016,280.00	270,000,000.00
Prepayments for acquisition of fixed assets (Note 2)	236,788,383.05	—
<b>Total</b>	<b>379,804,663.05</b>	<b>270,000,000.00</b>

Note 1: The Group had prepayments for acquisition for land use rights of RMB143,016,280.00 included in other non-current assets.

Note 2: The Group had prepayments for acquisition of plant, machinery and equipment of RMB236,788,383.05 included in other non-current assets. The Group had not received these fixed assets.

### 17. Impairment of assets

#### During this year

Item	Balance at the beginning of the year	Additions	Reductions		Balance at the end of the year
			Reversals	Written-off	
Provision of bad debt	5,359,060.28	5,624,248.70	—	—	10,983,308.98
Including: accounts receivable	5,239,941.03	5,624,248.70	—	—	10,864,189.73
other receivables	119,119.25	—	—	—	119,119.25
Provision of allowances for inventories	6,363,844.29	47,193,482.71	691,354.34	878,857.17	51,987,115.49
Accumulated impairment of fixed assets	16,206,335.81	—	—	—	16,206,335.81
Accumulated amortisation of intangible assets	—	33,968,375.45	—	—	33,968,375.45
Accumulated impairment of goodwill	10,250,000.00	49,240,000.00	—	—	59,490,000.00
<b>Total</b>	<b>38,179,240.38</b>	<b>136,026,106.86</b>	<b>691,354.34</b>	<b>878,857.17</b>	<b>172,635,135.73</b>



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 17. Impairment of assets (continued)

#### During previous year

Item	Balance at the beginning of the year	Additions	Reductions		Balance at the end of the year
			Reversals	Written-off	
Allowance for doubtful debts	9,068,368.85	941,205.06	4,650,513.63	—	5,359,060.28
Including: Accounts receivable	8,949,249.60	941,205.06	4,650,513.63	—	5,239,941.03
Other receivables	119,119.25	—	—	—	119,119.25
Provision for inventories	3,460,770.20	3,580,265.00	82,878.60	594,312.31	6,363,844.29
Accumulated impairment of fixed assets	16,206,335.81	—	—	—	16,206,335.81
Accumulated amortisation of intangible assets	—	—	—	—	—
Accumulated impairment of goodwill	—	10,250,000.00	—	—	10,250,000.00
<b>Total</b>	<b>28,735,474.86</b>	<b>14,771,470.06</b>	<b>4,733,392.23</b>	<b>594,312.31</b>	<b>38,179,240.38</b>

### 18. Short-term borrowings

#### (1) Classification of short-term borrowings

Nature of the loan	Currency	Balance at the end of the year			Balance at the beginning of the year		
		Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
Trust Loan (Note 1)	USD	6,269,895.50	6.1721	39,275,400.00	—	—	—
	USD	2,075,844.30	6.1754	12,914,400.00	—	—	—
	USD	4,832,919.84	6.1794	29,707,136.00	—	—	—
	USD	5,600,318.19	6.1812	34,608,960.00	—	—	—
Credit loans	USD	61,900,000.00	6.0969	377,398,110.00	47,729,995.00	6.2855	300,006,883.57
Credit loans	RMB	—	—	729,500,000.00	—	—	680,000,000.00
Guarantee loans	USD	23,600,000.00	6.0969	143,886,840.00	—	—	—
Discounted bills (Note 2)	RMB	—	—	—	—	—	50,000,000.00
<b>Total</b>				<b>1,367,290,846.00</b>			<b>1,030,006,883.57</b>

Note 1: The trust loans were the letter of credit for acquiring equipment. The closing exchange rates were fixed.

Note 2: The borrowing of bills receivable not yet mature was brought forward from discounted bills in previous year. Please refer to note V. 2.4.

During this year, the weighted average interest rate for the Group is 4.88%.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 18. Short-term borrowings (continued)

(2) The Group's short-term borrowings are not expired at the end of the reporting period.

(3) The Group has repaid RMB438,483,640.00 of short term borrowings up to the report date.

### 19. Bills payable

Nature	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance notes	427,566,182.16	603,403,515.62
Total	427,566,182.16	603,403,515.62

(1) As at the end of the year, bills payable amounted to RMB427,566,182.16 will be mature in 2014.

### 20. Accounts payable

#### (1) Details of accounts payable

Items	Balance at the end of the year	Balance at the beginning of the year
Materials	433,055,144.14	462,477,431.54
Construction equipment	115,504,289.76	108,364,270.13
Total	548,559,433.90	570,841,701.67

(2) Aging analysis of accounts payable:

Item	Balance at the end of the year	Balance at the beginning of the year
Within 2 months	274,099,931.56	161,689,188.60
2-3 months	56,945,026.64	81,002,548.65
3-4 months	30,794,458.79	62,288,584.06
4 months-1 year	122,165,826.05	201,137,128.21
1-2 years	38,658,781.57	44,550,531.57
2-3 years	10,523,518.57	6,823,230.96
Over 3 years	15,371,890.72	13,350,489.62
Total	548,559,433.90	570,841,701.67

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 20. Accounts payable (continued)

- (3) At the end of the reporting period, accounts payable aged over one year as follows:

Suppliers	Balance	Nature	Reason for unsettled
Taiyuan Heavy Industry Company Limited	4,681,286.05	Acquisition of equipment	Not reckoned
Wuhan Atlantic Ocean Continuous Casting Equipments Engineering Company Limited	2,503,300.00	Acquisition of equipment	Not reckoned
China Nuclear Industry 24 Construction Company Limited	2,205,155.32	Accrued construction cost	Not reckoned

- (4) At the end of the reporting period, the Group's accounts payable was not due to any shareholders holding over 5% of voting rights of the Group.

### (5) Accounts payable in foreign currency

Foreign currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
USD	1,563,566.00	6.0969	9,532,905.55	—	—	—
Total			9,532,905.55			—

### 21. Receipts in Advance

#### (1) Receipts in advance

Item	Balance at the end of the year	Balance at the beginning of the year
Total	92,679,015.92	25,837,981.59
Including: Over 1 year	1,323,579.24	1,347,860.72

- (2) At the end of the reporting period, the Group's receipts in advance was not due to any shareholders holding over 5% of voting rights of the Group.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 21. Receipts in Advance (continued)

#### (3) Receipts in advance in foreign currency

Foreign currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
USD	12,181,565.42	6.0969	74,269,786.21	927,166.96	6.2855	5,827,707.93
Total			74,269,786.21			5,827,707.93

### 22. Salaries Payable

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Salaries, bonuses, allowance and subsidies	18,159,887.75	103,163,656.45	100,307,885.76	21,015,658.44
Staff welfare	101,235.82	14,242,914.18	14,344,150.00	—
Social insurance premiums	—	15,309,769.37	15,309,769.37	—
Including: 1. Medical insurance	—	3,944,789.10	3,944,789.10	—
2. Retirement insurance	—	9,646,356.90	9,646,356.90	—
3. Unemployment insurance	—	543,402.06	543,402.06	—
4. Injury insurance	—	654,841.82	654,841.82	—
5. Birth insurance	—	520,379.49	520,379.49	—
Housing funds	—	824,297.28	824,297.28	—
Union fund and staff education fund	164,179.55	3,377,448.70	1,714,680.70	1,826,947.55
Total	18,425,303.12	136,918,085.98	132,500,783.11	22,842,605.99

The Group's salaries payable included unpaid salary bonuses, subsidies, and etc, of RMB21,015,658.44 at the end of the year and it will be paid before the end of the second quarter of 2014.

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 23. Taxes Payables

Items	Balance at the end of the year	Balance at the beginning of the year
Value-added tax	19,094,744.33	4,932,510.60
Business tax	205,948.63	—
Enterprise income tax	8,082,447.07	25,748,546.01
Individual income tax	2,038,142.23	44,353.28
Urban maintenances and construction tax	1,060,609.22	138,312.10
Property tax	907,617.27	853,251.00
Land use tax	1,377,877.05	1,288,226.55
Educational surcharges	757,625.15	98,841.50
Local water conservancy construction funds	151,194.17	19,437.44
Stamp duty	705,928.36	569,505.77
Others	—	(23,598.23)
<b>Total</b>	<b>34,382,133.48</b>	<b>33,669,386.02</b>

### 24. Interests Payable

Items	Balance at the end of the year	Balance at the beginning of the year
Bank loan interests	9,494,194.10	6,968,896.69
Corporate bond interests	14,745,205.48	—
<b>Total</b>	<b>24,239,399.58</b>	<b>6,968,896.69</b>

#### Interest payable in foreign currency

Foreign currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
USD	888,033.00	6.0969	5,414,248.42	216,426.56	6.2855	1,360,349.14
USD (Note 1)	169,654.35	6.1721	1,047,123.63	—	—	—
	53,133.11	6.1754	328,118.19	—	—	—
	101,754.01	6.1794	628,778.71	—	—	—
	78,885.73	6.1812	487,608.47	—	—	—
<b>Total</b>			<b>7,905,877.42</b>			<b>1,360,349.14</b>

Note 1: Please refer to note V.18 subnote 1 for details.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 25. Other payables

#### (1) Other payables

Items	Balance at the end of the year	Balance at the beginning of the year
Total	26,790,378.33	24,475,042.80
Including: Over 1 year	3,573,416.95	3,078,219.53

#### (2) Details of other payables

Other payables	Balance at the end of the year	Balance at the beginning of the year
Accrued natural gas, transportation, electricity	16,035,801.51	17,816,245.51
Deposits received	8,776,197.75	4,840,877.44
Others	1,978,379.07	1,817,919.85
Total	26,790,378.33	24,475,042.80

(3) At the end of the reporting period, the Group's other payable was not due to any shareholders holding over 5% of voting rights of the Group.

(4) Details of other payables due to related parties are the following:

Name	Balance at the end of the year	Balance at the beginning of the year
Zhang Yun San	800,000.00	—
Total	800,000.00	—

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 25. Other payables (continued)

#### (5) Other payables in foreign currency

Foreign currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
USD	25,230.08	6.0969	153,825.27	25,230.08	6.2855	158,583.67
Total			153,825.27			158,583.67

### 26. Other Current Liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
Deferred income	1,808,000.00	—
Total	1,808,000.00	—

Note: Details of government grants are set out in Note V.28.

### 27. Bonds payable

Nature of the bond	Nominal value	Date of issue	Period	Issued amount
Corporate bond	500,000,000.00	2013.6.7	3 years	496,000,000.00
Total	500,000,000.00			496,000,000.00

Nature of the bond	Balance at the beginning of the year of interest payable	Interests accrued during the year	Interests paid during the year	Balance at the end of the year of interest payable	Balance at the end of the year of bonds payable
Corporate bonds	—	14,745,205.48	—	14,745,205.48	496,777,777.77
Total	—	14,745,205.48	—	14,745,205.48	496,777,777.77

On 7 June 2013, the Company issued a 3-year corporate bond with a nominal value of RMB500,000,000, interest rate is 5.20%, interests will be paid on 7 June of each year until the principal is repaid. The actual subscribed amount received by the Company is RMB496,000,000 with the effective interest at 5.5%.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 28. Other Non-current Liabilities

#### Details of other non-current liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
Deferred income	3,616,000.00	7,232,000.00
Total	3,616,000.00	7,232,000.00

- (1) According to the notice of Lu-fa-gai investment [2011] no.1354 (魯發改投資[2011]1354 號) issued from Shandong Development and Reform Commission, the Company received RMB9,040,000.00 from Central Government as budget investment, which will be used in constructing high-end petroleum equipment. When the Company received this government grant, the Company recognised it as deferred income, RMB1,808,000.00 was recognised as income in current year.

#### (2) Government grants

Government grant	Balance at the beginning of the year	Additions	Recognised as income	Others	Balance at the end of the year	Capital nature/Revenue nature
High-end petroleum equipment	7,232,000.00	—	1,808,000.00	1,808,000.00	3,616,000.00	Capital nature
Energy Saving Reward	—	200,000.00	200,000.00	—	—	Revenue nature
Import and export for foreign trading examination award	—	60,000.00	60,000.00	—	—	Revenue nature
Examination reward	—	100,000.00	100,000.00	—	—	Revenue nature
Exhibition subsidies	—	30,000.00	30,000.00	—	—	Revenue nature
Export growth for foreign trade subsidies	—	237,000.00	237,000.00	—	—	Revenue nature
Treasury support fund	—	9,000,000.00	9,000,000.00	—	—	Revenue nature
Gucheng treasury reward	—	50,000.00	50,000.00	—	—	Revenue nature
Scrap materials sales and purchases reward	—	1,130,077.46	1,130,077.46	—	—	Revenue nature
Total	7,232,000.00	10,807,077.46	12,615,077.46	1,808,000.00	3,616,000.00	



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 29. Share Capital

The movements of the Company's authorised, issued and fully paid capital are shown as follows. The nominal value of the Company's ordinary share is RMB1 per share.

#### This year

Shareholder/nature	Balance at the beginning of the year		Movements during the year				Balance at the end of the year		
	Amount	Ratio (%)	New shares issued	Bonus issue	Shares transferred from reserve	Others	Subtotal	Amount	Ratio (%)
<b>Restricted shares</b>									
Other domestic shares	396,478,000.00	49.69	—	—	—	(120,182,250.00)	(120,182,250.00)	276,295,750.00	34.63
Include: Domestic natural person	396,478,000.00	49.69	—	—	—	(120,182,250.00)	(120,182,250.00)	276,295,750.00	34.63
<b>Restricted shares — Total</b>	<b>396,478,000.00</b>	<b>49.69</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(120,182,250.00)</b>	<b>(120,182,250.00)</b>	<b>276,295,750.00</b>	<b>34.63</b>
<b>Non-restricted shares</b>									
RMB ordinary shares	145,244,000.00	18.21	—	—	—	120,182,250.00	120,182,250.00	265,426,250.00	33.27
Overseas listed foreign shares	256,126,400.00	32.10	—	—	—	—	—	256,126,400.00	32.10
<b>Non-restricted shares — Total</b>	<b>401,370,400.00</b>	<b>50.31</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>521,552,650.00</b>	<b>65.37</b>
<b>Total</b>	<b>797,848,400.00</b>	<b>100.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>797,848,400.00</b>	<b>100.00</b>



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 29. Share Capital (continued)

#### Previous year

Shareholder/nature	Balance at the beginning of the year		Previous year movement				Balance at the end of the year		Ratio (%)
	Amount	Ratio (%)	New shares issued	Bonus issue	Shares transferred from reserve	Others	Subtotal	Amount	
<b>Restricted shares</b>									
Other domestic shares	198,239,000.00	49.69	—	—	198,239,000.00	—	198,239,000.00	396,478,000.00	49.69
Include: Domestic natural person	198,239,000.00	49.69	—	—	198,239,000.00	—	198,239,000.00	396,478,000.00	49.69
<b>Restricted shares — Total</b>	198,239,000.00	49.69	—	—	198,239,000.00	—	198,239,000.00	396,478,000.00	49.69
<b>Non-restricted shares</b>									
RMB ordinary shares	72,622,000.00	18.21	—	—	72,622,000.00	—	72,622,000.00	145,244,000.00	18.21
Overseas listed foreign shares	128,063,200.00	32.10	—	—	128,063,200.00	—	128,063,200.00	256,126,400.00	32.10
<b>Non-restricted shares — Total</b>	200,685,200.00	50.31	—	—	200,685,200.00	—	200,685,200.00	401,370,400.00	50.31
Total	398,924,200.00	100.00	—	—	398,924,200.00	—	398,924,200.00	797,848,400.00	100.00

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 30. Capital Reserves

#### This year

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Share premium	849,481,990.92	—	—	849,481,990.92
Other premium	18,667.50	—	—	18,667.50
Total	849,500,658.42	—	—	849,500,658.42

#### Previous year

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Share premium	1,248,406,190.92	—	398,924,200.00	849,481,990.92
Other premium	18,667.50	—	—	18,667.50
Total	1,248,424,858.42	—	398,924,200.00	849,500,658.42

### 31. Special Reserve

#### Current year

Item	Balance at the beginning of the year	Additions	Reduction	Balance at the end of the year
Production safety fee	—	11,695,395.27	11,695,395.27	—
Total	—	11,695,395.27	11,695,395.27	—

Note: According to the rule, Cai-qi [2012] no. 16 (《企業安全生產費用提取和使用管理辦法》財企[2012]16號) enforced by MoF and State Administration of Work Safety, the Group recorded the related product safety fee as required by law.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 32. Reserve Funds

#### This year

Item	Balance at the beginning of the year	Addition	Reduction	Balance at the end of the year
Statutory reserve	168,908,489.86	—	—	168,908,489.86
Total	168,908,489.86	—	—	168,908,489.86

#### Previous year

Item	Balance at the beginning of the year	Addition	Reduction	Balance at the end of the year
Statutory reserve	157,965,274.48	10,943,215.38	—	168,908,489.86
Total	157,965,274.48	10,943,215.38	—	168,908,489.86

Appropriation details of statutory reserve are set out in Note V.33.

### 33. Undistributed Profits

#### This year

Item	Amount	Appropriation rate (%)
Balance at the end of last year	1,073,097,098.79	—
Add: adjustment to the undistributed profits at beginning of the year	—	—
Balance at the beginning of the year	1,073,097,098.79	—
Add: Loss attributable to the owners of the Company	(175,722,248.47)	—
Less: Appropriation to surplus reserve	—	—
Dividend declared and payables	39,892,420.00	—
Balance at the end of the year	857,482,430.32	—

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 33. Undistributed Profits (continued)

#### Previous year

Item	Amount	Appropriation rate (%)
Balance at the end of last year	989,669,698.87	—
Add: adjustment to the undistributed profits at beginning of the year	—	—
Balance at the beginning of the year	989,669,698.87	—
Add: Profit attributable to the owners of the Company	134,263,035.30	—
Less: Appropriation to surplus reserve	10,943,215.38	10
Dividend declared and payables	39,892,420.00	—
Balance at the end of the year	1,073,097,098.79	—

Note 1: Appropriation to Reserve funds

As required by the Articles of Association, statutory surplus reserve is withdrawn at 10% of net profit. If the accumulated amount of the Company's statutory surplus reserve is over 50% of its registered capital, no withdrawal would be allowed.

Note 2: Cash dividends of the first half of the year as approved in 2011–2012 General Meeting.

According to the Board resolution of the Company convened on 29 March 2012, 19 July 2012 was selected to distribute dividend, with the basis of 398,924,200 shares at a nominal value of RMB1 per share, a cash dividend of RMB0.10 per share was distributed to all shareholders, totalling RMB39,892,420.00. Such resolution has been passed in the 2011 Annual General Meeting.

According to the Board resolution of the Company convened on 28 March 2013, 29 July 2013 was selected to distribute dividend, with the basis of 797,848,400 shares at a nominal value of RMB1 per share, a cash dividend of RMB0.50 per 10 shares was distributed to all shareholders, totalling RMB39,892,420.00. Such resolution has been passed in the 2012 Annual General Meeting.

### 34. Minority interest

#### Minority interest of each subsidiary

Subsidiaries	Minority interest (%)	Balance at the end of the year	Balance at the beginning of the year
MPM Limited	10.00	1,624,404.97	1,641,017.86
Shouguang Baolong	30.00	60,393,115.81	62,228,982.04
Total		62,017,520.78	63,869,999.90



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 35. Net Current Assets

Items	Balance at the beginning of the year	Balance at the end of the year
Current assets	2,583,204,250.58	2,451,019,034.76
Less: current liabilities	2,546,157,995.36	2,313,628,711.08
Net current assets	37,046,255.22	137,390,323.68

### 36. Total Assets less Current Liabilities

Items	Balance at the beginning of the year	Balance at the end of the year
Total assets	5,793,466,052.68	5,285,750,978.82
Less: current liabilities	2,546,157,995.36	2,313,628,711.08
Total assets less current liabilities	3,247,308,057.32	2,972,122,267.74

### 37. Borrowings

Items	Balance at the beginning of the year	Balance at the end of the year
Short-term borrowings	1,367,290,846.00	1,030,006,883.57
Bonds payables	496,777,777.77	—
Total	1,864,068,623.77	1,030,006,883.57

#### (1) Borrowings analysis

Items	Balance at the beginning of the year	Balance at the end of the year
<b>Bank loan</b>		
Repayable within 5 years	1,367,290,846.00	1,030,006,883.57
Repayable over 5 years	—	—
Sub-total	1,367,290,846.00	1,030,006,883.57
Other borrowings and payables	496,777,777.77	—
Total	1,864,068,623.77	1,030,006,883.57

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 37. Borrowings (continued)

#### (2) Borrowing maturity analysis

Items	Balance at the beginning of the year	Balance at the end of the year
Repayable on demand or within 1 year	1,367,290,846.00	1,030,006,883.57
1 to 2 years	—	—
2 to 5 years	496,777,777.77	—
Over 5 years	—	—
<b>Total</b>	<b>1,864,068,623.77</b>	<b>1,030,006,883.57</b>

### 38. Operating Revenue and Operating Costs

Items	During this year	During previous year
Income from main operation	2,228,208,692.23	2,905,348,601.16
Income from other operation	43,825,642.97	46,715,231.00
<b>Total</b>	<b>2,272,034,335.20</b>	<b>2,952,063,832.16</b>
Cost of main operations	2,030,863,941.39	2,585,399,641.20
Cost of other operations	45,566,129.47	38,841,362.04
<b>Total</b>	<b>2,076,430,070.86</b>	<b>2,624,241,003.24</b>

Note: Income from main operation (turnover of the Group) represents the amounts received or receivable from the sales of products and the services rendered to the outsider during this year.

The breakdown of gross profits is as follow:

Items	During this year	During previous year
Operating revenue	2,228,208,692.23	2,905,348,601.16
Cost of operations	2,030,863,941.39	2,585,399,641.20
<b>Gross Profits</b>	<b>197,344,750.84</b>	<b>319,948,959.96</b>



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 38. Operating Revenue and Operating Costs (continued)

#### (1) Operating revenue — by industry

Industry	During this year		During previous year	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Petroleum machinery equipment manufacturing	2,228,208,692.23	2,030,863,941.39	2,905,348,601.16	2,585,399,641.20
Total	2,228,208,692.23	2,030,863,941.39	2,905,348,601.16	2,585,399,641.20

#### (2) Operating revenue — by product

Products	During this year		During previous year	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Casing and Tubing	2,010,891,871.31	1,861,137,634.15	2,598,091,671.18	2,326,621,571.34
Three kinds of pumping units	79,849,248.22	65,845,793.09	83,240,409.14	68,249,565.23
Petroleum machinery part	122,082,387.45	90,207,865.42	173,068,574.45	139,725,958.06
Others	15,385,185.25	13,672,648.73	50,947,946.39	50,802,546.57
Total	2,228,208,692.23	2,030,863,941.39	2,905,348,601.16	2,585,399,641.20

#### (3) Operating revenue — by geographical segment

Regions	During this year		During previous year	
	Operating revenue	Operating cost	Operating revenue	Operating cost
PRC	1,503,496,377.27	1,435,608,394.57	1,755,204,212.99	1,599,362,657.11
Overseas	724,712,314.96	595,255,546.82	1,150,144,388.17	986,036,984.09
Total	2,228,208,692.23	2,030,863,941.39	2,905,348,601.16	2,585,399,641.20



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 38. Operating Revenue and Operating Costs (continued)

- (4) During this year, operating income from top five customers are RMB935,695,249.80 (previous year: RMB1,307,285,528.82), accounting for 41.18 % of the aggregate revenue of the Group during the year (previous year: 44.28%), details as follows:

Name of customer	Operating Revenue	Percentage of the total sales revenue (%)
China National Petroleum Corporation	469,437,332.43	20.66
Hebei Zhongtai Steel Pipe Manufacture co., Ltd	150,245,890.00	6.61
Campex Inc	119,719,265.08	5.27
Petroleum Pipe Company Limited	114,529,130.90	5.04
Cnood Asia Limited	81,763,631.39	3.60
Total	935,695,249.80	41.18

### 39. Tax and Levies on Operations

Items	During this year	During previous year	Tax rate
Business tax	205,948.63	6,927.50	5% of operating revenue
Urban maintenances and construction tax	2,461,164.15	840,931.24	7% of value-added-tax and business tax payables
Educational surcharges	1,757,974.41	600,604.64	5% of value-added-tax and business tax payables
Local water conservancy construction funds	351,594.86	120,211.01	1% of value-added-tax and business tax payables
Total	4,776,682.05	1,568,674.39	



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 40. Selling Expenses

Items	During this year	During previous year
Delivery expenses	57,470,251.57	58,411,741.86
Salary	1,855,075.72	1,587,540.90
Agency fees	1,512,220.55	2,307,103.84
Depreciation charge	1,277,064.43	280,615.97
Travelling expenses	1,132,218.78	1,019,971.15
Entertainment	632,053.08	872,826.41
Transportation fees	506,943.37	538,068.91
Office expenses	406,829.03	329,154.69
Others	1,959,391.97	2,103,556.77
Total	66,752,048.50	67,450,580.50

### 41. Administrative expenses

Items	During this year	During previous year
Amortisation of intangible assets	57,023,661.86	42,977,006.80
Research and development fees of new products	54,445,088.82	5,616,345.55
Depreciation charges	13,049,892.94	9,209,453.25
Salary and Staff welfare expenses	10,865,140.47	9,714,973.32
Taxes	10,407,556.78	10,548,368.92
Machinery material consumption	4,543,132.53	6,729,086.03
Entertainment	1,783,612.72	1,292,258.12
Intermediate fees	1,377,150.59	2,095,451.57
Environmental protection expenses	1,110,687.48	1,281,919.35
The board fees	1,095,914.28	893,967.56
Transportation fees	701,172.88	614,063.46
Water and electricity fees	588,574.18	1,989,075.35
Property insurance fees	457,755.93	402,698.12
Delivery fees	388,428.42	428,053.84
Repair fees	358,128.91	523,053.49
Travelling fees	307,033.80	259,359.87
Promotion expenses	102,040.85	174,701.52
Others	1,462,824.51	1,380,380.16
Total	160,067,797.95	96,130,216.28

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 42. Finance Costs

#### (1) Finance costs breakdown

Items	During this year	During previous year
Interest expenses	62,908,459.52	46,970,204.90
Less: Interest income	16,259,638.69	11,734,207.72
Add: Foreign exchange gain	(4,982,594.61)	(4,594,132.74)
Add: Other expenses	6,905,969.11	6,481,519.23
Total	48,572,195.33	37,123,383.67

#### (2) Interest expenses breakdown

Items	During this year	During previous year
Bank loan interest	63,326,453.39	47,797,749.19
Bond interest under effective interest rate	14,745,205.48	—
Discount charges on bank acceptance notes	1,841,916.00	2,857,836.50
Sub-total	79,913,574.87	50,655,585.69
Less: Capitalised interest expenses	17,005,115.35	3,685,380.79
Total	62,908,459.52	46,970,204.90

During this year, borrowing interest capitalised for the Company and Shouguang Baolong is 5.23% and 6% respectively (during previous year: 6.48% and 6% respectively)

#### (3) Interest income breakdown

Items	During this year	During previous year
Interest income from bank deposits	10,602,332.76	11,734,207.72
Interest income from non-financial enterprise	5,657,305.93	—
Total	16,259,638.69	11,734,207.72



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 43. Assets impairment losses

Items	During this year	During previous year
Provision of allowance for inventory	46,502,128.37	3,497,386.40
Provision of bad debt	5,624,248.70	(3,709,308.57)
Impairment loss on intangible assets	33,968,375.45	—
Impairment loss on goodwill	49,240,000.00	10,250,000.00
Total	135,334,752.52	10,038,077.83

### 44. Investment income

#### (1) Breakdown of investment income

Items	During this year	During previous year
Gain from long-term equity investments accounted for using the cost method	—	—
Gain from long-term equity investments accounted for using the equity method	2,397,383.87	1,203,776.32
Total	2,397,383.87	1,203,776.32

Note 1: Investment income sourced from unlisted equity investment during the year is RMB2,397,383.87.

Note 2: There is no restriction on the repatriation of investment income.

#### (2) Gain from long-term equity investment accounted for using the equity method

Items	During this year	During previous year	Reason of change from the previous period to the current period
Yalong Oil Pump	85,618.89	290,266.67	Decrease in net profit of the investee company
Maolong Microfinance	2,311,764.98	913,509.65	Increase in net profit of the investee company
Total	2,397,383.87	1,203,776.32	

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 45. Non-operating income

#### (1) Breakdown of non-operating income

Items	During this year	During previous year
Total income on disposal of non-current assets	266,062.03	109,479.26
Including: Income on disposal of fixed assets	266,062.03	109,479.26
Government grants	12,615,077.46	49,141,000.00
Income from penalty	1,497,174.88	364,282.53
Others	323,420.45	242,778.08
<b>Total</b>	<b>14,701,734.82</b>	<b>49,857,539.87</b>

Non-operating income during this year is RMB14,701,734.82 (previous year: RMB49,857,539.87).

#### (2) Government grants

Items	During this year	During previous year	Source and basis	Related to assets/ Related to income
Government subsidies	10,807,077.46	47,333,000.00	Note 1 to Note 5	Related to income
Sub-total	10,807,077.46	47,333,000.00		
Deferred income amortised	1,808,000.00	1,808,000.00	Note 6	Related to assets
<b>Total</b>	<b>12,615,077.46</b>	<b>49,141,000.00</b>		

Note 1: According to Shou Cai Yu Zhi [2013] No. 143 "Notice regarding to the energy saving bonus for the whole city in 2011" (壽財預指 [2013] 143號《關於撥付2011年度全市節能獎勵資金的通知》) issued by Shouguang Finance Bureau, the company received RMB200,000 for the energy saving bonus in March 2013

Note 2: According to the Shou Fai [2013] No. 2 "Circular Regarding the Subsidies Realized for the Work of Commercial Trade and Foreign Trade of the Whole City of 2012" (壽發 [2013] 2號《關於對2012年度全市商貿流通及對外經貿工作兌現獎勵的通報》) issued by the Shouguang city committee of the community party and the shouguang public government, the company has received RMB60,000 as the import and export trading award, RMB100,000 as the utilisation of foreign capital award, RMB30,000 as the exhibition subsidy and RMB237,000 as the growth of the export trading award, totally equal to RMB427,000.

Note 3: According to Shou Cai Yu Zhi [2013] No. 529 "Notice Regarding the Allocation of Special Fund" (壽財預指 [2013] 529號《關於撥付專項資金的通知》) issued by Shouguang Finance Bureau, the Company received the technology research and development subsidy of RMB9,000,000 on June 2013.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 45. Non-operating income (continued)

#### (2) Government grants (continued)

Note 4: According to Gu-jie-ga No. [2013] 1 "Shouguang Wei Gu Street Work Committee Documents" (古街發 [2013] 1 號《中共壽光市委古街道工作委員會文件》), the Company has received RMB50,000 as the Ancient city finance award on February 2013.

Note 5: According to Shou Cai Yu Zhi [2013] No. 6 "Regarding Scrap Materials Purchases Rewards Issuing to Cheming Group" (壽財預 [2013] 6號《關於給予晨鳴集團等廢舊物資購銷公司獎勵政策的通知》) issued by the Shouguang Finance Bureau with the National tax Bureau and the Local Tax Bureau, MaoLong Recycle got an award for RMB1,130,077.46, which has been received on the 27 January 2014 and 27 March 2014.

Note 6: According to Lu-fa-gai investment No. [2011] 1354 "2011 Central Budget Investment Plan Notice on Key Industry and Technology Improvements" (魯發改投資 [2011] 1354號《關於轉發國家下達我省重點產業振興和技術改造中央專項2011年中央預算內投資計劃的通知》) issued by Shandong development and reform Committee with Shandong economic and information technology committee, the company received a government grants of RMB9,040,000 in December 2012, which specially used for the project of development of new high-tech petroleum equipment. The Company classified the government funds as deferred income, which amortised RMB1,808,000 during the year (Amortized in 5 years, each year RMB1,808,000)

### 46. Non-operating expenses

Items	During this year	During previous year
Total loss on disposal of non-current assets	636,246.16	296,929.41
Included: Loss on disposal of fixed assets	636,246.16	296,929.41
Donation expenses	148,364.00	212,000.00
Other	132,657.83	209,803.48
<b>Total</b>	<b>917,267.99</b>	<b>718,732.89</b>

Non-operating expenses during this year is RMB917,267.99 (previous year: RMB718,732.89).

### 47. Income tax (credit) expenses

#### (1) Income tax (credit) expenses

Items	During this year	During previous year
Income tax for the current period calculated according to tax laws and relevant rules	1,457,750.95	28,180,149.18
Including: PRC	1,457,750.95	28,180,149.18
Hong Kong		
Adjustment on deferred income tax	(27,566,838.93)	(2,491,846.97)
<b>Total</b>	<b>(26,109,087.98)</b>	<b>25,688,302.21</b>

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 47. Income tax (credit) expenses (continued)

#### (2) Income tax (credit) expense and accounting profits reconciliation

Reconciliation between income tax (credit) expenses and accounting profits is set out as follows:

Items	During this year	During previous year
Accounting (loss) profit	(203,717,361.31)	165,854,479.55
Income tax calculated at tax rate of 15% on the Company	(30,557,604.20)	24,878,171.94
Tax effect of non-taxable income	(333,921.91)	(180,566.45)
Tax effect of non-deductible expenses	7,406,726.62	1,709,660.76
Additional charge on research and development expenses	(6,051,953.88)	(1,874,628.33)
Tax effect of tax loss not recognised	6,141,970.19	14,097.75
Tax effect of non-consistent tax rates among branch companies of subsidiaries	(3,613,287.94)	3,081,571.50
Difference between applicable income tax rate for previous year and applicable tax rate for deferred income tax assets/ liabilities recognized	16,516.29	(1,940,004.96)
Utilisation of deductible temporary differences previously not recognised	882,466.85	
Income tax (credit) expenses	(26,109,087.98)	25,688,302.21

### 48. Auditor's remuneration

Auditor's remuneration for this year is RMB900,000 (Previous year: RMB1,200,000)

### 49. Depreciation and amortisation

The depreciation charge and the amortisation charge for this year are RMB174,839,213.74 and RMB57,023,661.86 respectively (previous year: RMB173,734,066.80 and RMB42,977,006.80 respectively).

### 50. Basic and diluted (loss) earnings per share

The calculation of (loss) basic earnings per share is based on the Company's (loss) profit attributable to equity shareholders of the Company for the year divided by the weighted average number of shares in issue during the year.

The calculation of diluted (loss) earnings per share is based on the Company's adjusted (loss) profits attributable to the Owners of the Company for consequential changes in income or expense resulting from the dilutive events divided by dilutive potential ordinary shares



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 50. Basic and diluted (loss) earnings per share (continued)

The calculation of basic (loss) earnings per share and diluted earnings per share are as follows:

Items	Numbers	Balance as at the end of the year	Balance as at the beginning of the year
(Loss) profit attributable to the owners of the Company	1	(175,722,248.47)	134,263,035.30
Non operating profit attributable to the owners of the Company	2	20,789,046.09	45,765,292.69
Net (loss) profits after deducting non operating profit and loss attributable to the owners of the Company	3 = 1 - 2	(196,511,294.56)	88,497,742.61
Number of shares at beginning of the year	4	797,848,400.00	398,924,200.00
Capital reserve transferred from share capital or dividends (I)	5	—	398,924,200.00
Issue of new shares or convertible bonds (II)	6	—	—
Number of months from issue of new share (II) to the end of the year	7	—	—
Share repurchases	8	—	—
Number of months from share repurchases (II) to the end of the year	9	—	—
Reduction of number of shares	10	—	—
Number of months of reporting	11	12	12
Issued ordinary shares	12 = 4 + 5 + 6 × 7 ÷ 11 - 8 × 9 ÷ 11 - 10	797,848,400.00	797,848,400.00
<b>Basic (loss) earnings per share (I)</b>	13 = 1 ÷ 12	(0.22)	0.17
<b>Basic (loss) earnings per share (II)</b>	14 = 3 ÷ 12	(0.25)	0.11
Expenses recognised for potential dividends of ordinary share	15	—	—
Conversion costs	16	—	—
Income tax rate	17	—	—
Increase in weighted average number of share upon exercise of option, future and convertible bonds	18	—	—
<b>Diluted (loss) earnings per share (I)</b>	19 = [1 + (15 - 16) × (1 - 17)] ÷ (12 + 18)	(0.22)	0.17
<b>Diluted (loss) earnings per share (II)</b>	19 = [3 + (15 - 16) × (1 - 17)] ÷ (12 + 18)	(0.25)	0.11

Calculation of weighted average number of ordinary shares:

Items	Incurred during the current period	Incurred during previous year
Issued ordinary shares at 1 January	797,848,400.00	797,848,400.00
Add: Ordinary shares issued during the year	—	—
Issued ordinary shares at 31 December	797,848,400.00	797,848,400.00



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 51. Other comprehensive income

Items	Incurred during this year	Incurred during previous year
1. Items that maybe reclassified subsequently to profit or loss:		
Exchange differences arising on translation of a foreign operation	335,457.33	35,226.82
Others	—	—
2. Items that will not be reclassified subsequently to profit or loss:	—	—
Total	335,457.33	35,226.82

### 52. Supplementary notes to consolidated statement of profit or loss

Details of expenses (including operating cost, selling expenses and administrative expenses) by nature:

Items	During this year	During previous year
Consumables	1,609,187,546.48	2,095,446,695.81
Salaries	112,634,128.81	107,724,279.18
Depreciation	174,839,213.74	173,734,066.80
Amortisation	57,023,661.86	42,977,006.80
Product license	124,240,920.61	65,018,061.74
Utilities	194,879,203.59	267,566,624.40
Other tax expenses	10,407,556.78	10,548,368.92
Others	20,037,685.44	24,806,696.37
Total	2,303,249,917.31	2,787,821,800.02



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 53. Notes to cash flow statements

#### (1) Other receipts/payments relating to cash of operating/investing activities

##### (1) Other cash receipts relating to operating activities

Items	During this year	During previous year
Government grants	9,677,000.00	47,333,000.00
Interest income	14,705,960.22	10,879,843.83
Other	8,007,254.89	10,932,012.22
Total	32,390,215.11	69,144,856.05

##### (2) Other cash payments relating to operating activities

Items	During this year	During previous year
Delivery fee	57,856,135.99	57,463,223.05
Development fees for new products	52,859,405.13	4,227,585.59
Consumable	5,210,885.54	7,022,788.23
Agency fees	1,512,220.55	2,307,103.84
Travelling fees	1,441,210.58	1,279,331.02
Intermediary services expenses	1,416,390.59	2,191,189.02
Repair expenses	376,785.59	523,293.49
Water and electricity expenses	588,574.18	1,832,106.83
Entertainment	2,415,665.80	2,165,084.53
Increased in foreign exchange guarantees deposit	64,685,182.51	40,501,347.11
Other	30,080,530.55	10,008,326.34
Total	218,442,987.01	129,521,379.05

##### (3) Other cash receipts relating to investing activities

Items	During this year	During previous year
Cash received from associate through a subsidiary	—	22,500,000.00
Cash received from associate through an independent third party	—	46,400,000.00
Total	—	68,900,000.00

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 53. Notes to cash flow statements (continued)

#### (1) Other receipts/payments relating to cash of operating/investing activities (continued)

(4) Other cash payments relating to investing activities

Items	During this year	During previous year
Increased in security deposit for letter of guarantee	13,860,000.00	11,280,000.00
Increased in the guarantee deposit for bank loan	73,901,974.00	—
Cash repayment to the associate through subsidiary	—	22,500,000.00
Cash repayments to the associate through an independent third party	—	46,400,000.00
Total	87,761,974.00	80,180,000.00



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 53. Notes to cash flow statements (continued)

#### (2) Additional information for consolidated cash flow statement

Items	During this year	During previous year
<b>1. Reconciliation of net income to cash flow:</b>		
Net (loss) profit	(177,608,273.33)	140,166,177.34
Add: Provision for impairment loss of asset	135,334,752.52	10,038,077.83
Depreciation of fixed asset	179,013,518.66	174,765,399.44
Amortisation of intangible asset	57,023,661.86	42,977,006.80
Amortisation of deferred expenditure	83,333.28	—
Loss on disposal of fixed asset, intangible asset and other long-term asset	370,184.13	187,450.15
Fixed asset written off	—	—
Gain from changes in fair value	—	—
Finance costs	59,076,896.91	47,849,635.45
Investment income	(2,397,383.87)	(1,203,776.32)
Increase in deferred tax assets	(26,756,086.74)	(2,577,382.37)
(Decrease) increase in deferred tax liabilities	(810,752.19)	85,535.40
Decrease (increase) in inventories	18,936,031.86	(46,539,797.40)
Decrease in operating receivables	(42,640,183.83)	(136,733,551.15)
(Decrease) increase in operating payables	(353,297,586.46)	218,724,126.12
Others	(1,808,000.00)	(1,808,000.00)
Net cash flows (used in) from operating activities	(155,479,887.20)	445,930,901.29
<b>2. Significant investing and financing activities not involving cash receipt or payment:</b>		
Conversion of debts to capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired on Finance lease	—	—
<b>3. Changes in cash and cash equivalents:</b>		
Balance of cash at the end of the year	330,546,464.49	369,092,906.46
Less: Balance of cash at the beginning of the year	369,092,906.46	350,636,120.73
Add: Balance of cash equivalents at the end of the year	—	—
Less: Balance of cash equivalents at the beginning of the year	—	—
Net (decrease) increase in cash and cash equivalents	(38,546,441.97)	18,456,785.73

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## V. Notes to the Consolidated Financial Statements (continued)

### 53. Notes to cash flow statements (continued)

#### (3) Cash and cash equivalents

Items	Incurred during the current period	Incurred during previous year
1. Cash		
Including: Cash on hand	42,463.38	38,135.44
Bank deposit available for payments at any moment	201,764,699.84	136,381,352.33
Other funds available for payments at any moment	128,739,301.27	232,673,418.69
2. Cash and equivalents	330,546,464.49	369,092,906.46
Restricted other fund	267,224,401.49	114,777,244.98
3. Cash and cash equivalent at the end of the year	597,770,865.98	483,870,151.44

Note: The restricted other monetary funds included the security deposit for the bank acceptance, borrowings and the letter of guarantee and the loan and letter of credit, with the maturity over 3 months, the amounts were RMB154,462,427.49, RMB38,860,000.00 and RMB73,901,974.00 respectively, which totally equal to RMB267,224,401.49.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## VI. Related Party Relationships and Transactions

### 1. Related Party Relationships

#### (1) Holding company and the ultimate controlling entity

(1) *Holding company and the ultimate controlling entity*

As at the end of the year, Mr. Zhang En Rong owns 35.03% of voting shares in the Company, and is the controlling shareholder of the Company.

(2) *Holding company's shareholding in the Company and its changes*

Shareholder	Holding amounts		Holding proportion(%)	
	Balance at the end of the year	Balance at the beginning of the year	At the end of the year	At the beginning of the year
Zhang En Rong	279,517,000.00	279,517,000.00	35.03	35.03

#### (2) Subsidiaries

(1) *Subsidiaries*

The details of the subsidiaries are listed on note IV.

(2) *Registered capital of the subsidiaries and their changes*

There is no change during the year.

(3) *Proportion of shareholding in subsidiaries and the changes*

There is no change during the year.

#### (3) Joint Venture and Associate

The details of the joint venture and associate are on note V.9.

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## VI. Related Party Relationships and Transactions (continued)

### 2. Related Party Transaction

#### (1) Consolidation

(1) Sales of goods and services rendered

Relationship and related party	Related party transaction	Pricing method and decision procedure for related party	During this year		During previous year	
			Amount	Proportion (%)	Amount	Proportion (%)
<b>Associate</b>						
Yalong Oil Pump	Oil well pumping and accessories	Agreed price (Note 1)	12,004,650.43	0.54	12,526,646.30	0.43
Total			12,004,650.43	0.54	12,526,646.30	0.43

Note 1: The sales of finished goods or raw material by the Group to the related party was settled by the fixed price prescribed by government authorities. If there is no restriction on the price, the price will be negotiated and determined by both parties (subject to adjustments)

#### (2) Holding Company

(1) Sales of goods and services rendered

Relationship and name of related party	Related party transactions with the company	Pricing method and decision procedure for related party	During this year		During previous year	
			Amount	Proportion (%)	Amount	Proportion (%)
Entities under common control of same shareholders and the ultimate holding company						
Shouguang Baolong	Casting	Agreed price (Note 2)	1,360,442,127.68	71.55	1,731,766,705.09	67.18
Molong Electro-mechanical Equipment	Casting, mandrel, electrical cabinet	Agreed price (Note 3)	85,950,279.06	4.52	94,633,494.12	3.67
Molong Electro-mechanical Equipment	Custody of Accessories	Agreed price (Note 3)	—	—	2,948,339.36	0.11
Weihai Baolong	Oil well pipes, casting and tubing	Agreed price (Note 4)	268,687,615.63	14.13	489,298,350.10	18.98
Total			1,715,080,022.37	90.20	2,318,646,888.67	89.94

Note 2: The purchase of raw materials by the Company from Shouguang Baolong was settled by the transaction price determined by the contract signed by both parties.

Note 3: The purchase of raw materials by the Company from Molong Electro-mechanical Equipment was settled by the fixed price prescribed by government authorities. If there is no restriction on the price, the price will be negotiated and determined by both parties (subject to adjustments).

Note 4: The purchase price for the raw material from the Weihai Baolong Company was determined by the market price less not more than RMB100 per ton. At the same time, Weihai Baolong Company agreed that the selling price would not be higher than the price selling to the independent third party.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## VI. Related Party Relationships and Transactions (continued)

### 2. Related Party Transaction (continued)

#### (2) Holding Company (continued)

##### (2) Sale and Service rendered

Relationship and related party	Related party transaction	Pricing method and decision procedure for related party	During this year		During previous year	
			Amount	Proportion (%)	Amount	Proportion (%)
<b>Joint venture and associate</b>						
Yalong Oil Pump	Oil well pumping and accessories	Agreed price (Note1)	12,004,650.43	0.54	12,526,646.30	0.44
<b>Entities under common control of same shareholders and the ultimate holding company</b>						
Shouguang Baolong	Scrap steel	Agreed price (Note 1)	69,979,770.06	3.16	81,294,497.29	2.85
Molong Electro-mechanical Equipment	Scrap steel metal	Agreed price (Note 1)	27,340,402.77	1.23	35,468,025.73	1.24
Weihai Baolong	Scrap steel and cylindrical steel, etc	Agreed price (Note 1)	16,611,628.34	0.75	42,864,261.28	1.50
MPM Limited	Oil tubing	Agreed price (Note 1)	4,436,292.02	0.20	58,260,460.66	2.04
Total			130,372,743.62	5.88	230,413,891.26	8.07

##### (3) Rental agreements with related parties

Lessor	Lessee	Type of leased assets	Start of lease	Expiry of lease	Rental Income recognised during this year	Rental income recognition basis
The Company	Molong Logistic Company	Land	2011.06.30	2021.06.30	10,000.00	Agreed price



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## VI. Related Party Relationships and Transactions (continued)

### 2. Related Party Transaction (continued)

#### (3) Consolidation and the Company

Remuneration of the key management

##### (1) Directors' and Supervisors' emoluments

Details of emoluments paid and payable to the directors and supervisors of the Company for the year are as follows:

Name	Fees	Salaries and other allowances	Retirement benefit scheme contributions	Other	Total
<b>Executive directors:</b>					
Zhang En Rong	—	701,945.33	—	—	701,945.33
Zhang Yun San	—	586,541.86	10,769.76	5,195.82	602,507.44
Guo Huan Ran	—	391,659.00	10,769.76	5,195.82	407,624.58
Lin Fu Long	—	301,861.00	—	—	301,861.00
<b>Independent non-executive directors:</b>					
Chau Shing Yim, David	34,462.50	—	—	—	34,462.50
Guo Hong Li	33,740.00	—	—	—	33,740.00
Xiao Qing Zhou	33,740.00	—	—	—	33,740.00
Wang Chun Hua	33,740.00	—	—	—	33,740.00
John Paul Cameron	87,095.00	—	—	—	87,095.00
Qin Xue Chang	35,620.00	—	—	—	35,620.00
<b>Supervisors:</b>					
Liu Huai Huo	—	86,720.00	7,179.84	3,463.89	97,363.73
Fan Ren Yi	10,090.00	—	—	—	10,090.00
Zhang Jiu Li	10,090.00	—	—	—	10,090.00
<b>Total</b>	<b>278,577.50</b>	<b>2,068,727.19</b>	<b>28,719.36</b>	<b>13,855.53</b>	<b>2,355,417.08</b>



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## VI. Related Party Relationships and Transactions (continued)

### 2. Related Party Transaction (continued)

#### (3) Consolidation and the Company (continued)

Remuneration of the key management (continued)

##### (1) Directors' and Supervisors' emoluments (continued)

Details of emoluments paid and payable to the directors and supervisors of the company for the previous year are as follows:

Name	Fees	Salaries and other allowances	Retirement benefit scheme contributions	Other	Total
<b>Executive directors:</b>					
Zhang En Rong	—	701,945.33	—	—	701,945.33
Zhang Yun San	—	586,604.99	9,856.83	5,203.23	601,665.05
Lin Fu Long	—	300,970.59	9,856.83	5,203.23	316,030.65
Xia Xin Cang	—	68,020.65	5,721.22	3,248.41	76,990.28
<b>Independent non-executive directors:</b>					
Wang Ping	—	—	—	—	—
Guo Hong Li	20,567.50	—	—	—	20,567.50
Xiao Qing Zhou	33,740.00	—	—	—	33,740.00
Wang Chun Hua	33,740.00	—	—	—	33,740.00
John Paul Cameron	88,012.50	—	—	—	88,012.50
Chau Shing Yim, David	88,012.50	—	—	—	88,012.50
<b>Supervisors:</b>					
Liu Huai Duo	—	72,688.34	6,571.41	3,468.73	82,728.48
Liu Wan Fu	10,090.00	—	—	—	10,090.00
Fan Ren Yi	10,090.00	—	—	—	10,090.00
Zhang Jiu Li	6,273.20	—	—	—	6,273.20
<b>Total</b>	<b>290,525.70</b>	<b>1,730,229.90</b>	<b>32,006.29</b>	<b>17,123.60</b>	<b>2,069,885.49</b>

Note 1: Xie Xin Cang and Zhou Cheng Yan departed on 28 June 2013. Guo Huan Ran was appointed as an executive director on 28 June 2013.

Note 2: No director and supervisor waived any remuneration during this year.

Note 3: During this year, no remuneration have been paid by the Group to directors as an inducement to join or upon join the Group or as compensation for loss of office. Also, no compensation has been paid to any director or departed director for loss of position as a director.

Note 4: The directors' and the supervisors' remuneration was approved by the remuneration committee in the board of director with reference to the Group's policies on salary determination.

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## VI. Related Party Relationships and Transactions (continued)

### 2. Related Party Transaction (continued)

#### (3) Consolidation and the Company (continued)

Remuneration of the key management (continued)

(2) Five highest paid individuals:

During this year, of the five individuals with the highest remuneration in the Group, four (during previous year: three) were directors of the Group. The remuneration of the remaining one (during previous year: two) are as follows:

Items	Amount of this year	Amount of previous year
Salaries and other benefits	354,069.60	760,381.05
Contributions to retirement benefits schemes	11,558.40	19,713.66
Others	3,671.90	10,406.46
Total	369,299.90	790,501.17

During this year, no remuneration have been paid by the Group to these highest paid individuals as an inducement to join or upon join the Group or as compensation for loss of office. Also, no compensation has been paid to any these highest paid individuals for loss of position or managerial positions.

Their remunerations were within the following banks (number of individual):

Item	This year	Previous year
Nil-HK\$1,000,000	5	5
Total	5	5



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## VI. Related Party Relationships and Transactions (continued)

### 3. Amounts due to/from related parties

#### (1) Consolidation

(1) Accounts receivable due from related party:

Related party	Balance at the end of the year		Balance at the beginning of the year	
	Book balance	Bad debt balance	Book balance	Bad debt balance
<b>Associate</b>				
Yalong Oil Pump	1,044,301.65	—	2,716,477.70	—
Total	1,044,301.65	—	2,716,477.70	—

(2) Bills receivable due from related parties

Related party	Balance at the end of the year	Balance at the beginning of the year
<b>Associate</b>		
Yalong Oil Pump	4,424,552.05	5,000,000.00
Total	4,424,552.05	5,000,000.00

(3) Other payables due to related party:

Related party	Balance at the end of the year	Balance at the beginning of the year
<b>Other related party</b>		
Zhang Yunsan	800,000.00	—
Total	800,000.00	—

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## VI. Related Party Relationships and Transactions (continued)

### 3. Amounts due to/from related parties (continued)

#### (2) The Company

(1) Accounts receivable due from related parties:

Related parties	Balance at the end of the year		Balance at the beginning of the year	
	Carrying amount	Provision for bad debt	Carrying amount	Provision for bad debt
<b>Associate</b>				
Yalong Oil Pump	1,044,301.65	—	2,716,477.70	—
<b>Entities under common control of same shareholders and the ultimate holding company</b>				
Including: MPM Limited	—	—	15,432,904.18	—
Weihai Baolong	—	—	2,008.16	—
<b>Total</b>	<b>1,044,301.65</b>	<b>—</b>	<b>18,151,390.04</b>	<b>—</b>

(2) Bills receivable due from related party

Related party	Balance at the end of the year	Balance at the beginning of the year
<b>Entities under common control of same shareholders and the ultimate holding company</b>		
Weihai Baolong	—	2,000,000.00
<b>Associate</b>		
Yalong Oil Pump	4,424,552.05	5,000,000.00
<b>Total</b>	<b>4,424,552.05</b>	<b>7,000,000.00</b>



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## VI. Related Party Relationships and Transactions (continued)

### 3. Amounts due to/from related parties (continued)

#### (2) The Company (continued)

(3) Other payables due to related parties:

Related party	Balance at the end of the year		Balance at the beginning of the year	
	Carrying amount	Bad debt balance	Carrying amount	Bad debt balance
<b>Entities under common control of same shareholders and the ultimate holding company</b>				
Shouguang Baolong	207,000,000.00	—	207,000,000.00	—
Maolong New Materials Company	12,291,150.00	—	—	—
Molong Logistic Company	6,854,003.74	—	—	—
<b>Total</b>	<b>226,145,153.74</b>	<b>207,000,000.00</b>	<b>—</b>	<b>—</b>

(4) Prepayments due from related parties:

Related party	Balance at the end of the year	Balance at the beginning of the year
<b>Entities under common control of same shareholders and the ultimate holding company</b>		
Include: Shouguang Baolong	383,772,009.31	121,242,310.72
Weihai Baolong	40,389,817.51	—
<b>Total</b>	<b>424,161,826.82</b>	<b>121,242,310.72</b>

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## VI. Related Party Relationships and Transactions (continued)

### 3. Amounts due to/from related parties (continued)

#### (2) The Company (continued)

##### (5) Bills payable due to related party

Related party	Balance at the end of the year	Balance at the beginning of the year
<b>Entities under common control of same shareholders and the ultimate holding company</b>		
Molong Electro-mechanical Equipment	10,056,779.50	9,946,535.80
Weihai Baolong	51,831,525.00	—
Shouguang Baolong	225,656,892.83	543,142,679.76
<b>Total</b>	<b>287,545,197.33</b>	<b>553,089,215.56</b>

##### (6) Accounts payable due to related party

Related party	Balance at the end of the year	Balance at the beginning of the year
<b>Entities under common control of same shareholders and the ultimate holding company</b>		
Molong Electro-mechanical Equipment	36,420,049.78	33,116,283.18
<b>Total</b>	<b>36,420,049.78</b>	<b>33,116,283.18</b>

##### (7) Other payables due to related parties

Related party	Balance at the end of the year	Balance at the beginning of the year
<b>Entities under common control of same shareholders and the ultimate holding company</b>		
Including: Molong Logistic Company	—	2,751,100.00
Shouguang Baolong	4,253,173.76	—
<b>Other related party</b>		
Including: Zhang Yun San	800,000.00	—
<b>Total</b>	<b>5,053,173.76</b>	<b>2,751,100.00</b>



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## VI. Related Party Relationships and Transactions (continued)

### 3. Amounts due to/from related parties (continued)

#### (2) The Company (continued)

(8) Receipt in advance due to related party

Related party	Balance at the end of the year	Balance at the beginning of the year
<b>Entities under common control of same shareholders and the ultimate holding company</b>		
MPM Limited	156,886,359.72	—
Total	156,886,359.72	—

## VII. Contingent Event

As at the balance sheet date, the Group and the Company have no material contingency.

## VIII. Commitment

### 1. Consolidation

#### (1) Capital Commitment

(1) Capital commitment of the Group at the end of the year

Contracted for but not provided

Item	Balance at the end of the year	Balance at the beginning of the year
Contracted for but not provided — commitment for acquisition and construction of long-term assets	269,188,582.67	85,892,970.52
Total	269,188,582.67	85,892,970.52

(2) Except for the above mentioned event, as at the year ended date, the Group has no material capital commitment.



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## VIII. Commitment (continued)

### 1. Consolidation (continued)

(3) Other than the commitment stated above, there is no other material commitment up to 31 December 2013.

### 2. The Company

#### (1) Material Commitments

(1) Capital Commitment of the Company at the end of the year

Contracted for but not provided

Item	Ending balance	Balance at the beginning of the year
Contracted for but not provided — commitment for acquisition and construction of long-term assets	239,949,134.93	85,892,970.52
Total	239,949,134.93	85,892,970.52

#### (2) Capital Commitment in previous year

The Company had executed as stated in contracts.

(3) Other than the commitment stated above, there is no other material commitment up to 31 December 2013.

## IX. Events Subsequent to Balance Sheet Date

### 1. Subsequent payments after balance sheet date

Item	Amount paid
Accounts payable with aging over one year	4,681,286.05

### 2. Borrowing after balance sheet date

The Group had borrowed RMB128,000,000.00 and USD 90,234,524.50 up to the date of this report.



# Notes to the Financial Statements

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1 January 2013 to 31 December 2013

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

## IX. Events subsequent to balance sheet date *(continued)*

### 3. Subsequent Profit Distribution Plan

On 31 March 2014, the profit distribution plan is approved on the fourth meeting of the Company's fourth Board of Directors. No final dividend is distributed for this year. The profit distribution plan is subject to approval in the shareholder meeting.

4. Apart from matters described above, the Company has no significant subsequent events to be disclosed at 31 December 2013.

## X. Segment Reporting

The Group identifies and discloses the operating segments, according to the internal organization structure, management requirements and internal reporting system.

According to the internal organization structure, management requirements and internal reporting system of the Group, the Group's operating segments are divided into 4 reportable segments. The Group's management regularly evaluates the operating results of these reportable segments to determine the resources to be allocated and evaluates its results. Each of the Group's reportable segments includes casing, tubing, three kinds of pumping units, petroleum machinery and others.

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

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## X. Segment Reporting (continued)

### 1. Segment Reporting Information

#### Combined segment reporting — this year

	Casing and Tubing	Three kinds of pumping units	Petroleum machinery plant	Other	Unallocated Items	Inter-segment elimination	Total
Operation revenue							
External income	2,010,891,871.31	79,849,248.22	122,082,387.45	59,210,828.22	—	—	2,272,034,335.20
Inter-segment income	—	—	—	—	—	—	—
Total segment income	2,010,891,871.31	79,849,248.22	122,082,387.45	59,210,828.22	—	—	2,272,034,335.20
Total operating income	2,010,891,871.31	79,849,248.22	122,082,387.45	59,210,828.22	—	—	2,272,034,335.20
Segment costs	2,037,539,345.55	70,615,751.15	114,690,841.73	60,447,615.50	—	—	2,283,293,553.93
Segment (loss) profit	(26,647,474.24)	9,233,497.07	7,391,545.72	(1,236,787.28)	—	—	(11,259,218.73)
Adjusting items:							
Administrative expenses	—	—	—	—	160,067,797.95	—	160,067,797.95
Finance costs	—	—	—	—	48,572,195.33	—	48,572,195.33
Investment income	—	—	—	—	(2,397,383.87)	—	(2,397,383.87)
Operating (loss) profit	(26,647,474.24)	9,233,497.07	7,391,545.72	(1,236,787.28)	(206,242,609.41)	—	(217,501,828.14)
Non-operating income	—	—	—	—	14,701,734.82	—	14,701,734.82
Non-operating expenses	—	—	—	—	917,267.99	—	917,267.99
Total (loss) profit	(26,647,474.24)	9,233,497.07	7,391,545.72	(1,236,787.28)	(192,458,142.58)	—	(203,717,361.31)
Income tax credit	—	—	—	—	(26,109,087.98)	—	(26,109,087.98)
Net (loss) profit	(26,647,474.24)	9,233,497.07	7,391,545.72	(1,236,787.28)	(166,349,054.60)	—	(177,608,273.33)
Total segment assets	4,581,204,794.95	172,585,504.18	315,649,008.83	11,498,425.50	712,528,319.22	—	5,793,466,052.68
Total segment liabilities	1,214,932,732.26	37,322,007.56	54,906,647.43	3,322,500.68	1,746,860,688.24	—	3,057,344,576.17
Supplementary Information:							
Depreciation	152,858,105.19	10,322,561.75	7,510,357.26	9,510,716.23	—	—	180,201,740.43
Amortisation	54,736,804.86	2,822.48	2,284,034.52	—	—	—	57,023,661.86
Interest income	—	—	—	—	(16,259,638.69)	—	(16,259,638.69)
Finance costs	—	—	—	—	64,831,834.02	—	64,831,834.02
Impairment losses recognised in this year:	112,439,078.40	2,256,124.85	20,639,549.27	—	—	—	135,334,752.52
Non-current assets other than long-term equity investment	2,650,563,185.75	63,916,231.65	127,021,032.47	12,315,245.12	295,564,322.81	—	3,149,380,017.80
Capital expenditure	458,615,299.28	3,900.00	—	1,437,679.51	—	—	460,056,878.79
Including: Construction in progress	206,355,587.81	—	—	464,359.00	—	—	206,819,946.81
Purchase of fixed assets	170,169,616.79	—	—	973,320.51	—	—	171,142,937.30
Purchase of intangible assets	82,090,094.68	3,900.00	—	—	—	—	82,093,994.68



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## X. Segment Reporting (continued)

### 1. Segment Reporting Information (continued)

#### Combined segment reporting — previous year

	Casing and Tubing	Three kinds of pumping units	Petroleum machinery plant	Other	Unallocated Items	Inter-segment elimination	Total
Operating revenue							
External income	2,598,091,671.18	83,240,409.14	173,068,574.45	97,663,177.39	—	—	2,952,063,832.16
Inter-segment income	—	—	—	—	—	—	—
Total segment income	2,598,091,671.18	83,240,409.14	173,068,574.45	97,663,177.39	—	—	2,952,063,832.16
Total operating income	2,598,091,671.18	83,240,409.14	173,068,574.45	97,663,177.39	—	—	2,952,063,832.16
Segment costs	2,393,184,938.36	70,123,182.16	143,691,598.12	96,298,617.32	—	—	2,703,298,335.96
Segment profit	204,906,732.82	13,117,226.98	29,376,976.33	1,364,560.07	—	—	248,765,496.20
Adjusting items:							
Administrative expenses	—	—	—	—	96,130,216.28	—	96,130,216.28
Finance costs	—	—	—	—	37,123,383.67	—	37,123,383.67
Investment income	—	—	—	—	1,203,776.32	—	1,203,776.32
Operating profit	204,906,732.82	13,117,226.98	29,376,976.33	1,364,560.07	(132,049,823.63)	—	116,715,672.57
Non-operating income	—	—	—	—	49,857,539.87	—	49,857,539.87
Non-operating expenses	—	—	—	—	718,732.89	—	718,732.89
Total profit (loss)	204,906,732.82	13,117,226.98	29,376,976.33	1,364,560.07	(82,911,016.65)	—	165,854,479.55
Income tax expenses	—	—	—	—	25,688,302.21	—	25,688,302.21
Net profit (loss)	204,906,732.82	13,117,226.98	29,376,976.33	1,364,560.07	(108,599,318.86)	—	140,166,177.34
Total segment assets	3,871,642,444.97	179,253,472.12	256,359,484.93	416,741,549.62	561,754,027.18	—	5,285,750,978.82
Total segment liabilities	1,134,162,295.81	21,065,646.76	69,541,809.50	59,115,178.75	1,048,579,335.49	—	2,332,464,266.31
Supplementary Information:							
Depreciation	100,042,110.26	6,058,573.01	3,265,015.65	8,526,522.75	56,873,177.77	—	174,765,399.44
Amortisation	35,478,019.65	8,545.77	1,688.29	—	7,488,753.09	—	42,977,006.80
Interest income	—	—	—	—	11,734,207.72	—	11,734,207.72
Finance costs	—	—	—	—	46,970,204.90	—	46,970,204.90
Impairment losses recognised							
in current year:	10,038,077.83	—	—	—	—	—	10,038,077.83
Non-current assets other than							
long-term equity investment	2,246,050,246.04	77,794,772.28	162,953,510.31	270,049,539.69	19,249,475.31	—	2,776,097,543.63
Capital expenditure	284,795,959.66	10,804,212.48	87,641.11	22,021,048.34	—	—	317,708,861.59
Including: Construction in progress	170,650,752.36	—	—	17,955,871.67	—	—	188,606,624.03
Purchase of							
intangible assets	30,625,194.91	5,780,518.64	87,641.11	4,065,176.67	—	—	40,558,531.33
Purchase of fixed assets	83,520,012.39	5,023,693.84	—	—	—	—	88,543,706.23

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## X. Segment Reporting (continued)

### 2. External transaction income by location of income source and non-current assets by location of assets

During this year and previous year, all of the Group's external transaction income was from China and overseas as all assets were located in China, hence the external transaction income by location of income source is disclosed as follows:

	During this year	During previous year
Domestic external transaction income	1,547,532,162.24	1,801,919,443.99
Hong Kong	—	—
Foreign external transaction income	724,712,314.96	1,150,144,388.17
Total	2,272,244,477.20	2,952,063,832.16

### 3. Reliability on major customers

The Group's major customers during this year includes PetroChina Company Limited, Hebei Zhongtai Steel Pipe Manufacture Co., Ltd., Campex Inc, Petroleum Pipe Company Limited and Cnood Asia Limited. Please refer to Note V.38 for details.

## XI. Financial Instruments and Risk Management

Major financial instruments of the Group include borrowings, accounts receivable, accounts payable, financial assets and financial liabilities measured at fair value through profit or loss, etc. Detailed descriptions of these financial instruments are set out in note 5. Below are the risks associated with such financial instruments and the risk management policies adopted by the Group to mitigate such risks. The management of the Group manages and monitors such risk exposures to ensure such risks are contained within a prescribed scope.

### 1. Objective and policies of risk management

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



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XI. Financial Instruments and Risk Management (continued)

### 1. Objective and policies of risk management (continued)

#### (1) Market risks

##### (1) Foreign exchange risk

Foreign exchange risk represents risks of loss incurred as a result of changes in exchange rate. The Group is mainly exposed to foreign exchange risks in connection with USD, HKD and Euro; except for the Company and its subsidiaries MPM Limited of which entered purchases and sales in USD, HKD and Euro; all the business activities of the remaining principal operations of the Group are settled with RMB. On 31 December 2013, except for the USD balances in assets and liabilities, odd monies in EUR and balances in HKD as set out below, all the balances of assets and liabilities of the Group were denominated in RMB. The foreign exchange risk arising from assets and liabilities in such USD balances may affect the operating results of the Group.

	Balance at the end of the year			
	USD	HKD	EUR	Total
Cash and cash equivalents (Note V.1)	34,300,914.66	136.57	0.08	34,301,051.31
Accounts receivable (Note V.3)	130,533,573.99	—	4,192,725.43	134,726,299.42
Short-term borrowings (Note V.18)	637,790,846.00	—	—	637,790,846.00
Accounts payable (Note V.20)	9,532,905.55	—	—	9,532,905.55
Other payables (Note V.25)	153,825.27	—	—	153,825.27
	Balance at the beginning of the year			
	USD	HKD	EUR	Total
Cash and cash equivalents (Note V.1)	25,599,876.14	1,180.23	0.08	25,601,056.45
Accounts receivable (Note V.3)	75,226,451.95	—	4,142,276.67	79,368,728.62
Short-term borrowings (Note V.18)	300,006,883.57	—	—	300,006,883.57
Other payables (Note V.25)	158,583.67	—	—	158,583.67

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

##### (2) Interest rate risk

The risk that changes in interest rate lead to changes in cash flow of the financial instruments of the Group is mainly associated with floating-rate bank borrowings. In addition to entering into fixed-rate bank borrowing contracts, most of the borrowing contracts of the Group are floating-rate borrowings. The Group has not adopted other measures including entering into interest swap contract to avoid the fair value risk resulted from changes in interest rate.



1 January 2013 to 31 December 2013

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

## XI. Financial Instruments and Risk Management *(continued)*

### 1. Objective and policies of risk management *(continued)*

#### (1) Market risks *(continued)*

##### (3) Other price risk

The Group sells metal products at market price so sales may be influenced by fluctuation in selling price.

#### (2) Credit risk

As at the end of the year, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has adopted necessary policies to ensure that all sales customers have good credit records.

Apart from the top five accounts receivable, the Group has no other significant concentration risk.

The total balance of the top five accounts receivable is RMB191,365,009.59.

#### (3) Liquidity risk

In managing liquidity risk, the Group maintains cash and cash equivalents at a level deemed sufficient by the management and carry out monitoring, in order to satisfy the operating needs of the Group and lower the effects of fluctuations in cash flows. The management of the Group monitors the utilization of bank borrowings and makes sure the related borrowing agreements are complied with.

The primary source of funding for the Group is bank borrowings. As at the end of the year, the Group had outstanding bank facilities of RMB2,846,070,000 (As at the beginning of the year: RMB2,650,125,038.27), including outstanding short-term bank facilities of RMB2,846,070,000 (As at the beginning of the year: RMB2,650,125,038.27).



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XI. Financial Instruments and Risk Management (continued)

### 1. Objective and policies of risk management (continued)

#### (3) Liquidity risk (continued)

Maturity analysis of financial assets and financial liabilities of the Group at undiscounted remaining contractual obligations are set out as follows:

At the end of the year:

	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
<b>Financial assets</b>					
Cash and cash equivalents	597,770,865.98	—	—	—	597,770,865.98
Bills receivable	135,159,594.04	—	—	—	135,159,594.04
Accounts receivable	563,772,597.42	—	—	—	563,772,597.42
Interest receivables	4,606,049.44	—	—	—	4,606,049.44
Other receivables	31,160,536.48	—	—	—	31,160,536.48
<b>Financial liabilities</b>					
Short-term borrowings	1,367,290,846.00	—	—	—	1,367,290,846.00
Bills payable	427,566,182.16	—	—	—	427,566,182.16
Accounts payable	548,559,433.90	—	—	—	548,559,433.90
Other payables	26,790,378.33	—	—	—	26,790,378.33
Interest payables	24,239,399.58	—	—	—	24,239,399.58
Bonds payable	—	—	496,777,777.77	—	496,777,777.77

At the beginning of the year:

	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
<b>Financial assets</b>					
Cash and cash equivalents	483,870,151.44	—	—	—	483,870,151.44
Bills receivable	197,194,589.32	—	—	—	197,194,589.32
Accounts receivable	455,105,433.22	—	—	—	455,105,433.22
Other receivables	18,953,847.29	—	—	—	18,953,847.29
<b>Financial liabilities</b>					
Short term borrowings	1,030,006,883.57	—	—	—	1,030,006,883.57
Bills payable	603,403,515.62	—	—	—	603,403,515.62
Accounts payable	570,841,701.67	—	—	—	570,841,701.67
Other payables	24,475,042.80	—	—	—	24,475,042.80
Interests payable	6,968,896.69	—	—	—	6,968,896.69



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XI. Financial Instruments and Risk Management (continued)

### 2. Fair value

#### (1) Financial instruments not measured at fair value

Financial instruments not measured at fair value include accounts receivable, short term borrowings, accounts payable and bonds payables.

Other than the financial liabilities stated below, differences between the carrying amount and the fair values of financial liabilities not stated at fair values are immaterial.

Item	At the end of the year		At the beginning of the year	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
— Corporate bonds	496,777,777.77	450,050,000.00	—	—

Fair values of the corporate bonds trading in active markets are determined by quoted market price in these active markets for identical liabilities.

#### (2) Financial instruments measured at fair value

The measurement of fair value of financial assets and financial liabilities are stated in note II.10.

### 3. Sensitivity analysis

The Group adopts sensitivity analysis techniques to analyze the possible effects of rational and probable changes in risk variables to profit and loss for the current period or to the beneficial interests. Since risk variables seldom change on a stand-alone basis, while the correlation between variables has significant influence to the ultimate amount of change effected by the change in a single risk variable; therefore, the below analysis is based on the assumption that the changes in each variable occurred separately.

#### (1) Sensitivity analysis of foreign exchange risk

Assumption of foreign exchange risk sensitivity analysis: all overseas operating net investment hedging and cash flow hedging are highly efficient.

Based on the above basis, holding all other variables constant the effects of probable and rational changes in exchange rate to the profit and loss for the current period and after-tax consequences of interests are set out below:

Items	Exchange rate change	This year		Previous year	
		Impact on net profit	Impact on shareholders' equity	Impact on net profit	Impact on shareholders' equity
All foreign currencies	Appreciate 5% against RMB	(16,383,987.60)	(16,383,987.60)	(10,131,487.95)	(10,131,487.95)
All foreign currencies	Depreciate 5% against RMB	16,383,987.60	16,383,987.60	10,131,487.95	10,131,487.95



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XI. Financial Instruments and Risk Management (continued)

### 3. Sensitivity analysis (continued)

#### (2) Sensitivity analysis of interest rate risk

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

- Changes in market rate affect the interest income or expense of floating-rate financial instruments;
- The changes in fair value of derivative financial instrument and other financial assets and liabilities were calculated by Discounted Cash Flow (DCF) with the market rate at the balance sheet date.

Based on the above assumptions, holding all other variables constant, the effect of possible occurrence of rational changes in interest rate to the profit and loss for the period and after tax consequences of interests are set out below:

Items	Interest rate change	Current year		Previous year	
		Effect on net profit	Effect on shareholders' equity	Effect on net profit	Effect on shareholders' equity
Floating-rate borrowings	Increase by 1%	(2,388,683.68)	(2,388,683.68)	(2,393,783.68)	(2,393,783.68)
Floating-rate borrowings	Decrease by 1%	2,388,683.68	2,388,683.68	2,393,783.68	2,393,783.68

## XII. Other Significant Items

As at the end of the year, the Group had no other significant items.

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company

### 1. Cash and bank balances

Item	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
Cash on hand						
RMB	25,452.47	—	25,452.47	17,907.19	—	17,907.19
Cash in Bank						
RMB	60,120,815.19	—	60,120,815.19	100,901,845.93	—	100,901,845.93
USD	3,481,776.49	6.0969	21,228,043.07	3,352,072.06	6.2855	21,069,448.90
EURO	0.01	8.4189	0.08	0.01	8.3176	0.08
Other fund						
RMB	361,694,237.29	—	361,694,237.29	347,450,663.67	—	347,450,663.67
USD	5,620,000.00	6.0969	34,264,578.00	—	—	—
Total	—	—	477,333,126.10	—	—	469,439,865.77

- (1) As at the end of the year, other fund held by the Company included bank acceptance security deposit of RMB201,454,237.29 (as at the beginning of the year: RMB292,478,163.67), borrowings and deposit for letter of credit of RMB130,444,578.00 (as at the beginning of the year: Nil), deposit for letter of guarantee of RMB64,060,000.00 (as at the beginning of the year: RMB54,972,500.00).
- (2) As at the end of the year, other fund held by the Company included borrowings and bank acceptance bills deposit with maturity date over 3 months of RMB154,462,427.49 (as at the beginning of the year: RMB89,777,244.98), deposit for letter of credit with maturity date over 3 months of RMB73,901,974.00 (as at the beginning of the year: Nil); and deposit for letter of guarantee with maturity date over 3 months of RMB38,860,000.00 (as at the beginning of the year: RMB25,000,000.00).

### 2. Bills Receivable

#### (1) Classification of bills receivable

Items	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance notes	117,939,796.64	181,652,729.32
Total	117,939,796.64	181,652,729.32



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 2. Bills Receivable (continued)

#### (2) Pledged bills receivables

(1) As at the end of the year, bills receivables amounted RMB84,193,244.79 was pledged to bank in exchange of equivalent amount of bills payables. These bills receivables will be matured by 24 March 2014.

(2) As at the end of the year, the top five pledged bills receivable are as follows:

Items	Bills Endorser	Date of issue	Date of maturity	Amount	Remark
Bank acceptance bills	China Petroleum & Chemical Co., Ltd, Supplies Equipment Department	2013-11-13	2014-2-12	10,000,000.00	
Bank acceptance bills	China Petroleum & Chemical Co., Ltd, Supplies Equipment Department	2013-10-17	2014-1-17	6,073,547.46	
Bank acceptance bills	Xinjiang Petroleum Administration Bureau, Financial Asset Department	2013-11-22	2014-2-22	5,636,237.50	
Bank acceptance bills	Xinjiang Petroleum Administration Bureau, Financial Asset Department	2013-11-22	2014-2-22	5,000,000.00	
Bank acceptance bills	Weishanhu Daizhuang Coal Transport and Marketing Company	2013-9-4	2014-3-4	3,000,000.00	
Total				29,709,784.96	

(3) As at the end of the year, the top five bills endorsed to other parties but not mature are as follows:

Items	Bills Endorser	Date of issue	Date of maturity	Amount	Remark
Bank acceptance bills	Hebei Zhongtai Steel pipe Manufacturing co., Ltd	2013-7-29	2014-1-29	10,000,000.00	
Bank acceptance bills	Hebei Zhongtai Steel pipe Manufacturing co., Ltd	2013-7-29	2014-1-29	10,000,000.00	
Bank acceptance bills	Shandong Jinguang Chemical Co., Ltd	2013-8-28	2014-2-28	10,000,000.00	
Bank acceptance bills	Liaoning Xinbeifang Heating Group Co., Ltd	2013-11-26	2014-5-26	10,000,000.00	
Bank acceptance bills	Guangdong Taidu Steel Industrial Co., Ltd	2013-11-19	2014-5-19	7,000,000.00	
Total				47,000,000.00	

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 2. Bills Receivable (continued)

#### (2) Pledged bills receivables (continued)

- (4) As at the end of the year, the Group had no bills receivables discounted before the maturity date (as at the beginning of the year: Nil).

### 3. Accounts Receivable

Items	Balance at the end of the year	Balance at the beginning of the year
Accounts receivable	573,611,521.13	466,836,134.78
Less: provision of bad debt	10,807,489.73	5,183,241.03
Net amount	562,804,031.40	461,652,893.75

#### (1) Aging analysis of accounts receivable

Prior to accepting new customers, the Company assesses the credit quality of potential customers and offers credit limit in accordance with internal credit assessment policies. Apart from requiring new customers to pay in advance, the Company offers tailor-made credit policies to individual customers. The Company allows an average credit for 3 months to general customers and 6 months for major customers. For domestic sales, the Company recognises revenue and accounts receivable when goods are delivered to and accepted by the customers. The inclusion of relevant accounts receivable in aging analysis begins at this date. For export sales, the Company recognises revenue and accounts receivable when risk and rewards of exported goods transferred to customer under "Free on Board" (FOB) and "Carriage and Insurance Paid to" (CIP) arrangement. The inclusion of relevant accounts receivable in aging analysis begins at this date. The aging analysis of accounts receivable are as follows:

Aging	Balance at the end of the year	Balance at the beginning of the year
Within one year	553,259,488.63	459,271,053.43
More than one year but within two years	8,844,542.77	1,799,900.20
More than two years but within three years	700,000.00	491,300.86
More than three years	—	90,639.26
Net amount	562,804,031.40	461,652,893.75



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 3. Accounts Receivable (continued)

#### (2) Risk Classification of Accounts Receivable

Category	Balance at the end of the year				Balance at the beginning of the year			
	Carrying amount		Provision of bad debts		Carrying amount		Provision of bad debts	
	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)
Single item with significant accounts receivable and provided for bad debts in single item	15,417,953.39	2.69	8,796,479.57	57.05	3,284,636.96	0.70	3,284,636.96	100.00
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test	556,182,557.58	96.96	—	—	461,652,893.75	98.89	—	—
Single item with insignificant accounts receivable but provided for bad debts separately	2,011,010.16	0.35	2,011,010.16	100.00	1,898,604.07	0.41	1,898,604.07	100.00
Total	573,611,521.13	100.00	10,807,489.73	—	466,836,134.78	100.00	5,183,241.03	—

(1) Single item with significant accounts receivable and provided for bad debts in single item

Companies	Carrying amount	Provision for bad debt	Ratio(%)	Reason for provision
Shengli Oilfield Highland Petroleum Equipment Co., Ltd	3,284,636.96	3,284,636.96	100.00	Aging over three years with low possibility of recovery
SBI Company (USA)	3,794,051.91	3,794,051.91	100.00	Aging over one years with uncertainty in recovery
Wenlai Jinlong Investment Company Limited, Beijing Office	8,339,264.52	1,717,790.70	20.60	Aging over one years with uncertainty in recovery
Total	15,417,953.39	8,796,479.57		

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 3. Accounts Receivable (continued)

#### (2) Risk Classification of Accounts Receivable (continued)

(2) Single item with insignificant accounts receivable but provided for bad debts separately

Companies	Carrying amount	Provision for bad debt	Ratio(%)	Reason for provision
Poweroil Group Co., Ltd.	1,921,727.16	1,921,727.16	100.00	Aging over three years with low possibility of recovery
Hanting Energy Service Company Limited	89,283.00	89,283.00	100.00	Aging over three years with low possibility of recovery
Total	2,011,010.16	2,011,010.16	100.00	

- (3) There is no reversal of provision for bad debt or recovery of impaired accounts receivable during this year.
- (4) There is no accounts receivable written off as uncollectible during this year and previous year.
- (5) At the end of the reporting period, the balances of accounts receivable do not include receivable from shareholders holding 5% or more of the Company's voting capital.
- (6) The top five amounts of accounts receivable are as follows:

Name	Relationship	Amount	Aging	Proportion of total accounts receivable(%)
Xinjiang Uyghur Autonomous Region Petroleum Administration Bureau	Customer	43,960,276.43	Within one year	7.66
Campex Inc.	Customer	43,949,929.21	Within one year	7.66
LUKOIL Uzbekista Operating Company	Customer	35,268,957.10	Within one year	6.15
China Petroleum & Chemical Co., Ltd, Supplies Equipment Department	Customer	34,630,043.68	Within one year	6.04
North China Petroleum Administration Bureau	Customer	33,555,803.17	Within one year	5.85
Total		191,365,009.59		33.36



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 3. Accounts Receivable (continued)

(7) Accounts receivable due from related parties are set out as below:

Companies	Relationship	Balance at the end of the year			Balance at the beginning of the year		
		Amount	Proportion of total accounts receivable	Provision for bad debt	Amount	Proportion of total accounts receivable	Provision for bad debt
Ya Long Oil Pump	Associate	1,044,301.65	0.18	—	2,716,477.70	0.58	—
MPM Limited	Subsidiary	—	—	—	15,432,904.18	3.31	—
Weihai Baolong Co., Ltd	Subsidiary	—	—	—	2,008.16	0.00	—
Total		1,044,301.65	0.18	—	18,151,390.04	3.89	—

(8) Accounts receivable denominated in foreign currencies are as follows:

Currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
USD	21,405,810.54	6.0969	130,509,086.28	11,968,252.64	6.2855	75,226,451.95
EUR	498,013.45	8.4189	4,192,725.43	498,013.45	8.3176	4,142,276.67
Total	—	—	134,701,811.71	—	—	79,368,728.62



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 4. Prepayments

#### (1) Aging of prepayments

Items	Balance at the end of the year		Balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	434,522,163.08	99.99	135,335,358.23	99.97
1–2 years	42,500.61	0.01	32,268.00	0.02
2–3 years	—	—	—	—
Above 3 years	10,683.61	—	10,683.61	0.01
<b>Total</b>	<b>434,575,347.30</b>	<b>100.00</b>	<b>135,378,309.84</b>	<b>100.00</b>

#### (2) The top five balances of prepayments are as follows:

Entities	Relationship	Amount	Proportion (%)	Aging	Reason for unsettled
Shouguang Baolong	Subsidiary	383,772,009.31	88.31	Within one year	Raw materials not received yet
Weihai Baolong	Subsidiary	40,389,817.51	9.29	Within one year	Raw materials not yet received
Shandong Shouguang Ju Neng Special Steel Co., Ltd	Supplier	3,076,085.25	0.71	Within one year	Raw materials not yet received
Shouguang Shihua Natural Gas Co., Ltd.	Supplier	2,359,155.21	0.54	Within one year	Raw materials not yet received
Hanting Energy Technology (Wuxi) Limited	Supplier	2,177,300.00	0.50	Within one year	Processing not yet completed
<b>Total</b>		<b>431,774,367.28</b>	<b>99.36</b>		

(3) As at the end of the year, the balances of prepayments do not include prepayments to shareholders holding 5% or more of the Company's voting capital.

(4) As at the end of the year, there is no prepayments denominated in foreign currency.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 5. Interest Receivables

Please refer to note V.5 for interest receivables.

### 6. Other Receivables

Name	Balance at the end of the year	Balance at the beginning of the year
Other receivables	252,573,774.30	222,222,066.49
Less: provision of bad debt	119,119.25	119,119.25
Net amount	252,454,655.05	222,102,947.24

#### (1) Aging Analysis of Other Receivables

Aging	Balance at the end of the year	Balance at the beginning of the year
Within one year	38,350,296.20	214,909,801.43
One to two years	207,108,340.14	298,825.81
Two to three years	122,000.00	2,060,000.00
Above three years	6,874,018.71	4,834,320.00
Net amount	252,454,655.05	222,102,947.24

#### (2) Risk Classification of Other Receivables

Category	Balance at the end of the year				Balance at the beginning of the year			
	Book balance		Provision for bad debt		Book balance		Provision for bad debt	
	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)	Amount	Ratio(%)
Single item with significant other receivables and provided for bad debts in single item	—	—	—	—	—	—	—	—
Single item with insignificant other receivable and single item with significant other receivable but not impaired under single item impairment test	252,454,655.05	99.95	—	—	222,102,947.24	99.95	—	—
Single item with insignificant other receivables but provided for bad debts separately	119,119.25	0.05	119,119.25	100.00	119,119.25	0.05	119,119.25	100.00
Total	252,573,774.30	100.00	119,119.25	—	222,222,066.49	100.00	119,119.25	—

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 6. Other Receivables (continued)

#### (2) Risk Classification of Other Receivables (continued)

Other receivables of insignificant amount, individually provided for bad debts

Companies	Carrying amount	Provision for bad debt	Ratio(%)	Reason for provision
Wang Lixue	40,000.00	40,000.00	100.00	No recovery with long aging
Shouguang City Government San Den Office	6,470.00	6,470.00	100.00	No recovery with long aging
Shouguangshi Gong An Ju	5,000.00	5,000.00	100.00	No recovery with long aging
Shouguang Vegetable Oil Plant	2,750.00	2,750.00	100.00	No recovery with long aging
Other Individuals	64,899.25	64,899.25	100.00	No recovery with long aging
<b>Total</b>	<b>119,119.25</b>	<b>119,119.25</b>	<b>100.00</b>	

(3) The Group had no other receivables which was fully or significantly provided for bad debt in previous years recovered or partially recovered by debt restructuring or other alternatives during the year.

(4) There is no accounts receivable written off as uncollectible during this year and previous year.

(5) As at 31 December 2013, the balances of other receivables do not include receivables from shareholders holding 5% or more of the Company's voting capital.

(6) The top five balances of other receivables are as follows:

Companies	Relationship	Amount	Aging	Proportion (%)	Nature
Shouguang Baolong	Subsidiary	207,000,000.00	1-2 years	81.96	Prepayment for acquisition of land use rights
Shouguang City Yangkou Town Finance Department	Non-related party	14,530,000.00	Within 1 year	5.75	Deposit for project development
Gucheng Street Offices	Non-related party	6,891,320.00	Above 3 years	2.73	Current account
West Centre of Shanghai Petroleum Exchange Company Limited	Non-related party	1,314,923.00	Within 1 year	0.52	Deposit for tendering
Sinochem International Tendering Co., Ltd.	Non-related party	800,000.00	Within 1 year	0.32	Deposit for tendering
<b>Total</b>		<b>230,536,243.00</b>		<b>91.28</b>	



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 6. Other Receivables (continued)

#### (7) Accounts receivable due from related parties

Name	Relationship	As at the end of the year			As at the beginning of the year		
		Amount	Proportion (%)	Provision for bad debt	Amount	Proportion (%)	Provision for bad debt
Shouguang Baolong	Subsidiary	207,000,000.00	81.96	—	207,000,000.00	93.15	—
Maolong Machinery	Subsidiary	12,291,150.00	4.87	—	—	—	—
Molong Logistic Company	Subsidiary	6,854,003.74	2.71	—	—	—	—
Total		226,145,153.74	89.54	—	207,000,000.00	93.15	—

### 7. Inventories

#### (1) Classification

Item	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Allowance for inventories	Net amount	Carrying amount	Allowance for inventories	Net amount
Raw materials	151,844,821.64	18,424,306.57	133,420,515.07	165,255,684.35	872,160.98	164,383,523.37
Work-in-progress	383,378,972.65	9,247,285.30	374,131,687.35	428,071,019.94	734,382.18	427,336,637.76
Entrusted processing materials	15,028,859.48	198,651.68	14,830,207.80	13,816,477.26	—	13,816,477.26
Finished goods	390,282,494.60	13,870,725.46	376,411,769.14	386,406,691.71	2,563,400.25	383,843,291.46
Total	940,535,148.37	41,740,969.01	898,794,179.36	993,549,873.26	4,169,943.41	989,379,929.85

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 7. Inventories (continued)

#### (2) Allowance for inventories

Items	Balance at the beginning of the year	Allowance made during this year	Reduction during this year		Balance at the end of the year
			Reversal of allowance	Written-off	
Raw material	872,160.98	17,552,145.59	—	—	18,424,306.57
Work-in-progress	734,382.18	8,512,903.12	—	—	9,247,285.30
Entrusted processing materials	—	198,651.68	—	—	198,651.68
Finished goods	2,563,400.25	11,307,325.21	—	—	13,870,725.46
<b>Total</b>	<b>4,169,943.41</b>	<b>37,571,025.60</b>	<b>—</b>	<b>—</b>	<b>41,740,969.01</b>

#### (3) Reasons for providing allowance for inventories

Items	Reasons for providing allowance	Reasons for reversal during this year	Reversal to balance of inventories at 31 December 2013 (%)	
Raw material	Long aging and low value in use	—	—	—
Work-in-progress	Cost higher than net realisable value	—	—	—
Entrusted processing materials	Cost higher than net realisable value	—	—	—
Finished goods	Cost higher than net realisable value	—	—	—
<b>Total</b>		<b>—</b>	<b>—</b>	<b>—</b>

(4) As at the end of the year, the Group had no pledged or frozen inventories.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company

### 8. Other Current Assets

Items	Balance at the end of the year	Balance at the beginning of the year
Prepaid income tax	1,870,576.46	—
Prepaid value-added tax	—	1,521,778.24
Total	1,870,576.46	1,521,778.24

### 9. Long-term Equity Investments

#### (1) Long-term equity investments category

Items	Balance at the end of the year	Balance at the beginning of the year
Long-term equity investments using the cost method	652,069,921.73	652,069,921.73
Total long-term equity investments	652,069,921.73	652,069,921.73
Less: Provision for long-term equity investments	—	—
Net value of long-term equity investments	652,069,921.73	652,069,921.73

#### (2) Analysis of Long-term Equity Investment

Items	Balance at the end of the year	Balance at the beginning of the year
Listed	—	—
Unlisted	652,069,921.73	652,069,921.73
Total	652,069,921.73	652,069,921.73

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 9. Long-term Equity Investments (continued)

#### (3) Analysis of Long-term Equity Investment under Cost Method

Investee company	Shareholding (%)	Voting right (%)	Cost of investment	Balance as at the beginning of the year	Increase or decrease in investment during this year	Share of result using equity method	Cash dividend declared	Other movement	As at the end of the year	Provision for impairment	Impairment loss
											recognised during this year
Cost method											
Maolong Machinery	100.00	100.00	306,743,691.73	306,743,691.73	—	—	—	—	306,743,691.73	—	—
Wei Hai Baolong Company Limited	61.54	61.54	220,000,000.00	220,000,000.00	—	—	—	—	220,000,000.00	—	—
MPM Limited	90.00	90.00	7,276,230.00	7,276,230.00	—	—	—	—	7,276,230.00	—	—
Shouguang Baolong	70.00	70.00	105,000,000.00	105,000,000.00	—	—	—	—	105,000,000.00	—	—
Molong Logistic Company	100.00	100.00	3,000,000.00	3,000,000.00	—	—	—	—	3,000,000.00	—	—
Maolong Recycle	10.00	10.00	50,000.00	50,000.00	—	—	—	—	50,000.00	—	—
Shouguang Mihe Water Company Limited	9.73	9.73	10,000,000.00	10,000,000.00	—	—	—	—	10,000,000.00	—	—
Sub-total							—	—	—	—	—
Total			652,069,921.73	652,069,921.73					652,069,921.73		

(4) There is no impairment indicators and the Company does not provide impairment loss for long-term equity investment.

(5) As at 31 December 2013, there is no restriction on the Group of transferring capital from investee companies which the Group had long-term equity investment.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 10. Fixed assets

#### (1) Details of fixed assets

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
<b>Costs</b>	1,822,552,371.40	58,210,823.37	10,732,260.33	1,870,030,934.44
Including: Buildings	335,657,497.81	2,306,680.96	—	337,964,178.77
Machinery and equipment	1,433,311,703.43	48,129,251.82	9,927,798.24	1,471,513,157.01
Electronic and others equipment	42,437,955.65	7,249,771.49	313,255.99	49,374,471.15
Transportation equipment	11,145,214.51	525,119.10	491,206.10	11,179,127.51
<b>Accumulated depreciation</b>	430,551,751.29	127,711,158.42	5,268,294.39	552,994,615.32
Including: Buildings	55,206,970.58	16,226,029.56	—	71,433,000.14
Machinery and equipment	350,992,108.56	104,045,609.72	4,678,959.15	450,358,759.13
Electronic and others equipment	17,582,466.69	6,128,484.16	296,457.98	23,414,492.87
Transportation equipment	6,770,205.46	1,311,034.98	292,877.26	7,788,363.18
<b>Net book amount</b>	1,392,000,620.11	—	—	1,317,036,319.12
Including: Buildings	280,450,527.23	—	—	266,531,178.63
Machinery and equipment	1,082,319,594.87	—	—	1,021,154,397.88
Electronic and others equipment	24,855,488.96	—	—	25,959,978.28
Transportation equipment	4,375,009.05	—	—	3,390,764.33
<b>Provision for impairment</b>	—	—	—	—
Including: Buildings	—	—	—	—
Machinery and equipment	—	—	—	—
Electronic and others equipment	—	—	—	—
Transportation equipment	—	—	—	—
<b>Net carrying amount</b>	1,392,000,620.11	—	—	1,317,036,319.12
Including: Buildings	280,450,527.23	—	—	266,531,178.63
Machinery and equipment	1,082,319,594.87	—	—	1,021,154,397.88
Electronic and others equipment	24,855,488.96	—	—	25,959,978.28
Transportation equipment	4,375,009.05	—	—	3,390,764.33

- (1) During this year, depreciation expenses of RMB122,442,864.03 was recognised in profit or loss (during previous year: RMB119,541,669.87).
- (2) During this year, the amount of fixed assets transferred from construction in progress was RMB48,865,661.66
- (3) During this year, the Company recognised loss on disposal of fixed assets amounted to RMB411,811.10.
- (4) As at the end of the year, the Company had no fixed assets pledged or guaranteed.
- (5) As at the end of the year, the Company had no temporarily idle fixed asset.



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 10. Fixed assets (continued)

- (2) The Company's buildings classified by locations and lease terms are as follows:

Items	Balance at the end of the year	Balance at the beginning of the year
In China	266,531,178.63	280,450,527.23
Medium lease term (10–50 years)	266,531,178.63	280,450,527.23
Outside China	—	—
<b>Total</b>	<b>266,531,178.63</b>	<b>280,450,527.23</b>

- (3) Fixed assets that have not been granted with title certificates are as follows:

Fixed assets that have not been granted with title certificate	Balance at the end of the year		Balance at the beginning of the year	
	Cost	Carrying amount	Original amount	Cost
Logistic Park Plant	11,080,983.50	10,552,496.18	11,152,202.50	11,152,202.50
<b>Total</b>	<b>11,080,983.50</b>	<b>10,552,496.18</b>	<b>11,152,202.50</b>	<b>11,152,202.50</b>

Name	Reason for no certificates of ownership	Expected time to grant certificate of ownership
Logistic Park Plant	Application in progress	2014

- (4) There is no impairment indicators for fixed assets held by the Company. Hence, no impairment provision is made for fixed assets.
- (5) As at the end of the year, the Company had no fixed assets pledged or guaranteed.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 11. Construction in Progress

#### (1) Details of Construction in Progress

Items	Balance at the end of the year			Balance at the beginning of the year		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Φ 1200mm Petroleum Pipeline Expansion Project	—	—	—	32,180,097.24	—	32,180,097.24
Casting Plant Relocation and Technological Improvement Project	184,835,037.90	—	184,835,037.90	2,345,894.05	—	2,345,894.05
Others project	14,814,205.00	—	14,814,205.00	11,390,715.61	—	11,390,715.61
<b>Total</b>	<b>199,649,242.90</b>	<b>—</b>	<b>199,649,242.90</b>	<b>45,916,706.90</b>	<b>—</b>	<b>45,916,706.90</b>

#### (2) Major changes in construction projects

Items	Balance at the beginning of the year	Additions	Reductions		Balance at the end of the year
			Transferred to fixed assets	Others	
Φ 1200mm Petroleum Pipeline Expansion Project	32,180,097.24	16,685,564.42	48,865,661.66	—	—
Casting Plant Relocation and Technological Improvement Project	2,345,894.05	182,489,143.85	—	—	184,835,037.90
<b>Total</b>	<b>34,525,991.29</b>	<b>199,174,708.27</b>	<b>48,865,661.66</b>	<b>—</b>	<b>184,835,037.90</b>

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 11. Construction in Progress (continued)

#### (2) Major changes in construction projects (continued)

Projects	Budget amount	Investment to budgeted (%)	Progress (%)	Accumulated interest capitalised	Including: capitalised interest amount during this year	Interest capitalised during this year (%)	Sources of Fund
Φ1200mm Petroleum Pipeline Expansion Project	68,000,000.00	101.40	100.00	2,124,718.08	973,320.51	5.23	Financial institute and company's funds
Casting Plant Relocation and Technological Improvement Project	560,000,000.00	33.01	33.01	9,154,954.26	9,154,954.26	5.23	Financial institute and company's funds
<b>Total</b>	<b>628,000,000.00</b>			<b>11,279,672.34</b>	<b>10,128,274.77</b>		

During this year, interest capitalised rate is 5.23% for the Company (previous year: 6.48%).

- (3) The Company's construction in progress does not have any impairment indicators, no provision is provided.
- (4) At the end of the reporting period, the Group's construction in progress have no ownership issue or access right restrictions due to pledge or any other reason.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 12. Intangible Assets

Item	Balance as at the beginning of the year	Additions	Reductions	Balance as at the end of the year
<b>Costs</b>	367,671,227.36	36,711,324.68	—	404,382,552.04
Including: Right to use Lands	139,053,498.28	—	—	139,053,498.28
Software	770,036.72	—	—	770,036.72
Non-patent technology	225,781,422.36	36,707,424.68	—	262,488,847.04
Patent technology	2,066,270.00	3,900.00	—	2,070,170.00
<b>Accumulated amortisation</b>	82,999,687.40	50,766,328.91	—	133,766,016.31
Including: Right to use Lands	8,626,703.91	2,954,448.96	—	11,581,152.87
Software	724,011.08	13,589.76	—	737,600.84
Non-patent technology	73,260,839.15	47,395,155.13	—	120,655,994.28
Patent technology	388,133.26	403,135.06	—	791,268.32
<b>Net book amount</b>	284,671,539.96	—	—	270,616,535.73
Including: Right to use Lands	130,426,794.37	—	—	127,472,345.41
Software	46,025.64	—	—	32,435.88
Non-patent technology	152,520,583.21	—	—	141,832,852.76
Patent technology	1,678,136.74	—	—	1,278,901.68
<b>Provision for impairment</b>	—	33,968,375.45	—	33,968,375.45
Including: Right to use Lands	—	—	—	—
Software	—	—	—	—
Non-patent technology	—	33,968,375.45	—	33,968,375.45
Patent technology	—	—	—	—
Net carrying amount	284,671,539.96	—	—	236,648,160.28
Among: Right to use Lands	130,426,794.37	—	—	127,472,345.41
Software	46,025.64	—	—	32,435.88
Non-patent technology	152,520,583.21	—	—	107,864,477.31
Patent technology	1,678,136.74	—	—	1,278,901.68

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 12. Intangible Assets (continued)

- (1) The land-use right by geographical information and lease term:

Name	Balance at the end of the year	Balance at the beginning of the year
Land-use right in the PRC	127,472,345.41	130,426,794.37
Medium-term lease (10-50 years)	127,472,345.41	130,426,794.37
Land-use right outside the PRC	—	—
Total	127,472,345.41	130,426,794.37

- (2) During this year, RMB50,766,328.91 (previous year: RMB38,191,001.95) was recognised as amortisation expense for intangible assets in the income statements.

- (3) See note V.12 for intangible assets provision of impairment policy.

### 13. Development Expenditure

Item	Balance at the beginning of the year	Additions	Reductions		Balance at the end of the year
			Credited to profit or loss	Recognised as intangible assets	
Research					
Stage	—	6,428,132.78	6,428,132.78	—	—
Development stage	5,527,255.20	70,875,244.56	39,695,075.08	36,707,424.68	—
Total	5,527,255.20	77,303,377.34	46,123,207.86	36,707,424.68	—

The development expenditure is 91.68% of total research and development expenditure of the current year. The internal generated intangible assets are 45.58% of the total intangible assets.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 14. Deferred tax assets and liabilities

#### (1) Recognised deferred tax assets and liabilities

Item	Balance at the end of the year	Balance at the beginning of the year
<b>Deferred tax assets</b>		
Allowance for doubtful debts	1,638,991.35	795,354.04
Including: accounts receivable	1,621,123.46	777,486.15
other receivable	17,867.89	17,867.89
Provision for inventories	6,261,145.35	625,491.51
Salaries payable	2,541,221.62	1,960,317.33
Accumulated amortisation of intangible assets	13,208,143.76	9,127,623.42
Impairment of intangible assets	5,095,256.32	—
Deductible losses	6,217,581.36	—
Deferred income	813,600.00	1,627,200.00
Total	35,775,939.76	14,135,986.30
<b>Deferred tax liabilities</b>		
Interests receivable	690,907.42	457,855.65
Total	690,907.42	457,855.65

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 14. Deferred tax assets and liabilities (continued)

#### (2) Differences in tax payable and deductible breakdown

Item	Balance at the end of the year	Balance at the beginning of the year
Temporarily tax deductible items:		
Allowance for doubtful debts	10,926,608.98	5,302,360.28
Including: accounts receivable	10,807,489.73	5,183,241.03
other receivables	119,119.25	119,119.25
Provision for inventories	41,740,969.01	4,169,943.41
Salaries payable	16,941,477.46	13,068,782.18
Accumulated amortisation of intangible assets	60,327,997.15	36,630,419.58
Impairment of intangible assets	33,968,375.45	—
Deductible tax loss	41,450,542.38	—
Deferred income	5,424,000.00	7,232,000.00
<b>Sub-total</b>	<b>210,779,970.43</b>	<b>66,403,505.45</b>
Temporary tax payable:		
Interests receivable	4,606,049.44	3,052,370.97
<b>Sub-total</b>	<b>4,606,049.44</b>	<b>3,052,370.97</b>

### 15. Other non-current assets

Item	Balance at the end of the year	Balance at the beginning of the year
Including: Prepayments for acquisition of land use rights	23,000,000.00	33,000,000.00
Prepayments for acquisition of fixed assets	236,788,383.05	—
<b>Total</b>	<b>259,788,383.05</b>	<b>33,000,000.00</b>

Note: The Company had prepayments for acquisition of plant, machinery and equipment of RMB236,788,383.05 included in other non-current assets. The Group had not received these fixed assets.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 16. Impairment of Assets

#### During this year

Item	Balance at the beginning of the year	Additions	Reductions		Balance at the end of the year
			Reversals	Other transfer	
Provision of bad debt	5,302,360.28	5,624,248.70	—	—	10,926,608.98
Including: accounts receivable	5,183,241.03	5,624,248.70	—	—	10,807,489.73
other receivable	119,119.25	—	—	—	119,119.25
Provision of allowances for inventories	4,169,943.41	37,571,025.60	—	—	41,740,969.01
Accumulated impairment of intangible assets	—	33,968,375.45	—	—	33,968,375.45
<b>Total</b>	<b>9,472,303.69</b>	<b>77,163,649.75</b>	<b>—</b>	<b>—</b>	<b>86,635,953.44</b>

#### During previous year

Item	Balance at the beginning of the year	Additions for the current period	Reductions for the previous year		Closing amount
			Reversals	Write-offs	
Allowance for doubtful debts	9,011,668.85	941,205.06	4,650,513.63	—	5,302,360.28
Including: Trade receivables	8,892,549.60	941,205.06	4,650,513.63	—	5,183,241.03
Other receivables	119,119.25	—	—	—	119,119.25
Provision for inventories	3,137,390.30	1,709,744.02	82,878.60	594,312.31	4,169,943.41
<b>Total</b>	<b>12,149,059.15</b>	<b>2,650,949.08</b>	<b>4,733,392.23</b>	<b>594,312.31</b>	<b>9,472,303.69</b>



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 17. Short-term borrowings

#### (1) Classification of short-term borrowings

Nature of the loan	Currency	Balance at the end of the year			Balance at the beginning of the year		
		Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
Trust loan (Note 1)	USD	6,269,895.50	6.1721	39,275,400.00	—	—	—
USD		2,075,844.30	6.1754	12,914,400.00	—	—	—
USD		4,832,919.84	6.1794	29,707,136.00	—	—	—
USD		5,600,318.19	6.1812	34,608,960.00	—	—	—
Credit loans	USD	61,900,000.00	6.0969	377,398,110.00	47,729,995.00	6.2855	300,006,883.57
Credit loans	RMB	729,500,000.00		729,500,000.00	680,000,000.00	—	680,000,000.00
Total				1,223,404,006.00			980,006,883.57

Note 1: The trust loans were the letter of credit for acquiring equipment. The closing exchange rates were fixed.

- (2) The Company's short-term borrowings are not expired at the end of the reporting period.
- (3) The Group has repaid RMB294,596,800.00 of short-term borrowings up to the report date.

### 18. Bills payable

The details of bills payable are on note V.19.

### 19. Accounts payable

#### (1) Details of accounts payable

Items	Balance at the end of the year	Balance at the beginning of the year
Materials	275,982,332.53	302,538,024.48
Construction equipment	54,318,883.97	74,965,588.19
Total	330,301,216.50	377,503,612.67



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 19. Accounts payable (continued)

#### (2) Aging analysis of accounts payable:

Item	Balance at the end of the year	Balance at the beginning of the year
Within 2 months	159,774,276.94	129,334,600.37
2-3 months	35,926,152.05	50,125,193.27
3-4 months	22,328,413.01	43,327,540.78
4 months-1 year	75,685,547.01	121,372,444.44
1-2 years	28,167,025.41	24,276,109.20
2-3 years	3,337,381.39	5,380,912.38
Over 3 years	5,082,420.69	3,686,812.23
Total	330,301,216.50	377,503,612.67

At the end of this year, the company account of age more than a year and the amount more than RMB2,000,000.00 single large accounts payable amount of RMB4,681,286.05.

(3) At the end of the reporting period, the Group's accounts payable was not due to any shareholders holding over 5% of voting rights of the Group.

#### (4) Accounts payable due to related parties

Name	Balance at the end of the year	Balance at the beginning of the year
Molong Electro-mechanical Equipment	36,420,049.78	33,116,283.10
Total	36,420,049.78	33,116,283.10

#### (5) Accounts payable in foreign currency

Foreign currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
USD	1,563,566.00	6.0969	9,532,905.55	—	—	—
Total	1,563,566.00	6.0969	9,532,905.55	—	—	—

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 20. Receipts in Advance

#### (1) Receipts in advance

Items	Balance at the end of the year	Balance at the beginning of the year
Total	218,914,621.07	25,536,367.16
Including: over 1 year	1,108,824.80	1,138,202.28
Total	218,914,621.07	25,536,367.16

- (2) At the end of the reporting period, the Company's receipts in advance was not due to any shareholders holding over 5% of voting rights of the Company.

#### (3) Receipts in advance due to related parties

Name	Balance at the end of the year	Balance at the beginning of the year
MPM Limited	156,886,359.72	—
Total	156,886,359.72	—

#### (4) Receipts in advance in foreign currency

Currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
USD	32,943,939.15	6.0969	200,855,902.60	927,166.96	6.2855	5,827,707.93
Total			200,855,902.60			5,827,707.93



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 21. Salaries Payable

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Salaries, bonuses, allowance and subsidies	13,068,782.18	75,269,526.26	72,672,221.51	15,666,086.93
Staff welfare	—	10,372,604.00	10,372,604.00	—
Social insurance premiums	—	10,714,795.82	10,714,795.82	—
Including: 1. Medical insurance	—	2,795,789.03	2,795,789.03	—
2. Retirement insurance	—	6,709,328.17	6,709,328.17	—
3. Unemployment insurance	—	378,024.58	378,024.58	—
4. Injury insurance	—	453,629.48	453,629.48	—
5. Birth insurance	—	378,024.56	378,024.56	—
Housing funds	—	671,940.00	671,940.00	—
Union fund and staff education fund	—	2,634,433.42	1,359,042.89	1,275,390.53
<b>Total</b>	<b>13,068,782.18</b>	<b>99,663,299.50</b>	<b>95,790,604.22</b>	<b>16,941,477.46</b>

The Company's salaries payable included unpaid salary bonuses, subsidies, and etc, of RMB15,666,086.93 at the end of the year and it will be paid before the end of the second quarter of 2014.

### 22. Taxes Payables

Items	Balance at the end of the year	Balance at the beginning of the year
Value-added tax	14,060,390.55	—
Enterprise income tax	—	11,518,178.51
Individual income tax	2,024,421.49	33,435.81
Urban maintenances and construction tax	994,179.46	2,250.03
Property tax	664,441.39	586,115.62
Land use tax	955,006.80	955,006.80
Educational surcharges	710,175.32	1,654.30
Local water conservancy construction funds	141,704.20	—
Stamp duty	281,078.30	301,861.60
Others	—	7,540.61
<b>Total</b>	<b>19,831,397.51</b>	<b>13,406,043.28</b>

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 23. Interests Payable

Items	Balance at the end of the year	Balance at the beginning of the year
Corporate bond interests	14,745,205.48	—
Bank loan interests	9,456,895.95	6,968,896.69
Total	24,202,101.43	6,968,896.69

#### Interest payable in foreign currency

Foreign Currency	Balance at the end of the year			Balance at the beginning of the year		
	Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
USD	881,915.44	6.0969	5,376,950.27	216,426.56	6.2855	1,360,349.14
USD (Note 1)	169,654.35	6.1721	1,047,123.63	—	—	—
	53,133.11	6.1754	328,118.19	—	—	—
	101,754.01	6.1794	628,778.71	—	—	—
	78,885.73	6.1812	487,608.47	—	—	—
Total			7,868,579.27			1,360,349.14

Note 1: For the details, please refer to note XIII. 17.1 for details.

### 24. Other Payables

#### (1) Other payables

Items	Balance at the end of the year	Balance at the beginning of the year
Total	16,898,117.61	13,490,303.33
Including: over 1 year	2,466,570.50	2,204,972.06



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 24. Other Payables (continued)

#### (2) Details of other payables

Other payables	Balance at the end of the year	Balance at the beginning of the year
Accrued natural gas, transportation, electricity	7,756,539.96	6,640,756.06
Deposits received	7,463,182.48	3,150,025.44
Others	1,678,395.17	3,699,521.83
Total	16,898,117.61	13,490,303.33

- (3) At the end of the reporting period, the Company's other payable was not due to any shareholders holding over 5% of voting rights of the Company.

#### (4) Accounts payable due to related parties

Name	Balance at the end of the year	Balance at the beginning of the year
Zhang Yun San	800,000.00	—
Molong Logistic Company	—	2,751,100.00
Shouguang Baolong	4,253,173.76	—
Total	5,053,173.76	2,751,100.00

### 25. Other Current Liabilities

Details of other current liabilities are set out in Note V.26.

### 26. Bonds Payables

The details of bonds payables are set out in Note V.27.

### 27. Other Non-current Liabilities

The details of other non-current liabilities are set out in Note V.28.

### 28. Share Capital

The details of share capital are set out in Note V.29.

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 29. Capital Reserves

#### This year

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Capital Premium	849,481,990.92	—	—	849,481,990.92
Total	849,481,990.92	—	—	849,481,990.92

#### Previous year

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Capital Premium	1,248,406,190.92	—	398,924,200.00	849,481,990.92
Total	1,248,406,190.92	—	398,924,200.00	849,481,990.92

### 30. Special Reserve

#### This year

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Satiety production fee	—	4,952,778.10	4,952,778.10	—
Total	—	4,952,778.10	4,952,778.10	—

Note: The details for special reserve are on note. V.31.

### 31. Surplus Reverse

Details for special reserve are set out in Note. V.32.



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 32. Undistributed Profits

#### This year

Items	Amounts	Appropriation rate (%)
Balance at the end of last year	981,137,343.28	—
Add: adjustment to the undistributed profits at beginning of the year	—	—
Balance at the beginning of the year	981,137,343.28	—
Add: Loss attributable to the owners of the Company	(87,089,880.40)	—
Dividend declared and payables	39,892,420.00	—
Balance at the end of the year	854,155,042.88	—

#### Previous year

Items	Amounts	Appropriation rate (%)
Balance at the end of last year	922,540,824.80	—
Add: adjustment to the undistributed profits at beginning of the year	—	—
Balance at the beginning of the year	922,540,824.80	—
Add: Profit attributable to the owners of the Company	109,432,153.86	—
Less: Appropriation to surplus reserve	10,943,215.38	10
Dividend declared and payables	39,892,420.00	—
Balance at the end of the year	981,137,343.28	—

Note: Details of the cash dividends are set out in Note V.33.

### 33. Net Current Assets

Items	Balance at the beginning of the year	Balance at the end of the year
Current assets	2,750,377,761.75	2,461,128,454.01
Less: Current liabilities	2,279,867,119.74	2,083,384,404.50
Net Current Assets	470,510,642.01	377,744,049.51



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 34. Total Assets less Current Liabilities

Items	Balance at the beginning of the year	Balance at the end of the year
Total assets	5,451,345,728.59	4,888,450,484.21
Less: current liabilities	2,279,867,119.74	2,083,384,404.50
Total assets less current liabilities	3,171,478,608.85	2,805,066,079.71

### 35. Borrowings

Items	Balance at the beginning of the year	Balance at the end of the year
Short-terms borrowing	1,223,404,006.00	980,006,883.57
Bonds payables	496,777,777.77	—
Total	1,720,181,783.77	980,006,883.57

#### (1) Borrowings analysis

Items	Ending balance	Balance at the beginning of the year
Bank loan:		
Repayable within 5 years	1,223,404,006.00	980,006,883.57
Repayable over 5 years	—	—
Sub-total	1,223,404,006.00	980,006,883.57
Other borrowings and payables	496,777,777.77	—
Total	1,720,181,783.77	980,006,883.57



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 35. Borrowings (continued)

#### (2) Borrowing maturity analysis

Items	Balance at the beginning of the year	Balance at the end of the year
Repayable on demand or within one year	1,223,404,006.00	980,006,883.57
1 to 2 years	—	—
2 to 5 years	496,777,777.77	—
Over 5 years	—	—
<b>Total</b>	<b>1,720,181,783.77</b>	<b>980,006,883.57</b>

### 36. Operating Revenues and Operating Costs

Items	During this year	During previous year
Income from main operation	2,213,965,977.86	2,856,644,219.94
Income from other operation	149,973,842.87	196,133,879.47
<b>Total</b>	<b>2,363,939,820.73</b>	<b>3,052,778,099.41</b>
Cost of main operations	2,002,271,672.07	2,598,868,302.35
Cost of other operations	152,016,648.24	192,420,725.36
<b>Total</b>	<b>2,154,288,320.31</b>	<b>2,791,289,027.71</b>

Note: Income from main operation (turnover of the Company) represents the amounts received or receivable minus the sales discount for the sales of products and the services rendered to the outsider.

#### Gross Profits

Items	During this year	During previous year
Operating revenue	2,213,965,977.86	2,856,644,219.94
Operating cost	2,002,271,672.07	2,598,868,302.35
<b>Gross Profits</b>	<b>211,694,305.79</b>	<b>257,775,917.59</b>

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 36. Operating Revenues and Operating Costs (continued)

#### (1) Operating revenue — by industry

Industry	During this year		During previous year	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Petroleum machinery equipment manufacturing	2,213,965,977.86	2,002,271,672.07	2,856,644,219.94	2,598,868,302.35
Total	2,213,965,977.86	2,002,271,672.07	2,856,644,219.94	2,598,868,302.35

#### (2) Operating revenue — by product

Products	During this year		During previous year	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Casing and Tubing	1,999,587,498.15	1,825,736,519.74	2,593,093,332.55	2,386,512,528.54
Three kinds of pumping units	79,849,248.22	65,845,793.09	83,240,409.14	68,249,565.23
Petroleum machinery part	122,050,091.55	100,612,368.16	173,068,574.45	139,725,958.06
Others	12,479,139.94	10,076,991.08	7,241,903.80	4,380,250.52
Total	2,213,965,977.86	2,002,271,672.07	2,856,644,219.94	2,598,868,302.35

#### (3) Operating revenue — by geographical segment

Regions	During this year		During previous year	
	Operating revenue	Operating cost	Operating revenue	Operating cost
PRC	1,489,298,404.26	1,407,016,125.25	1,769,049,508.46	1,671,091,735.40
Overseas	724,667,573.60	595,255,546.82	1,087,594,711.48	927,776,566.95
Total	2,213,965,977.86	2,002,271,672.07	2,856,644,219.94	2,598,868,302.35



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 36. Operating Revenues and Operating Costs (continued)

- (4) During this year: operating income from top five customers are RMB932,545,892.84 (previous year: RMB1,291,359,169.66), accounting for 39.45 % of the aggregate revenue of the company during the year (previous year: 42.31%), details as follows:

Name of customer	Operating Revenue	the percentage of the total sales revenue (%)
China National Petroleum Corporation	469,437,332.43	19.86
Hebei Zhongtai Steel Pipe Manufacture Co., LTD	150,245,890.00	6.36
Campex Inc	119,719,265.08	5.06
Petroleum Pipe Company Limited	111,379,773.94	4.71
Cnood Asia Limited	81,763,631.39	3.46
Total	932,545,892.84	39.45

### 37. Tax and Levies on Operations

Items	During this year	During previous year	Tax rate
Business tax	—	6,927.50	5% of operating revenue
Urban maintenances and construction tax	1,817,647.41	745.15	7% of value-added tax and business tax payables
Educational surcharges	1,298,319.56	—	5% of value-added tax and business tax payables
Local water conservancy construction funds	259,663.91	777.24	1% of value-added tax and business tax payables
Total	3,375,630.88	8,449.89	

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 38. Selling Expenses

Items	During this year	During previous year
Delivery expenses	57,436,151.56	58,329,597.75
Salary	1,855,075.72	1,587,540.90
Agency fees	1,512,220.55	2,307,103.84
Depreciation charge	1,277,064.43	280,615.97
Travelling expenses	1,131,768.78	998,078.51
Entertainment	627,928.08	863,001.41
Transportation fees	506,943.37	538,068.91
Office expenses	406,829.03	329,154.69
Others	1,959,391.97	2,103,556.77
Total	66,713,373.49	67,336,718.75

### 39. Administrative expenses

Items	During this year	During previous year
Amortisation of intangible assets	50,766,328.91	38,191,001.95
Research and development fees of new products	46,123,207.86	5,616,345.55
Depreciation charges	8,936,024.13	8,217,353.16
Salary and Staff welfare expenses	7,991,539.51	7,685,444.82
Taxes	7,375,545.61	7,307,084.86
Machinery material consumption	4,399,409.16	6,640,408.98
Entertainment	1,332,962.59	2,086,151.57
Intermediate fees	1,474,938.97	983,408.47
Environmental protection expenses	1,095,914.28	893,967.56
The board fees	901,163.61	882,819.35
Transportation fees	560,408.18	1,939,945.35
Water and electricity fees	487,043.08	448,344.06
Property insurance fees	385,884.42	428,053.84
Delivery fees	317,295.76	303,322.67
Repair fees	294,084.40	216,481.66
Travelling fees	259,060.80	235,819.56
Promotional expenses	102,040.85	173,493.52
Others	1,020,012.61	812,211.24
Total	133,822,864.73	83,061,658.17



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 40. Finance Costs

#### (1) Finance costs breakdown

Items	During this year	During previous year
Interest expenses	59,218,456.92	42,516,439.44
Less: Interest income	12,073,108.73	12,696,636.96
Add: Foreign exchange loss	(4,982,594.61)	(4,594,132.74)
Add: Other expenses	7,334,562.86	6,285,445.42
Total	49,497,316.44	31,511,115.16

#### (2) Interest expenses breakdown

Items	During this year	During previous year
Bank loan interest	54,560,676.88	43,300,180.59
Bond interest under effective interest rate	14,745,205.48	—
Discount charges on bank acceptance notes	40,849.33	1,665,355.89
Sub-total	69,346,731.69	44,965,536.48
Less : Capitalised interest expenses	10,128,274.77	2,449,097.04
Total	59,218,456.92	42,516,439.44

During this year, borrowing interest capitalised is 5.23% for the Company (2012: 6.48%).

#### (3) Interest income breakdown

Items	During this year	During previous year
Interest income from bank deposits	10,534,775.40	12,696,636.96
Interest income from non-financial enterprise	1,538,333.33	—
Total	12,073,108.73	12,696,636.96

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 41. Assets impairment losses

Items	During this year	During previous year
Provision of allowance for inventory	5,624,248.70	(3,709,308.57)
Provision of bad debt	37,571,025.60	1,626,865.42
Intangible assets impairment loss	33,968,375.45	—
Total	77,163,649.75	(2,082,443.15)

### 42. Non-operating income

#### (1) Breakdown of non-operating income

Items	During this year	During previous year
Total income on disposal of non-current assets	158,637.07	50,716.12
Included : Income on disposal of fixed assets	158,637.07	50,716.12
Government grants	11,435,000.00	43,131,000.00
Income from penalty	1,375,603.78	364,282.53
Others	119,760.10	—
Total	13,089,000.95	43,545,998.65

Non-operating income during this year is RMB13,089,000.95 (previous year: RMB43,545,998.65).

#### (2) Government grants

Items	During this year	During previous year	Source and basis	Related to assets/ Related to income
Government subsidies	9,627,000.00	41,323,000.00	Note 1 to Note 3	Related to income
Sub-total	9,627,000.00	41,323,000.00		
Deferred income amortised	1,808,000.00	1,808,000.00	Note 4	Related to assets
Total	11,435,000.00	43,131,000.00		



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 42. Non-operating income (continued)

#### (2) Government grants (continued)

Note 1: According to Shou Cai Yu Zhi [2013] No. 143 "Notice regarding to the energy saving bonus for the whole city in 2011" (壽財預指 [2013] 143號《關於撥付2011年度全市節能獎勵資金的通知》) issued by Shouguang Finance Bureau, the company received RMB200,000 as the energy saving bonus in March 2013.

Note 2: According to the Shou Cai [2013] No. 2 "Circular Regarding the Subsidies Realized for the Work of Commercial Trade and Foreign Trade of the Whole City of 2012" (壽發 [2013] 2號《關於對2012年度全市商貿流通及對外經貿工作兌現獎勵的通報》) issued by the Shouguang city committee of the community party and the shouguang public government, the company has received RMB60,000 as the import and export trading award, RMB100,000 as the utilisation of foreign capital award, RMB30,000 as the exhibition subsidy and RMB237,000 as the growth of the export trading award, totally equal to RMB427,000.

Note 3: According to Shou Cai Yu Zhi [2013] No. 529 "Notice Regarding the Allocation of Special Fund" (壽財預指 [2013] 529號壽光市財政局《關於撥付專項資金的通知》) issued by Shouguang Finance Bureau, the Company received the technology research and development subsidy of RMB9,000,000 on June 2013.

Note 4: According to Lu-fa-gai investment No. [2011] 1354 "2011 Central Budget Investment Plan Notice on Key Industry and Technology Improvements" (魯發改投資 [2011] 1354號《關於轉發國家下達我省重點產業振興和技術改造中央專項2011年中央預算內投資計劃的通知》) issued by Shandong development and reform Committee with Shandong economic and information technology committee, the Company received a government grants of RMB9,040,000, which specially used for the project of development of new high-tech petroleum equipment. The company classified the government funds as deferred income, which amortised RMB1,808,000 during the year (Amortised in 5 years, each year RMB1,808,000).

### 43. Non-operating expenses

Items	During this year	During previous year
Loss on disposal of non-current assets	570,448.17	228,262.37
Including: Loss on disposal of fixed assets	570,448.17	228,262.37
Donation expenses	94,000.00	165,000.00
Other	—	205,062.00
Total	664,448.17	598,324.37

Non-operating expenses during this year is RMB664,448.17 (previous year: RMB598,324.37).



# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 44. Income tax (credit) expenses

#### (1) Income tax (credit) expenses

Items	During this year	During previous year
Income tax for the current period calculated according to tax laws and relevant rules	—	18,957,161.20
Including: PRC	—	18,957,161.20
Hong Kong	—	—
Adjustment on deferred income tax	(21,406,901.69)	(3,788,067.90)
Total	(21,406,901.69)	15,169,093.30

#### (2) Income tax expense and accounting profits reconciliation

Reconciliation between income tax expenses and accounting profits is set out as follows :

Items	During this year	During previous year
Accounting (loss) profit	(108,496,782.09)	124,601,247.16
Income tax calculated at tax rate of 15% on the Company	(16,274,517.31)	18,690,187.07
Tax effect of non-deductible expenses	117,893.37	182,352.41
Additional charge on research and development expenditure	(5,266,794.04)	(1,763,441.22)
Tax effect of tax loss not recognised		
Difference between applicable income tax rate for previous year and applicable tax rate for deferred tax assets or liabilities recognized	16,516.29	(1,940,004.96)
Income tax (credit) expenses	(21,406,901.69)	15,169,093.30

### 45. Depreciation and amortisation

The depreciation charge and the amortisation charge for this year are RMB122,442,864.03 and RMB50,766,328.91 respectively (previous year: RMB119,541,669.87 and RMB38,191,001.95 respectively).



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 46. Supplementary notes to the Company's statement of profit or loss

Details of expenses (including operating cost, selling expenses and administrative expenses) by nature:

Items	During this year	During previous year
Consumables	1,868,117,479.67	2,505,148,549.79
Salaries	89,630,042.94	85,087,722.87
Depreciation	122,442,864.03	119,541,669.87
Amortisation	50,766,328.91	38,191,001.95
Product license	108,370,833.00	65,896,131.68
Utilities	89,732,048.30	97,759,905.49
Other tax expenses	7,375,545.61	7,307,084.86
Others	18,389,416.07	22,755,338.12
Total	2,354,824,558.53	2,941,687,404.63

### 47. Note to cash flow statements

#### (1) Other receipts/payments relating to cash of operating/investing activities

(1) Other cash receipts relating to operating activities

Items	During this year	During previous year
Government grants	9,656,000.00	41,323,000.00
Interest income	10,519,430.26	11,842,273.07
Other	162,673,325.97	4,126,727.37
Total	182,848,756.23	57,292,000.44

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 47. Note to cash flow statements (continued)

#### (1) Other receipts/payments relating to cash of operating/investing activities (continued)

##### (2) Other cash payments relating to operating activities

Items	During this year	During previous year
Delivery fee	57,822,035.98	57,381,078.94
Development fees for new products	46,123,207.86	4,227,585.59
Consumable	5,067,848.63	6,907,988.23
Agency fees	1,512,220.55	2,307,103.84
Travelling fees	1,425,853.18	1,214,560.17
Intermediary services expenses	1,372,202.59	2,181,889.02
Repair expenses	277,717.48	235,819.56
Water and electricity expenses	560,408.18	1,832,106.83
Entertainment	2,102,867.05	1,846,409.88
Increased in foreign exchange guarantees deposit	64,685,182.51	40,501,347.11
Other	49,044,051.30	210,242,084.09
<b>Total</b>	<b>229,993,595.31</b>	<b>328,877,973.26</b>

##### (3) Other cash receipts relating to investing activities

Items	During this year	During previous year
Cash received from associate through a subsidiary	—	22,500,000.00
Cash received from associate through an independent third party	—	46,400,000.00
<b>Total</b>	<b>—</b>	<b>68,900,000.00</b>

##### (4) Other cash payments relating to investing activities

Items	During this year	During previous year
Increase in security deposit for letter of guarantee	13,860,000.00	11,280,000.00
Increase in the guarantee deposit for bank loan	73,901,974.00	—
Cash repayment to the associate through subsidiary	—	22,500,000.00
Cash repayments to the associate through an independent third party	—	46,400,000.00
<b>Total</b>	<b>87,761,974.00</b>	<b>80,180,000.00</b>



# Notes to the Financial Statements

1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 47. Note to cash flow statements (continued)

#### (2) Additional information for consolidated cash flow statement

Items	During this year	During previous year
<b>1. Reconciliation of net income to cash flow:</b>		
Net (loss) profit	(87,089,880.40)	109,432,153.86
Add : Provision for impairment loss of asset	77,163,649.75	(2,082,443.15)
Depreciation of fixed assets	126,522,936.65	120,441,924.01
Amortisation of intangible assets	50,766,328.91	38,191,001.95
Amortisation of deferred expenditure	—	—
Loss on disposal of fixed asset, intangible asset and other long-term asset	411,811.10	177,546.25
Fixed assets written off	—	—
Gain from changes in fair value	—	—
Finance costs	57,148,960.98	43,399,965.45
Investment income	—	—
Increase in deferred tax assets	(21,639,953.46)	(3,916,222.49)
Increase in deferred tax liabilities	233,051.77	128,154.59
Decrease (increase) in inventories	53,014,724.89	(31,348,989.39)
Increase in operating receivables	(359,130,214.75)	(480,093,577.67)
(Decrease) increase in operating payables	(186,413,711.47)	243,956,849.34
Others	(1,808,000.00)	(1,808,000.00)
Net cash flows (used in) from operating activities	(290,820,296.03)	36,478,362.75
<b>2. Significant investing and financing activities not involving cash receipt or payment:</b>		
Conversion of debts to capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired under finance lease	—	—
<b>3. Changes in cash and cash equivalents:</b>		
Balance of cash at the end of the year	210,108,724.61	354,662,620.79
Less : Balance of cash at the beginning of the year	354,662,620.79	314,143,139.67
Add : Balance of cash equivalents at the end of the year	—	—
Less : Balance of cash equivalents at the beginning of the year	—	—
Net (decrease) increase in cash and cash equivalents	(144,553,896.18)	40,519,481.12

# Notes to the Financial Statements



1 January 2013 to 31 December 2013

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

## XIII. Notes to Statement of Financial Position of the Company (continued)

### 47. Note to cash flow statements (continued)

#### (3) Cash and cash equivalents

Items	During this year	During previous year
1. Cash		
Including: Cash on hand	25,452.47	17,907.19
Bank deposit available for payments at any moment	81,343,970.87	121,971,294.91
Other funds available for payments at any moment	128,739,301.27	232,673,418.69
2. Cash and equivalents	210,108,724.61	354,662,620.79
Restricted other fund	267,224,401.49	114,777,244.98
3. Cash and cash equivalent at the end of the year	477,333,126.10	469,439,865.77

Note: The restricted other monetary funds included the security deposit for the bank acceptance, the letter of guarantee and the loan and borrowing and letter of credit, with the maturity over 3 months, the amounts were RMB154,462,427.49, RMB38,860,000.00 and RMB73,901,974.00 respectively, which totally equal to RMB267,224,401.49.

## XIV. Approval of the Financial Statements

This financial statement was approved by the Board of Directors on 31 March 2013.



# Supplementary Information on the Financial Statements

1 January 2013 to 31 December 2013

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

## 1. Statement of non-recurring profit and loss

Requested by China Securities Regulatory Commission in Explanatory announcement No. 1 on information disclosure by companies offering securities to the public — non-recurring profit or loss [2008] (《公開發行證券的公司資訊披露解釋性公告第1號 — 非經常性損益(2008)》), the non-recurring profit and loss of the Group are as follows:

Items	During this year	Note
Loss on disposal of non-current assets	(370,184.13)	
Government subsidies in profit and loss of the year	12,615,077.46	
Interest income from non-financial enterprise	5,657,305.93	
In addition to the above, the non-operating income and expenditure	1,539,573.50	
Sub-total	19,441,772.76	
Less: income tax effect	(2,899,186.46)	
Effect of minority interests (after tax)	1,551,913.13	
Total	20,789,046.09	

## 2. Return on Net Assets and (Loss) Earnings per Share

	Weighted average return on assets(%)		Earnings per share			
	2013	2012	Basic		Diluted	
Profit during the reporting period	2013	2012	2013	2012	2013	2012
Net (loss) profit attributable to holders of ordinary shares of the company	(6.31)	4.73	(0.22)	0.17	(0.22)	0.17
Net (loss) profit attributable to holders of ordinary shares of the company after deducting the non-recurring gain and loss	(7.06)	3.12	(0.25)	0.11	(0.25)	0.11

# Supplementary Information on the Financial Statements



1 January 2013 to 31 December 2013

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

## 3. Reason for discrepancy in major reporting items

Assets	Note	Balance		Variance	Variance (%)
		Balance at the end of the year	at the beginning of the year		
Cash and cash equivalents	Note 1	597,770,865.98	483,870,151.44	113,900,714.54	23.54
Bills receivable	Note 2	135,159,594.04	197,194,589.32	(62,034,995.28)	(31.46)
Accounts receivable	Note 3	563,772,597.42	455,105,433.22	108,667,164.20	23.88
Prepayments	Note 4	47,775,985.84	33,896,626.16	13,879,359.68	40.95
Interests receivable	Note 5	4,606,049.44	—	4,606,049.44	—
Other receivables	Note 6	31,160,536.48	18,953,847.29	12,206,689.19	64.40
Inventories	Note 7	1,155,180,417.60	1,220,618,577.83	(65,438,160.23)	(5.36)
Fixed assets	Note 8	1,710,839,377.57	1,833,866,660.51	(123,027,282.94)	(6.71)
Construction in progress	Note 9	442,414,993.81	134,351,091.69	308,063,902.12	229.3
Intangible assets	Note 10	486,672,315.83	378,586,638.46	108,085,677.37	28.55
Goodwill	Note 11	83,483,383.21	132,723,383.21	(49,240,000.00)	(37.10)
Deferred tax assets	Note 12	46,005,562.05	19,249,475.31	26,756,086.74	139.00
Other non-current assets	Note 13	379,804,663.05	270,000,000.00	109,804,663.05	40.67

Note 1: The increase in cash and cash equivalents during the year is mainly due to the issue of corporate bonds.

Note 2: The decrease in the bills receivable during the year is mainly due to reduction in using bills to settle transactions.

Note 3: The increase in the accounts receivable is mainly due to the delivery of goods before year ended.

Note 4: The increase in prepayments was paid to lock the price of the raw material since the price of the raw material fluctuated vigorously during the year.

Note 5: The increase in interests receivable is due to the increase in guaranteed deposits.

Note 6: The increase in other receivables is due to the payment of deposit for the Casting Plant Relocation and Technological Improvement Project.

Note 7: The decrease in inventories is due to decrease in buffer stock and increase in allowances for inventory.

Note 8: The decrease in fixed assets is mainly due to depreciation.

Note 9: The increase in construction in progress is mainly due to the development of the 90 tons electric furnace project and the Casting Plant Relocation and Technological Improvement Project, and launching of new construction projects during the year.

Note 10: The increase in intangible assets is mainly due to the purchase of land use right.

Note 11: The decrease in goodwill is due to the impairment loss of goodwill for RMB49,240,000 during the year.



# Supplementary Information on the Financial Statements

1 January 2013 to 31 December 2013

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

## 3. Reason for discrepancy in major reporting items (continued)

*Note 12:* The increase in the deferred tax assets is mainly due to loss suffered during this year and deductible temporary difference of new acquired assets during this year.

*Note 13:* The increase in the other non-current assets is due to the prepayment of RMB236,788,282.05 for the equipment for Casting Plant Relocation and Technological Improvement Project.

Liabilities and equity	Note	Ending balance	Balance at the beginning of the year	Variance	Variance (%)
Short-term borrowings	Note 1	1,367,290,846.00	1,030,006,883.57	337,283,962.43	32.75
Receipts in advance	Note 2	92,679,015.92	25,837,981.59	66,841,034.33	258.69
Interests payable	Note 3	24,239,399.58	6,968,896.69	17,270,502.89	247.82
Bonds payable	Note 4	496,777,777.77	—	496,777,777.77	—
Other non-current liabilities	Note 5	3,616,000.00	7,232,000.00	(3,616,000.00)	(50.00)

*Note 1:* The increase in short-term borrowings is due to the increase in the construction expenses during the year and external financing is increased in order to fulfil the of daily operating capital need.

*Note 2:* The increase in the receipt in advance is mainly due to the prepayments from the customer increased. Also, new customers choose to use prepayments to settle the transaction at the year end.

*Note 3:* The increase in the interest payable is due to the increase in the short term borrowings and the issuance of the corporate bonds during the year.

*Note 4:* The increase in the bonds payable is due to the issuance of the corporate bonds during the year.

*Note 5:* The decrease in the other non-current liabilities is mainly due to the reclassification of deferred income to other current liability, which was classified as non-current liabilities in previous year.



# Supplementary Information on the Financial Statements



1 January 2013 to 31 December 2013

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

## 3. Reason for discrepancy in major reporting items (continued)

Profit and loss	Note	Ending balance	Balance at the beginning of the year	Variance	Variance (%)
Operating revenue	Note 1	2,272,034,335.20	2,952,063,832.16	(680,029,496.96)	(23.04)
Operating costs	Note 2	2,076,430,070.86	2,624,241,003.24	(547,810,932.38)	(20.88)
Administrative expenses	Note 3	160,067,797.95	96,130,216.28	63,937,581.67	66.51
Finance costs	Note 4	48,572,195.33	37,123,383.67	11,448,811.66	30.84
Asset impairment losses	Note 5	135,334,752.52	10,038,077.83	125,296,674.69	1,248.21
Non-operating income	Note 6	14,701,734.82	49,857,539.87	(35,155,805.05)	(70.51)
Income tax (credit) expenses	Note 7	(26,109,087.98)	25,688,302.21	(51,797,390.19)	(201.64)

Note 1: The operating revenue has been decreased due to poor economic conditions. Although selling price decreases, the demand for the high-end products declined and hence operating revenue declines.

Note 2: The reduction in the operating costs is mainly due to the decrease in sales.

Note 3: The increase in administrative expenses is mainly due to increase in amortisation cost for intangible assets and increase in the research and development expenses also increased.

Note 4: The increase in finance costs is mainly due to the accrued bonds interest during this year.

Note 5: The increase in the asset impairment loss is mainly due to provisions of impairment for inventories, goodwill and intangible assets.

Note 6: The decrease in the non-operating income is mainly due the reduction of the government grants received during this year.

Note 7: The decrease in the income tax expense is mainly due to decline in net profit during the year.

**Shandong Molong Petroleum Machinery Company Limited**

March 31, 2014



## XI. Documents Available for Inspection

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1. The financial statements which were signed and sealed by the legal representative, financial controller and head of the financial department of the Company.
2. The original copy of the auditors' report which was sealed by the accounting firm and signed by a certified public accountant.
3. Original copies of all of the documents and announcements of the Company which have been disclosed in the designated newspaper and website as approved by China Securities Regulatory Commission during the reporting period.

**Shandong Molong Petroleum Machinery Company Limited**

March 31, 2014

