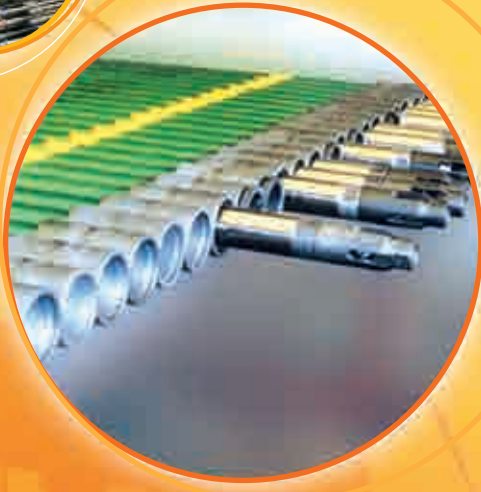
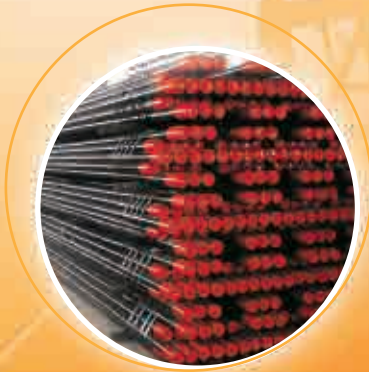




山東墨龍石油機械股份有限公司

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)



2014
Annual
Report

I. Important, Contents and Definitions



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 2014.

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I. Important, Contents and Definitions

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 Stock Exchange of Hong Kong Limited, “Listing Rules of Shenzhen Stock Exchange” refer to the Rules governing the listing of securities on the Shenzhen Stock Exchange, “Listing Rules of SEHK” refer to the Rules governing the listing of securities on the Hong Kong Stock Exchange, 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. Abnormal changes of the RMB exchange rate will affect the Company's products export business. We will be focus on exchange rate movements and take different measures such as exchange rate lock to avoid the risks of the RMB exchange rate changes.

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	http://www.molonggroup.com / http://www.hkex.com.hk
Email Address	sdml@molonggroup.com

II. Contact Information

	The Secretary of the Board	Securities Affairs Representative
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	zhf@molonggroup.com	wph@molonggroup.com

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	http://www.cninfo.com.cn
Places for Inspection of the Company's Annual Report	Board of Directors Office of the Company



II. Company Profile

IV. Registry Changes

	Date of Registration	Registered Address	Legal Person Business License	Registration Number with tax bureau	Organization No.
First Registration	30 December, 2001	No. 99 Beihuan Road, Shouguang City, Shandong Province	370000400000030	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	2014	2013	Year-on-year Increase/Decrease (%)	2012
Operating Revenue	2,522,102,479.29	2,272,034,335.20	11.01%	2,952,063,832.16
Net profit attributable to equity holders of Listed Company	20,233,190.77	-175,722,248.47	111.51%	134,263,035.30
Net profit after extraordinary gains or losses attributable to equity holders of Listed Company	15,047,953.20	-196,511,294.56	107.66%	88,497,742.61
Net cash flows from operating activities	400,589,007.36	-155,479,887.20	357.65%	445,930,901.29
Basic earning per Share (RMB)	0.03	-0.22	113.64%	0.17
Diluted earning per Share (RMB)	0.03	-0.22	113.64%	0.17
Net Assets Income Rate (%)	0.75%	-6.31%	7.06%	4.73%

Item	2014	2013	Year-on-year Increase/Decrease (%)	2012
Total assets	6,044,500,696.03	5,793,466,052.68	4.33%	5,285,750,978.82
Net assets attributable to shareholders of Listed Company (owners' interests attributable to shareholders of List Company)	2,694,285,331.17	2,674,103,955.73	0.75%	2,889,416,712.61



III. Summary of Financial and Operating Results

II. Extraordinary Gains or Losses Items

Unit: RMB

Item	2014	2013	2012	Instruction
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	-60,684.55	-370,184.13	-187,450.15	—
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)	2,940,738.77	12,615,077.46	49,141,000.00	—
Current profits and losses of the capital cost of non-financial companies charge	—	5,657,305.93	—	—
Reversal of bad debt provision for accounts receivable provided for impairment separately	—	—	4,650,513.63	—
Non-operating gain or loss other than the above	3,015,275.14	1,539,573.50	185,257.13	—
Less: Effect of extraordinary gains or losses on income tax	670,829.20	-2,899,186.46	8,011,893.61	—
Effect of extraordinary gains or losses on minority shareholders interest (after tax)	39,262.59	1,551,913.13	12,134.31	—
Total	5,185,237.57	20,789,046.09	45,765,292.69	—



I. Overview

During 2014. 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 shales gas and offshore petroleum, the Company has organized and planned for project construction, continuously increased the investment in technology and research and development of new products, steadily expanded its market coverage, integrally enhanced the management, proactively overcame the influence from internal and external difficulties, and ensure stable operation of company

II. Principal Operations of the Company and Analysis on Their Operations

1. Overview of Principal operations

The Company reported RMB2,522,102,479.29 of operating revenue for the year 2014, representing an increase of 11.01% compared with RMB2,272,034,335.20 last year. Total profit in 2014 is RMB21,489,080.25, representing an increase of RMB225,206,441.56 compared with the loss of RMB203,717,361.31 last year. The net profit attribute to shareholders of the company in 2014 is RMB20,233,190.77, representing an increase of RMB195,955,439.24 compared with the net loss of RMB175,722,248.47 last year. The net profit of the Company after non-recurring profit and loss was RMB15,047,953.20, representing an increase of RMB211,559,247.76 compared with the net loss of RMB196,511,294.56 last year.

Company's review of the development strategy disclosed before and the progress of the operating plan during the reporting period.

- (1) In terms of domestic market, the Group's major customers are 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, "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, "Sinopec Group"). During the reporting period, the Group developed closer business cooperation with existing oil field customers and gained positive feedback. The sales to the above oil fields under the PetroChina Group and the Sinopec Group accounted for approximately 17.26% of the Group's main operating revenue.



IV. Directors' Report

- (2) For overseas market, the Group continued to develop its business in the West Asia, South America, Middle East, and North Africa, during the reporting period and develop new customers relationship by mainly selling casing and tubing, line pipe products and sucker rods. In addition, the Group has obtained certificates for its products in many national oil companies during the reporting period. With the new customers' development and obtaining the production certificates from national oil companies, the Group has further increased its market shares in the overseas, and popularity in the international oil drilling equipment market. Currently, the Group has established and maintained good and longterm cooperative relationships with many overseas oil suppliers and oil field service companies, which results in raising the sales in the overseas markets. During the reporting period, the Group's revenue from exports accounted for approximately 47.15% of the Group's total sales revenue.
- (3) For new products development, with the scientific research advantages of "Province-level Enterprise Technical Center of Shandong Province" and "Shandong Molong post-doctoral research station", the Group continued to strengthen its technological cooperation 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 ML-CS high seal direct-connect buckle, corrosion resistant tube (such as 80S,95S,95SS etc.), L80-1Cr and other steel grade oil pipe and casing, high pressure chemical fertilizer pipe (16Mn), large diameter thick wall pipe, A333 Gr.6 low temperature pipe, gas cylinder pipe, ML140V high-performance casing, anti-H₂S corrosion line pipe, anti-decyclising valve anti-air oil well pump and corrosion resistance anti-decyclising pump, nickel plated anticorrosion sucker rod which were 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



2. Income

The company revenue mainly comes from the sales of tubings and casings, sucker rod, oil well pump and the other petroleum machinery parts.

		Unit: '0000 tons		
		Year-on-year Increase/ decrease (%)		
By industry	Items	2014	2013	(%)
Special equipment manufacturing	Sales volume	39.77	41.62	-4.44%
	Production volume	39.96	40.73	-1.89%
	Inventories	15.24	15.05	1.26%

The main customer sales situation of company:

Total sales to top 5 customers (RMB)	989,822,623.23
The percentage of the total sales for the year attributable to the total sales to top 5 customers (%)	39.25%

Information on top 5 customers:

Serial number	Name of customer	Saleroom (Unit: RMB)	Percentage of total sales of the year (%)
1	PetroChina Company Limited	339,385,369.63	13.46%
2	UNIX TECHNO PLUS LTD.	237,537,982.60	9.42%
3	Campex Inc.	184,157,678.45	7.30%
4	Yanchang Oil Field Co., Ltd	120,852,823.67	4.79%
5	Hebei Zhongtai Steel Pipe Manufacturing Co., Ltd	107,888,768.88	4.28%
Total		989,822,623.23	39.25%

None of the Directors, Supervisors and their respective associates, or, so far as the Directors were aware, shareholders who owned more than 5% of the Company's issued share capital had any interest in any of the five largest customers of the Group.

3. Cost

By industry

		Unit: RMB				
By industry	Item	2014		2013		Year-on-year Increase/ Decrease (%)
		Amount	Attributable to the percentage of the operating costs (%)	Amount	Attributable to the percentage of the operating costs (%)	
Special Equipment Manufacturing		2,077,014,318.40	82.75%	2,030,863,941.39	81.50%	2.27%



IV. Directors' Report

By product

Unit: RMB

By product	Item	2014		2013		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	1,431,963,030.87	76.35%	1,397,010,177.57	76.90%	2.50%
Tubings & Casings	Depreciation	152,667,702.31	8.14%	149,269,240.34	8.22%	2.28%
Tubings & Casings	Labour Cost	93,963,782.38	5.01%	77,690,118.75	4.28%	20.95%
Tubings & Casings	Expenses	196,930,082.83	10.50%	192,645,818.35	10.60%	2.22%
Three kinds of pumping units	Materials	39,699,265.96	71.88%	62,247,999.04	72.90%	-36.22%
Three kinds of pumping units	Depreciation	2,822,248.87	5.11%	3,561,674.01	4.17%	-20.76%
Three kinds of pumping units	Labour Cost	7,505,746.03	13.59%	11,104,753.96	13.00%	-32.41%
Three kinds of pumping units	Expenses	5,202,658.39	9.42%	8,475,770.91	9.93%	-38.62%
Petroleum machinery	Materials	101,367,742.27	84.50%	68,654,364.58	83.05%	47.65%
Petroleum machinery	Depreciation	5,598,964.40	4.67%	4,641,531.41	5.61%	20.63%
Petroleum machinery	Labour Cost	7,541,438.23	6.29%	5,562,204.69	6.73%	35.58%
Petroleum machinery	Expenses	5,458,711.65	4.55%	3,813,090.87	4.61%	43.16%
Others	Materials	20,048,369.95	76.25%	35,708,875.81	77.31%	-43.86%
Others	Depreciation	2,169,167.90	8.25%	3,039,810.61	6.58%	-28.64%
Others	Labour Cost	2,957,956.22	11.25%	5,556,835.22	12.03%	-46.77%
Others	Expenses	1,117,450.13	4.25%	1,881,675.27	4.07%	-40.61%

Explanations

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

Overview of the Company's major suppliers

Total purchase amount of the top 5 suppliers (RMB)	1,022,851,397.65
Percentage of the total purchase amount of the top 5 suppliers to the total purchase amount of the year	65.90%

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	369,888,662.91	23.83%
2	Shandong Shouguang Juneng Special Steel Co., Ltd	317,222,013.32	20.44%
3	Qingzhou Tian Tai De Long Casting Co. Ltd	252,976,298.04	16.30%
4	Weihai Institute of Iron and Steel	51,227,982.30	3.30%
5	Beijing Hengli Weiye Technology & Trade Co., Ltd	31,536,441.08	2.03%
Total		1,022,851,397.65	65.90%

None of the Directors, Supervisors and their respective associates, or, so far as the Directors were aware, shareholders who owned more than 5% of the Company's issued share capital had any interest in any of the five largest suppliers of the Group.

4. Expenses

Unit: RMB

Profit and loss	Notes	Amount of current period	Amount of prior period	Amount of variation (%)
Business tax and surcharges	Note 1	15,529,085.94	4,776,682.05	225.10
Selling expenses	Note 2	156,540,037.32	66,752,048.50	134.51
Assets impairment loss	Note 3	8,251,501.69	135,334,752.52	-93.90
Investment income	Note 4	3,474,237.41	2,397,383.87	44.92
Non-operating income	Note 5	6,545,592.41	14,701,734.82	-55.48
Income tax expense	Note 6	7,232,414.63	-26,109,087.98	127.70

Note 1: Business tax and surcharges increased by 225.10% compared with the same period last year, mainly because the significant increase of export and VAT export nondeductible amount resulted in the increase of relevant surcharges.

Note 2: Selling expenses increased by 134.51% compared with the same period last year, mainly because the company developed some new customers and borne all the foreign and native freight cost and foreign agency cost, which resulted in the significant increase of freight cost and agency cost of company's selling expenses.

Note 3: Assets impairment loss decreased by 93.9% compared with same period last year, mainly because the Company accrued impairment of intangible assets and goodwill at same period last year.

Note 4: Investment income increased by 44.92% compared with same period last year, mainly because the associated company invested by the Company achieved profitability in this year.

Note 5: Non-operating income decreased by 55.48% compared with same period last year, mainly because the government grants acquired by the Company decreased in this year.

Note 6: Income tax expense increased by 127.7% compared with same period last year, mainly because the profit achieved by the Company increased in this year.



IV. Directors' Report

5. R&D expenditures

Item	2014	2013	Change (%)
R&D expenses (RMB)	81,958,206.51	84,073,324.61	-2.52
Net assets (RMB)	2,694,285,331.17	2,674,103,955.73	0.75
Revenue from operations (RMB)	2,522,102,479.29	2,272,034,335.20	11.01
Percentage of net assets (%)	3.04	3.14	-0.10
Percentage of revenue from operations (%)	3.25	3.70	-0.45

6. Cash flow

Item	2014	2013	Year-on-year increase/decrease (%)
Cash inflow subtotals from operating activities	2,181,332,250.01	1,784,567,129.40	22.23%
Cash outflow subtotals from operating activities	1,780,743,242.65	1,940,047,016.60	-8.21%
Net cash flow from operating activities	400,589,007.36	-155,479,887.20	357.65%
Cash inflow subtotals from investment activities	654,388.12	580,760.10	12.68%
Cash outflow subtotals from investment activities	291,668,846.75	460,056,878.79	-36.60%
Net cash flow from investment activities	-291,014,458.63	-459,476,118.69	-36.66%
Cash inflow subtotals from financing activities	2,657,542,859.72	2,419,950,440.00	9.82%
Cash outflow subtotals from financing activities	2,603,326,819.36	1,837,525,834.37	41.68%
Net cash flow from financing activities	54,216,040.36	582,424,605.63	-90.69%
Net increase in cash and cash equivalents	166,296,425.19	-38,546,441.97	531.42%

Explanation on why the related data was varied by more than 30%:

1. For this period, net cash flow from operating activities increased by 357.65% compared with same period last year, mainly because the Company's revenue and advances from customers increased in this year.
2. Cash outflow from investment activities decreased by 36.60% compared with same period last year, mainly because the Company's project investment decreased compared with same period last year.
3. Net cash flow from investment activities decreased by 36.66% compared with same period last year, mainly because the Company's project investment decreased compared with same period last year.

IV. Directors' Report



4. Cash outflow from financing activities increased by 41.68% compared with same period last year, mainly because repayments of borrowings for this year increased compared with same period last year.
5. Net cash flow from financing activities decreased by 90.69% compared with same period last year, mainly because repayments of borrowings for this year increased compared with same period last year.
6. Net increase in cash and cash equivalents increased by 531.42% compared with same period last year, mainly because the cash received by the Company increased and the investment spending decreased in this year.

III. Principal Operations Report 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
By industry						
Special equipment manufacturing	2,455,561,259.84	2,077,014,318.40	15.42%	10.20%	2.27%	6.56%
By product						
Tubings & Casings	2,197,356,107.07	1,874,652,254.34	14.69%	9.27%	0.73%	7.24%
Three kinds of pumping units	69,191,280.09	55,229,919.26	20.18%	-13.35%	-16.12%	2.64%
Petroleum machinery	163,457,880.46	119,752,314.72	26.74%	33.89%	32.75%	0.63%
Others	25,555,992.22	27,379,830.08	-7.14%	66.11%	100.25%	-18.27%
Geographical segment						
PRC	1,297,656,887.84	1,213,311,811.04	6.50%	-13.69%	-15.48%	1.98%
Abroad	1,157,904,372.00	863,702,507.36	25.41%	59.77%	45.10%	7.54%



IV. Directors' Report

IV. Analysis of Assets, liabilities condition

1. Significant changes in assets

Unit: RMB

	31 December 2014		31 December 2013		Percentage change	Explanation on the major changes
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Funds	615,209,216.38	10.18%	597,770,865.98	10.32%	-0.14%	Mainly as a result of increased revenue and advances from customers
Amounts receivables	608,640,409.68	10.07%	563,772,597.42	9.73%	0.34%	Mainly as a result of increased revenue
Inventory	1,019,069,690.68	16.86%	1,155,180,417.60	19.94%	-3.08%	Mainly as a result of stock compression
long-term equity investment	54,356,021.71	0.90%	50,881,784.30	0.88%	0.02%	Mainly as a result of the Company's subsidiaries accounting earnings by the equity method
Fixed assets	1,827,767,103.63	30.24%	1,710,839,377.57	29.53%	0.71%	Mainly as a result of 90 tons electric arc furnace project turning to fixed assets
Construction in progress	853,004,896.75	14.11%	442,414,993.81	7.64%	6.47%	Mainly as a result of progress payment for technical innovation of casting plant overall relocation project
Notes receivable	90,685,848.66	1.50%	135,159,594.04	2.33%	-0.83%	Mainly as a result of the Company turning the acceptance to payment
Interest receivable	2,670,703.33	0.04%	4,606,049.44	0.08%	-0.04%	Mainly as a result of decreased bank interest received by the Company
Other receivables	48,859,721.67	0.81%	31,160,536.48	0.54%	0.27%	Mainly as a result of increased deposit paid by the Company
Other non-current assets	219,015,483.87	3.62%	379,804,663.05	6.56%	-2.94%	Mainly as a result of decreased advance payment for equipment and project funds



2. Significant changes in liabilities

Unit: RMB

Item	2014		2013		Percentage change	Explanation on the major changes
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Short-term borrowings	1,414,805,321.00	23.41%	1,367,290,846.00	23.60%	-0.19%	Mainly as a result of meeting the demand of daily working capital and increasing the bank financing
Advance receipts	151,391,041.52	2.50%	92,679,015.92	1.60%	0.90%	Mainly because the Company developed new customers and gathered on the advance receipts basis
Tax payable	10,334,086.93	0.17%	34,382,133.48	0.59%	-0.42%	Mainly because the Company paid the achieved taxes

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-sealing compression resistance thermal recovery wells casing, BNO line pipe service in the sea, anti-sand subsurface pump, ML-TSCS special fastener oil pipe and casing, specific new type reducer for pump units, CO₂ corrosion resistance of super 11 Cr, cryophylactic and anticorrosive casting valve body, oil casing thread deburring method, X60QO line pipe service in the sea and ML150V high-strength and high-tenacity casing are included in the Shandong provincial technology innovation project, anti-CO₂ 13 Cr oil pipe and casing, ML110SS, C110 anti-H₂S oil pipe and casing and X65NS, X65QS line pipe in sour condition passed customers' experiment. 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.

For new products development, with the scientific research advantages of "Province-level Enterprise Technical Center of Shandong Province" and "Shandong Molong post-doctoral research station", the Group continued to strengthen its technological cooperation 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 ML-CS high seal direct-connect buckle, corrosion resistant tube (such as 80S,95S,95SS etc.), L80-1Cr and other steel grade oil pipe and casing, high pressure chemical fertilizer pipe (16Mn), large diameter thick wall pipe, A333 Gr.6 low temperature pipe, gas 15 cylinder pipe, ML140V high-performance casing, anti-H₂S corrosion line pipe, anti-decyclising valve anti-air oil well pump and corrosion resistance anti-decyclising pump, nickel plated anticorrosion sucker rod which were 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

VI. Investment Situation Analysis

1. 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)
MPM International Limited	Subsidiary	Trading	Acquisition and sales of petroleum extraction and chemical machinery electric equipment	USD1,000,000	77,038,667.97	27,577.13	150,318,887.56	-1,319,253.07	-12,090,077.23
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	412,380,000	805,420,506.33	455,826,460.77	0.00	-2,251,166.65	-2,068,051.30
Molong Electro-mechanical Equipment	Subsidiary	Manufacturing	Manufacture and sales of outer thickening oil well tubing and electrical complete equipment	USD1,000,000	98,230,598.24	57,917,266.78	94,616,967.77	6,533,210.14	5,519,003.11
Baolong Recyclable Resource	Subsidiary	Manufacturing	Trading and sales of scrap metals	300,000	2,523,250.59	2,498,271.38	0.00	-368.16	-368.16
Maolong Recycle	Subsidiary	Trading	Trading of scrap metals	500,000	1,805,013.29	1,331,808.46	5,331,377.95	-352,703.09	-271,497.27
Shouguang Baolong	Subsidiary	Manufacturing	Manufacture and sales of oil equipment	150,000,000	801,393,711.38	185,486,590.23	1,403,300,433.43	-18,054,072.53	-15,823,795.79
Weihai Baolong	Subsidiary	Manufacturing	Manufacture and sales of metal material specialized for petroleum use	26,000,000	353,395,457.00	297,040,003.64	224,458,800.88	-33,106,547.88	-33,186,755.37
Molong Logistic Company	Subsidiary	Servicing	Warehouse (not including restricted items), loading of goods, logistic information enquiry	3,000,000	90,592,507.33	2,184,566.74	1,793,223.87	-707,675.32	-694,643.78
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	22,007,250.50	9,365,211.07	18,291,630.69	660,785.52	597,439.99
Shouguang Maolong Microfinance Company Limited	Joint stock company	Servicing	Origination of loans in Shouguang City; development of small enterprise business; management	150,000,000	172,202,422.50	171,247,166.56	12,908,323.71	12,170,468.54	10,983,351.37



2. 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
Casting plant overall relocation technical transformation project	80,000.00	50,125.83	68,609.33	80.00%	N/A
Sea water desalination project	15,000.00	1,346.32	1,346.32	9.00%	N/A
Comprehensive utilization of waste heat and offgas	12,000.00	3,359.85	3,359.85	28.00%	N/A
Oxygen station project	10,000.00	9,815.80	9,815.80	98.00%	N/A
The worker skill expanding and training center	2,600.00	1,145.83	1,145.83	45.00%	N/A
90 tons of electric arc furnace	25,000.00	2,590.97	26,867.55	100.00%	N/A
Total	144,600.00	68,384.60	111,144.68	—	—

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 2014" published by the International Energy Agency, the prospects for the global energy to the year of 2040 are as follows: the global demand for primary energy will increase by 37%. The population and the economy of the world is still growing, but the development path of the lower energy is taken compared with pass. In the structure of world's energy supply, the proportion of oil, natural gas, coal and low carbon energy (nuclear power and renewable energy) will have equal shares. The global demand for coal and oil will peak. The global demand of natural gas will increase by more than 50%, and is the fastest growing in the fossil fuel. In the long run, the proportion of the wind power, nuclear power, photovoltaic industry in the overall energy structure will gradually increase. In this outlook period, while oil is the slowest growing fuel, the total global demand of fuel will be 109 million barrels daily in 2035 by increasing 19 million barrels daily. Therefore from long-term analysis, the scale of special oil drilling equipment industry will continue to expand with a wide prospect of market.

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 benefit 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.



IV. Directors' Report

2. In line with its strategic plans, the work of the Company will focus on the following areas in 2015

- (i) In respect of research and development of products, the Group plans to put further efforts on the research and development of high value-added products and exclusive production rights owned non-API products. In 2015, the Group will put further efforts on the product seriation development, such as X70QS, X80Q, X90Q, X100Q, ML150V new steel grade series of oil casing pipe and line pipe; P110 thickened tube; N80Q, K55-3 teeth/in thread design; N80Q two step thread design; D456 type oil pumping machine; 16~28 grade D sucker rod and other new products, to meet the all kinds of domestic and foreign customer's special demand for oil, natural gas, shale gas, coal seam gas development.
- (ii) In respect of new product development, the Group plans to actively research on suitable high level products based on the market demand and trend of natural gas, shale gas, and coalbed methane. For shale gas and coalbed methane exploration equipment, the Group will develop suitable customized, low-cost products based on existing supply capacity in order to enhance its competitiveness in the market.
- (iii) In respect of domestic market, the Group plans to further strengthen the good cooperation relationship with CNPC Group, Sinopec Group, CNOOC, and Yanchang Petroleum and to expand the markets of shale gas and coalbed methane equipment, safety device for coal mining industry, and high-pressure boiler tube.
- (iv) In respect of foreign market, the Group plans to thoroughly consider the trading policy of various oil producing countries and the development demand of overseas regional market, and to further develop our products markets in South America, Middle East, Africa Russia and West Asia to diversify its market concentration. Meanwhile, long-term co-operation with foreign oil supplier with market resources, service advantages and good reputations will also be reinforced, with a view to earning our 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) Abnormal changes of the RMB exchange rate will affect the Company's products export business. We will be focus on exchange rate movements and take different measures such as exchange rate lock to avoid the risks of the RMB exchange rate changes.



VIII. Reason for changes in accounting policies, accounting estimates and accounting methods as compared to the financial report for the prior year

1. The significant changes of accounting policies

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, ASBEs No. 40 — Joint arrangements and ASBEs No. 41 — Disclosure of interests in other entity and ASBEs No. 37 — Presentation of financial instruments (hereafter referred to as New Accounting Standards). The Company adopted the ASBEs No. 2, No. 9, No. 30, No. 33, No. 39, No. 40 when the 2013 annual financial statements was prepared and the Company adopted the ASBEs No. 37 and No. 41 when the 2014 annual financial statements was prepared. The comparative data was restated according to the New Accounting Standards and its related interpretation and application guide. The items and amounts in consolidated statements influenced significantly by the changes of accounting policies are listed below :

The names of the effected report items	December 31, 2013		
	Before adjustment	Adjustment amount	Adjusted
Total assets	5,793,466,052.68	—	5,793,466,052.68
Including: Available-for-sale financial assets	—	10,000,000.00	10,000,000.00
Long-term equity investment	60,881,784.30	-10,000,000.00	50,881,784.30
Total liability	3,057,344,576.17	—	3,057,344,576.17
Including: Deferred income	—	3,616,000.00	3,616,000.00
Other non-current liabilities	3,616,000.00	-3,616,000.00	—
Total of owners' equity	2,736,121,476.51	—	2,736,121,476.51
Including: Other comprehensive income	—	363,977.13	363,977.13
Translation reserve	363,977.13	-363,977.13	—

The names of the effected report items	January 1, 2013		
	Before adjustment	Adjustment amount	Adjusted
Total assets	5,285,750,978.82	—	5,285,750,978.82
Including: Available-for-sale financial assets	—	10,000,000.00	10,000,000.00
Long-term equity investment	58,634,400.43	-10,000,000.00	48,634,400.43
Total liability	2,332,464,266.31	—	2,332,464,266.31
Including: Deferred income	—	7,232,000.00	7,232,000.00
Other non-current liabilities	7,232,000.00	-7,232,000.00	—
Total of owners' equity	2,953,286,712.51	—	2,953,286,712.51
Including: Other comprehensive income	—	62,065.54	62,065.54
Translation reserve	62,065.54	-62,065.54	—

These changes of accounting policies only affected the items listed in the above financial statement, there are no effect on the total assets, total liability and net assets for December 31, 2013 and January 1, 2013, and net profit for the year of 2013.



IV. Directors' Report

IX. Distribution of profit and dividend payment by the Company

Formulation, implementation and adjustment of profit distribution policy during the reporting period

According to the profit distribution plan passed at the eighth meeting of fourth session of director board held on Mar 30, 2015, the Company does not recommend the payment of final dividend for the year ended 31 December 2014. The above profit distribution plan still needs to be considered and approved at the AGM.

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 converted 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.

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
2014	0.00	20,233,190.77	0.00%
2013	0.00	-175,722,248.47	0.00%
2012	39,829,420.00	134,263,035.30	29.67%

Profit is made during the reporting period and undistributed profit of the Company is positive, but the Company failed to propose cash dividend distribution plan

The reasons for failure to propose cash dividend distribution plan if profit is made during the reporting period and undistributed profit of the Company is positive

The use and usage plan for retained profit

The current economic situation is not optimistic, domestic and international market demand declines, the price fluctuation of raw material is significant, the products price fell. To ensure the stable operation, the Company did not propose profit distribution.

Undisturbed profit is mainly used for the Company's continuous stable operation and daily production operation.



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

2. Safeguarding employees' interest

The Company highly emphasised the nurture of talents. We strived to improve the quality of our staff and 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

XI. 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
21 February 2014	Shouguang, Shandong	On-site research and investigation	Organization	Guosen Securities, CCB Principal Asset Management Co., Ltd, China Merchants Securities	Introduce company production operations, to visit the company production line

XII. 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				
	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
Total revenue from operation	2,522,102	2,272,034	2,952,064	2,738,692	2,703,907
(Loss) Profit from operations	15,594	(217,502)	116,716	166,268	276,717
Total (loss) profit	21,489	(203,717)	165,854	200,065	324,484
Net (loss) profit	14,257	(177,608)	140,166	169,042	276,980
Minority interests	(5,977)	(1,886)	5,903	712	831
Net (loss) profit attributable to shareholders of the Company	20,233	(175,722)	134,263	168,330	276,149
Basic (loss) earnings share (RMB)	0.03	(0.22)	0.17	0.21	0.41



Assets and Liabilities

	For the year ended 31 December				
	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Total assets	6,044,501	5,793,466	5,285,751	4,688,931	4,586,411
Total liabilities	3,294,253	3,057,345	2,332,464	1,835,954	1,843,207
Net assets	2,750,247	2,736,121	2,953,287	2,852,978	2,743,203

3. Changes in Share Capital

Details of changes in the share capital of the Company for 2014 are set out in in note VI to the consolidated financial statements.

4. Reserves and Distributable Reserves

Details of changes in the reserves of the Group for 2014 are set out in note VI 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 2014 are set out in note VI to the consolidated financial statements.

6. Capitalised Interest

For 2014, the Group had capitalised interest amounting to RMB29.75 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 all related party transactions set out in note XI to the consolidated financial statements. They 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 2014, 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	265,617,000	49.03%	33.29%
Zhang Yun San	Beneficial	30,608,000	5.65%	3.84%
Lin Fu Long	Beneficial	26,162,000	4.83%	3.28%

Name	Type of interest	Number of H shares	Percentage of H shares	Percentage of total issued share capital
Zhang Yun San	Beneficial	2,394,400	0.93%	0.30%

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 2014, 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 2014.



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 2014 or at any time in 2014.

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 2014.

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.

21. Gearing Ratio

The Group's gearing ratio was approximately 54.50% (2013: approximately 52.77%) which is calculated based on the Group's total liabilities of approximately RMB3,294.25 million (2013: approximately RMB3,057.34 million) and total assets of approximately RMB6,044.50 million (2013: approximately RMB5,793.47 million).



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

There are no 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.

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)	110
Continued term of service of the domestic accounting firm	2 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 RMB 100 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

Unit: Share

Item	Prior to the change		New issue of shares	Share-granting	The change (+, -)			Sub-total Number of shares	After the change Item	
	Number of shares	Percentage			Accumulation fund turn to equity	Other	Sub-total Number of shares		Percentage	
I. Shares subject to lock-up	276,295,750	34.63%	—	—	—	-18,040,000	-18,040,000	258,255,750	32.37%	
I.1 Other domestic shares	276,295,750	34.63%	—	—	—	-18,040,000	-18,040,000	258,255,750	32.37%	
Domestic natural person shares	276,295,750	34.63%	—	—	—	-18,040,000	-18,040,000	258,255,750	32.37%	
II. Shares not subject to lock-up	521,552,650	65.37%	—	—	—	18,040,000	18,040,000	539,592,650	67.63%	
II.1 RMB ordinary shares	265,426,250	33.27%	—	—	—	18,040,000	18,040,000	283,466,250	35.53%	
II.2 Overseas-listed foreign shares (H shares)	256,126,400	32.10%	—	—	—	—	—	256,126,400	32.10%	
III. Total number of shares	797,848,400	100.00%	—	—	—	—	—	797,848,400	100.00%	

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

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 2014, no staff shares of the Company have been issued in the last three years.



VI. Changes in Share Capital and Shareholders

III. Shareholders' Profiles

Unit: Share

Domestic 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
Zhang En Rong	Domestic natural person	33.29%	265,617,000	-13,900,000	209,637,750	55,979,250
Zhang Yun San	Domestic natural person	4.14%	33,002,400	818,400	22,956,000	10,046,400
Lin Fu Long	Domestic natural person	3.28%	26,162,000	-8,054,000	25,662,000	500,000
Xie Xin Cang	Domestic natural person	1.34%	10,705,000	-10,705,000	—	10,705,000
Liang Yong Qiang	Domestic natural person	0.59%	4,719,000	-2,100,000	—	4,719,000
He Hong	Domestic natural person	0.18%	1,495,500	—	—	1,495,500
Wang Bu Guo	Domestic natural person	0.15%	1,230,581	—	—	1,230,581
Chen Bing Shi	Domestic natural person	0.12%	948,800	—	—	948,800
Jia Cheng Lin	Domestic natural person	0.11%	913,000	—	—	913,000
Liu Yun Long	Domestic natural person	0.11%	906,766	—	—	906,766

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	32.06%	255,826,290	—	—	255,826,290
Zhang Yun Sun	Overseas natural person	0.30%	2,394,400	—	—	2,394,400

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	255,829,290	H share
Zhang En Rong	55,979,250	A share
Zhang Yun San	7,652,000	A share
	2,394,400	H share
Xie Xin Cang	10,705,000	A share
Liang Yong Qiang	4,719,000	A share
He Hong	1,495,500	A share
Wang Bu Guo	1,230,581	A share
Chen Bing Shi	948,800	A share
Lou Cheng Lin	913,000	A share
Liu Yun Long	906,766	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



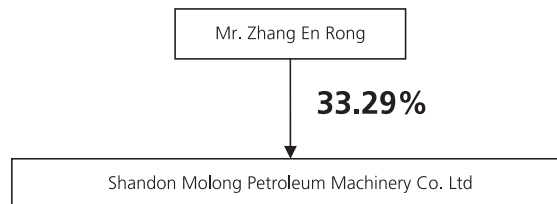
VI. Changes in Share Capital and Shareholders

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 2014, 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%
Segantii Capital Management Limited (Note 2)	Investment Manager	18,234,400	7.12%	2.29%

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 2014.

Note 2: According to the best knowledge of the Directors of the Company and the disclosure of interest notices filed by Segantii Capital Management Limited, Segantii Capital Management Limited is deemed to be interested in 18,234,400 H Shares held by the companies controlled by him as at 31 December 2014.

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	Shares increased this year	Shares decreased this year	Shares held at the end of the year
Zhang En Rong	Chairman of Company	Current	M	75	28 June 2013	27 June 2016	279,517,000	0	13,900,000	265,617,000
Zhang Yun San	Deputy Chairman and General Manager	Current	M	53	28 June 2013	27 June 2016	32,184,000	818,400	0	33,002,400
Lin Fu Long	Executive Director	Current	M	63	28 June 2013	27 June 2016	34,216,000	0	8,054,000	26,162,000
Guo Huan Ran	Executive Director	Current	M	47	28 June 2013	27 June 2016	0	0	0	0
Xiao Qing Zhou	Non-executive Director	Current	M	66	28 June 2013	27 June 2016	0	0	0	0
Guo Hong Li	Non-executive Director	Current	M	59	28 June 2013	27 June 2016	0	0	0	0
Wang Chun Hua	Independent non-executive Director	Current	F	62	28 June 2013	27 June 2016	0	0	0	0
John Paul Cameron	Independent non-executive Director	Current	M	50	28 June 2013	27 June 2016	0	0	0	0
Qin Xue Chang	Independent non-executive Director	Current	M	49	28 June 2013	27 June 2016	0	0	0	0
Liu Huai Duo	Chairman of Supervisory Committee	Former	M	39	25 May 2012	25 August 2014	0	0	0	0
Fan Ren Yi	Supervisor	Current	M	50	25 May 2012	24 May 2015	0	0	0	0
Zhang Jiu Li	Supervisor	Current	M	50	25 May 2012	24 May 2015	0	0	0	0
Zhang Shou Kui	Deputy general manager	Current	M	45	25 May 2013	27 June 2016	0	0	0	0
Yang Jin	Financial Controller of Company	Current	M	51	29 March 2012	27 June 2016	0	0	0	0
Zhao Hong Feng	Secretary to the Board	Current	M	36	26 October 2012	27 June 2016	0	0	0	0
Hao Liang	Chairman of Supervisory Committee	Current	M	34	26 August 2014	24 May 2015	0	0	0	0
Total							345,917,000	818,400	21,954,000	324,781,400

II. Working Conditions

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



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 Enterprise 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

Non-executive directors

Mr. Xiao Qing Zhou, born in June 1949, Chinese nationality 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 the Party committee 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, Chinese nationality 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, Chinese nationality 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 Ms. Wang has over 20 years of experience in the court work and had held the 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, British nationality, is an independent non-executive Director and the Chairman of the Remuneration and Evaluation Committee of the Company. He holds a Masters 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



Mr. Qin Xue Chang, born in July 1966, Chinese nationality with no right of permanent residence abroad, is an independent non-executive to 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, 1988, was assigned to Weifang bureau of certified public accountants, successive development, consulting, training department director of foreign business department, director of the office director, public department director and deputy director, director, deputy director of the accountants, such as the current 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. Hao Liang, Chairman of Supervisory Committee of the Company, born in November 1981, graduated and got his college degree from Qingdao University of Science and Technology in 2003, and majoring in industrial automation. He joined the Company in May 2007, and is currently involved in the management of the QHSE (Quality, Health, Safety and Environment) system. During his time with the Company, Mr. Hao Liang acquired a few qualifications including "QES Internal Auditor", "API Internal Auditor", "Certified Energy Manager" etc. through training.

Mr. Zhang Jiu Li, Bachelor Degree, Chinese nationality 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 and Party Branch Secretary of Shouguang Shengcheng Limited Liability Accounting Firm, and holds a concurrent post of chairman of Shouguang Promote the Development of Private Enterprise Association, vice-chairman of Shouguang Association of Industry and Commerce, and vice-chairman of Shouguang Accounting Association.

Mr. Fan Ren Yi, Chinese nationality with no right of permanent residence abroad, is a Supervisor of the Company. Mr. Fan, born in November 1965, Bachelor Degree, is a certified public accountant in the PRC. He has been appointed as a Supervisor since 29 March 2003. Mr. Fan Ren Yi graduated from Xian Jiaotong University. He was the vice general manager and CFO of Shandong Charming Home-Textiles Co., Ltd., and is now CFO of the Shouguang Dongyu Hongxiang Timber Co. Ltd.



VII. Directors, Supervisors, Senior Management and Employees

3. Senior Management

As for the information about Zhang Yun San, the general manager, please refer to “1. Directors” of “II. Major work experience and employment of Directors, Supervisors and Senior Managers of the Company” in this section. Other senior managements are as follows:

Mr. Zhang Shou Kui, born in August 1970, Chinese nationality with no right of permanent residence abroad, executive master of business administration degree from Tsinghua University, 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, Chinese nationality 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 (華北工學院) with a degree in business administration, Chinese nationality 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 Material Technology Development Company Limited	Executive Director	No
Zhang Shou Kui	Shouguang Mihe Water Company Limited	Director	No



VII. Directors, Supervisors, Senior Management and Employees

Major position at the other organization:

Name	Name of the organization	Position(s)	Whether receiving any remuneration or allowance from the other organization
Xiao Qing Zhou	Shandong Hengwei Investment Management Co., Ltd	Chairman	Yes
Guo Hong Li	Weifang Binhai Yufeng Pawn Co., Ltd	General manager	Yes
John Paul Cameron	Dongfang Shangjin Investment Consulting (Beijing) Co., Ltd	Chairman	Yes
Qin Xue Chang	Haoxin Yongtuo (Shandong) Certified Public Accounting Firm	General manager	Yes
Fan Ren Yi	Shouguang Dongyu Hongxiang Wood Industry Co., Ltd	CFO	Yes
Zhang Jiu Li	Shouguang Shengcheng Limited Liability Accounting Firm	Director	Yes

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	75	Current	70.19	0.00	70.19
Zhang Yun San	Deputy Chairman and General Manager	M	53	Current	59.01	0.00	59.01
Guo Huan Ran	Executive Director	M	48	Current	40.26	0.00	40.26
Lin Fu Long	Executive Director	M	63	Current	29.2	0.00	29.2
Guo Hong Li	Non-executive Director	M	59	Current	3.37	0.00	3.37
Xiao Qing Zhou	Non-executive Director	M	66	Current	3.37	0.00	3.37
Wang Chun Hua	Independent non-executive Director	F	62	Current	3.37	0.00	3.37
John Paul Cameron	Independent non-executive Director	M	50	Current	8.44	0.00	8.44
Qin Xue Chang	Independent non-executive Director	M	49	Current	7.12	0.00	7.12
Liu Huai Duo	Chairman of Supervisory Committee	M	40	Former	4.49	—	4.49
Hao Liang	Chairman of Supervisory Committee	M	34	Current	3.98	0.00	3.98
Fan Ren Yi	Supervisor	M	50	Current	1.01	0.00	1.01
Zhang Jiu Li	Supervisor	M	50	Current	1.01	0.00	1.01
Zhang Shou Kui	Deputy general manager	M	45	Current	24.21	0.00	24.21
Yang Jin	Financial controller of the Company	M	51	Current	35.54	0.00	35.54
Zhao Hong Feng	Deputy general Manager and Secretary to the Board	M	36	Current	14.31	0.00	14.31
Total					308.88	0.00	308.88



VII. Directors, Supervisors, Senior Management and Employees

IV. Non-reappointment of directors, supervisors and senior managers

Name	Position	Reason for change	Date
Liu Huai Duo	Chairman of Supervisory Committee	Outgoing	August 25, 2014
Hao Liang	Chairman of Supervisory Committee	Elected	August 26, 2014

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.

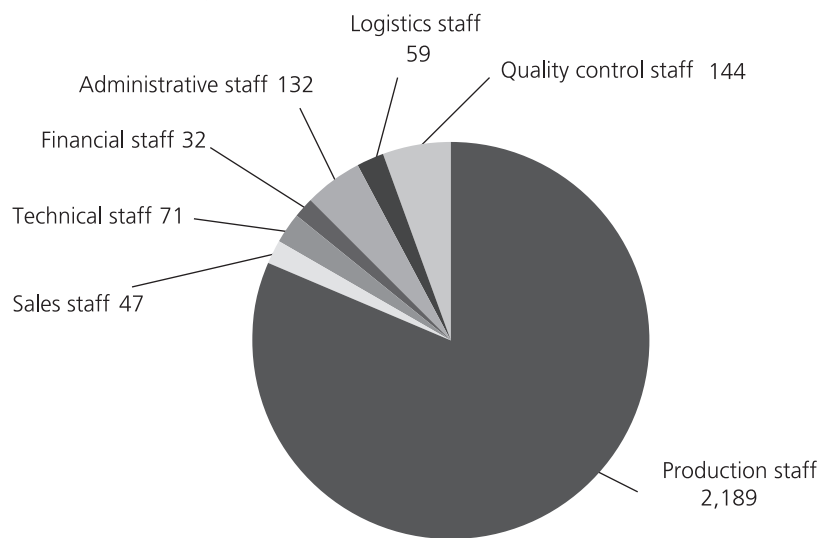
VII. Directors, Supervisors, Senior Management and Employees



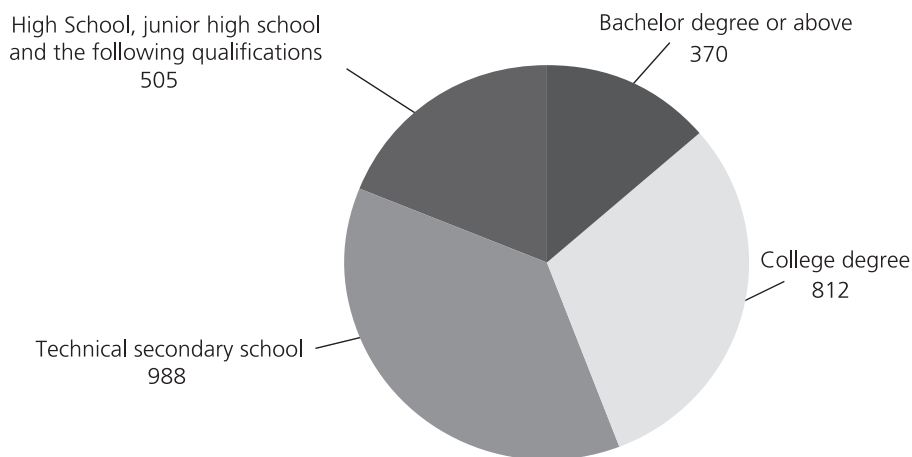
VI. Personnel of the Company

At the end of the reporting period, the Group had 2,675 employees in aggregate, including 2,189 production staff, 47 sales staff, 71 technical staff, 33 financial staff, 33 financial staff, 59 Logistics staff, 132 administrative staff. By level of education, there were 370 employees with bachelor's degree or above, 812 employees with college degree, 988 employees with technical secondary school education and 505 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

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 Code on Corporate Governance Practices (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 documented regulatory requirements provided for listed companies in respect of corporate governance.

- (I) **Shareholders and general meetings:** The Company has established a corporate governance structure to ensure that all shareholders are able to fully exercise their rights and enjoy equal status, in particular for minority shareholders. Sufficient time is provided at general meetings of shareholders, which are to be convened legally and validly, for the discussion of each proposal, to provide good opportunities for communications between the Board and the shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or through its designated e-mail address for any enquiries.
- (II) **Controlling shareholder and the listed company:** The Company’s controlling shareholder is 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 in 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



- (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 2014.
- (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

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

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

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 Company has adopted the principles and complied with the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), which shall also be revised from time to time in accordance with the Listing Rules. During the reporting period, the Board considers the Company has complied with the code provisions as set out in the CG Code.

2. Securities Transactions by Directors

In accordance with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules, the Company has adopted codes of conduct relating to securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code. The Model Code is also applicable to the senior management of the Company. Having making specific enquiries, all Directors have confirmed that they had fully complied with the Model Code throughout 2014.

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 2014, 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 the section 7(2) 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 2014, 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	4/4
Zhang Yun San	Vice Chairman and executive Director	4/4
Lin Fu Long	Executive Director	4/4
Guo Huan Ran	Executive Director	4/4
Xiao Qing Zhou	Non-executive Director	4/4
Guo Hong Li	Non-executive Director	4/4
Qin Xue Chang	Independent non-executive Director	4/4
John Paul Cameron	Independent non-executive Director	4/4
Wang Chun Hua	Independent non-executive Director	4/4

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. Each 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.

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).



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

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

Name	Type of trainings <i>(Note 1)</i>	Training matters <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
Guo Huan Ran	a, b	i, ii, iii, iv
Xiao Qing Zhou	a, b	i, ii, iii, iv
Guo Hong Li	a, b	i, ii, iii, iv
Qin Xue Chang	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

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.

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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 2014, 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. The term of the fourth Board of Directors of the Company will be expired on June 2016.

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

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

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

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

10. The Board Committees of the Company

(A) Discharge of duties by the strategic committee of the Board

The Strategic 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 Strategic Committee of the Board discharged of its duties with diligence in accordance with the related requirements of the China Securities Regulatory Commission, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange and the implementation rules of the Strategic Committee of the Board of the Company.



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(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, the Shenzhen Stock Exchange, the Stock Exchange and the work instructions of the audit committee of the Board as follows:

- (1) The following major tasks were completed during 2014:
 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 2013 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 2014, which was passed to the Board for approval.
 3. It reviewed the 2014 interim financial statements for the six months ended 30 June 2014, which was passed to the Board for approval.
 4. It reviewed the third quarter financial statements ended 30 September 2014, which was passed to the Board for approval.
- (2) Auditing work conducted on the 2014 financial report of the Company was as follows:
 1. It reviewed the 2014 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 2014 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 2014, 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 2014.

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

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

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

Members of the Audit Committee	Duties	Number of meetings attended/ Total number of meetings
Qin Xue Chang	Committee Chairman and Independent non-executive Director	4/4
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. The individual attendance record of each member of the Nomination Committee is tabulated as follows:

Members of the Nomination committee	Duties	Number of meetings attended/ Total number of meetings
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
Qin Xue Chang	Independent non-executive Director	1/1

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;



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- (b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (c) to assess the independence of the Independent Non-Executive Directors; and
- (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.

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

A board diversity policy was adopted in 2013. Diversity of board members can be achieved through consideration of a member of aspects, including but not limited to gender, age, cultural and educational-background, ethnicity, professional experience, skills, knowledge and length of service.

(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. Chau Shing Yim, David 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 2014 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 2014 and assessment of the Directors and the Senior Management of the Company.

The Remuneration and Assessment Committee had met 1 time during 2014. 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 2014, such as having all departments internal control inspection and appraisal, strengthening the checks and supervision of implementation of the internal control systems by the Audit Department and according to some weakness found during examination of the internal control, further improving the internal control system and strengthening the implementation of all the internal control systems.

During the period, the Internal Audit Department issued reports to the senior management covering various operational and financial units of the Company and also conducted reviews of areas of concern identified by the Company's management.

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

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

12. Ability of Going Concern

By 31 December 2014, 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 2014, 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.



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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.

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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 2014, one general meetings (i.e. AGM held on 27 June 2014) was held by the Company. The attendance record of the Directors at the general meetings is set out below:

Directors Attendance

Name	Attended in person
Mr. Zhang En Rong (<i>Chairman</i>)	1/1
Mr. Zhang Yun San (<i>Vice Chairman</i>)	1/1
Mr. Lin Fu Long	1/1
Mr. Guo Huan Ran	1/1
Mr. Xiao Qing Zhou	1/1
Mr. Guo Hong Li	1/1
Mr. Qin Xue Chang	1/1
Mr. John Paul Cameron	1/1
Ms. Wang Chun Hua	1/1

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:

Resolutions passed in AGM:

The Meeting Time	Date	Name of Conference Bill	Resolutions	Date of Announcement	Media for publication
2013 Annual general meeting	27 June 2014	The report of the board of directors of the Company (the "Board") for the year ended 31 December 2014	Passed	28 June 2014	http://www.hkex.com.hk ; http://www.cninfo.com.cn
2013 Annual general meeting	27 June 2014	The report of the Supervisory Committee of the Company for the year ended 31 December 2014	Passed	28 June 2014	http://www.hkex.com.hk ; http://www.cninfo.com.cn
2013 Annual general meeting	27 June 2014	Auditing report prepared in accordance with the "Accounting Standards for Business Enterprises" for the year ended 31 December 2014	Passed	28 June 2014	http://www.hkex.com.hk ; http://www.cninfo.com.cn
2013 Annual general meeting	27 June 2014	The re-appointment of ShineWing Certified Public Accountants Limited Liability Partnerships as the Company's auditor for the year ending 31 December 2015 and to authorise the board of Directors to determine their remuneration	Passed	28 June 2014	http://www.hkex.com.hk ; http://www.cninfo.com.cn
2013 Annual general meeting	27 June 2014	The application to the PRC banks (which shall be independent third parties) for integrated banking credit line of not exceeding RMB6.2 billion in the year of 2015, and to authorize any executive Director to perform relevant matters	Passed	28 June 2014	http://www.hkex.com.hk ; http://www.cninfo.com.cn
2013 Annual general meeting	27 June 2014	The profit distribution plan: the board of Directors does not recommend the payment of final dividend for the year ended 31 December 2014	Passed	28 June 2014	http://www.hkex.com.hk ; http://www.cninfo.com.cn
2013 Annual general meeting	27 June 2014	The resolution in respect of providing securities for the banking credit business of subsidiaries	Passed	28 June 2014	http://www.hkex.com.hk ; http://www.cninfo.com.cn

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.

The remuneration required from audit and non-audit services provided by auditor for the year of 2014 was RMB1,100,000.00.

The changes of auditors in last three years: Deloitte Touche Tohmatsu Certified Public Accountants Ltd (Special General Partner) was outgoing in 2013, The Company appointed Shinewing Certified Public Accountants Ltd (Special General Partner) as the Company's auditor.

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.



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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.

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:

	For Holder of H Shares	For Holder of Domestic Shares
Contact Information	Principal place of business in Hong Kong	Registered Address in the PRC
	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 Working of Board of Supervisors

The Board of Supervisors holds no objections to the matters under its supervision during the reporting period.



IV. 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.

V. 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

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 2014 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 "2014 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 maintained effective Internal control system of financial reporting in all major aspects as at 31 December 2014 in accordance with the Basic Standard and Implementation Guidelines and the requirements of other relevant laws and regulations.

Date of disclosure of the full context 31 March 2015
of the Auditors' report on internal
control

Index of full disclosure of Auditors' report on internal control www.cninfo.com.cn, announcement named "2014 Assessment Report on Internal Control of Shandong Molong Petroleum Machinery Company Limited"

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/2014JNA3033

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 2014, 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 2014, 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
30 March 2015



Consolidated Balance Sheet

2014/12/31

Unit: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
Current assets:			
Cash and bank balances	VI-1	615,209,216.38	597,770,865.98
Settlement reserve		—	—
Lendings to Banks and Other Financial Institutions		—	—
Financial assets at fair value through profit or loss		—	—
Bills receivable	VI-2	90,685,848.66	135,159,594.04
Accounts receivables	VI-3	608,640,409.68	563,772,597.42
Prepayments	VI-4	40,431,669.87	47,775,985.84
Insurance receivables		—	—
Reinsurance receivables		—	—
Reinsurance contract reserve receivables		—	—
Interests receivable	VI-5	2,670,703.33	4,606,049.44
Dividend receivables		—	—
Other receivables	VI-6	48,859,721.67	31,160,536.48
Financial assets purchased under agreements to resell		—	—
Inventories	VI-7	1,019,069,690.68	1,155,180,417.60
Assets classified as held for sale		—	—
Non-current assets due within one year		—	—
Other current assets	VI-8	48,939,615.27	47,778,203.78
Total current assets		2,474,506,875.54	2,583,204,250.58

Consolidated Balance Sheet



2014/12/31

Unit: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
Non-current assets:			
Loans and advances from other parties		—	—
Available-for-sales investments	VI-9	10,000,000.00	10,000,000.00
Held-to-maturity investments		—	—
Long term receivables		—	—
Long-term equity investment	VI-10	54,356,021.71	50,881,784.30
Investment properties		—	—
Fixed assets	VI-11	1,827,767,103.63	1,710,839,377.57
Construction in progress	VI-12	853,004,896.75	442,414,993.81
Construction materials		—	—
Disposal of fixed assets		—	—
Biological asset		—	—
Oil and nature gas		—	—
Intangible assets	VI-13	478,528,348.61	486,672,315.83
Development expenditure	VI-14	—	—
Goodwill	VI-15	83,483,383.21	83,483,383.21
Long-term deferred expenses	VI-16	76,389.00	159,722.28
Deferred income tax assets	VI-17	43,762,193.71	46,005,562.05
Other non-current assets	VI-18	219,015,483.87	379,804,663.05
Total non-current assets		3,569,993,820.49	3,210,261,802.10
Total assets		6,044,500,696.03	5,793,466,052.68



Consolidated Balance Sheet

2014/12/31

Unit: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
Current liabilities:			
Short-term borrowings	VI-19	1,414,805,321.00	1,367,290,846.00
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	VI-20	426,865,457.13	427,566,182.16
Accounts payable	VI-21	705,325,418.59	548,559,433.90
Receipts in advance	VI-22	151,391,041.52	92,679,015.92
Funds from selling out and repurchasing financial assets		—	—
Bank charges and commission payable		—	—
Salaries payable	VI-23	26,372,504.82	22,842,605.99
Taxes payable	VI-24	10,334,086.93	34,382,133.48
Interests payable	VI-25	21,635,356.93	24,239,399.58
Dividends payable		—	—
Other payable	VI-26	24,879,654.35	26,790,378.33
Amounts due to reinsurers		—	—
Insurance contract reserve		—	—
Customer brokerage deposits		—	—
Securities underwriting brokerage deposits		—	—
Liabilities classified as held for sale		—	—
Non-current liabilities due within one year		—	—
Other current liabilities	VI-27	1,808,000.00	1,808,000.00
Total current liabilities		2,783,416,841.27	2,546,157,995.36
Non-current liabilities:			
Long-term borrowings		—	—
Bonds payable	VI-28	498,111,111.09	496,777,777.77
including: Preferred stock		—	—
Perpetual Capital Securities		—	—
Long-term payables		—	—
Long-term salaries payable		—	—
Specific payable		—	—
Provision		—	—
Deferred income	VI-29	1,808,000.00	3,616,000.00
Deferred income tax liabilities	VI-17	10,917,268.07	10,792,803.04
Other non-current liabilities		—	—
Total non-current liabilities		510,836,379.16	511,186,580.81
Total liabilities		3,294,253,220.43	3,057,344,576.17

Consolidated Balance Sheet



2014/12/31

Unit: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
Shareholders' equity:			
Share capital	VI-30	797,848,400.00	797,848,400.00
Other equity instruments		—	—
including: preferred stock		—	—
Perpetual Capital Securities		—	—
Capital reserve	VI-31	849,500,658.42	849,500,658.42
Less: Treasury stock		—	—
Other comprehensive income	VI-32	312,161.80	363,977.13
Special reserve	VI-33	—	—
Surplus reserve	VI-34	176,686,903.51	168,908,489.86
General risk provision		—	—
Undistributed profits	VI-35	869,937,207.44	857,482,430.32
Total equity attributable to shareholders of Company		2,694,285,331.17	2,674,103,955.73
Minority interests	VI-36	55,962,144.43	62,017,520.78
Total shareholders' equity		2,750,247,475.60	2,736,121,476.51
Total liabilities and shareholders' equity		6,044,500,696.03	5,793,466,052.68

Legal Representative:

Accountant-in-charge:

Partner-in-charges:



Company's Balance Sheet

2014/12/31

Unit: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
Current assets:			
Cash and bank balances	XVI-1	603,738,557.50	477,333,126.10
Financial assets at fair value through profit or loss		—	—
Bills receivable	XVI-2	78,327,566.76	117,939,796.64
Accounts receivables	XVI-3	852,857,480.28	562,804,031.40
Prepayments	XVI-4	188,443,152.10	434,575,347.30
Insurance receivables	XVI-5	2,670,703.33	4,606,049.44
Interests receivable		—	—
Dividend receivables	XVI-6	272,409,135.72	252,454,655.05
Other receivables	XVI-7	817,174,405.99	898,794,179.36
Assets classified as held for sale		—	—
Non-current assets due within one year		—	—
Other current assets	XVI-8	13,437,824.29	1,870,576.46
Total current assets		2,829,058,825.97	2,750,377,761.75
Non-current assets:			
Loans and advances from other parties	XVI-9	10,000,000.00	10,000,000.00
Held-to-maturity investments		—	—
Long term receivables		—	—
Long-term equity investment	XVI-10	1,042,069,921.73	642,069,921.73
Investment properties		—	—
Fixed assets	XVI-11	1,221,470,865.17	1,317,036,319.12
Construction in progress	XVI-12	274,360,340.88	199,649,242.90
Construction materials		—	—
Disposal of fixed assets		—	—
Biological asset		—	—
Oil and nature gas		—	—
Intangible assets	XVI-13	238,524,368.44	236,648,160.28
Development expenditure	XVI-14	—	—
Goodwill		—	—
Long-term deferred expenses		—	—
Deferred income tax assets	XVI-15	30,591,904.41	35,775,939.76
Other non-current assets	XVI-16	—	259,788,383.05
Total non-current assets		2,817,017,400.63	2,700,967,966.84
Total assets		5,646,076,226.60	5,451,345,728.59

Company's Balance Sheet



2014/12/31

Unit: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
Current liabilities:			
Short-term borrowings	XVI-17	1,353,615,321.00	1,223,404,006.00
Financial liabilities at fair value through profit or loss		—	—
Bills payable	XVI-18	427,645,457.13	427,566,182.16
Accounts payable	XVI-19	391,534,463.53	330,301,216.50
Receipts in advance	XVI-20	167,732,495.64	218,914,621.07
Salaries payable	XVI-21	19,806,065.35	16,941,477.46
Taxes payable	XVI-22	4,439,685.96	19,831,397.51
Interests payable	XVI-23	21,557,773.76	24,202,101.43
Dividends payable		—	—
Other payable	XVI-24	9,439,187.44	16,898,117.61
Liabilities classified as held for sale		—	—
Non-current liabilities due within one year		—	—
Other current liabilities	XVI-25	1,808,000.00	1,808,000.00
Total current liabilities		2,397,578,449.81	2,279,867,119.74
Non-current liabilities:			
Long-term borrowings		—	—
Bonds payable	XVI-26	498,111,111.09	496,777,777.77
including: Preferred stock		—	—
Perpetual Capital Securities		—	—
Long-term payables		—	—
Long-term salaries payable		—	—
Specific payable		—	—
Provision		—	—
Deferred income	XVI-27	1,808,000.00	3,616,000.00
Deferred income tax liabilities	XVI-15	400,605.50	690,907.42
Other non-current liabilities		—	—
Total non-current liabilities		500,319,716.59	501,084,685.19
Total liabilities		2,897,898,166.40	2,780,951,804.93



Company's Balance Sheet

2014/12/31

Unit: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
Shareholders' equity:			
Share capital	XVI-28	797,848,400.00	797,848,400.00
Other equity instruments		—	—
including: Preferred stock		—	—
Perpetual Capital Securities		—	—
Capital reserve	XVI-29	849,481,990.92	849,481,990.92
Less: Treasury stock		—	—
Other comprehensive income		—	—
Special reserve	XVI-30	—	—
Surplus reserve	XVI-31	176,686,903.51	168,908,489.86
Undistributed profits	XVI-32	924,160,765.77	854,155,042.88
Total shareholders' equity		2,748,178,060.20	2,670,393,923.66
Total liabilities and shareholders' equity		5,646,076,226.60	5,451,345,728.59

Legal Representative:

Accountant-in-charge:

Partner-in-charges:

Consolidated Income Statements



For the year ended 31 December 2014

				Unit: RMB
Items	Notes	Amount of the year	Amount of last year	
I. Total revenue from operations	VI-40	2,522,102,479.29	2,272,034,335.20	
Including: operating revenue	VI-40	2,522,102,479.29	2,272,034,335.20	
Interest income		—	—	
Earned insurance premium		—	—	
Brokerage and commission income		—	—	
II. Total costs of operations		2,509,982,965.81	2,491,933,547.21	
Including: Operating cost	VI-40	2,134,769,069.63	2,076,430,070.86	
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	VI-41	15,529,085.94	4,776,682.05	
Selling expenses	VI-42	156,540,037.32	66,752,048.50	
Administrative expenses	VI-43	143,541,730.67	160,067,797.95	
Finance costs	VI-44	51,351,540.56	48,572,195.33	
Asset impairment losses	VI-45	8,251,501.69	135,334,752.52	
Add: Gains from changes in fair value		—	—	
Investment income	VI-46	3,474,237.41	2,397,383.87	
Including: Gains from investment in associates and joint ventures		3,474,237.41	2,397,383.87	
Exchange gain		—	—	
III. Operating (loss) profit		15,593,750.89	(217,501,828.14)	
Add: Non-operating income	VI-47	6,545,592.41	14,701,734.82	
Including: Gain from disposal of non-current assets		434,559.21	266,062.03	
Less: Non-operating expenses	VI-48	650,263.05	917,267.99	
Including: Loss from disposal of non-current assets		495,243.76	636,246.16	
IV. Total (loss) profit		21,489,080.25	(203,717,361.31)	
Less: Income tax (credit) expenses	VI-49	7,232,414.63	(26,109,087.98)	
V. Net (loss) profit		14,256,665.62	(177,608,273.33)	
Net (loss) profit attributable to the owners of the Company		20,233,190.77	(175,722,248.47)	
Net (loss) profit attributable to non-controlling interests		(5,976,525.15)	(1,886,024.86)	



Consolidated Income Statements

For the year ended 31 December 2014

			Unit: RMB	
Items	Notes	Amount of the year	Amount of last year	
VI. Other comprehensive income, net of tax	VI-53	(130,666.53)	335,457.33	
Other comprehensive income net of tax attributable to the owners of the Company		(51,815.33)	301,911.59	
(i) Items that will not be subsequently reclassified to profit or loss		—	—	
1. Net changes in net debt or equity on defined benefit plan		—	—	
2. Under the equity method cannot be reclassified into the profit or loss of the invested entity cannot enjoy the share of other		—	—	
(ii) Items that maybe reclassified subsequently to profit or loss		(51,815.33)	301,911.59	
1. Under the equity method after the invested entity will be classified into the share of profits and losses of other comprehensive		—	—	
2. Net gain on fair value on available-for-sale financial assets		—	—	
3. Net gain on reclassification of held-to-maturity financial assets to available-for-sale financial assets		—	—	
4. Net gain and loss arising on cash flow hedging		—	—	
5. Exchange differences arising on translation		(51,815.33)	301,911.59	
6. Others		—	—	
Other comprehensive income attributable to the non-controlling interests (net of tax)		(78,851.20)	33,545.74	
VII. Total comprehensive income (expense)		14,125,999.09	(177,272,816.00)	
Total comprehensive income (expense) attributable to shareholders of Company		20,181,375.44	(175,420,336.88)	
Total comprehensive (expense) income attributable to non-controlling interest		(6,055,376.35)	(1,852,479.12)	
VIII. (Loss) earnings per share:				
(i) Earnings (loss) per share — basic	VI-52	0.03	(0.22)	
(ii) Earnings (loss) per share — diluted	VI-52	0.03	(0.22)	

Legal Representative:

Accountant-in-charge:

Partner-in-charges:

Company's Income Statements



For the year ended 31 December 2014

Unit: RMB

Items	Notes	Amount of the year	Amount of last year
I. Operating revenue	XVI-36	2,718,418,201.90	2,363,939,820.73
Less: Operating cost	XVI-36	2,298,894,880.43	2,154,288,320.31
Business tax and surcharges	XVI-37	13,862,716.53	3,375,630.88
Selling expenses	XVI-38	147,891,671.65	66,713,373.49
Administrative expenses	XVI-39	114,070,365.53	133,822,864.73
Finance costs	XVI-40	53,722,670.35	49,497,316.44
Asset impairment losses	XVI-41	8,634,537.01	77,163,649.75
Add: Gains from changes in fair value		—	—
Investment income		—	—
Including: Gains from investment in associates and joint ventures		—	—
II. Operating(loss) profit		81,341,360.40	(120,921,334.87)
Add: Non-operating income	XVI-42	3,579,654.34	13,089,000.95
Including: Gain from disposal of non-current assets		427,654.67	158,637.07
Less: Non-operating expenses	XVI-43	275,399.62	664,448.17
Including: Loss from disposal of non-current assets		153,380.33	570,448.17
III. Total (loss) profit		84,645,615.12	(108,496,782.09)
Less: Income tax (credit) expenses	XVI-44	6,861,478.58	(21,406,901.69)
IV. Net (loss) profit		77,784,136.54	(87,089,880.40)
V. Other comprehensive income		—	—
Other comprehensive income net of tax attributable to the owners of the Company		—	—
(i) Items that will not be subsequently reclassified to profit or loss		—	—
1. Net changes in net debt or equity on defined benefit plan		—	—
2. Under the equity method in classification into the profits and losses of the invested entity cannot the share of other comprehensive income		—	—
(ii) Items that maybe reclassified subsequently to profit or loss		—	—
1. Under the equity method after the invested entity will be classified into the share of profits and losses of other comprehensive income		—	—
2. Net gain on fair value on available-for-sale financial assets		—	—
3. Net gain on reclassification of held-to-maturity financial assets to available-for-sale financial assets		—	—
4. Net gain and loss arising on cash flow hedging		—	—
5. Exchange differences arising on translation		—	—
6. Others		—	—
VI. Accumulated other comprehensive income		77,784,136.54	(87,089,880.40)
VII. (Loss) earnings per share:			
(i) Basis (loss) earnings per share		—	—
(ii) Diluted (loss) earnings per share		—	—

Legal Representative:

Accountant-in-charge:

Partner-in-charges:

Annual Report 2014



Consolidated Statements of Cash Flow

For the year ended 31 December 2014

Items	Notes	Amount of the year	Amount of last year
Unit: RMB			
I. CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from the sale of goods or rendering of services		1,977,948,119.33	1,695,587,727.38
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		55,555,000.71	56,589,186.91
Other cash receipts relating to operating activities	VI-55	147,829,129.97	32,390,215.11
SUB-TOTAL OF CASH INFLOWS FROM OPERATING		2,181,332,250.01	1,784,567,129.40
Cash payments for goods purchased and services received		1,293,076,611.84	1,539,933,337.41
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 commission paid		—	—
Policyholder dividend paid		—	—
Cash paid to and on behalf of employees		135,915,975.99	128,190,623.61
Payments of all types of taxes		60,635,608.25	53,480,068.57
Other cash payments relating to operating activities	VI-55	291,115,046.57	218,442,987.01
SUB-TOTAL OF CASH OUTFLOWS FROM ACTIVITIES		1,780,743,242.65	1,940,047,016.60
NET CASH FLOWS FROM OPERATING ACTIVITIES		400,589,007.36	(155,479,887.20)

Consolidated Statements of Cash Flow



For the year ended 31 December 2014

Items	Notes	Amount of the year	Amount of last year
Unit: RMB			
II. CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash receipts from disposals of investments		—	—
Cash receipts from disposals of investments		—	150,000.00
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		654,388.12	430,760.10
Net cash receipts from disposals of subsidiaries and other business units		—	—
Other cash receipts relating to investing activities		—	—
SUB-TOTAL OF CASH INFLOWS FROM OPERATING ACTIVITIES		654,388.12	580,760.10
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		291,668,846.75	460,056,878.79
Cash payments to acquire investments		—	—
Net increase in pledged loans		—	—
Net cash payments for acquisition of subsidiaries and other business units		—	—
Other cash payments relating to investment activities		—	—
SUB-TOTAL OF CASH OUTFLOWS FROM INVESTING ACTIVITIES		291,668,846.75	460,056,878.79
NET CASH FLOWS FROM INVESTING ACTIVITIES		(291,014,458.63)	(459,476,118.69)
III. CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash receipts from investors		—	—
Including: Cash receipts from the shareholders of subsidiaries		—	—
Cash receipts from borrowings		2,549,780,885.72	2,419,950,440.00
Cash receipts from issuance of bonds		—	—
Other cash receipts relating to financing activities	VI-55	107,761,974.00	—
SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES		2,657,542,859.72	2,419,950,440.00



Consolidated Statements of Cash Flow

For the year ended 31 December 2014

Items	Notes	Unit: RMB	
		Amount of the year	Amount of last year
Cash repayments of amounts borrowed		2,503,720,244.31	1,644,983,802.57
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		99,606,575.05	104,780,057.80
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		—	—
Other cash payments relating to financing activities	VI:55	—	87,761,974.00
SUB-TOTAL OF CASH OUTFLOWS		2,603,326,819.36	1,837,525,834.37
NET CASH FLOWS FROM FINANCING ACTIVITIES		54,216,040.36	582,424,605.63
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		2,505,836.10	(6,015,041.71)
V. NET INCREASE IN CASH AND CASH EQUIVALENTS		166,296,425.19	(38,546,441.97)
Add: Beginning balance of cash and cash equivalents		330,546,464.49	369,092,906.46
VI. ENDING BALANCE OF CASH AND CASH EQUIVALENTS		496,842,889.68	330,546,464.49

Legal Representative:

Accountant-in-charge:

Partner-in-charges:

Company's Statements of Cash Flow



For the year ended 31 December 2014

Items	Notes	Amount of the year	Amount of last year
Unit: RMB			
I. CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from the sale of goods or rendering of services		2,120,256,427.56	1,794,898,879.59
Receipts of tax refunds		55,555,000.71	56,589,186.91
Other cash receipts relating to operating activities	XVI-47	185,172,696.68	182,848,756.23
SUB-TOTAL OF CASH INFLOWS FROM OPERATING		2,360,984,124.95	2,034,336,822.73
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Cash payments for goods purchased and services received		1,413,992,562.85	1,974,469,802.45
Cash paid to and on behalf of employees		102,080,101.57	92,862,687.68
Payments of all types of taxes		35,813,449.27	27,831,033.32
Other cash payments relating to operating activities	XVI-47	305,725,197.84	229,993,595.31
SUB-TOTAL OF CASH OUTFLOWS FROM ACTIVITIES		1,857,611,311.53	2,325,157,118.76
NET CASH FLOWS FROM OPERATING ACTIVITIES		530,798,148.91	(290,820,296.03)
<hr/>			
II. CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash receipts from disposals of investments		—	—
Cash receipts from disposals of investments		—	—
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		123,557,468.02	230,760.10
Net cash receipts from disposals of subsidiaries and other business units		—	—
Other cash receipts relating to investing activities		—	—
SUB-TOTAL OF CASH INFLOWS FROM INVESTING ACTIVITIES		123,557,468.02	230,760.10
<hr/>			
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		103,798,148.91	295,150,529.18
Cash payments to acquire investments		400,000,000.00	—
Net cash payments for acquisition of subsidiaries and other business units		—	—
Other cash payments relating to investment activities		—	—
SUB-TOTAL OF CASH OUTFLOWS FROM INVESTING ACTIVITIES		503,798,148.91	295,150,529.18
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(380,240,680.89)	(294,919,769.08)



Company's Statements of Cash Flow

For the year ended 31 December 2014

Items	Notes	Amount of the year	Amount of last year
Unit: RMB			
III. CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash receipts from investors		—	—
Cash receipts from borrowings		2,488,355,885.72	2,242,530,650.00
Cash receipts from issuance of bonds		—	—
Other cash receipts relating to financing activities	XVI-47	107,761,974.00	—
SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES		2,596,117,859.72	2,242,530,650.00
<hr/>			
Cash repayments of amounts borrowed		2,358,757,244.31	1,611,450,852.57
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		87,679,777.36	96,012,579.44
Other cash payments relating to financing activities	XVI-47	—	87,761,974.00
SUB-TOTAL OF CASH OUTFLOWS		2,446,437,021.67	1,795,225,406.01
NET CASH FLOWS FROM FINANCING ACTIVITIES		149,680,838.05	447,305,243.99
<hr/>			
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		2,450,535.61	(6,119,075.06)
V. NET INCREASE IN CASH AND CASH EQUIVALENTS		275,263,506.19	(144,553,896.18)
Add: Beginning balance of cash and cash equivalents		210,108,724.61	354,662,620.79
VI. ENDING BALANCE OF CASH AND CASH EQUIVALENTS		485,372,230.80	210,108,724.61

Legal Representative:

Accountant-in-charge:

Partner-in-charges:

Consolidated Statement of Changes in Shareholder's Equity



For the year ended 31 December 2014

Unit: RMB

Items	Current year											Total equity	
	Equity attributable to shareholders of the Company												
	Share capital	Preferred stock	Perpetual bond	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits		Non-controlling interests
I. Balance at the end of the previous year	797,848,400.00	—	—	—	849,500,658.42	—	363,977.13	—	168,908,489.86	—	857,482,430.32	62,017,520.78	2,736,121,476.51
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	849,500,658.42	—	363,977.13	—	168,908,489.86	—	857,482,430.32	62,017,520.78	2,736,121,476.51
III. Changes in the current year	—	—	—	—	—	—	(51,815.33)	—	7,778,413.65	—	12,454,777.12	(6,055,376.35)	14,125,999.09
(i) Total comprehensive income	—	—	—	—	—	—	(51,815.33)	—	—	—	20,233,190.77	(6,055,376.35)	14,125,999.09
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Capital injection shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	7,778,413.65	—	(7,778,413.65)	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	7,778,413.65	—	(7,778,413.65)	—	—
2. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of shareholder's equity	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Transfer to surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special	—	—	—	—	—	—	—	8,814,440.83	—	—	—	1,017,721.37	9,832,162.20
1. withdraw	—	—	—	—	—	—	—	8,814,440.83	—	—	—	1,017,721.37	9,832,162.20
2. Utilise	—	—	—	—	—	—	—	—	—	—	—	—	—
(vi) Others	—	—	—	—	—	—	312,161.80	—	—	—	—	—	—
IV. Balance at the end of the current year	797,848,400.00	—	—	—	849,500,658.42	—	312,161.80	—	176,686,903.51	—	869,937,207.44	55,962,144.43	2,750,247,475.60



Consolidated Statement of Changes in Shareholder's Equity

For the year ended 31 December 2014

Unit: RMB

Items	Equity attributable to shareholders of the Company										Total equity			
	Share capital	Preferred stock	Perpetual bond	Others	Capital reserve	Less: Treasury stock	Comprehensive income	Other	Special reserve	Surplus reserve		General risk provision	Undistributed profits	Non-controlling interests
I. Balance at the end of the previous year	797,848,400.00	—	—	—	849,500,658.42	—	62,065.54	—	—	168,908,489.86	—	1,073,097,098.79	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	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	849,500,658.42	—	62,065.54	—	—	168,908,489.86	—	1,073,097,098.79	63,869,999.90	2,953,286,712.51
III. Changes in the current year	—	—	—	—	—	—	301,911.59	—	—	—	—	(215,614,668.47)	(1,852,479.12)	(217,165,236.00)
(i) Total comprehensive income	—	—	—	—	—	—	301,911.59	—	—	—	—	(175,722,248.47)	(1,852,479.12)	(177,272,816.00)
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Capital injection shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	—	(39,892,420.00)	—	(39,892,420.00)
2. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—	(39,892,420.00)	—	(39,892,420.00)
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of shareholder's equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Transfer to surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. withdraw	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Utilise	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current year	797,848,400.00	—	—	—	849,500,658.42	—	363,977.13	—	—	168,908,489.86	—	857,482,430.32	62,017,520.78	2,736,121,476.51

Partner-in-charge:

Accountant-in-charge:

Legal Representative:

Company's Statement of Changes in Shareholder's Equity



For the year ended 31 December 2014

Unit: RMB

Items	Current year							Total equity			
	Share capital	Preferred stock	Perpetual bond	Others	Capital reserve	Less: Treasury stock	Other comprehensive income		Special reserve	Surplus reserve	Undistributed profits
I. Balance at the end of the previous year	797,848,400.00	—	—	—	849,481,990.92	—	—	—	168,908,489.86	854,155,042.88	2,670,393,923.66
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	849,481,990.92	—	—	—	168,908,489.86	854,155,042.88	2,670,393,923.66
III. Changes in the current year	—	—	—	—	—	—	—	—	7,778,413.65	70,005,722.89	77,784,136.54
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	77,784,136.54	77,784,136.54
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—	—
1. Capital injection shareholders	—	—	—	—	—	—	—	—	—	—	—
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	7,778,413.65	(7,778,413.65)	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	7,778,413.65	(7,778,413.65)	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of shareholder's equity	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—
2. Transfer to surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(v) Special	—	—	—	—	—	—	—	—	—	—	—
1. withdraw	—	—	—	—	—	—	—	4,324,204.91	—	—	4,324,204.91
2. Utilise	—	—	—	—	—	—	—	4,324,204.91	—	—	4,324,204.91
(vi) Others	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current year	797,848,400.00	—	—	—	849,481,990.92	—	—	—	176,686,903.51	924,160,765.77	2,748,178,060.20



Company's Statement of Changes in Shareholder's Equity

For the year ended 31 December 2014

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

Partner-in-charge:

Accountant-in-charge:

Legal Representative:



1 January 2014 to 31 December 2014

(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. 99 Beihuan Road, 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 (勝利油田開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 (財政部辦公室) 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 HKD 0.70 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 HKD 0.92 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 2014 to 31 December 2014

(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 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.

The address of the registered office and the principal place of business is 999 Wen Sheng Street, Shouguang City, Shandong Province

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

II. Scope of Consolidated Financial Statements

The Group consolidated financial statements including Shouguang Baolong Petroleum Material Company Limited, Shouguang Maolong Machinery Company Limited, Weihai Baolong Company Limited eight companies. Compared with last year, there is no change in the scope of the consolidated financial statements.

For the Group subsidiaries See Note 7, Changes in the scope of Consolidation and Note 8 in the other subjects of interest" related content



1 January 2014 to 31 December 2014

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

III. Basis of Preparation of the Consolidated Financial Statements

1. Basis of preparation

The financial statements have been prepared on a going concern basis, according to the actual occurrence of the transactions and events 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, oil well pumps, oil well sucker rods, oil pumping machinery, oil pumping pipes, petroleum machinery, tax requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 in the Preparation Convention of Information Disclosure (b4) 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 and also accounting policies and estimates as set out in Note 4.

2. Going concern

The Group has stable cash flows and recorded recent history of profitable operations and is able to obtain the financial resources to support the production and operation. There is no indication of major events that may affect its ability of going concern. Thus, the financial statements have been prepared under the assumption of going concern.

IV. Significant Accounting Policies and Accounting Estimates

Specific accounting policies and accounting estimates tip: the Group adopt specific accounting policies and accounting estimates according to the actual production and management features including the business cycle, recognition and measurement of receivables and bad debts, inventory measurement, fixed assets classification and depreciation method, intangible asset amortization, research and development costs capitalization requirements, revenue recognition and measurement, etc.

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 31 December 2014 and the results of their operations and their cash flows for the year ended 31 December 2014.

2. Financial year

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

3. Operating cycle

Operating cycle refers to period from assets purchased for production to cash or cash equivalents realised. The operating cycle of the Company is 12 months

4. Reporting currency

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

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



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

5. Business combinations under common control and other than common control accounting treatment

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

The identifiable assets, liabilities and contingent liabilities acquired from the acquiree in a business combination not under common control shall be measured at fair value on the acquisition date. The combination costs shall be the aggregate of the fair value of cash or non-cash assets paid by the Group on the acquisition date to obtain control over the acquiree, the debts issued or undertaken by the Group and the equity securities issued as well as all relevant direct costs for the business combination (for a business combination realised by two or more transactions, the combination costs shall be the aggregate of the costs of all separate transactions). The amount of the combination costs in excess of the fair value of the identifiable net assets of the acquiree shall be recognized as goodwill. If the combination costs are less than the fair value of the identifiable net assets of the acquiree, the fair value of the identifiable assets, liabilities and contingent liabilities acquired from the combination as well as the fair value of the non-cash assets or the equity securities issued for paying the consideration will be reviewed. If the combination costs are still less than the fair value of the identifiable net assets after review, the balance shall be accounted for as non-operating income for the current period.

6. Basis of preparation of consolidated financial statements

The Group will include all subsidiaries and Variables Interest Entities into the consolidated financial statements.

Necessary adjustments will be made when there is inconsistency on the accounting policies and accounting period between the Company and its subsidiaries when preparing the consolidated financial statements.

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

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



1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

6. Basis of preparation of consolidated financial statements (continued)

In preparing consolidated statements, equity interests in an investee under common control realised by two or more transactions, which finally bring about the business combination, shall be adjusted as if they had been in existence in the current state since the ultimate controlling party gains control. When preparing the comparative statements, to the extent that the Group and the combined party are both under the control of the ultimate controlling party, the relative assets and liabilities of the combined party shall be included in the comparative statements of the Group's consolidated financial statements, and the increase in net assets arising from the combination will be adjusted against the related items under owners' equities in the comparative statements. To avoid double counting the value of the net assets of the combined party, long-term equity investments before the combination, as well as the relevant recognized profit or loss, other comprehensive income and other changes in net assets from the day of acquiring the original equity interest or the day when the Group and the combined party are under the same ultimate control, whichever is later, to the combination date shall be offset against the retained earnings at the beginning of the period and the profit or loss for the current period in the comparative statements, respectively.

The operating results and cash flows of a subsidiary acquired from a business combination not under common control unit shall be included in the consolidated financial statements since the Group gains control. When preparing the consolidated financial statements, the financial statements of the subsidiary shall be adjusted based on the fair value of the identifiable assets, liabilities and contingent liabilities determined on the acquisition date.

For equity interests in an investee not under common control realised by two or more transactions, which finally bring about the business combination, when preparing the consolidated statements, equity interests in the investee before the acquisition date shall be re-measured at fair value on the acquisition date and the balance between the fair value and the book value shall be included in the investment gains for the current period.

Except for other comprehensive income arising from changes as a result of re-measurement of net liabilities or net assets of the defined benefit plan of the investee, other comprehensive income under the equity method involving the equity interests in the investee held before the acquisition date and other changes in equity except net profit or loss, other comprehensive income and profit distribution shall be converted into investment gains or loss in the period in which the acquisition date falls.

For partial disposal of the Group's long-term equity investments in a subsidiary without losing control, in the consolidated financial statements, the balance between the disposal consideration and the corresponding share of the subsidiary's net assets entitled from the disposal of the long-term equity investments, which is continuously calculated since the acquisition date or the combination date, shall be used to adjust the capital surplus or share premium. If the capital surplus is insufficient for offsetting, the retained earnings shall be adjusted.

For disposal of the Group's equity investments in a subsidiary realised by two or more transactions until loss of control, if the transactions fall under a package deal, those transactions shall be accounted for as a deal under which the subsidiary is disposed of and control is lost. However, before losing control over the subsidiary, the balance between each disposal consideration and the corresponding share of the subsidiary's net assets entitled from the disposal of the investments shall be recognized as other comprehensive income in the consolidated financial statements and when control is lost, converted into investment gain or loss for the period in which control is lost.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

7. The accounting recognition for joint arrangements and joint operation

The joint arrangements of the Group consist of joint operation and joint ventures. For joint operation projects, the Group, as a joint operation party, recognizes assets held and liabilities assumed by itself, recognises other assets held and liabilities assumed on a pro-rata basis, and recognizes related revenues and expenses itself or on a pro-rata basis according to the relevant agreements. For assets transaction involving purchases and sales with the joint operation which does not constitute a business, only the proportion of profit or loss attributable to other parties to the joint operation which results from the transaction is recognized.

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 not exceeding three months, and which are subject to insignificant risk of value change.

9. 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. Financial assets and financial liabilities

Financial assets and liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.



1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial assets and financial liabilities (continued)

(1) Financial assets

(1) *Classification, recognition and measure 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.

Financial assets at fair value through profit or loss consist of financial assets held for trading and those designated as financial assets at fair value through profit or loss at initial recognition. The Group shall classify financial assets as financial assets held for trading as long as they meet one of the following conditions: the purpose of acquiring the financial assets is to sell them within a short time; they fall under a portfolio of identifiable financial instruments for centralized management, and there is objective evidence that the Company has managed the portfolio in a manner for making profits within a short time; they fall under derivative instruments, except those designated as effective hedging instruments, financial guarantee contracts and equity-linked investments that are not quoted in an active market and whose fair value cannot be measured reliably and have to be settled through delivery. The Group shall designate financial instruments as financial assets at fair value through profit or loss at initial recognition only when they meet one of the following conditions: The designation can eliminate or significantly reduce inconsistencies in terms of recognition and measurement of relevant gains or losses caused by different measurement bases of the financial instruments. The formal written documents of corporate risk management or investment strategies have recorded that the financial portfolio is managed and assessed on the basis of the fair value and this is reported to the key management personnel. The financial instrument is a hybrid instrument containing one or more embedded derivatives, unless the embedded derivatives do not significantly change the cash flow of the hybrid instrument or obviously should not be separated from the relevant hybrid instrument. The hybrid instrument contains embedded derivatives that need to be separated but cannot be measured separately on the acquisition date or on the subsequent balance sheet date. The Group does not have such financial assets at present, which shall be subsequently measured at fair value. Changes in fair value shall be accounted for in gains or loss from changes in fair value. The interests or cash dividends acquired while the Group holds the assets shall be recognized as investment gains. In the process of disposal, the balance between its fair value and the initial booked amount shall be recognized as investment gains or loss and gains or loss from changes in fair value will be adjusted.

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. Held-to-maturity investments using the effective interest method are subsequently measured at amortised cost, the amortisation or impairment and gains or losses are recognised upon termination arising and are recognised in the profit or loss for the current period.

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



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial assets and financial liabilities (continued)

(1) Financial assets (continued)

(1) Classification, recognition and measure of financial assets (continued)

Available-for-sale financial assets are non-derivatives that are either designated or not classified as other financial assets. In this type of asset, the equity instruments without quoted price in an active market and whose fair value cannot be reliably measured and the derivative financial instruments related to and settled by delivery of an equity instrument, are subsequently measured at cost; the other instruments in an active market, although there is no active market price or the market price but the fair value can be reliably measured, are measured at fair value, and the changes in fair value are recognized in other comprehensive income. These financial assets are subsequently measured at fair value, except for impairment losses and foreign exchange gain and loss of monetary financial assets, the change in fair value of available for sale financial assets are recognized directly in shareholders' equity, when the financial asset is derecognized, the cumulative amount of changes in fair value recognized directly in equity before is recognized in the income statement. Interests of available for sale debt instruments held by investment which are calculated by the effective interest method, and cash dividends related to available for sale equity instruments declared by the investee issued are recognized as investment income in profit or loss.

(2) Recognition and measurement 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.

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.

1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial assets and financial liabilities (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.

Impairment will be provided on the equity instruments measured by the cost when the performance of the investee continued to decline and there is no sign of reversing. The impairment is calculated based on the present value of estimated future cash flows and the difference between the carrying value.

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.

(2) Financial liabilities

(1) Classification, recognition and measurement of financial liabilities

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



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

10. Financial assets and financial liabilities (continued)

(2) Financial liabilities (continued)

(2) *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. Where an agreement between the Company and the creditor has been entered into to replace the existing financial liabilities by way of a new undertaking of financial liabilities, and the terms of the contracts for the new financial liabilities are materially different from those of the existing financial liabilities, the existing financial liabilities shall be derecognized, and at the same time the new financial liabilities shall be recognized. If the Company makes substantial amendments to all of or part of the terms of the contract for the new financial liabilities, the existing financial liabilities or part of them shall be derecognized, and meanwhile the financial liabilities under the amended terms shall be recognized as new financial liabilities. The balance between the book value of the part derecognized and the consideration paid shall be included in the profit or loss for the current period.

(3) *Offsetting financial assets and financial liabilities*

The Group measures the fair value of financial assets and financial liabilities at the price of the principal market. If there is no principal market, the fair value of financial assets and financial liabilities shall be measured at the price of the most advantageous market, and a valuation technique which is applicable at that time and has sufficient data as well as other information support will be adopted.

The Group categories 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. 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. The Group will give priority to the use of the Level 1 of the input value, finally using Level 3 of input values.

During the year, the group had no financial liabilities that are measured at fair value and recognised in the profit or loss.



1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

11. 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.

The Group regards the following situations as the criteria for recognition of bad debt loss for receivables: debtor's deregistration, bankruptcy, insolvency, serious shortage of cash flow, serious natural disasters and other factors which will cause shutdown and incapability to pay debts within foreseeable time; debtors failing to meet debt obligations for over 1 year; other conclusive evidence which indicates the debts cannot or are unlikely to be recovered.

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.

<p>Judgment basis or amount standard for single item with significant amount</p>	<p>The Group recognizes accounts receivable of over RMB3 million and other receivables of over RMB2 million as single item with significant accounts receivable.</p>
<p>Provision method for single item with significant amount and provided for bad debts in single item</p>	<p>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 recognized in single item test, they ceased to be included in accounts receivable portfolio with similar risk characteristics for impairment test.</p>

(2) Accounts receivable provided for bad debts by the Group

Basis for determining portfolio

<p>Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test</p>	<p>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.</p>
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Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

11. Accounts receivable (continued)

(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

12. Inventory

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

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

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.

For inventories with tremendous number and relatively low unit price, inventory impairment loss is provided according to the type of inventory. For other inventories, inventory impairment provision is provided at the difference of cost of a single item of inventory exceeding its net realizable value. 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.

13. Assets classified as held for sale

The assets of the Group that meet the following conditions to be classified as held for sale: the underlying assets can be sold immediately according to the usual and customary terms; the Group has approved a resolution on the disposal of certain assets; the Group and the transferee signed irrevocable transfer agreement and the transfer will be completed within one year.



1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

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.

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

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

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

As for the package deals which acquire equity of investee under the same control through multiple deals and ultimately form merger, the Group shall handle each deal as one with controlling rights by means of accountancy. For those which are not package deals, they will be used as the initial investment cost of long-term equity investment according to the share of the book value of net assets in the merged party's financial statements of the ultimate controlling party on the date of merger. The balance between initial investment cost and book value of long-term equity investment before merger plus the book value of acquired new payment consideration of the further obtained shares on the date of merger shall adjust capital surplus. If the value of capital surplus is not enough to be offset, retained earnings shall be offset.

The merger cost will be the initial investment cost at the Long-term equity investments acquired through a business combination under common control.

As for the package deals which acquire equity of investee under the same control through multiple deals and ultimately form merger, the Group shall handle each deal as one with controlling rights by means of accountancy. For those which are not package deals, they will be used as the initial investment cost of long-term equity investment according to the share of the book value of net assets in the merged party's financial statements of the ultimate controlling party on the date of merger. The balance between initial investment cost and book value of long-term equity investment before merger plus the book value of acquired new payment consideration of the further obtained shares on the date of merger shall adjust capital surplus. If the value of capital surplus is not enough to be offset, retained earnings shall be offset.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

14. Long-term equity investments (continued)

Aside from the long-term equity investments acquired through business merger, long-term equity investments acquired by cash will be used as investment cost according to the actual payment of the purchase price; long-term equity investments acquired through issuance of equity securities will be used as investment cost according to the fair value of the equity securities issued; long-term equity investments from investors will be used as investment cost according to the investment contracts or agreement value; if company owns long-term equity investments which are acquired through debt restructuring, non-monetary assets exchange and other means, investment cost shall be determined according to the provisions of relevant accounting standards of enterprises and practical situation of company.

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

Investments in subsidiaries are adjusted by equity method when there is addition or recovery of Investment, include the amount of the additional investment costs paid and the fair value of the related transaction costs of equity investments. The cash dividends or profit distribution declared by the investees are recognised as investment income in profit or loss.

Subsequent measurement adopts the long-term equity investment accounted by equity method. Increase or decrease the book value of long-term equity investments according to the variations of other investment unit owners' rights and interests. Determination of the reversionary shares of net income and loss of the investee should be based on the fair value of the identifiable assets when investment is made according to the accounting policies and accounting period of the Group. And offset the internal profits and losses caused between associated enterprises and joint ventures. Calculate the parts attributable to investment enterprise according to share-holding proportion, confirm after the adjustment to net profit of the investee.

For long-term equity investment, the balance between its book value and actual payment will be accounted into the profit of the current period. When handling the long-term equity investment accounted by equity method which is accounted into owners' equity due to the changes in owners' equity aside from the net income and loss of the investee, the parts which were accounted into owners' equity shall be transferred into profit and loss of investment of current period according to corresponding proportion.

If the Group loses joint control or material influence on investee due to disposal of certain equity investment and other reasons, any retained interests shall be calculated according to the financial assets available for sale. The balance between book value and fair value of retained interests on the date of losing joint control or material influence will be accounted into current profit and loss. Other comprehensive income recognized in original equity investment using equity method shall be treated under accounting method subject to the basis on which the relevant assets or liabilities of the investee at the termination of equity method calculation.



1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

14. Long-term equity investments (continued)

When the Group loses control over the investee due to disposal of certain long-term equity interest, and the retained equity could have joint control or significant impact on the investee, the retained equity shall be measured by equity method, the difference between the carrying value of the equity and the consideration on disposal shall be recognized as investment income, and the retained equity shall be adjusted to be measured by equity method. If the retained equity after disposal fails to have joint control or significant impact on the investee, accounting treatment shall be made according to relevant provisions of the available for sale financial assets, the difference between the carrying value of the equity and the consideration on disposal shall be recognized as investment income, and the difference between the fair value and the carrying value of the retained equity shall be recognized as profit and loss of investment income in the period in which they are incurred.

As to the transactions incurred by our step-by-step disposal of equity till a complete loss of the controlling interest, if they are not a package deal, our company would make accounting treatment separately for each of them; if they are a package deal, our company would treat them as deals incurred by disposing subsidiary till losing controlling interest and make corresponding accounting treatment. But, before losing control, the difference between the disposing price of each deal and the carrying value of long-term equity investment corresponding to the disposed equity, shall be recognized as other comprehensive income and be transferred to the profits and losses of the current period when control ceases.

15. Investment Properties

Investment properties are land or buildings 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 carrying amount immediate 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 2014 to 31 December 2014

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

IV. 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.

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 straightline 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 equipments	3–5	5	31.67–19.00
4	Vehicles	5	5	19.00
5	Other equipment	5	5	19.00

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.

Fixed assets acquired under finance lease should record base on the payment by the fair value of the leased asset and the present value of the minimum lease amount, whichever is shorter. Difference of the book value of the leased assets and minimum lease payments will be recorded at the unrecognised financing charges. Fixed assets acquired under finance lease is consistent with its own fixed assets depreciation policy. The, leased fixed assets are depreciated over its estimated useful life; otherwise, leased fixed assets in the lease term and the estimated useful life of the asset, whichever is shorter depreciated over the period. The Group currently has no finance leased fixed assets.

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.



1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

17. Construction-in-Progress

Construction-in-progress measured at the expenditures actually incurred. The cost of construction work undertaken by the Company 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, amortization of discount or premium related to borrowings, ancillary costs incurred in connection with the borrowings, and exchange difference arising from foreign currency borrowings.

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

When funds are borrowed under a specific-purpose borrowing the amount of interest to be 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 capitalized is determinate by applying the weighted average of the interest rate applicable to the general purpose borrowing to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. Capitalisation rate confirmed as general borrowing weighted average rate.

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.



Notes to the Financial Statements

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

19. Intangible Assets

(1) Intangible assets

The Group's intangible assets mainly include land use right (maritime 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 actual value of the intangible asset invested by the investor shall be determined by the value stipulated in the investment contract or agreement. But if the value stipulated in the contract or agreement is unfair, actual cost shall be determined by fair value. The intangible asset, which is owned by the acquiree in a combination under different control but is not confirmed in the financial statement, shall be confirmed as intangible asset at its fair value upon the initial recognition on the acquiree's assets.

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 Company 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 lives and amortisation method of intangible assets with finite useful lives are re-assessed at the end of each financial year. Any changes will be dealt with as changes on accounting estimates.

Due to various unforeseeable reasons that the intangible assets bring economic benefits to the Group for the period and confirm with the useful lives. The Group will review the useful lives on those intangible assets with indefinite useful lives at each of the accounting period.

(2) Research and Development

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.

Development phase starting time: monthly new product development plan approval is completed, preliminary studies of new products have been completed, the product's formulation, technology standards have been identified.

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

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

19. Intangible Assets (continued)

(2) Research and Development (continued)

Expenditure on the development phase is recognised 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 Company, including a market for the output of the intangible asset or the intangible asset itself and benefits to the Company 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.

20. Impairment loss on long term assets

On each balance sheet date, long-term equity investment, investment real estate under cost model measurement, fixed assets, projects under construction, and intangible assets with limited useful life will be tested for impairment. If there is any impairment indicator for the intangible asset, the intangible asset will be tested for impairment. As to intangible assets with infinite goodwill and useful life, impairment test will be performed annually at the end of the year.

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. The fair value of asset shall be determined according to the price stipulated in sales agreement under fair deal. In the case without sale agreement but with asset active market, fair value shall be determined according to the price bidden by the buyer of the asset. In the case without sale agreement or asset active market, fair value shall be estimated on the basis of the best retrievable information. Disposal expenses include legal costs relative to asset disposal, relevant taxes, carriage expenses and direct expenses caused by the efforts to prepare the asset for its intended sales. The current value of the asset's expected future cash flow shall be determined by discounting the predicted future cash flow produced by the continuous use and the final disposal of asset at an appropriate discount rate. Provision for impairment is provided and recognized 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 include the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

20. Impairment loss on long term assets (continued)

When the goodwill on the financial statement is tested for impairment, 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 recognized for a cash-generating unit if, and only if, the recoverable amount of unit is less than the book value of the unit. The impairment loss shall be allocated to reduce the book value 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 book value of each asset in the unit.

If the book value of the assets exceed its recoverable amount after the impairment test, the impairment loss is recognised as an impairment loss of these assets and the amount shall not be reversed in the subsequent accounting period.

21. Long-term prepaid expenses

The Group's long-term prepaid expenses included electric platform and steel chartered cost. It will be amortised based on its beneficial period, If the long-term prepaid expenses are no longer beneficial to the subsequent accounting periods, the unamortized balance is then fully transferred to profit or loss for the period.. The amortisation period of electric platform and steel chartered is 3 years.

22. Employee Benefits

Employee benefits include short-term salaries, post-employment benefits, termination benefits and other long-term staff welfare.

Short-term employee benefits 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.

Post-employment benefits include basic pension insurance, unemployment insurance. According to the company's risks and obligations, they are are classified as defined contribution plans, defined benefit plans For defined contribution plans in accordance with the balance sheet date in exchange for services provided by employees in the accounting period and subject to a separate deposit in escrow payments are recognised as liabilities, and profit or loss in accordance with the benefit of object-related costs or assets. The Group does not currently exist defined benefit plans.

The Group do not have termination benefits and other long-term benefits.



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

IV. Significant Accounting Policies and Accounting Estimates (continued)

23. 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.

If all or part of the expense necessary for settling the provision is expected to be compensated by the third party, the amount of compensation is separately recognised as an asset when it is basically determined to be recoverable, and the recognised amount of the compensation shall not exceed the carrying amount of the provision.

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.

24. Production Safety Fee

The Group collects, utilizes and audits the production safety fee pursuant to the relevant requirements of Notice of the Ministry of Finance and the State Administration of Work Safety on Issuing the Administrative Measures for the Collection and Utilization of Enterprise Work Safety Funds (No. 16 [2012] of the Ministry of Finance and the State Administration of Work Safety) and Notice of the Ministry of Finance on Issuing Interpretation No. 3 of the Accounting Standards for Business Enterprises (No. 8 [2009] of the Ministry of Finance).

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



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

24. Production Safety Fee (continued)

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.

25. 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; (c) and 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.



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

IV. Significant Accounting Policies and Accounting Estimates (continued)

26. 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.

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).

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.

27. 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.



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

IV. Significant Accounting Policies and Accounting Estimates (continued)

28. 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 recognized 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 unrealised financing income.

The recognised loss of unguaranteed residual value that might be recovered, which would be return in the original recognised 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.

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

28. 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.

29. 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.

30. 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.



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1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

31. Other Significant Accounting Policies and Accounting Estimates

Preparing the financial statements, the management of the Company is 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 IV.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 if there is evidence shown that the impairment on accounts receivable could be recovered subsequently.

(2) Provision for inventories

As set out in note IV.12, 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.



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

IV. Significant Accounting Policies and Accounting Estimates (continued)

31. Other Significant Accounting Policies and Accounting Estimates (continued)

(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.

(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 life of intangible assets is 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.



Notes to the Financial Statements

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IV. Significant Accounting Policies and Accounting Estimates (continued)

31. Other Significant Accounting Policies and Accounting Estimates (continued)

(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 depend 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.

32. Significant Changes Accounting Policies and Accounting Estimates

(1) Significant Changes in Accounting Policies

Since January 26, 2014, Chinese Ministry of Finance has issued eight specific accounting standards (hereinafter referred as "the New Accounting Standards") successively, which are "Enterprise Accounting Standards No.2 — Long-Term Equity Investment", "Enterprise Accounting Standards No.9 — Employee Compensation", "Enterprise Accounting Standards No.30 — Financial Statement Presentation", "Enterprise Accounting Standards No.33 — Combined Financial Statement", "Enterprise Accounting Standards No.39 — Fair Value Measurement", "Enterprise Accounting Standards No.40 — Joint Venture Arrangement" and "Enterprise Accounting Standards No.41 — Disclosure of Rights and Interests in Other Subjects", "Enterprise Accounting Standards No.37 — Presentation of Financial Instruments".

Notes to the Financial Statements



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IV. Significant Accounting Policies and Accounting Estimates (continued)

32. Significant Changes Accounting Policies and Accounting Estimates (continued)

(1) Significant Changes in Accounting Policies (continued)

When preparing 2013 3rd quarter annual report, the Group had implemented No.2, No.9, No.30, No.33, No.39 and No.40 standards in advance. When preparing 2014 annual report, the Group had implemented No.37 and No.41 standards, comparative figure was revised according to new standards and relevant explanation and application guideline, Effects of the change on the financial statements of the Group are as follows:

Items affected	31 December 2013		
	Before Adjustment	Adjustment Amount	After Adjustment
Total assets	5,793,466,052.68	—	5,793,466,052.68
Include: financial assets available for sale	—	10,000,000.00	10,000,000.00
Long-term equity investments	60,881,784.30	(10,000,000.00)	50,881,784.30
Total liabilities	3,057,344,576.17	—	3,057,344,576.17
Include: deferred income	—	3,616,000.00	3,616,000.00
Other non-current liabilities	3,616,000.00	(3,616,000.00)	—
Total equity	2,736,121,476.51	—	2,736,121,476.51
Include: other comprehensive income	—	363,977.13	363,977.13
Currency translation differences	363,977.13	(363,977.13)	—

Items affected	1 January 2013		
	Before Adjustment	Adjustment Amount	After Adjustment
Long-term equity investments	5,285,750,978.82	—	5,285,750,978.82
Total liabilities	—	10,000,000.00	10,000,000.00
Include : deferred income	58,634,400.43	(10,000,000.00)	48,634,400.43
Other non-current liabilities	2,332,464,266.31	—	2,332,464,266.31
Total equity	—	7,232,000.00	7,232,000.00
Include : other comprehensive income	7,232,000.00	(7,232,000.00)	—
Currency translation differences	2,953,286,712.51	—	2,953,286,712.51
Long-term equity investment	—	62,065.54	62,065.54
Total liabilities	62,065.54	(62,065.54)	—

This accounting policy change only has an impact on the presentation of the above mentioned financial statement items and has no impact on 2013 year-end total assets, total liabilities and net assets as well as 2013 annual net profits.

(2) Impact on changes in accounting estimates

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



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

IV. Significant Accounting Policies and Accounting Estimates (continued)

33. Prior period adjustment

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

V. 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.

2. 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 New Materials Company Limited ("Maolong New Materials")	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



1 January 2014 to 31 December 2014

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

V. Taxation (continued)

3. Tax incentives and approvals

According to the "Notice Regarding the List of Shandong Province Proposed Advanced Technology Enterprise in 2011" (關於“濟南聖泉集團股份有限公司”等504家企業通過高新技術企業複審的通知) (Lu Ke GaoZi[2012]19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,, 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.

According to the "Notice Regarding the List of Shandong Province Proposed Advanced Technology Enterprise in 2015" (關於“於認定山東科興生物製品有限公司等889家企業為2014年高新技術企業的通知) (Lu Ke GaoZi[2015]33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,, 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 2014.

VI. Notes to the Consolidated Financial Statements

Unless otherwise stated, the term of 'beginning of the year' refers to 1 January 2014 and the term of 'end of the year' refers to 31 December 2014. 'This year' refers to the year ended 31 December 2013. 'Previous year' refers to the year ended 31 December 2013. The following notes to the financial statements are presented in RMB.

1. Cash and cash equivalents

Items	Balance at the end of the year	Balance at the beginning of the year
Cash	83,692.32	42,463.38
Bank balance	323,835,489.16	201,769,587.31
Other foreign currency	291,290,034.90	395,958,815.29
Total	615,209,216.38	597,770,865.98
Include: Amount deposit in overseas	3,133,676.26	13,073,008.16

- (1) Fund deposited in overseas represented the bank balance under the Hong Kong subsidiary, MPM Limited.
- (2) As at the end of the year, other fund held by the Group included bank acceptance security deposit of RMB176,490,478.32 (as at the beginning of the year: RMB 201,454,237.29), borrowings and deposit for letter of credit of RMB10,404,906.58 (as at the beginning of the year: 130,444,578.00), deposit for letter of guarantee of RMB22,050,000.00 (as at the beginning of the year: RMB 64,060,000.00) and fixed deposit of RMB 82,344,650.00 (as at the beginning of the year: Nil)



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

1. Cash and cash equivalents (continued)

- (3) 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 RMB 68,391,676.70 (as at the beginning of the year: RMB 154,462,427.49), borrowings and deposit for letter of credit with maturity date over 3 months of RMB 5,000,000.00 (as at the beginning of the year: 73,901,974.00); and deposit for letter of guarantee with maturity date over 3 months of Nil (as at the beginning of the year: RMB38,860,000.00); fixed deposits with maturity date over 3 months of RMB44,974,650.00 (as at the beginning of the year: RMB Nil).

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	90,685,848.66	135,159,594.04
Total	90,685,848.66	135,159,594.04

(2) Pledged bills receivable

Items	Pledged amount at the end of the year
Bank acceptance notes	14,264,697.76
Total	14,264,697.76

As at the end of the year, bills receivable amounted RMB 14,264,697.76 was pledged to bank in exchange of equivalent amount of bills payables. These bills receivables will be matured by 20 April 2015.

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

Items	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance notes	274,639,148.53	—
Total	274,639,148.53	—

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

2. Bills Receivable (continued)

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

3. Accounts Receivable

Items	Balance at the end of the year	Balance at the beginning of the year
Accounts receivable	621,391,569.93	574,636,787.15
Less: provision for bad debts	12,751,160.25	10,864,189.73
Net amount	608,640,409.68	563,772,597.42

(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. Generally, The credit period is three to six months, while the major customers can be prolonged to one year. 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	576,617,038.85	552,166,395.76
More than one year but within two years	29,538,088.45	10,739,610.15
More than two years but within three years	2,318,690.87	700,000.00
More than three years	166,591.51	166,591.51
Net amount	608,640,409.68	563,772,597.42

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.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

3. Accounts Receivable (continued)

(2) Risk Classification of Accounts Receivable

Items	Balance at the end of the year				Balance at the beginning of the year			
	Carrying amount		Impairment loss		Carrying amount		Impairment loss	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Single item with significant accounts receivable and provided for bad debts in single item	14,376,029.00	2.31	10,479,971.25	72.9	15,417,953.39	2.68	8,796,479.57	57.05
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test	604,328,444.90	97.26	—	—	557,151,123.60	96.96	—	—
Single item with insignificant accounts receivable but provided for bad debts separately	2,687,096.03	0.43	2,271,189.00	84.52	2,067,710.16	0.36	2,067,710.16	100.00
Total	621,391,569.93	100.00	12,751,160.25	—	574,636,787.15	100.00	10,864,189.73	—

(1) Accounts receivable of individual amount is significant, individually provided for bad debts

Company	Carrying amount	Impairment	Ratio (%)	Reasons for impairment
Shengli Oilfield Highland Petroleum Equipment Co., Ltd	3,284,636.96	3,284,636.96	100.00	Aging over four years with low possibility of recovery
SBI Company (USA)	3,807,804.56	3,807,804.56	100.00	Aging over two years with uncertainty in recovery
Wenlai Jinlong Investment Company Limited, Beijing Office	7,283,587.48	3,387,529.73	46.51	Aging over two years with uncertainty in recovery
Total	14,376,029.00	10,479,971.25	—	

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

3. Accounts Receivable (continued)

(2) Risk Classification of Accounts Receivable (continued)

(2) Accounts receivable of insignificant individual amount, individually provided for bad debts

Companies	Carrying amount	Provision for bad debt	Ratio (%)	Reason for provision
South China Petrochemical Group	1,701,840.98	1,701,840.98	100.00	Aging over three years with low possibility of recovery
China Petroleum Technology & Development Corporation	594,152.90	178,245.87	30.00	Aging over one year with low possibility of recovery
Zibo QiLin Electrical and Logistics Company Limited	244,795.51	244,795.51	100.00	Aging over three years with low possibility of recovery
Hanting Energy resource Private Service Company Limited	89,606.64	89,606.64	100.00	Aging over three years with low possibility of recovery
Shandong Dong Gao Ke Equipment Sets Co., Limited	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	2,687,096.03	2,271,189.00		

(3) Provision for the year (reversal) of bad debts

The impairment loss on accounts receivables amounted to RMB 1,886,970.52. 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 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

3. Accounts Receivable (continued)

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

Company	Carrying amount	Aging	Percentage of the total accounts receivable (%)	Impairment loss at the end of the year
PetroChina Company Limited	91,763,794.06	Within one year	14.77	—
	3,284,636.96	Four to five years	0.53	3,284,636.96
	594,152.90	One to two years	0.10	178,245.87
YanChang Oil Field Co., Limited	79,254,750.92	Within one year	12.75	—
China Petroleum & Chemical Co., Ltd, Supplies Equipment Department	55,446,128.03	Within one year	8.92	—
HeBei ZhongTai Steel Pipe Manufacture Co., Limited	46,743,692.58	Within one year	7.52	—
Peak Pipe and Supply, LLC	38,897,033.04	Within one year	6.26	—
Total	315,984,188.49		50.85	3,462,882.83

(6) As at 31 December 2014, the Group had no pledged accounts receivable.

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	40,372,275.65	99.85	47,650,707.35	99.74
One to two years	31,180.00	0.08	97,064.27	0.20
Two to three years	—	—	—	—
More than three years	28,214.22	0.07	28,214.22	0.06
Total	40,431,669.87	100.00	47,775,985.84	100.00

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

4. Prepayments (continued)

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

Entities	Balance at the end of the year	Aging	Percentage of the total prepayments (%)
JESORO OIL LTD	20,142,868.09	Within one year	49.82
Zibo QiLin FuShan Steel Co., Limited	9,000,000.00	Within one year	22.26
Zibo WanFang Furnace Engineering Co., Limited	2,205,017.88	Within one year	5.45
Shandong Xiwang Special Steel Company Limited	2,639,643.73	Within one year	6.53
NingXia HuaHeng Logistics Co., Limited	1,500,000.00	Within one year	3.71
Total	35,487,529.70		87.77

5. Interests Receivable

(1) Classification of interest receivable

Items	Balance at the end of the year	Balance at the beginning of the year
Interest income on fixed deposits	743,209.80	—
Interest income on pledged deposits	1,927,493.53	4,606,049.44
Total	2,670,703.33	4,606,049.44

(2) The above interest are not overdue.

6. Other Receivables

Items	Balance at the end of the year	Balance at the beginning of the year
Other receivables	48,978,840.92	31,279,655.73
Less: provision for bad debts	119,119.25	119,119.25
Net amount	48,859,721.67	31,160,536.48



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

6. Other Receivables (continued)

(1) Aging Analysis of Other Receivables

Aging	Balance at the end of the year	Balance at the beginning of the year
Within one year	25,861,995.30	20,385,704.75
One to two years	15,461,067.37	405,474.02
Two to three years	267,301.29	3,122,000.00
More than three years	7,269,357.71	7,247,357.71
Net amount	48,859,721.67	31,160,536.48

(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	48,859,721.67	99.76	—	—	31,160,536.48	99.62	—	—
Single item with insignificant other receivables but provided for bad debts separately	119,119.25	0.24	119,119.25	100.00	119,119.25	0.38	119,119.25	100.00
Total	48,978,840.92	100.00	119,119.25	—	31,279,655.73	100.00	119,119.25	—

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

6. Other Receivables (continued)

(2) Risk Classification of Other Receivables (continued)

(1) Other receivables of insignificant amount, individually provided for bad debts

Entities	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
Other parties	14,220.00	14,220.00	100.00	No recovery with long aging
Other individuals	64,899.25	64,899.25	100.00	No recovery with long aging
Total	119,119.25	119,119.25		

(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) Reclassification of other receivables

Items	Balance at the end of the year	Balance at the beginning of the year
Current accounts	46,969,506.91	29,306,847.29
Individuals	1,257,000.00	263,914.69
Deposits	362,827.76	1,319,387.50
Others	270,387.00	270,387.00
Total	48,859,721.67	31,160,536.48



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

6. Other Receivables (continued)

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

Entities	Nature	Amount	Aging	Proportion (%)
Shouguang City Yangkou Town Finance Department	Deposit for project development	14,530,000.00	One to two year	29.67
People's Government of Wendeng City Gaocun Town	Deposits and tax receivable	11,831,124.60	Within one year	24.16
Gucheng Street Offices	Current account	6,891,320.00	Within four years	14.07
Qingdao Lufthansa International Freight Forwarders Limited	Current account	4,185,794.31	More than one year	8.55
Shandong Hiroshi Sinotrans Logistics Ltd.	Current account	3,191,633.15	Within one year	6.52
Total		40,629,872.06		82.97

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	230,974,251.85	14,094,273.76	216,879,978.09	309,153,108.34	20,577,712.50	288,575,395.84
Work-in-progress	389,217,664.90	6,983,415.60	382,234,249.30	398,817,315.92	10,117,042.74	388,700,273.18
Entrusted processing materials	21,941,068.85	572,454.32	21,368,614.53	15,031,673.43	198,651.68	14,833,021.75
Finished goods	411,746,691.68	13,159,842.92	398,586,848.76	484,165,435.40	21,093,708.57	463,071,726.83
Total	1,053,879,677.28	34,809,986.60	1,019,069,690.68	1,207,167,533.09	51,987,115.49	1,155,180,417.60

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. 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	20,577,712.50	154,832.14	6,638,270.88	—	14,094,273.76
Work-in-progress	10,117,042.74	4,957,449.20	8,091,076.34	—	6,983,415.6
Entrusted processing materials	198,651.68	572,454.32	198,651.68	—	572,454.32
Finished goods	21,093,708.57	6,614,449.46	14,548,315.11	—	13,159,842.92
Total	51,987,115.49	12,299,185.12	29,476,314.01	—	34,809,986.00

(3) Provision of allowance for inventories

Items	Specific basis of net realisable value	Reason of reversal
Raw Materials	The price of the materials and semi-	Production
Work-in-progress	manufactured products minus the	Production
Entrusted processing materials	cost of further processing and related	Production
	selling expenses and taxes	
Finished goods	Selling price less cost of sales and related	Sales
	taxes and fees	

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

8. Other current assets

Items	Balance at the end of the year	Balance at the beginning of the year
Prepaid value-added tax	48,939,615.27	39,819,829.62
Prepaid income tax	—	7,106,700.55
Other prepaid taxes	—	851,673.61
Total	48,939,615.27	47,778,203.78



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

9. Available-for-sale financial assets

(1) Analysis of available-for-sale financial assets

Items	Balance at the end of the year			Balance at the beginning of the year		
	Carrying value	Impairment	Net book value	Carrying value	Impairment	Net book value
Available-for-sale financial assets	—	—	—	—	—	—
Using cost method	10,000,000.00	—	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	—	10,000,000.00

(2) Analysis of available-for-sale financial assets

Items	Balance at the end of the year	Balance at the beginning of the year
Listed	—	—
People's Republic of China (Exclude Hong Kong)	—	—
Hong Kong	—	—
Other areas	—	—
Sub-total	—	—
Unlisted	10,000,000.00	10,000,000.00
Total	10,000,000.00	10,000,000.00

(3) Analysis of Available-for-sale financial assets under Cost Method

Investee company	Shareholding (%)	Carrying value			
		Beginning of the year	Additions	Disposals	At the end of the year
Shouguang Mihe Water Company Limited	9.73	10,000,000.00	—	—	10,000,000.00
Total	—	10,000,000.00	—	—	10,000,000.00

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

9. Available-for-sale financial assets (continued)

(3) Analysis of Available-for-sale financial assets under Cost Method (continued)

Investee company	Impairment loss			At the end of the year	Cash dividend
	Beginning of the year	Additions	Disposal		
Shouguang Mihe Water Company Limited	—	—	—	—	—
Total	—	—	—	—	—

- (4) The Group's available for sale investment do not have any indication of impairment, so no provision for impairment of available for sale financial assets.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

10. Long-term Equity Investment

(1) Classification of long-term equity investment

Investee companies	Movement of the year							Balance at the end of the year	Impairment at the end of the year
	Beginning of the year	Increase in investment	Decrease in investment	Investment gains and losses recognised under the equity method	Adjustment on other comprehensive income	Other changes in equity	Cash dividend declared		
Associate									
Yalong Oil Pump Company Limited ("Yalong Oil Pump")	2,641,272.16	—	—	179,232.00	—	—	—	—	2,820,504.16
Shouguang Maolong Microfinance Co., Ltd. ("Maolong Microfinance")	48,240,512.14	—	—	3,295,005.41	—	—	—	—	51,535,517.55
Total	50,881,784.30	—	—	3,474,237.41	—	—	—	—	54,356,021.71

(2) Investment in associates

Investee Companies	Type of Organisation	Place of Registration	Place of Operation	Legal Person	Code of Organisation	Business Scope	Registered capital (million)	Percentage of shareholding (%)
Associate								
Yalong Oil Pump	LLC	Karamay, Xinjiang	Karamay, Xinjiang	Luo Jie	22895641-2	Manufacturing	640.00	30.00
Maolong Microfinance	LLC	Shouguang, Shandong	Shouguang, Shandong	Guo Huan Ran	59260577-4	Service	15,000.00	30.00
Total							15,640.00	—

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

10. Long-term Equity Investment (continued)

(3) Analysis of long-term equity investment

Items	Balance at the end of the year	Balance at the beginning of the year
Listed	—	—
Unlisted	54,356,021.71	50,881,784.30
Total	54,356,021.71	50,881,784.30

- (4) There is no impairment indicators and the Group does not provide impairment loss for long-term equity investment.
- (5) As at 31 December 2014, 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 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

11. Fixed Assets

(1) Details of fixed assets

Items	Buildings	Machinery and equipment	Electronic and other equipment	Vehicles	Total
A. Costs					
1. Balance at the beginning of the year	442,057,230.00	1,998,449,187.73	95,919,858.72	14,835,285.39	2,551,261,561.84
2. Additions for the year					
(1) Additions	12,684,357.81	8,928,443.96	4,881,364.90	1,367,811.32	27,861,977.99
(2) Transferred from construction in progress	154,920,067.77	130,464,384.39	303,691.99	—	285,688,144.15
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the year					
(1) Disposal or retirement	39,719.88	1,170,745.10	174,086.48	1,176,537.00	2,561,088.46
(2) Other reductions	—	—	—	—	—
4. Balance at the end of the year	609,621,935.70	2,136,671,270.98	100,930,829.13	15,026,559.71	2,862,250,595.52
B. Accumulated depreciation					
1. Balance at the beginning of the year	97,923,945.37	655,037,138.14	60,738,788.58	10,515,976.37	824,215,848.46
2. Additions for the year					
(1) Provision	26,989,902.39	158,320,435.99	9,056,772.72	1,584,875.52	195,951,986.62
3. Reductions for the year					
(1) Disposal or retirement	10,533.74	570,196.45	158,830.76	987,179.55	1,726,740.50
4. Balance at the end of the year	124,903,314.02	812,787,377.68	69,636,730.54	11,113,672.34	1,018,441,094.58
C. Impairment					
1. Balance at the beginning of the year	4,986,478.28	11,219,857.53	—	—	16,206,335.81
2. Additions for the year					
(1) Provision	—	—	—	—	—
3. Reductions for the year					
(1) Disposal or retirement	—	163,938.50	—	—	163,938.50
4. Balance at the end of the year	4,986,478.28	11,055,919.03	—	—	16,042,397.31
D. Carrying values					
1. At the beginning of the year	339,146,806.35	1,332,192,192.06	35,181,070.14	4,319,309.02	1,710,839,377.57
2. At the end of the year	479,732,143.40	1,312,827,974.27	31,294,098.59	3,912,887.37	1,827,767,103.63

(1) During this year, depreciation expenses of RMB198,207,669.48 was recognised in profit or loss (during previous year: RMB 174,839,213.74).

(2) During this year, the amount of fixed assets transferred from construction in progress was RMB 285,688,144.15.

(3) During this year, the Group recognised loss on disposal of fixed assets amounted to RMB 60,684.55.

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

11. Fixed Assets (continued)

(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	479,732,143.40	339,146,806.35
Medium lease term (10-50 years)	479,732,143.40	339,146,806.35
Outside China	—	—
Total	479,732,143.40	339,146,806.35

(3) As at the end of the year, the Group had no temporarily idle fixed asset:

Fixed assets without certificate of ownership

Items	Carring value	Reasons without certificate of ownership
Electric Furnace Plant	67,974,882.42	Application In process
Logistics Park Plant	10,024,008.86	Application In process
Molong Garden 7th floor	9,000,000.00	Application In process
140 Plant	8,275,882.34	Application In process
Scrap steel plant	7,732,748.73	Application In process
New Dormitory Building	4,817,025.30	Application In process
Total	107,824,547.65	

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



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1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

12. 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
Casting Plant Relocation and Technological Improvement Project	686,093,340.23	—	686,093,340.23	184,835,037.90	—	184,835,037.90
Seawater Desalination Project	13,463,230.27	—	13,463,230.27	—	—	—
Heat and Gas Utilisation Project	33,598,467.40	—	33,598,467.40	—	—	—
Oxygen Station Project	98,158,042.80	—	98,158,042.80	—	—	—
Employee technical development training centre	11,458,300.00	—	11,458,300.00	—	—	—
90 tons electric arc furnace Project	—	—	—	242,765,750.91	—	242,765,750.91
Others	10,233,516.05	—	10,233,516.05	14,814,205.00	—	14,814,205.00
Total	853,004,896.75	—	853,004,896.75	442,414,993.81	—	442,414,993.81

(2) Major changes in construction projects

Items	Balance at the beginning of the year	Additions for the year	Reductions		Balance at the end of the year
			Transferred to fixed assets	Other reduction	
Casting Plant Relocation and Technological Improvement Project	184,835,037.90	501,258,302.33	—	—	686,093,340.23
Seawater Desalination Project	—	13,463,230.27	—	—	13,463,230.27
Heat and Gas Utilisation Project	—	33,598,467.40	—	—	33,598,467.40
Oxygen Station Project	—	98,158,042.80	—	—	98,158,042.80
Employee technical development training centre	—	11,458,300.00	—	—	11,458,300.00
90 tons electric arc furnace Project	242,765,750.91	25,909,727.27	268,675,478.18	—	—
Total	427,600,788.81	683,846,070.07	268,675,478.18	—	842,771,380.70

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

12. 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
Casting Plant Relocation and Technological Improvement Project	800,000,000.00	85.76	80.00	35,070,534.85	25,915,580.59	5.33	Self raised and Loan from financial institution
Seawater Desalination Project	150,000,000.00	8.98	9.00	191,763.70	191,763.70	5.33	Self raised and Loan from financial institution
Heat and Gas Utilisation Project	120,000,000.00	28.00	28.00	478,560.21	478,560.21	5.33	Self raised and Loan from financial institution
Oxygen Station Project	100,000,000.00	98.16	98.00	1,398,115.38	1,398,115.38	5.33	Self raised and Loan from financial institution
Employee technical development training centre	26,000,000.00	44.07	45.00	—	—	—	Self raised
90 tons of electric arc furnace project	250,000,000.00	107.47	100.00	9,875,965.68	1,762,841.35	6.00	Self raised and Loan from financial institution
Total	1,446,000,000.00	—	—	47,014,939.82	29,746,861.23	—	

During this year, interest capitalisation rate is 5.33% and 6% for the Company and Shouguang Baolong respectively (previous year: 5.23% and 6% respectively).

- (3) The Group's construction in progress does not have any impairment indicators, no provision is provided.
- (4) As at the end of the year, 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 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

13. Intangible Assets

(1) Intangible assets detail

Items	Land use rights/ Maritime use rights	Software	Non-patent technology	Patent technology	Total
A. Costs					
1. Balance at the beginning of the year	386,652,878.49	770,036.72	283,958,016.54	2,070,170.00	673,451,101.75
2. Additions for the year	—	—	—	—	—
(1) Acquisition	—	—	—	471,698.11	471,698.11
(2) Internally generated	—	—	39,356,337.89	—	39,356,337.89
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the year	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the year	386,652,878.49	770,036.72	323,314,354.43	2,541,868.11	713,279,137.75
B. Accumulated depreciation					
1. Balance at the beginning of the year	22,931,565.15	737,600.84	128,349,976.16	791,268.32	152,810,410.47
2. Additions for the year	—	—	—	—	—
(1) Amortisation	8,503,930.14	13,589.76	38,974,093.33	480,389.99	47,972,003.22
3. Reductions for the year	—	—	—	—	—
(1) Disposals	—	—	—	—	—
4. Balance at the end of the year	31,435,495.29	751,190.60	167,324,069.49	1,271,658.31	200,782,413.69
C. Impairment					
1. Balance at the beginning of the year	—	—	33,968,375.45	—	33,968,375.45
2. Additions	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions	—	—	—	—	—
(1) Disposals	—	—	—	—	—
4. Balance at the end of the year	—	—	33,968,375.45	—	33,968,375.45
D. Carrying values					
1. At the beginning of the year	363,721,313.34	32,435.88	121,639,664.93	1,278,901.68	486,672,315.83
2. At the end of the year	355,217,383.20	18,846.12	122,021,909.49	1,270,209.80	478,528,348.61

The internally generated intangible assets are 25.50% of the total intangible assets.

(2) 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	355,217,383.20	363,721,313.34
Medium-term lease (10-50 years)	355,217,383.20	363,721,313.34
Land-use right outside the PRC	—	—
Total	355,217,383.20	363,721,313.34

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

13. Intangible Assets (continued)

(3) During this year, RMB47,972,003.22 (Previous year: RMB57,023,661.86) was recognised as amortisation expense for intangible assets in the consolidated income statements.

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

14. Research and Development Expenditure

Item	Balance at the beginning of the year	Additions	Reductions		Balance at the end of the year
			Recognised as intangible assets	Credited to profit or loss	
New models sleeving	—	52,406,025.32	27,641,055.59	24,764,969.73	—
New models tubing	—	24,969,350.35	11,715,282.30	13,254,068.05	—
Total	—	77,375,375.67	39,356,337.89	38,019,037.78	—

The internally generated intangible assets are 25.50% of the total intangible assets.

The Company classifies the generation of assets into research phase and development phase. For details of the capitalisation basis, please refer to Note IV. 19.

As at 31 December 2014, all new product research and development work has been completed

15. Goodwill

(1) Goodwill at cost

Goodwill	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Business combination not under common control	142,973,383.21	—	—	142,973,383.21
Total	142,973,383.21	—	—	142,973,383.21



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

15. Goodwill (continued)

(2) Impairment of goodwill

Goodwill	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Business combination not under common control	59,490,000.00	—	—	59,490,000.00
Total	59,490,000.00	—	—	59,490,000.00

(3) Net book value of goodwill

Goodwill	Balance at the end of the year	Balance at the beginning of the year
Business combination not under common control	83,483,383.21	83,483,383.21
Total	83,483,383.21	83,483,383.21

(4) The Goodwill is generated from the acquisition shares of Maolong New Materials Company Limited in 2007. The acquisition constitutes a non-business combination under common control.

(5) RMB Nil was recognised as impairment of goodwill during this year. (Previous year: RMB49,240,000.00)

(6) The Group performs the impairment review on goodwill as stated in note IV.20.

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 2014 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 10.80%. 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 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

16. Long term deferred expenses

Items	Balance at the beginning of the year	Additions	Amortisation	Reductions	Balance at the end of the year
2#electric arc furnace and ladle car based platform	159,722.28	—	83,333.28	—	76,389.00
Total	159,722.28	—	83,333.28	—	76,389.00

17. Deferred tax assets and deferred tax liabilities

(1) Recognised deferred tax assets

Item	Balance at the end of the year		Balance at the beginning of the year	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Allowance for doubtful debts	12,870,279.50	1,960,691.48	10,983,308.98	1,653,166.35
Including : accounts receivable	12,751,160.25	1,942,823.59	10,864,189.73	1,635,298.46
other receivables	119,119.25	17,867.89	119,119.25	17,867.89
Provision for inventories	34,809,986.60	5,778,344.08	51,987,115.49	8,822,681.97
Salaries payables	26,350,820.61	4,607,098.62	22,820,921.79	4,011,082.70
Accumulated amortisation of intangible assets	87,523,411.08	18,527,612.61	64,174,988.10	14,169,891.49
Accumulated depreciation and impairment of fixed assets	8,782,561.33	2,195,640.33	6,696,904.15	1,674,226.04
Deductible losses	19,959,031.48	4,989,757.87	55,642,845.66	9,765,657.18
Deferred income	3,616,000.00	542,400.00	5,424,000.00	813,600.00
Impairment of intangible assets	19,888,386.55	2,983,257.98	33,968,375.45	5,095,256.32
Deductible profits arose from intra-group transaction	8,709,562.97	2,177,390.74	—	—
Total	222,510,040.12	43,762,193.71	251,698,459.62	46,005,562.05



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

17. Deferred tax assets and deferred tax liabilities (continued)

(2) Recognised deferred tax liabilities

Items	Balance at the end of the year		Balance at the beginning of the year	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Fair value adjustments (Note 1)	33,057,747.92	8,264,436.98	34,310,499.70	8,577,624.92
Including : Long-term				
investments	15,237.51	3,809.38	15,237.51	3,809.38
Fixed assets	2,938,145.75	734,536.44	3,494,104.09	873,526.03
Intangible				
assets	30,104,364.66	7,526,091.16	30,801,158.10	7,700,289.51
Interests receivable	2,670,703.33	400,605.50	4,606,049.44	690,907.42
Interests receivable	2,670,703.33	400,605.50	4,606,049.44	690,907.42
Deductible losses arose				
from intra-group				
transaction	9,008,902.36	2,252,225.59	10,161,804.67	1,524,270.70
Total	44,737,353.61	10,917,268.07	49,078,353.81	10,792,803.04

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 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

17. Deferred tax assets and deferred tax liabilities (continued)

(3) 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	98,614,758.76	32,169,750.03
Total	98,614,758.76	32,169,750.03

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 2014 base on prudence.

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

Items	Balance at the end of the year	Balance at the beginning of the year	Note
2017	3,604,023.09	3,604,023.09	
2018	42,074,676.62	28,565,726.94	
2019	52,936,059.05	—	
Total	98,614,758.76	32,169,750.03	



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

18. 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)	127,016,280.00	143,016,280.00
Prepayments for acquisition of fixed assets (Note 2)	79,674,985.14	236,788,383.05
Prepayments for acquisition of projects	12,324,218.73	—
Total	219,015,483.87	379,804,663.05

Note 1: The Group had prepayments for acquisition for land use rights of RMB127,016,280.00 included in other non-current assets.

Note 2: The Group had prepayments for acquisition of plant, machinery and equipment of RMB79,674,985.14 included in other non-current assets.

Note 3: The Group had prepayments for acquisition of projects of RMB12,324,218.73 included in other non-current assets. The Group had not received these fixed assets.

19. Short term borrowings

(1) Classification of short term borrowing

Nature of loan	Balance at the end of the year	Balance at the beginning of the year
Guarantee loans	61,190,000.00	143,886,840.00
Credit loans	1,353,615,321.00	1,223,404,006.00
Total	1,414,805,321.00	1,367,290,846.00

During this year, the weighted average interest rate for the Group is 5.33% (2013: 5.23%).

Guaranteed loans are the guarantee to its subsidiary, MPM Limited

(2) The Group's short term borrowings are not expired at the end of the reporting period.

(3) The Group has repaid RMB440,643,556.00 of short term borrowings up to the report date.

Notes to the Financial Statements



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

VI. Notes to the Consolidated Financial Statements (continued)

20. Bills payable

Nature	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance notes	426,865,457.13	427,566,182.16
Total	426,865,457.13	427,566,182.16

- (1) At the end of the reporting period, the bank acceptance notes of RMB 426,865,457.13 will be expired in the next fiscal year.
- (2) At the end of the reporting period, the bank acceptance notes were secured by the Group's funds in other currency of RMB 14,264,697.76.

21. Accounts payable

(1) Details of accounts payable

Item	Balance at the end of the year	Balance at the beginning of the year
Material	526,501,001.59	433,055,144.14
Project equipment	178,824,417.00	115,504,289.76
Total	705,325,418.59	548,559,433.90

(2) Aging analysis of accounts payable:

Item	Balance at the end of the year	Balance at the beginning of the year
Within 2 months	72,961,435.65	274,099,931.56
2-3 months	73,123,800.49	56,945,026.64
3-4 months	49,624,238.06	30,794,458.79
4 months-1 year	415,504,204.35	122,165,826.05
1-2 years	62,410,570.50	38,658,781.57
2-3 years	14,625,194.89	10,523,518.57
Over 3 years	17,075,974.65	15,371,890.72
Total	705,325,418.59	548,559,433.90



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

21. Accounts payable (continued)

(3) As at the end of the year, accounts payable aged over one year as follows:

Suppliers	Balance	Nature	Reason for unsettled
Wuhan Atlantic Ocean Continuous Casting Equipments Engineering Company Limited	2,503,300.00	Acquisition of equipment	Not settled
Shandong Metallurgical Machinery Works Company Limited	1,912,336.75	Acquisition of equipment	Not settled
Wuxi Huguang Industrial Furnace Co., Limited	1,480,000.00	Acquisition of equipment	Not settled
Chengdu Metallurgical engineering Co., Limited	1,460,000.00	Acquisition of equipment	Not settled
Total	7,355,636.75		

22. Receipts in Advance

(1) Receipts in advance

Item	Balance at the end of the year	Balance at the beginning of the year
Sales income	151,391,041.52	92,679,015.92
Total	151,391,041.52	92,679,015.92
Including: Over 1 year	5,448,192.71	1,323,579.24

(2) Receipts in advance

Name of entities	Balance at the end of the year	Reason for unsettled
America Trading Company	3,782,070.47 (\$620,326.80)	According to the contract, items as not been shipped
Total	3,782,070.47 (\$620,326.80)	

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

23. Salaries Payable

(1) Classification of salaries payable

Items	Balance at the beginning of the year	Addition	Reductions	Balance at the end of the year
Short-term employee benefits	22,842,605.99	135,708,065.36	132,237,888.47	26,312,782.88
Post-retirement benefits- defined contribution plans	—	10,906,481.40	10,846,759.46	59,721.94
Total	22,842,605.99	146,614,546.76	143,084,647.93	26,372,504.82

(2) Short-term employee benefits

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Salaries, bonuses, allowance and subsidies	21,015,658.44	112,174,775.26	110,950,001.81	22,240,431.89
Staff welfare	—	14,070,660.59	14,070,660.59	—
Social insurance premiums	—	5,529,663.69	5,495,087.83	34,575.86
Including: 1. Medical insurance	—	4,160,908.47	4,135,762.39	25,146.08
2. Injury insurance	—	808,140.33	801,853.81	6,286.52
3. Birth insurance	—	560,614.89	557,471.63	3,143.26
Union fund and staff education fund	1,826,947.55	3,932,965.82	1,722,138.24	4,037,775.13
Total	22,842,605.99	135,708,065.36	132,237,888.47	26,312,782.88

The Group's salaries payable included unpaid salary bonuses, allowance, and etc of RMB 22,240,431.89 at the end of the year and it will be paid before the end of the second quarter of 2015.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

23. Salaries Payable (continued)

(3) Defined contribution plan

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Retirement insurance	—	10,302,953.55	10,246,374.87	56,578.68
Unemployment insurance	—	603,527.85	600,384.59	3,143.26
Total	—	10,906,481.40	10,846,759.46	59,721.94

24. Taxes Payables

Items	Balance at the end of the year	Balance at the beginning of the year
Value added tax	1,144,672.84	19,094,744.33
Sales tax	153,089.77	205,948.63
Enterprise income tax	2,472,917.23	8,082,447.07
Individual income tax	71,303.90	2,038,142.23
Urban maintenances and construction tax	856,574.92	1,060,609.22
Property tax	1,168,151.84	907,617.27
Land use tax	2,435,816.27	1,377,877.05
Educational surcharges	611,839.27	757,625.15
Local water conservancy construction funds	122,367.88	151,194.17
Stamp duty	1,297,353.01	705,928.36
Total	10,334,086.93	34,382,133.48

At the end of the year, taxes payable do not include Hong Kong profits tax payable.

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

25. Interests Payable

Items	Balance at the end of the year	Balance at the beginning of the year
Bank loan interests	6,890,151.45	9,494,194.10
Corporate bond interest	14,745,205.48	14,745,205.48
Total	21,635,356.93	24,239,399.58

As of 31 December 2014, the Group has no overdue payment of interest.

26. Other payables

(1) Other payables

Items	Balance at the end of the year	Balance at the beginning of the year
Total	24,879,654.35	26,790,378.33
Including: Over 1 year	7,447,507.94	3,573,416.95

(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	12,327,140.22	16,035,801.51
Deposits received	11,090,333.08	8,776,197.75
Others	1,462,181.05	1,978,379.07
Total	24,879,654.35	26,790,378.33

(3) At the end of the year, the Group's other payable was not due over one year.



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1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

27. Other current liabilities

Items	Balance at the end of the year	Balance at the beginning of the year
Deferred income within one year	1,808,000.00	1,808,000.00
Total	1,808,000.00	1,808,000.00

Note: Please refer to Note VI.29 for details of government grants.

28. Bonds payable

(1) Classification of bonds payable

Items	Balance at the end of the year	Balance at the beginning of the year
Installment payment on maturity bonds	498,111,111.09	496,777,777.77
Total	498,111,111.09	496,777,777.77

(2) Movement on bonds payable

Nature of the bond	Nominal value	Date of issue	Period	Issued amount	Balance at the beginning of the year
Installment payment on maturity bonds	500,000,000.00	2013.6.7	3 years	496,000,000.00	496,777,777.77
Total	500,000,000.00	—	—	496,000,000.00	496,777,777.77

Nature of the bond	Issue during the year	Accrued interest on par value	Premium Discount	Repayment	Balance at the end of the year
Installment payment on maturity bonds	—	26,000,000.00	1,333,333.32	—	498,111,111.09
Total	—	26,000,000.00	1,333,333.32	—	498,111,111.09

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1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

28. Bonds payable (continued)

(2) Movement on bonds payable (continued)

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%.

29. Deferred income

(1) Classification of deferred income

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year	Reasons
Government grants	3,616,000.00	—	1,808,000.00	1,808,000.00	Assets related government grants
Total	3,616,000.00	—	1,808,000.00	1,808,000.00	

Item	Balance at the end of the year	Balance at the beginning of the year
Deferred income	1,808,000.00	3,616,000.00
Total	1,808,000.00	3,616,000.00

- (2) 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 equipments. 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.

(3) Government grant

Government grant project	Balance at the beginning of the year	Addition grant received	Recognised as income	Others	Balance at the end of the year	Capital nature/ Revenue nature
High-end petroleum equipments	5,424,000.00	—	1,808,000.00	1,808,000.00	1,808,000.00	Capital nature
Total	5,424,000.00	—	1,808,000.00	1,808,000.00	1,808,000.00	



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

30. 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

Items	Balance at the beginning of the year	Movement for the year (increase/decrease) (+, -)					Sub-total	Balance at the end of the year
		New shares issued	Bonus issue	Shares transferred from reserve	Others			
RMB ordinary shares	541,722,000.00	—	—	—	—	—	541,722,000.00	
Overseas listed foreign shares	256,126,400.00	—	—	—	—	—	256,126,400.00	
Total shares	797,848,400.00	—	—	—	—	—	797,848,400.00	

Previous year

Items	Balance at the beginning of the year	Movement for the year (increase/decrease) (+, -)					Sub-total	Balance at the end of the year
		New shares issued	Bonus issue	Shares transferred from reserve	Others			
RMB ordinary shares	541,722,000.00	—	—	—	—	—	541,722,000.00	
Overseas listed foreign shares	256,126,400.00	—	—	—	—	—	256,126,400.00	
Total shares	797,848,400.00	—	—	—	—	—	797,848,400.00	

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

31. 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	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

32. Other comprehensive income

Items	Movement for the year						
	Attributable to the owner of company at the beginning of the year	Less: Previously recognised in profit or loss in other comprehensive income	Less: Income tax expense	Attributable to the parent company after tax	Attributable to the minority interest after tax	Attributable to the owner of the company at the end of the year	
Reclassified into other comprehensive income or loss in the subsequent period	—	—	—	—	—	—	
Include: difference in the translation of foreign currency financial statements	363,977.13	(130,666.53)	—	(51,815.33)	(78,851.20)	312,161.80	
Total	363,977.13	(130,666.53)	—	(51,815.33)	(78,851.20)	312,161.80	



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

33 Special reserve

This year

Item	Balance at the beginning of the year	Addition	Reduction	Balance at the end of the year
Production safety fee	—	9,832,162.20	9,832,162.20	—
Total	—	9,832,162.20	9,832,162.20	—

Previous year

Item	Balance at the beginning of the year	Addition	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.

34. Statutory reserve

This year

Item	Balance at the beginning of the year	Addition	Reduction	Balance at the end of the year
Statutory surplus reserve	168,908,489.86	7,778,413.65	—	176,686,903.51
Total	168,908,489.86	7,778,413.65	—	176,686,903.51

The appropriation of statutory reserve in the current period is in accordance with the Articles of Association of the Company.

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

34. Statutory reserve (continued)

Previous year

Item	Balance at the beginning of the year	Addition	Reduction	Balance at the end of the year
Statutory surplus reserve	168,908,489.86	—	—	168,908,489.86
Total	168,908,489.86	—	—	168,908,489.86

35. Undistributed Profits

This year

Items	Amount	Appropriation ratio(%)
Last year closing balance	857,482,430.32	—
Add: Opening adjustments of retained earning		
Including: 《企業會計準則》 retrospective adjustment on provisions of new accounting standards	—	—
Including: Changes in accounting policies	—	—
Significant prior year adjustment	—	—
Change in consolidation scope	—	—
Other adjustments	—	—
Balance at the beginning of the year	857,482,430.32	—
Add: Net profit attributable to the owners of the company	20,233,190.77	—
Less: Appropriation of statutory surplus reserve	7,778,413.65	10.00
Appropriation of arbitrary surplus reserve	—	—
Appropriation of general reserve	—	—
Dividend paid	—	—
Share dividend transfer to capital	—	—
Balance at the end of the year	869,937,207.44	—



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

35. Undistributed Profits (continued)

Previous year

Item	Amount	Appropriation ratio(%)
Last year closing balance	1,073,097,098.79	—
Add: Opening adjustments of retained earning	—	—
Including: 《企業會計準則》 retrospective adjustment on provisions of new accounting standards	—	—
Including : Changes in accounting policies	—	—
Significant prior year adjustment	—	—
Change in consolidation scope	—	—
Other adjustments	—	—
Balance at the beginning of the year	1,073,097,098.79	—
Less: Net profit attributable to the Company for this year	(175,722,248.47)	—
Appropriation of statutory surplus reserve	—	—
Appropriation of arbitrary surplus reserve	—	—
Appropriation of general reserve	—	—
Common stock dividends payable	—	—
Share dividend transfer to capital	39,892,420.00	—
Balance at the end of the year	857,482,430.32	—

Note: 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.

36. Non-controlling interests

Non-controlling interests of each subsidiary

Subsidiaries	Non-controlling interests(%)	Balance at the end of the year	Balance at the beginning of the year
MPM Limited	10.00	316,167.36	1,624,404.97
Shouguang Baolong	30.00	55,645,977.07	60,393,115.81
Total		55,962,144.43	62,017,520.78

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

37. Net Current Assets

Items	Balance at the beginning of the year	Balance at the end of the year
Current assets	2,474,506,875.54	2,583,204,250.58
Less: current liabilities	2,783,416,841.27	2,546,157,995.36
Net current assets	(308,909,965.73)	37,046,255.22

38. Total Assets less Current Liabilities

Items	Balance at the beginning of the year	Balance at the end of the year
Total assets	6,044,500,696.03	5,793,466,052.68
Less: current liabilities	2,783,416,841.27	2,546,157,995.36
Total assets less current liabilities	3,261,083,854.76	3,247,308,057.32

39. Borrowings

The Group's borrowings are summarised below

Items	Balance at the beginning of the year	Balance at the end of the year
Short-term borrowings	1,414,805,321.00	1,367,290,846.00
Bonds payables	498,111,111.09	496,777,777.77
Total	1,912,916,432.09	1,864,068,623.77



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

39. Borrowings (continued)

(1) Borrowings analysis

Items	Balance at the beginning of the year	Balance at the end of the year
Bank loan		
Repayable within 1 years	1,414,805,321.00	1,367,290,846.00
Repayable over 1 years	—	—
Sub-total	1,414,805,321.00	1,367,290,846.00
Other borrowings and payables	—	—
Repayable within 1 years	—	—
Repayable after 1 year	498,111,111.09	496,777,777.77
Sub-total	498,111,111.09	496,777,777.77
Total	1,912,916,432.09	1,864,068,623.77

(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	1,414,805,321.00	1,367,290,846.00
1 to 2 years	—	—
2 to 5 years	—	—
Over 5 years	—	—
Total	1,414,805,321.00	1,367,290,846.00

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

39. Borrowings (continued)

Other borrowings and other payables

Items	Balance at the beginning of the year	Balance at the end of the year
Repayable on demand or within 1 year	—	—
1 to 2 years	498,111,111.09	—
2 to 5 years	—	496,777,777.77
Over 5 years	—	—
Total	498,111,111.09	496,777,777.77

40. Operating Revenue and Operating Costs

Items	Incurred during this year		Incurred during previous year	
	Revenue	Cost	Revenue	Cost
Main operation	2,455,561,259.84	2,077,014,318.40	2,228,208,692.23	2,030,863,941.39
Other operation	66,541,219.45	57,754,751.23	43,825,642.97	45,566,129.47
Total	2,522,102,479.29	2,134,769,069.63	2,272,034,335.20	2,076,430,070.86

Note 1: 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.

Note 2: The gross profit increased significantly compared to last year, mainly because the sales to the newly developed customers from Central Asia is high. While the company had to undertake all the transportation fee at home and abroad and agency fee abroad, which led to the increase in gross profit but also significant increase in the transportation and agency fee.

(1) The total sales to the top five customers of the Company is 989,822,623.23 (last year: 1,307,285,528.82), which takes up the 39.25% (last year: 41.18%) of the total sales in current year. The details are as following:

Name of customers	Operating revenue	Percentage of the total sales revenue (%)
China National Petroleum Corporation	339,385,369.63	13.46
UNIX TECHNO PLUS LTD.	237,537,982.60	9.42
Campex Inc.	184,157,678.45	7.30
YanChang Oil Field Co., Limited	120,852,823.67	4.79
Hebei Zhongtai Steel Pipe Manufacture Co., Limited	107,888,768.88	4.28
Total	989,822,623.23	39.25



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

41. Tax and Levies on Operations

Items	Incurrred during this year	Incurrred during the previous year	Tax rate
Business tax	547,550.00	205,948.63	5% of operating revenue
Urban maintenances and construction tax	8,066,980.78	2,461,164.15	7% of value-added-tax and business tax payables
Educational surcharges	5,762,129.31	1,757,974.41	5% of value-added-tax and business tax payables
Local water conservancy construction funds	1,152,425.85	351,594.86	1% of value-added-tax and business tax payables
Total	15,529,085.94	4,776,682.05	

Profit tax and surcharge increased compare to last year,, mainly because of increase in export sales, and the export VAT exemption and rebate increased accordingly, which led to a corresponding increase in additional taxes.

42. Selling Expenses

Items	Incurrred during this year	Incurrred during the previous year
Delivery expenses	109,079,334.30	57,470,251.57
Salary	2,598,034.90	1,855,075.72
Agency fees	37,324,104.45	1,512,220.55
Depreciation charge	1,239,965.67	1,277,064.43
Travelling expenses	1,320,094.02	1,132,218.78
Entertainment	1,721,057.79	632,053.08
Transportation fees	446,526.85	506,943.37
Office expenses	372,156.74	406,829.03
Other	2,438,762.60	1,959,391.97
Total	156,540,037.32	66,752,048.50

The selling expenses increased significantly compared to last year, mainly due to the sales to the newly developed customers from Central Asia. The company had to undertake all the local and overseas transportation fee and agency fee, which led to the increase in such fee during the year.

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

43. Administrative expenses

Items	Incurred during this year	Incurred during the previous year
Amortisation of intangible assets	47,972,003.22	57,023,661.86
Research and development fees of new products	42,601,868.62	54,445,088.82
Depreciation charges	17,072,056.80	13,049,892.94
Salary and Staff welfare expenses	12,011,670.54	10,865,140.47
Taxes	14,699,465.71	10,407,556.78
Machinery material consumption	2,000,713.27	4,543,132.53
Entertainment	1,596,819.16	1,783,612.72
The Board fees	2,008,309.86	1,095,914.28
Water and electricity fees	1,277,798.25	588,574.18
Others	2,301,025.24	6,265,223.37
Total	143,541,730.67	160,067,797.95

44. Finance Costs

(1) Finance costs breakdown

Items	Incurred during this year	Incurred during the previous year
Interest expenses	68,061,182.60	62,908,459.52
Less : Interest income	24,336,634.20	16,259,638.69
Add : Foreign exchange gain	(286,411.27)	(4,982,594.61)
Add : Other expenses	7,913,403.43	6,905,969.11
Total	51,351,540.56	48,572,195.33

(2) Interest expenses breakdown

Items	Incurred during this year	Incurred during the previous year
Bank loan interest	70,326,077.26	63,326,453.39
Bond interest under effective interest rate	27,333,333.32	14,745,205.48
Discount charges on bank acceptance notes	148,633.25	1,841,916.00
Sub-total	97,808,043.83	79,913,574.87
Less : Capitalised interest expenses	29,746,861.23	17,005,115.35
Total	68,061,182.60	62,908,459.52



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1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

44. Finance Costs (continued)

During this year, borrowing interest capitalised for the parent company and Shouguang Baolong is 5.33% and 6% respectively (during previous year: 5.23% and 6% respectively)

(3) Interest income breakdown

Items	Incurred during this year	Incurred during the previous year
Interest income from bank deposits	24,336,634.20	10,602,332.76
Interest income from non-financial enterprise	—	5,657,305.93
Total	24,336,634.20	16,259,638.69

45. Loss on impairment of assets

Items	Incurred during this year	Incurred during the previous year
Impairment loss on inventory	6,364,531.17	46,502,128.37
Impairment loss on accounts receivable	1,886,970.52	5,624,248.70
Impairment loss on intangible assets	—	33,968,375.45
Impairment loss on goodwill	—	49,240,000.00
Total	8,251,501.69	135,334,752.52

46. Investment income

(1) Breakdown of investment income

Items	Incurred during this year	Incurred during the 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	3,474,237.41	2,397,383.87
Total	3,474,237.41	2,397,383.87

Note 1: Investment income sourced from unlisted equity investment during the year is RMB3,474,237.41

Notes to the Financial Statements



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

VI. Notes to the Consolidated Financial Statements (continued)

47. Non-operating income

(1) Breakdown of non-operating income

Items	Incurring during the current period	Incurring during previous year	Included in this year non- recurring income
Total income on disposal of non-current assets	434,559.21	266,062.03	434,559.21
Included: Income on disposal of fixed assets	434,559.21	266,062.03	434,559.21
Government grants	2,940,738.77	12,615,077.46	2,940,738.77
Others	3,170,294.43	1,820,595.33	3,170,294.43
Total	6,545,592.41	14,701,734.82	6,545,592.41

Non-recurring loss during the year is RMB 6,545,592.41 (2013 : RMB 14,701,734.82)

(2) Government grants

Items	Incurring during this year	Incurring during the previous year	Source and basis	Related to assets/Related to income
Government subsidies	1,132,738.77	10,807,077.46	Note 1 to Note 5	Related to income
Sub-total	1,132,738.77	10,807,077.46		
Deferred income amortised	1,808,000.00	1,808,000.00	Note 6	Related to assets
Total	2,940,738.77	12,615,077.46		

Note 1: According to Shou Cai Yu Zhi [2012] No. 23 "Notice regarding to the implementation of high level creative tenants" double hundred plan" in 2011" (壽發 [2012] 23號《關於關於實施高層次創新創業人才"雙百計劃"的意見》) issued by Shouguang city committee of the community party and the shouguang public government, the company received RMB450,000 in April 2014.

Note 2: According to Shou Cai Yu Zhi [2014] No.185 "Notice on the allocation of the 2013 annual export credit insurance premium subsidies special funds" (壽財預指[2014] 185號《關於撥付2013年度出口信用保險保費補助專項資金的通知》) issued by Shouguang Finance Bureau, the Company received grant funds of RMB146,000.

Note 3: According to Shou Cai Yu Zhi [2014] No.328 "Notice on 2012 annual appropriation notice advanced enterprise incentive funds the saving energy and reducing consumption." (壽發[2014] 328號《關於撥付2012年度全市節能降耗先進企業獎勵資金的通知》) issued by Shouguang City Finance Bureau. The Company received energy-saving incentive fund of RMB 50,000 in June 2014. According to Shou Cai Yu Zhi [2014] No.329 "Notice on the allocation of 2013 the city's annual pollution emission reduction incentive advanced enterprise funds" (壽發 [2014]329號《關於撥付2013年度全市治污減排先進企業獎勵資金的通知》) issued by Shouguang City Finance Bureau. The Company received pollution reduction incentive fund of RMB 50,000 in June 2014.



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VI. Notes to the Consolidated Financial Statements (continued)

47. Non-operating income (continued)

(2) Government grants (continued)

Note 4: According to Wei Cai Qi [2012] No.81, "Weifang city patent special fund management method" (濰財企[2012] 81號坊市專利專項資金管理辦法) issued by Weifang City Finance Bureau and Weifang Municipal Intellectual Property Bureau. The Company received all kind of subsidies of RMB92,483.72.

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 received scrap materials purchases subsidies of RMB344,255.05 in 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 RMB 9,040,000 in December 2012, which specially used for the protect of development of new high-tech petroleum equipment. The Company classified the government funds as deferred income, which amortized RMB 1,808,000 during the year (Amortized in 5 years, each year RMB 1,808,000)

48. Non-operating expenses

Items	Incurred during this year	Incurred during the previous year	Included in this
			year non- recurring expenses
Total loss on disposal of non-current assets	495,243.76	636,246.16	495,243.76
Included: Loss on disposal of fixed assets	495,243.76	636,246.16	495,243.76
Donation expenses	127,000.00	148,364.00	127,000.00
Other	28,019.29	132,657.83	28,019.29
Total	650,263.05	917,267.99	650,263.05

The amount included in non-recurring loss is RMB650,263.05 (2013 : RMB 917,267.99).

49. Income tax expenses

(1) Income tax expenses

Items	Incurred during the current period	Incurred during previous year
Income tax for the current period calculated according to tax laws and relevant rules:		
PRC	4,864,581.26	1,457,750.95
Hong Kong	4,093,757.10	1,457,750.95
Underprovided in previous year	770,824.16	—
Adjustment on deferred income tax	2,367,833.37	(27,566,838.93)
Total	7,232,414.63	(26,109,087.98)

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1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

49. Income tax 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	Incurred during the current period	Incurred during previous year
Accounting (loss) profit	21,489,080.25	(203,717,361.31)
Income tax calculated at tax rate of 15% on the Company	3,223,362.02	(30,557,604.20)
Tax effect of non-taxable income	(494,250.81)	(333,921.91)
Tax effect of non-deductible expenses	584,844.86	7,406,726.62
Additional charge on research and development expenses	(5,220,697.48)	(6,051,953.88)
Tax effect of tax loss not recognised	10,519,133.09	6,141,970.19
Tax effect of non-consistent tax rates among branch companies of subsidiaries	(666,200.50)	(3,613,287.94)
Difference between applicable income tax rate for previous year and applicable tax rate for deferred income tax assets/ liabilities recognized	(713,776.55)	16,516.29
Utilisation of deductible temporary differences previously not recognised	—	882,446.85
Income tax expenses (credit)	7,232,414.63	(26,109,087.98)

50. Auditor's remuneration

Auditor's remuneration for the current year is RMB 1,100,000 (Previous year: RMB 900,000)

51. Depreciation and amortisation

The depreciation charge and the amortisation charge for this year are RMB 198,207,669.48 and RMB 47,972,003.22 respectively (Previous year: RMB174,839,213.74 and RMB 57,023,661.86 respectively).



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

VI. Notes to the Consolidated Financial Statements (continued)

52. Basic and diluted (loss) earnings per share

(1) Basic (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 basic (loss) earnings per share and diluted earnings per share are as follows:

Items	Balance as at 31 December 2014	Balance as at the beginning of the year
(Loss) profit attributable to the Owners of the Company	20,233,190.77	(175,722,248.47)
Net (loss) profits after deducting non operating profit and loss attributable to the Owners of the Company	15,047,953.20	(196,511,294.56)
Issued ordinary shares	797,848,400.00	797,848,400.00
Basic (loss) earnings per share (I)	0.03	(0.22)
Basic (loss) earnings per share (II)	0.02	(0.25)

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
Fund in capital adjustment	—	—
Issued ordinary shares at 31 December	797,848,400.00	797,848,400.00

(2) Diluted earnings per share

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

The adjustment factors attributable to ordinary shareholders of the parent company's consolidated net profit is in the dilutive potential ordinary shares interest that have been recognized as expenses in current period, income or expense of dilutive potential ordinary shares that result from the conversion, and the related income tax effects.

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

52. Basic and diluted (loss) earnings per share (continued)

(2) Diluted earnings per share (continued)

The adjustment factor of weighted average number of ordinary shares that the Company issued is the weighted average number of the ordinary shares which increased due to the conversion from assumed dilutive potential ordinary shares into ordinary shares.

Items	2014	2013
Adjusted Consolidated gross profit owned by parent company ordinary shareholders	20,233,190.77	(175,722,248.47)
Adjusted Consolidated gross profit owned by parent company ordinary shareholders(excluding the non-recurring profit and loss)	15,047,953.20	(196,511,294.56)
Adjusted weighted average number of the ordinary shares issued by the company	797,848,400.00	797,848,400.00
earning per dilutive shares (\$/share)	0.03	(0.22)
earning per dilutive shares (\$/share) (excluding the non-recurring profit and loss)	0.02	(0.25)

53. Other comprehensive income

Items	Incurred during the current year	Incurred during the previous year
Exchange difference arising from translation of financial statements of foreign currency	(130,666.53)	335,457.33
Total	(130,666.53)	335,457.33

54. 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	1,622,856,041.20	1,609,187,546.48
Salaries	128,778,299.47	112,634,128.81
Depreciation	198,207,669.48	174,839,213.74
Amortisation	47,972,003.22	57,023,661.86
Product license	188,464,282.84	124,240,920.61
Utilities	207,982,746.41	194,879,203.59
Other tax expenses	14,699,465.71	10,407,556.78
Others	25,890,329.29	20,037,685.44
Total	2,434,850,837.62	2,303,249,917.31



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1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

55. 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	Incurred during this year	Incurred during previous year
Government grants	2,193,383.72	9,677,000.00
Interest income	26,271,980.31	14,705,960.22
Reduce in bank acceptance note	86,070,750.79	—
Other	33,293,015.15	8,007,254.89
Total	147,829,129.97	32,390,215.11

(2) Other cash payment relating to operating activities

Items	Incurred during this year	Incurred during previous year
Delivery expenses	109,132,899.53	57,856,135.99
Development fees for new products	39,805,433.51	52,859,405.13
Consumable	2,002,399.60	5,210,885.54
Agency fees	38,125,325.24	2,928,611.14
Travelling fees	1,818,690.83	1,441,210.58
Repair expenses	566,979.21	376,785.59
Water and electricity expenses	1,277,798.25	588,574.18
Entertainment	3,317,876.95	2,415,665.80
Increased in foreign exchange guarantees deposit	64,685,182.51	—
Increased in restricted bank deposits	44,974,650.00	—
Others	50,092,993.45	30,080,530.55
Total	291,115,046.57	218,442,987.01

(3) Other cash receipts relating to investing activities

Items	Incurred during this year	Incurred during previous year
Cash received from associate through a subsidiary	38,860,000.00	—
Cash received from associate through a independent third party	68,901,974.00	—
Total	107,761,974.00	—

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

55. 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	Incurred during the current period	Incurred during previous year
Increased in security deposit for letter of guarantee	—	13,860,000.00
Increased in the guarantee deposit for bank loan	—	73,901,974.00
Total	—	87,761,974.00



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1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

55. Notes to cash flow statements (continued)

(2) Additional information for consolidated cash flow statement

Items	Incurred during the current period	Incurred during previous year
1. Reconciliation of net income to cash flow:		
Net (loss) profit	14,256,665.62	(177,608,273.33)
Add: Provision for impairment loss of asset	8,251,501.69	135,334,752.52
Depreciation of fixed asset	195,951,986.62	179,013,518.66
Amortisation of intangible asset	47,972,003.22	57,023,661.86
Amortisation of deferred expenditure	83,333.28	83,333.28
Loss on disposal of fixed asset, intangible asset and other long-term asset	60,684.55	370,184.13
Fixed asset written off	—	—
Gain from changes in fair value	—	—
Finance costs	68,061,182.60	59,076,896.91
Investment income	(3,474,237.41)	(2,397,383.87)
Increase in deferred tax assets	2,243,368.34	(26,756,086.74)
(Decrease) increase in deferred tax liabilities	124,465.03	(810,752.19)
Decrease (increase) in inventories	129,746,195.75	18,936,031.86
Decrease in operating receivables	16,002,974.68	(42,640,183.83)
(Decrease) increase in operating payables	(76,883,116.61)	(353,297,586.46)
Others	(1,808,000.00)	(1,808,000.00)
Net cash flows (used in) from operating activities	400,589,007.36	(155,479,887.20)
2. Significant investing and financing activities not involving cash receipt or payment:		
Conversion of debts to capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired on Finance lease	—	—
3. Changes in cash and cash equivalents:		
Balance of cash at the end of the year	496,842,889.68	330,546,464.49
Less: Balance of cash at the beginning of the year	330,546,464.49	369,092,906.46
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	166,296,425.19	(38,546,441.97)

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

55. 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	83,692.32	42,463.38
Bank deposit available for payments at any moment	323,835,489.16	201,764,699.84
Other funds available for payments at any moment	172,923,708.20	128,739,301.27
2. Cash and equivalents	496,842,889.68	330,546,464.49
Restricted other fund	118,366,326.70	267,224,401.49
3. Cash and cash equivalent at the end of the year	615,209,216.38	597,770,865.98

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 RMB68,391,676.70, RMB 5,000,000.00 and RMB 44,974,650.00 respectively, which totally equal to RMB118,366,326.70.

56. Assets With Limited Ownership and the Right to Use

Items	Balance at the end of the year	Reasons for restriction
Cash and bank balances	118,366,326.70	Pledged deposits and fixed deposits
Bills receivable	14,264,697.76	Pledged bills receivable



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1 January 2014 to 31 December 2014

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

VI. Notes to the Consolidated Financial Statements (continued)

57. Foreign Currency Projects

(1) Foreign Currency Projects

Items	Foreign currency balance at the end of the year	Exchange rate	Equivalent to RMB at the end of the year
Cash and cash equivalents			
Include: USD	46,639,997.59	6.1190	285,390,145.25
EUR	194,516.10	7.4556	1,450,234.24
HKD	6,214.13	0.7889	4,902.33
Accounts receivable			
Include: USD	26,030,345.38	6.1190	159,279,683.38
EUR	61,448.88	7.4556	458,138.27
Prepayments			
Include: USD	3,291,856.20	6.1190	20,142,868.09
Short term borrowings			
Include: USD	119,759,000.00	6.1190	732,805,321.00
Accounts payable			
Include: USD	1,698,091.48	6.1190	10,390,621.77
Receipts in advance			
Include: USD	32,628,994.13	6.1190	199,656,815.08
Other payables			
Include: USD	25,230.08	6.1190	154,382.86
Interest payable			
Include: USD	929,635.60	6.1190	5,688,440.26

(2) Overseas Business Entity

The Company owned subsidiaries (proportion of shares and voting rights are 90%), MPM Limited, its registered and principal place of business is in Hong Kong. USD is the reporting currency.

VII. Change in scope of consolidation

The range of consolidation of the company in current year has not changed.

Notes to the Financial Statements



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

VIII. The equity in other entities

1. Interests in subsidiaries

(1) List of subsidiaries

Name of subsidiaries	Place of operation	Place of incorporation	Nature of business	Shareholding(%)		Method of acquisition
				Direct	Indirect	
MPM Limited	Hong Kong	Hong Kong, PRC	Trade	90.00	0.00	Subsidiaries acquired through business consolidation not under common control
Maolong New Materials	Shouguang, Shandong province	Shouguang, Shandong province	Manufacturing	100.00	0.00	Subsidiaries acquired through business consolidation not under common control
Molong Electro-mechanical Equipment	Shouguang, Shandong province	Shouguang, Shandong province	Manufacturing	0.00	100.00	Subsidiaries acquired through business consolidation not under common control
Baolong Recyclable Resource	Weihai, Shandong province	Weihai, Shandong province	Trade	0.00	100.00	Subsidiaries acquired through business consolidation not under common control
Maolong Recycle	Shouguang, Shandong province	Shouguang, Shandong province	Trade	10.00	90.00	Subsidiaries acquired through business consolidation not under common control
Shouguang Baolong	Shouguang, Shandong province	Shouguang, Shandong province	Manufacturing	70.00	0.00	Subsidiaries acquired through establishment
Weihai Baolong	Weihai, Shandong province	Weihai, Shandong province	Manufacturing	61.54	38.46	Subsidiaries acquired through business consolidation not under common control
Molong Logistic Company	Shouguang, Shandong province	Shouguang, Shandong province	Service	100.00	0.00	Subsidiaries acquired through establishment



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

VIII. The equity in other entities (continued)

1. Interests in subsidiaries (continued)

(1) List of subsidiaries (continued)

Name of subsidiaries	Type of organisation	Legal person	Registered capital	Code of organisation
MPM Limited	Limited Company		USD1,000,000.00	
Maolong New Materials	Limited Company	Lin Fu Long	RMB412,380,000.00	72481440-5
Molong Electro-mechanical Equipment	Limited Company	Zhang Huan Jun	USD1,000,000.00	73261459-3
Baolong Recyclable Resource	Limited Company	Zhang Jin Hui	RMB300,000.00	76576543-5
Maolong Recycle	Limited Company	Liu Yun Long	RMB500,000.00	74566977-X
Shouguang Baolong	Limited Company	Gyo Huan Ran	RMB150,000,000.00	66139842-3
Weihai Baolong	Limited Company	Zhang Jin Hui	RMB26,000,000.00	75638729-2
Molong Logistic Company	Limited Company	Zhang Jin Chuan	RMB3,000,000.00	57939315-6

(2) Significant Non-wholly Owned Subsidiaries

Name of subsidiaries	Minority shareholders Proportion(%)	earnings attributable to minority shareholders	dividends declared to minority shareholders	year end balance of earning to minority shareholders
MPM Limited	10.00	(1,308,237.61)	—	316,167.36
Shouguang Baolong	30.00	(4,747,138.74)	—	55,645,977.07
Total	—	(6,055,376.35)	—	55,962,144.43

(3) Financial information of significant Non-wholly Owned Subsidiaries

Name of subsidiaries	Balance at the end of the year					
	Current assets	Non-current Assets	Total Assets	Current Liabilities	Non-current Liabilities	Total liabilities
MPM Limited	64,027,362.58	13,011,305.39	77,038,667.97	77,011,090.84	—	77,011,090.84
Shouguang Baolong	187,120,704.13	614,273,007.25	801,393,711.38	615,907,121.15	—	615,907,121.15

Name of subsidiaries	Balance at the beginning of the year					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
MPM Limited	182,255,537.02	12,289,400.14	194,544,937.16	181,685,564.55	—	181,685,564.55
Shouguang Baolong	255,832,468.94	752,351,211.39	1,008,183,680.33	806,873,294.31	—	806,873,294.31

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VIII. The equity in other entities (continued)

1. Interests in subsidiaries (continued)

(3) Financial information of significant Non-wholly Owned Subsidiaries (continued)

Name of subsidiaries	During this year				During pervious year			
	Turnover	Profit for the year	Total comprehensive income (loss)	Net income to cash flow	Turnover	Profit for the year	Total comprehensive income (loss)	Net income to cash flow
MPM Limited Shouguang	150,318,887.56	(12,090,077.23)	(12,831,795.48)	75,028,596.71	4,481,033.38	(286,001.27)	(330,153.12)	(133,558,834.88)
Baolong	1,403,300,433.43	(15,823,795.79)	(15,823,795.79)	(158,766,904.50)	1,405,507,245.71	(6,119,554.08)	(6,119,554.08)	239,384,624.23

(4) Significant restrictions on the use of group assets and debt liquidation group

NIL

(5) To provide financial support or other supports

Nil

2. Change and in the owner's equity share subsidiaries still control the subsidiary company situation

Nil

3. Interest in associates

(1) Associate

Name of joint ventures	Place of operation	Place of registration	Business scope	Shareholding (%)		Method of accounting treatment
				Direct	Indirect	
Yalong Oil Pump Company Limited	Karamay, Xinjiang	Karamay, Xinjiang	Manufacturing	0.00	30.00	Equity method
Shouguang Maolong microfinance Co., Ltd.	Shouguang, Shandong	Shouguang, Shandong	Service	0.00	30.00	Equity method



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VIII. The equity in other entities (continued)

3. Interest in associates (continued)

(2) Financial information of significant associates

Yalong Oil Pump Company Limited

Items	Balance at the end of previous year/ During this year	Balance at the beginning of the current year/ During pervious year
Current assets:	18,484,665.80	14,347,394.92
Include : Cash and cash equivalents	1,987,741.75	3,765,248.82
Non-current assets	3,522,584.70	2,958,038.84
Total assets	22,007,250.50	17,305,433.76
Current liabilities :	5,925,307.55	1,944,730.95
Non-current liabilities	6,716,731.88	6,716,731.88
Total liabilities	12,642,039.43	8,661,462.83
Non-controlling interest	—	—
Attributable to shareholders of the company	9,365,211.07	8,643,970.93
Share of net assets on a pro rata basis	2,809,563.32	2,593,191.28
Book value of the investment to Associates	2,820,504.16	2,641,272.16
Turnover	18,291,630.69	21,497,231.46
Finance costs	127.46	(1,900.88)
Profit tax	117,221.53	71,311.98
Net profit	597,439.99	285,396.30
Total comprehensive income	597,439.99	285,396.30
Dividend received from the associates	—	—

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VIII. The equity in other entities (continued)

3. Interest in associates (continued)

(2) Financial information of significant associates (continued)

Shouguang Maolong Micofinance Co., Ltd.

Items	Balance at the end of previous year/ During this year	Balance at the beginning of the current year/ During pervious year
Current assets:	168,390,402.11	157,291,665.64
Include: Cash and cash equivalents	20,083,638.11	26,404,102.48
Non-current assets	3,812,020.39	4,043,226.07
Total assets	172,202,422.50	161,334,891.71
Current liabilities:	955,255.94	1,051,286.31
Non-current liabilities	—	—
Total liabilities	955,255.94	1,051,286.31
Non-controlling interest	0.00	0.00
Attributable to shareholders of the company	171,247,166.56	160,283,605.40
Share of net assets on a pro rata basis	51,374,149.97	48,085,081.62
Book value of the investment to associates	51,535,517.55	48,240,512.14
Turnover	12,908,323.71	11,139,523.23
Finance costs	(850,014.73)	(567,687.04)
Profit tax	3,661,117.17	2,568,627.76
Net profit	10,983,351.37	7,705,883.26
Total comprehensive income	10,983,351.37	7,705,883.26
Dividend received from the associates	—	—



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IX. Risks associated with financial instruments

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 4. 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.

(1) Market risks

(1) Foreign exchange risks

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 2014, 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.

Items	31 December 2014	31 December 2013
Cash and cash equivalents — (USD)	46,639,997.59	11,245,959.86
Cash and cash equivalents — (EUR)	194,516.10	0.01
Cash and cash equivalents — (HKD)	6,214.13	174.98
Accounts receivable — (USD)	26,030,345.38	21,409,826.96
Accounts receivable — (EUR)	61,448.88	498,013.45
Prepayments — (USD)	3,291,856.20	—
Short-term borrowings — (USD)	119,759,000.00	104,278,977.83
Accounts payable — (USD)	1,698,091.48	1,563,566.00
Other payables — (USD)	25,230.08	25,230.08
Receipts in advance — (USD)	26,777,539.73	12,181,565.42
Interest payable — (USD)	929,635.60	1,291,460.20

The Group pays close attention to the foreign currency changes to the Group.

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.



1 January 2014 to 31 December 2014

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

IX. Risks associated with financial instruments (continued)

1. Objective and policies of risk management (continued)

(1) Market risks (continued)

(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. On Dec, 2014, The Group's interest-bearing debt is mainly floating rate loan of RMB and USD-denominated contracts, amount to RMB605,036,521.00 (As at the beginning of the year: RMB483,615,540.00), and the fixed rate contracts in USD and RMB total RMB1,309,768,800.00 (As at the beginning of the year: RMB 1,383,675,306.00).

Through the establishment of good relations between banks for credit lines, various credit line to ensure sufficient bank line of credit to meet the company's various types of short-term financing needs. And by shortening the duration of the borrowings, greed early repayment terms which led to reducing the risk of interest rate fluctuations.

(3) Other price risk

The Groups sells metal products at market price so sales may be influenced by fluctuation in selling price.

(2) Credit risk

As at 31 December 2014, the biggest credit risk exposure that may cause financial loss of the Group is mainly coming from the other party of the contract could not fulfil their obligations that caused the loss on the Group's financial assets, which include:

the book value of a confirmed financial asset in the consolidated balance sheet those financial instruments that are measured by fair value, the book value reflects its risk exposure, but not its biggest risk exposure, the biggest risk exposure will change as the future fair value changes.

The Group only conducts sales with third-party customers with good credit records. In order to minimise credit risk, the Group has established a team responsible for formulating credit limit, credit approval and implementing other monitoring procedures to ensure necessary follow-up measures are carried out to recover the overdue debts. As such, the risk of bad debts is low.

The Group only deposit cash and cash equivalents into banks with relatively high level of credit rating; as such the risk of cash and cash equivalents is low.

The Group only conducts sales with the third-party customers with good credit records. Apart from the top five accounts receivable, the Group has no other significant concentration of credit risk. The total balance of the top five accounts receivables is RMB 315,984,188.49.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

IX. Risks associated with financial instruments (continued)

1. Objective and policies of risk management (continued)

(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 RMB1,863,173,400 (As at the beginning of the year: RMB2,846,070,000), including outstanding short-term bank facilities of RMB1,863,173,400 (As at the beginning of the year: RMB2,846,070,000).

Maturity analysis of financial assets and financial liabilities of the Group at undiscounted remaining contractual obligations are set out as follows:

This year:

	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets					
Cash and cash equivalents	615,209,216.38	—	—	—	615,209,216.38
Bills receivable	90,685,848.66	—	—	—	90,685,848.66
Accounts receivable	608,640,409.68	—	—	—	608,640,409.68
Interest receivables	2,670,703.33	—	—	—	2,670,703.33
Other receivables	48,859,721.67	—	—	—	48,859,721.67
Financial liabilities					
Short-term borrowings	1,414,805,321.00	—	—	—	1,414,805,321.00
Bills payable	426,865,457.13	—	—	—	426,865,457.13
Accounts payable	705,325,418.59	—	—	—	705,325,418.59
Other payables	24,879,654.35	—	—	—	24,879,654.35
Interest payables	21,635,356.93	—	—	—	21,635,356.93
Bonds payable	—	498,111,111.09	—	—	498,111,111.09

Last year:

Items	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets					
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
Financial liabilities					
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
Bond payables	—	—	496,777,777.77	—	496,777,777.77

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

IX. Risks associated with financial instruments (continued)

2. 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	2014		2013	
		Impact on net profit	Impact on shareholders' equity	Impact on net profit	Impact on shareholders' equity
All foreign currencies	Appreciate 5% against RMB	(18,916,559.44)	(18,916,559.44)	(16,383,987.60)	(16,383,987.60)
All foreign currencies	Depreciate 5% against RMB	18,916,559.44	18,916,559.44	16,383,987.60	16,383,987.60

(2) Sensitivity analysis of interest rate risk

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

- Interest income or expense in market interest rates change on variable rate financial instruments
- For fixed rate financial instruments measured at fair value, changes in market interest rates only affect interest income or expense

As of the balance sheet date using market interest rates discounted cash flow method to calculate the fair value of derivative financial instruments and other changes in financial assets and liabilities.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

IX. Risks associated with financial instruments (continued)

2. Sensitivity analysis (continued)

(2) Sensitivity analysis of interest rate risk (continued)

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	2014		2013	
		Effect on net profit	Effect on shareholders' equity	Effect on net profit	Effect on shareholders' equity
Floating rate borrowings	Increase by 1%	(1,883,614.88)	(1,883,614.88)	(2,388,683.68)	(2,388,683.68)
Floating rate borrowings	Decrease by 1%	1,883,614.88	1,883,614.88	2,388,683.68	2,388,683.68

X. Fair Value Measurement

During the reporting period the Group does not have assets and liabilities 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.

Items	At the end of the year		At the beginning of the year	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities — Corporate bonds	498,111,111.09	474,650,000.00	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.

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XI. Related Party Relationships and Transactions

1. Related Party Relationships

(1) Parent company and the ultimate controlling entity

- (1) Parent company and the ultimate control. As at the end of the year, Mr. Zhang En Rong owns 33.29% of voting shares in the Company, and is the controlling shareholder of the Company.
- (2) Parent 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 Enrong	265,617,000.00	279,517,000.00	33.29	35.03

(2) Subsidiaries

- (1) *Subsidiaries*
The details of the subsidiaries are listed on note VIII ∙ 1.
- (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 listed on note VIII.3.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XI. Related Party Relationships and Transactions (continued)

2. Related Party Transaction

(1) Consolidation

(1) Sale and Service rendered

Relationship and name of related party	Related party transactions with the company	Pricing method and decision procedure for related party	Amount of this year		Amount of last year	
			Amount	Proportion (%)	Amount	Proportion (%)
Associate Yalong Oil Pump	Oil well pumping and accessories	Agreed price (Note 1)	8,533,230.93	0.35	12,004,650.43	0.54
Total			8,533,230.93	0.35	12,004,650.43	0.54

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) Parent Company

(1) Sale and Service received

Relationship and name of related party	Related party transactions with the company	Pricing method and decision procedure for related party	Amount of this year		Amount of last year	
			Amount	Proportion(%)	Amount	Proportion(%)
Related party holding from the same ultimate holding company Shouguang Baolong	Casting	Agreed price (Note 2)	1,295,847,022.93	70.94	1,360,442,127.68	71.55
Molong Electro-mechanical Equipment	Casting, mandrel, electrical cabinet	Agreed price (Note 3)	88,510,995.02	4.85	85,950,279.06	4.52
Weihai Baolong	Oil well pipes, casting and tubing	Agreed price (Note 4)	197,288,618.98	10.80	268,687,615.63	14.13
Molong Electro-mechanical Equipment	Custody of Accessories	Agreed price (Note 1)	1,476,287.93	1.36	—	—
Total			1,583,122,924.86	—	1,715,080,022.37	—

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 RMB 100 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 2014 to 31 December 2014

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

XI. Related Party Relationships and Transactions (continued)

2. Related Party Transaction (continued)

(2) Parent Company (continued)

(2) Sale and Service rendered

Relationship and name of related party	Related party transactions with the company	Pricing method and decision procedure for related party	Amount of this year		Amount of last year	
			Amount	Proportion (%)	Amount	Proportion (%)
Joint venture and associate						
Yalong Oil Pump	Oil well pumping and accessories	Agreed price (Note 1)	8,533,230.93	0.31	12,004,650.43	0.54
Related party holding from the same ultimate holding company						
Maolong Machinery	Casing and tubing, materials etc		194,102,781.69	7.14	—	—
MPM Limited (Note 1)	Oil tubing	Agreed price	153,823,536.19	5.66	4,436,292.02	0.20
Shouguang Baolong (Note 1)	Scrap steel	Agreed price	101,856,683.11	3.75	69,979,770.06	3.16
Molong Electro-mechanical Equipment (Note 1)	Scrap steel metal	Agreed price	24,997,579.82	0.92	27,340,402.77	1.23
Weihai Baolong	Scrap steel and cylindrical steel, etc	Agreed price (Note 1)	1,056,743.73	0.04	16,611,628.34	0.75
Molong Logistic Company		Diesel oil	272,739.35	0.01	—	—
Total			484,643,294.82	—	130,372,743.62	—

(3) Rental agreements with related parties

Lesser	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 2014 to 31 December 2014

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

XI. Related Party Relationships and Transactions (continued)

2. Related Party Transaction (continued)

(2) Parent Company (continued)

(4) Guarantee with related party

Name of guarantor	Name of guarantee	Guarantee amount	Guarantee start date	Guarantee due date	Whether the guarantee is fulfilled
The Company	MPM Limited	USD 10,000,000	2014-3-13	2015-3-13	No

(5) Transaction with related party

Name of related party	Transaction type	Amount of this year	Amount of last year
Molong Electro-mechanical Equipment	Sale of fixed assets	75,817.04	—

(3) Consolidation and the Company

Remuneration of the key management

(1) Directors' and Chief Executives' emoluments

Details of emoluments paid and payable to the directors of the company for the year are as follows :

Name	Fees	Salaries and other allowances	Retirement benefit scheme contributions	Other	Total
Executive directors:					
Zhang Enrong	—	701,945.00	—	—	701,945.00
Zhang Yunsan	—	570,991.00	12,101.40	7,013.14	590,105.54
Guo Huanran	—	383,521.00	12,101.40	7,013.14	402,635.54
Lin Fulong	—	291,968.00	—	—	291,968.00
Independent non-executive directors:					
Guo Hongli	33,740.00	—	—	—	33,740.00
Xiao Qingzhou	33,740.00	—	—	—	33,740.00
Wang Chunhua	33,740.00	—	—	—	33,740.00
John Paul Cameron	84,419.86	—	—	—	84,419.86
Qin Xuechang	71,240.00	—	—	—	71,240.00
Supervisor					
Liu Huaiduo	—	32,122.72	8,067.60	4,675.38	44,865.70
Hao Liang	—	31,917.00	4,980.96	2,905.56	39,803.52
Fan Renyi	10,090.00	—	—	—	10,090.00
Zhang Jiuli	10,090.00	—	—	—	10,090.00
Total	277,059.86	2,012,464.72	37,251.36	21,607.22	2,348,383.16

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1 January 2014 to 31 December 2014

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

XI. 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 Chief Executives' emoluments (continued)

Details of emoluments paid and payable to the directors of the company for the previous year are as follows:

Name	Fees	Salaries and other allowances	Retirement benefit scheme contributions	Other	Total
Executive directors:					
Zhang Enrong	—	701,945.33	—	—	701,945.33
Zhang Yunsan	—	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
Independent non-executive directors:					
Zhou Chengyan	34,462.50	—	—	—	34,462.50
Guo Hongli	33,740.00	—	—	—	33,740.00
Xiao Qingzhou	33,740.00	—	—	—	33,740.00
Wang Chunhua	33,740.00	—	—	—	33,740.00
John Paul Cameron	87,095.00	—	—	—	87,095.00
Qin Xuecang	35,620.00	—	—	—	35,620.00
Supervisor					
Liu Huaiduo	—	86,720.00	7,179.84	3,463.89	97,363.73
Fan Renyi	10,090.00	—	—	—	10,090.00
Zhang Jiuli	10,090.00	—	—	—	10,090.00
Total	278,577.50	2,068,727.19	28,719.36	13,855.53	2,389,879.58

Note 1: Liu Huaiduo resigned from supervisors position on August 22, 2014. Hao Liang was appointed as supervisor on August 25, 2014. Xie Xin Cang and Zhou Cheng Yan resigned as directors. Guo Huanran was appointed as executive director.

Note 2: No director and supervisors 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 resigned 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 2014 to 31 December 2014

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

XI. 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: four) were directors of the Group. The remuneration of the remaining one (during previous year: one) are as follows:

Items	Amount of this year	Amount of previous year
Salaries and other benefits	338,258.00	354,069.60
Contributions to retirement benefits schemes	13,029.12	11,558.40
Others	4,093.74	3,671.90
Total	355,380.86	369,299.90

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 2014 to 31 December 2014

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

XI. Related Party Relationships and Transactions (continued)

3. Related party balances

(1) Consolidation

(1) Account receivables of related party:

Items	Related party/ Relationship	Balance at the end of the year		Balance at the beginning of the year	
		Carrying amount	Impairment	Carrying amount	Impairment
	Associate				
Accounts receivable	Yalong Oil Pump Company Limited	1,930,131.84	—	1,044,301.65	—
Bills receivable	Yalong Oil Pump Company Limited	2,000,000.00	—	4,424,552.05	—
Other receivables	Yalong Oil Pump Company Limited	480,000.00	—	—	—
Total		4,410,131.84	—	5,468,853.70	—

(2) Accounts payable of related party

Related party	Balance at the end of the year	Balance at the beginning of the year
Other related party	—	800,000.00
Zhang Yun San		
Total	—	800,000.00



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1 January 2014 to 31 December 2014

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

XI. Related Party Relationships and Transactions (continued)

3. Related party balances (continued)

(2) The Company

(1) Account receivables of related party:

Items	Related party/ Relationship	Balance at the end of the year		Balance at the beginning of the year	
		Carrying amount	Impairment	Carrying amount	Impairment
Accounts receivable	Associates	—	—	—	—
Accounts receivable	Yalong Oil Pump	1,930,131.84	—	1,044,301.65	—
Accounts receivable	Subsidiaries	—	—	—	—
Accounts receivable	MPM Limited	—	—	15,432,904.18	—
Accounts receivable	Weihai Baolong	—	—	2,008.16	—
Accounts receivable	Maolong New Materials Company	245,771,497.84	—	—	—
Sub-total		247,701,629.68	—	16,479,213.99	—
Bills payable	Associates	—	—	—	—
Bills payable	Yalong Oil Pump	2,000,000.00	—	4,424,552.05	—
Sub-total		2,000,000.00	—	4,424,552.05	—
Other receivables	Subsidiaries	—	—	—	—
Other receivables	Shouguang Baolong	190,000,000.00	—	207,000,000.00	—
Other receivables	Maolong New Materials Company	—	—	12,291,150.00	—
Other receivables	Molong Logistic Company	36,574,664.83	—	6,854,003.74	—
Other receivables	Yalong Oil Pump	480,000.00	—	—	—
Sub-total		227,054,664.83	—	226,145,153.74	—
Prepayments	Subsidiaries	—	—	—	—
Prepayments	Shouguang Baolong	162,087,960.53	—	383,772,009.31	—
Prepayments	Weihai Baolong	—	—	40,389,817.51	—
Sub-total		162,087,960.53	—	424,161,826.82	—
Total		638,844,255.04	—	671,210,746.60	—

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XI. Related Party Relationships and Transactions (continued)

3. Related party balances (continued)

(2) The Company (continued)

(2) Accounts payable of related parties:

Items	Related party/Relationship	Balance at the end of the year	Balance at the beginning of the year
Bills receivable	Subsidiaries	—	—
Bills receivable	Molong Electro-mechanical Equipment	8,042,624.25	10,056,779.50
Bills receivable	Weihai Baolong	2,000,000.00	51,831,525.00
Bills receivable	Shouguang Baolong	300,908,397.85	225,656,892.83
Bills receivable	Maolong Machinery	49,961,166.10	—
Total		360,912,188.20	287,545,197.33
Accounts payable	Subsidiaries	—	—
Accounts payable	Molong Electro-mechanical Equipment	55,690,564.47	36,420,049.78
Accounts payable	Weihai Baolong	23,348,259.71	—
Sub-total		79,038,824.18	36,420,049.78
Receipts in advance	Subsidiaries	—	—
Receipts in advance	MPM Limited	35,805,049.47	156,886,359.72
Sub-total		35,805,049.47	156,886,359.72
Other payables	Subsidiaries	—	—
Other payables	Shouguang Baolong	—	4,253,173.76
Other payables	Other related party	—	—
Other payables	Zhang Yun San	—	800,000.00
Sub-total		—	5,053,173.76
Total		475,756,061.85	485,904,780.59



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XII. Contingent event

As at the balance sheet date, the Group and the Company have no material contingency

XIII. Commitment

1. Consolidation

(1) Capital commitment

Capital commitment of the Group at the end of the year

Contracted for but not provided

Items	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	274,402,850.94	269,188,582.67
Total	274,402,850.94	269,188,582.67

(2) Capital Commitment in previous year

The Group had executed as stated in contracts

(3) *Other than the commitment stated above, there is no other material commitment up to 31 December 2014*

2. The Company

(1) Material commitments

Capital Commitment of the Company 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	44,227,063.52	239,949,134.93
Total	44,227,063.52	239,949,134.93

(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 2014.*



1 January 2014 to 31 December 2014

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

XIV. Events Subsequent to Balance Sheet Date

1. Borrowing after balance sheet date

The Group had borrowed RMB152,530,000.00 and USD 73,139,112.00 up to the date of this report.

2. Subsequent Profit Distribution Plan

On 30 March 2015, the profit distribution plan is approved on the fourth meeting of the Company of this report of Directors. No final dividend is distributed for this year. The profit distribution plan is subject to approval in the shareholder meeting.

- 3 Apart from matters described above, the Company has no significant subsequent events to be disclosed at 31 December 2014.

XV. Other significant items

1. Segment Reporting

(1) Basis for determining segments

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.

(2) Accounting policies of segments

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



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XV. Other significant items (continued)

1. Segment Reporting (continued)

(3) Segment Reporting Information (continued)

2014 Segment report

	Casing and Tubing	Three kinds of pumping units	Petroleum machinery plant	Other	Unallocated Items	Inter-segment elimination	Total
Operation revenue	—	—	—	—	—	—	—
External income	2,241,750,781.30	69,191,280.09	163,457,880.46	47,702,537.45	—	—	2,522,102,479.29
Inter-segment income	—	—	—	—	—	—	—
Total segment income	2,241,750,781.30	69,191,280.09	163,457,880.46	47,702,537.45	—	—	2,522,102,479.29
Total operating income	2,241,750,781.30	69,191,280.09	163,457,880.46	47,702,537.45	—	—	2,522,102,479.29
Segment costs	2,093,634,178.12	60,544,611.07	131,363,480.51	29,547,424.88	—	—	2,315,089,694.58
Segment (loss) profit	148,116,603.18	8,646,669.02	32,094,399.95	18,155,112.57	—	—	207,012,784.71
Adjusting items:	—	—	—	—	—	—	—
Administrative expenses	—	—	—	—	143,541,730.67	—	143,541,730.67
Finance costs	—	—	—	—	51,351,540.56	—	51,351,540.56
Investment income	—	—	—	—	(3,474,237.41)	—	(3,474,237.41)
Operating (loss) profit	148,116,603.18	8,646,669.02	32,094,399.95	18,155,112.57	(191,419,033.82)	—	15,593,750.89
Non-operating income	—	—	—	—	6,545,592.41	—	6,545,592.41
Non-operating expenses	—	—	—	—	650,263.05	—	650,263.05
Total (loss) profit	148,116,603.18	8,646,669.02	32,094,399.95	18,155,112.57	(185,523,704.46)	—	21,489,080.25
Income tax credit	—	—	—	—	7,232,414.63	—	7,232,414.63
Net (loss) profit	148,116,603.18	8,646,669.02	32,094,399.95	18,155,112.57	(192,756,119.09)	—	14,256,665.62
Total segment assets	4,930,172,985.61	152,283,696.52	281,271,940.03	35,803,688.46	644,968,385.42	—	6,044,500,696.03
Total segment liabilities	1,362,823,090.25	31,622,334.33	56,278,472.14	4,801,246.95	1,838,728,076.76	—	3,294,253,220.43
Supplementary Information:	—	—	—	—	—	—	—
Depreciation	179,040,501.35	5,793,742.86	4,677,985.67	6,439,756.74	—	—	195,951,986.62
Amortisation	45,420,050.03	78,449.30	2,467,520.93	5,982.96	—	—	47,972,003.22
Interest income	—	—	—	—	(24,336,634.20)	—	(24,336,634.20)
Finance costs	—	—	—	—	75,688,174.76	—	75,688,174.76
Impairment losses recognised in this year:	7,412,553.28	594,152.90	244,795.51	—	—	—	8,251,501.69
Non-current assets other than long-term equity investment	3,158,218,979.24	52,853,468.29	138,960,215.81	18,359,558.53	147,245,576.92	—	3,515,637,798.78
Capital expenditure	279,852,512.70	11,532,552.00	283,782.05	—	—	—	291,668,846.75
Including: Construction in progress	211,190,237.36	11,458,300.00	283,782.05	—	—	—	222,932,319.41
Purchase of fixed assets	64,662,275.34	74,252.00	—	—	—	—	64,736,527.34
Purchase of intangible assets	4,000,000.00	—	—	—	—	—	4,000,000.00

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1 January 2014 to 31 December 2014

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

XV. Other significant items (continued)

1. Segment Reporting (continued)

(3) Segment Reporting Information (continued)

2013 segment report

	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



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

XV. Other significant items (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:

External transaction income	During this year	During previous year
PRC (except Hong Kong)	1,342,173,732.06	1,547,322,020.24
Hong Kong	—	—
Other countries	1,179,928,747.23	724,712,314.96
Total	2,522,102,479.29	2,272,034,335.20

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 VI.40 for details.

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company

1. Cash and cash equivalents

Item	Balance at the end of the year	Balance at the beginning of the year
Cash	40,943.88	25,452.47
Cash in bank	312,407,578.72	81,348,858.34
Other fund	291,290,034.90	395,958,815.29
Total	603,738,557.50	477,333,126.10

Include: total amount of deposit abroad

- (1) As at the end of the year, other fund held by the Company included bank acceptance security deposit of RMB 176,490,478.32 (as at the beginning of the year: RMB 201,454,237.29), borrowings and deposit for letter of credit of RMB 10,404,906.58 (as at the beginning of the year: RMB 130,444,578.00), deposit for letter of guarantee of RMB 22,050,000.00 (as at the beginning of the year: RMB 64,060,000.00). fixed deposits of RMB 82,344,650.00 (as at the beginning of the year: RMB Nil)
- (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 RMB 68,391,676.70 (as at the beginning of the year: RMB 154,462,427.49), deposit for letter of credit with maturity date over 3 months of RMB 5,000,000.00 (as at the beginning of the year: RMB 73,901,974.00); and deposit for letter of guarantee with maturity date over 3 months of RMB 0 (as at the beginning of the year: RMB 38,860,000.00). bills deposit with maturity date over 3 months of RMB 44,974,650.00 (RMB 0 at the beginning of the year).
- (3) The Company has no funds deposited abroad.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

2. Bills Receivable

(1) Classification of bills receivable

Item	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance notes	78,327,566.76	117,939,796.64
Total	78,327,566.76	117,939,796.64

(2) Pledged bills receivables at the end of the year

Item	Balance at the end of the year
Bank acceptance notes	14,264,697.76
Total	14,264,697.76

As at the end of the year, bills receivable amounted RMB14,264,697.76 was pledged to bank in exchange of equivalent amount of bills payables. These bills receivables will be matured by 20 April 2015.

Bills receivable was pledged to bank in exchange of equivalent amount of bills payables.

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

Items	Confirmed amount at the end of the year	Confirmed amount at the end of the year
Bank acceptance bills	264,428,029.53	—
Total	264,428,029.53	—

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

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

3. Accounts Receivable

Items	Balance at the end of the year	Balance at the beginning of the year
Accounts receivable	865,307,145.02	573,611,521.13
Less: provision for bad debts	12,449,664.74	10,807,489.73
Net amount	852,857,480.28	562,804,031.40

(1) Aging analysis of accounts receivable

Prior to accepting new customers, the Company 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 Company offers tailor-made credit policies to individual customers. The Company allows a general one to three months credit period, and at most 1 year 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	822,362,929.76	553,259,488.63
More than one year but within two years	29,186,111.56	8,844,542.77
More than two years but within three years	1,308,438.96	700,000.00
More than three years	—	—
Net amount	852,857,480.28	562,804,031.40



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

3. Accounts Receivable (continued)

(2) Risk of accounts receivable category are set out below

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(%)
Account receivable of significant individual amount, individually provided for bad debts	14,376,029.00	1.66	10,479,971.25	72.9	15,417,953.39	2.69	8,796,479.57	57.05
Accounts receivable not impaired according to impairment test	848,545,515.50	98.06	—	—	556,182,557.58	96.96	—	—
Account receivable of insignificant individual amount, individually provided for bad debts	2,385,600.52	0.28	1,969,693.49	82.57	2,011,010.16	0.35	2,011,010.16	100.00
Total	865,307,145.02	100.00	12,449,664.74	—	573,611,521.13	100.00	10,807,489.73	—

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

Company	Carrying value	Impairment loss	Ratio(%)	Reasons for impairment
Shengli Oilfield Highland Petroleum Equipment Co., Ltd.	3,284,636.96	3,284,636.96	100	Aging over three years with low possibility of recovery
SBI Company (USA)	3,807,804.56	3,807,804.56	100	Aging over two years with low possibility of recovery
Wenlai Jinlong Investment Company Limited, Beijing Office	7,283,587.48	3,387,529.73	46.51	Aging over two years with low possibility of recovery
Total	14,376,029.00	10,479,971.25	—	

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

3. Accounts Receivable (continued)

(2) Risk of accounts receivable category are set out below (continued)

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

Companies	Carrying amount	Impairment	Proportion (%)	Reasons for impairment
South China Petrochemical Group	1,701,840.98	1,701,840.98	100.00	Aging over three years with low possibility of recovery
China Petroleum Technology & Development Company	594,152.90	178,245.87	30.00	Aging over one year with low possibility of recovery
Hanting Energy resource Private Service Company Limited	89,606.64	89,606.64	100.00	Aging over three years with low possibility of recovery
Total	2,385,600.52	1,969,693.49	—	

(3) Payment period balance sheet date but not impaired overdue analysis:

Accounts receivable past due but not impaired and some independent customer-related, such clients within the company has a good credit history. Based on past experience, the directors of the Company sees no need for such provision is made for impairment of balance, because there is no significant change in credit quality and the balances are still considered fully recoverable.

(4) Provision for the year, back (or back) of bad debts.

The impairment loss on accounts receivables amounted to RMB 1,642,175.01 (2013:RMB Nil).

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



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

3. Accounts Receivable (continued)

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

Companies	Balance at the end of the year	Aging	Proportion (%)	provision for bad debt in year end
Maolong New Materials Company	245,771,497.84	Within one year	28.40	—
PetroChina Company Limited	91,763,794.06	Within one year	10.60	—
	3,284,636.96	Four to five years	0.38	3,284,636.96
	594,152.90	One to two years	0.07	178,245.87
YanChang Oil Field Co., Limited	79,254,750.92	Within one year	9.16	—
China Petroleum & Chemical Co., Ltd, Supplies Equipment Department	55,446,128.03	Within one year	6.41	—
HeBei ZhongTai Steel Pipe Manufacture Co., Limited	46,743,692.58	Within one year	5.40	—
Total	522,858,653.29		60.42	3,462,882.83

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	188,429,588.49	99.99	434,522,163.08	99.99
One to two years	2,880.00	—	42,500.61	0.01
Two to three years	—	—	—	—
More than three years	10,683.61	0.01	10,683.61	—
Total	188,443,152.10	100.00	434,575,347.30	100.00

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

4. Prepayments (continued)

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

Companies	Amount	Aging	Proportion (%)
Shouguang Maolong Machinery Company Limited	162,087,960.53	Within one year	86.01
JESORO OIL LTD	20,142,868.09	Within one year	10.69
Zibo Articles furnace Engineering Co., Ltd.	2,205,017.88	Within one year	1.17
NingXia HuaHeng Logistics Co., Limited	1,500,000.00	Within one year	0.80
Hanting Energy Technology (Wuxi) Co., Ltd.	454,200.00	Within one year	0.24
Total	186,390,046.50		98.91

5. Interests receivable

Please refer to note VI.5 for interest receivables.

6. Other receivables

Items	Balance at the end of the year	Balance at the beginning of the year
Other receivables	272,528,254.97	252,573,774.30
Less: Impairment	119,119.25	119,119.25
Net amount	272,409,135.72	252,454,655.05

(1) Aging Analysis of Other Receivables

Aging	Balance at the end of the year	Balance at the beginning of the year
Within one year	249,961,404.37	38,350,296.20
One to two years	15,431,411.35	207,108,340.14
Two to three years	20,301.29	122,000.00
More than three years	6,996,018.71	6,874,018.71
Net amount	272,409,135.72	252,454,655.05



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

6. Other receivables (continued)

(2) Risk Classification of Other Receivables

Type	Balance at the end of the year				Balance at the beginning of the year			
	Book balance		Impairment loss		Book balance		Impairment loss	
	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	272,409,135.72	99.96	—	—	252,454,655.05	99.95	—	—
Single item with insignificant other receivables but provided for bad debts separately	119,119.25	0.04	119,119.25	100.00	119,119.25	0.05	119,119.25	100.00
Total	272,528,254.97	100.00	119,119.25	—	252,573,774.30	100.00	119,119.25	—

Other receivables of insignificant amount, individually provided for bad debts

Companies	Carrying amount	Impairment amount	Ratio (%)	Reasons for impairment
Wang Lixue	40,000.00	40,000.00	100.00	No recovery with long aging
Other entities	14,220.00	14,220.00	100.00	No recovery with long aging
Other individuals	64,899.25	64,899.25	100.00	No recovery with long aging
Total	119,119.25	119,119.25	—	

(3) Provision for the year, reversed (or recovery) for bad debt

This year the company has not made provision for other receivables other receivables for bad debts, this year has not recovered or back other receivables for bad debts

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

6. Other receivables (continued)

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

(5) Classification of other receivables by nature

Nature	Balance at the end of the year	Balance at the beginning of the year
Current account	271,149,135.72	251,321,923.57
Deposits	250,000.00	100,000.00
Individuals	1,010,000.00	1,032,731.48
Total	272,409,135.72	252,454,655.05

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

Companies	Nature	Amount	Aging	Proportion (%)	Bade debts year end balance
Shouguang Maolong Machinery Company Limited	Current account	190,000,000.00	1-2 years	69.72	—
Molong Logistic Company	Current account	36,560,444.83	Within 2 years	13.42	—
Shouguang Yang Kou Ministry of Finance	Construction project deposit	14,530,000.00	1-2 years	5.33	—
Weifang Customs of People's Republic of China	Deposit	11,831,124.60	Within 1 year	4.34	—
Gu Cheng Jie Dao Office	Current account	6,891,320.00	Within 4 years	2.53	—
Total		259,812,889.43		95.34	



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1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

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 materials	129,198,814.57	13,099,057.77	116,099,756.80	151,844,821.64	18,424,306.57	133,420,515.07
Work-in-progress	360,258,127.31	6,162,076.74	354,096,050.57	383,378,972.65	9,247,285.30	374,131,687.35
Entrusted processing Materials	21,941,068.85	572,454.32	21,368,614.53	15,028,859.48	198,651.68	14,830,207.80
Finished goods	335,017,920.98	9,407,936.89	325,609,984.09	390,282,494.60	13,870,725.46	376,411,769.14
Total	846,415,931.71	29,241,525.72	817,174,405.99	940,535,148.37	41,740,969.01	898,794,179.36

(2) Allowance for inventories

Items	Balance at the beginning of the year	Allowance made during the year	Reduction during this year		Balance at the end of the year
			Reversal of allowance	Written-off	
Raw materials	18,424,306.57	154,832.14	5,480,080.94	—	13,099,057.77
Work-in-progress	9,247,285.30	4,957,449.20	8,042,657.76	—	6,162,076.74
Entrusted processing materials	198,651.68	572,454.32	198,651.68	—	572,454.32
Finished goods	13,870,725.46	6,035,671.77	10,498,460.34	—	9,407,936.89
Total	41,740,969.01	11,720,407.43	24,219,850.72	—	29,241,525.72

(3) Reasons for providing allowance for inventories

Items	Specific basis of net realisable value	Reason of reversal
Raw materials	The price of the materials and semi-manufactured products minus the cost of further processing and related selling expenses and taxes	Production
Work-in-progress		Production
Entrusted processing materials		Production
Finished goods	Selling price less cost of sales and related taxes and fees	Sales

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

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

8. Other current assets

Items	Balance at the end of the year	Balance at the beginning of the year	Nature
Prepaid income tax	—	1,870,576.46	—
Prepaid value-added tax	13,437,824.29	—	—
Total	13,437,824.29	1,870,576.46	—

9. Available-for-sale financial assets

Please refer to Note VI.9 for details.

10. 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			
	Carrying Amount	Impairment	Carrying Amount	Carrying Amount	Impairment	Carrying Amount
Investment in subsidiaries	1,042,069,921.73	—	1,042,069,921.73	642,069,921.73	—	642,069,921.73
Investment in associates and joint ventures	—	—	—	—	—	—
Total	1,042,069,921.73	—	1,042,069,921.73	642,069,921.73	—	642,069,921.73



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

10. Long-term equity investment (continued)

(2) Investment in subsidiaries

Investee	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year	Provision of impairment for the year	Provision of impairment at the end of the year
Maolong New Materials Company	306,743,691.73	400,000,000.00	—	706,743,691.73	—	—
Weihai Baolong	220,000,000.00	—	—	220,000,000.00	—	—
MPM Limited	7,276,230.00	—	—	7,276,230.00	—	—
Shouguang Baolong	105,000,000.00	—	—	105,000,000.00	—	—
Molong Logistic Company	3,000,000.00	—	—	3,000,000.00	—	—
Maolong Recycle	50,000.00	—	—	50,000.00	—	—
Total	642,069,921.73	400,000,000.00	—	1,042,069,921.73	—	—

(3) Analysis of Long-term equity Investment

Item	Balance at the end of the year	Balance at the beginning of the year
Listed	—	—
Unlisted	1,042,069,921.73	642,069,921.73
Total	1,042,069,921.73	642,069,921.73

(4) There is no impairment indicators and the Company does not provide impairment loss for long-term equity investment.

(5) As at 31 December 2014, 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 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

11. Fixed assets

(1) Details of fixed assets

Items	Buildings	Machinery and equipment	Electronic and others equipment	Vehicles	Total
A. Costs					
1. Balance at the beginning of the year	337,964,178.77	1,471,513,157.01	49,374,471.15	11,179,127.51	1,870,030,934.44
2. Additions for the year					
(1) Additions	9,000,000.00	6,056,141.10	3,520,743.97	974,367.00	19,551,252.07
(2) Transferred from construction in progress	532,728.04	15,529,561.09	—	—	16,062,289.13
3. Reductions for the year					
Disposal or retirement	—	872,399.13	128,866.48	1,005,037.00	2,006,302.61
4. Balance at the end of the year	347,496,906.81	1,492,226,460.07	52,766,348.64	11,148,457.51	1,903,638,173.03
B. Accumulated depreciation					
1. Balance at the beginning of the year	71,433,000.14	450,358,759.13	23,414,492.87	7,788,363.18	552,994,615.32
2. Additions for the year					
Provision	15,822,761.65	107,198,809.73	6,548,230.40	1,212,974.14	130,782,775.92
3. Reductions for the year					
Disposal or retirement	—	662,121.23	117,698.76	830,263.39	1,610,083.38
4. Balance at the end of the year	87,255,761.79	556,895,447.63	29,845,024.51	8,171,073.93	682,167,307.86
C. Impairment					
1. Balance at the beginning of the year	—	—	—	—	—
2. Additions for the year					
Provision	—	—	—	—	—
3. Reductions for the year					
Disposal or retirement	—	—	—	—	—
4. Balance at the end of the year	—	—	—	—	—
D. Carrying values					
1. At the beginning of the year	266,531,178.63	1,021,154,397.88	25,959,978.28	3,390,764.33	1,317,036,319.12
2. At the end of the year	260,241,145.02	935,331,012.44	22,921,324.13	2,977,383.58	1,221,470,865.17



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

11. Fixed assets (continued)

(1) Details of fixed assets (continued)

- (1) During this year, depreciation expenses of RMB 130,512,154.56 was recognised in profit or loss (during previous year: RMB122,442,864.03).
- (2) During this year, the amount of fixed assets transferred from construction in progress was RMB16,062,289.13.
- (3) During this year, the Company recognised loss on disposal of fixed assets amounted to RMB274,274.34.
- (4) As at the end of the year, the Company had no temporarily idle fixed asset.

(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	260,241,145.02	266,531,178.63
Medium lease term (10–50 years)	260,241,145.02	266,531,178.63
Outside China	—	—
Total	260,241,145.02	266,531,178.63

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

Items	Carrying amount	Reason for no certificates of ownership
Logistic Park Plant	10,024,008.86	Application in progress
Molong Garden Building 7	9,000,000.00	Application in progress
Total	19,024,008.86	

(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 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

12. 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
Casting Plant Relocation and Technological Improvement Projects	267,788,828.11	—	267,788,828.11	184,835,037.90	—	184,835,037.90
Other projects	6,571,512.77	—	6,571,512.77	14,814,205.00	—	14,814,205.00
Total	274,360,340.88	—	274,360,340.88	199,649,242.90	—	199,649,242.90

(2) Major changes in construction projects

Projects	Balance at the beginning of the year	Additions	Reductions		Balance at the end of the year
			Transferred to fixed assets	Others	
Casting Plant Relocation and Technological Improvement Projects	184,835,037.90	82,953,790.21	—	—	267,788,828.11
Total	184,835,037.90	82,953,790.21	—	—	267,788,828.11

Projects	Budget amount	Investment to budgeted (%)	Progress (%)	Accumulated interest capitalised	Including: capitalised interest amount during the year	Interest capitalised during this year (%)	Sources of fund
							Financial institute and company's funds
Casting Plant Relocation and Technological Improvement Projects	320,000,000.00	83.68	80.00	28,988,354.22	19,833,399.96	5.33%	Financial institute and company's funds
Total	320,000,000.00	—	—	28,988,354.22	19,833,399.96	—	



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

12. Construction in progress (continued)

(2) Major changes in construction projects (continued)

During this year, interest capitalised rate is 5.33% for the Company (previous year: 5.23%).

(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.

13. Intangible assets

Items	Land use rights	Software	Non-patent technology	Patent technology	Total
A. Costs					
1. Balance at the beginning of the year	139,053,498.28	770,036.72	262,488,847.04	2,070,170.00	404,382,552.04
2. Additions for the year	—	—	39,356,337.89	471,698.11	39,828,036.00
(1) Acquisition	—	—	—	471,698.11	471,698.11
(2) Internally generated	—	—	39,356,337.89	—	39,356,337.89
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the year	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the year	139,053,498.28	770,036.72	301,845,184.93	2,541,868.11	444,210,588.04
B. Accumulated depreciation					
1. Balance at the beginning of the year	11,581,152.87	737,600.84	120,655,994.28	791,268.32	133,766,016.31
2. Additions for the year	2,777,588.64	13,589.76	34,680,259.45	480,389.99	37,951,827.84
(1) Amortisation	2,777,588.64	13,589.76	34,680,259.45	480,389.99	37,951,827.84
3. Reductions for the year	—	—	—	—	—
(1) Disposals	—	—	—	—	—
4. Balance at the end of the year	14,358,741.51	751,190.60	155,336,253.73	1,271,658.31	171,717,844.15
C. Impairment					
1. Balance at the beginning of the year	—	—	33,968,375.45	—	33,968,375.45
2. Additions	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions	—	—	—	—	—
(1) Disposals	—	—	—	—	—
4. Balance at the end of the year	—	—	33,968,375.45	—	33,968,375.45
D. Carrying values					
1. At the beginning of the year	127,472,345.41	32,435.88	107,864,477.31	1,278,901.68	236,648,160.28
2. At the end of the year	124,694,756.77	18,846.12	112,540,555.75	1,270,209.80	238,524,368.44

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

13. Intangible assets (continued)

The internal generated intangible assets are 47.19% of the total intangible assets.

(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	124,694,756.77	127,472,345.41
Medium-term lease (10-50 years)	124,694,756.77	127,472,345.41
Land-use right outside the PRC	—	—
Total	124,694,756.77	127,472,345.41

(2) During this year, RMB37,951,827.84 (previous year: RMB50,766,328.91) was recognised as amortisation expense for intangible assets in the income statements.

14. Research and Development expenditure

For details, please refer to Note VI.14.

The internal generated intangible assets are 47.19% of the total intangible assets.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

15. Deferred tax assets and liabilities

(1) Unrecognised deferred tax assets

Item	Balance at the end of the year		Balance at the beginning of the year	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Allowance for doubtful debts	12,568,783.99	1,885,317.60	10,926,608.98	1,638,991.35
Including: accounts receivable	12,449,664.74	1,867,449.71	10,807,489.73	1,621,123.46
other receivable	119,119.25	17,867.89	119,119.25	17,867.89
Provision for inventories	29,241,525.72	4,386,228.86	41,740,969.01	6,261,145.35
Salaries payable	19,806,065.35	2,970,909.80	16,941,477.46	2,541,221.62
Accumulated amortisation of intangible assets	84,708,121.32	17,823,790.17	60,327,997.15	13,208,143.76
Deductible losses	—	—	41,450,542.38	6,217,581.36
Deferred income	3,616,000.00	542,400.00	5,424,000.00	813,600.00
Impairment of intangible assets	19,888,386.55	2,983,257.98	33,968,375.45	5,095,256.32
Total	169,828,882.93	30,591,904.41	210,779,970.43	35,775,939.76

(2) Unrecognised deferred tax liabilities

Item	Balance at the end of the year		Balance at the beginning of the year	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Interests receivable	2,670,703.33	400,605.50	4,606,049.44	690,907.42
Total	2,670,703.33	400,605.50	4,606,049.44	690,907.42

16. 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
Prepayments for acquisition of fixed assets	—	236,788,383.05
Total	—	259,788,383.05

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

17. Short-term borrowings

(1) Classification of short-term borrowings

Nature of the loan	Balance at the end of the year	Balance at the beginning of the year
Trust loan	1,353,615,321.00	1,223,404,006.00
Total	1,353,615,321.00	1,223,404,006.00

(2) The Company's short-term borrowings are not expired at the end of the reporting period

(3) The Company has repaid RMB440,643,556.00 of short-term borrowings up to the report date.

18. Bills payable

Types of bills	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance note	427,645,457.13	427,566,182.16
Total	427,645,457.13	427,566,182.16

19. Accounts payable

(1) Details of accounts payable

Items	Balance at the end of the year	Balance at the beginning of the year
Materials	359,999,885.13	275,982,332.53
Construction equipment	31,534,578.40	54,318,883.97
Total	391,534,463.53	330,301,216.50



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. 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
Including: within two months	193,715,440.73	159,774,276.94
2-3 months	34,805,288.75	35,926,152.05
3-4 months	36,333,892.35	22,328,413.01
4 months -1 year	88,666,437.25	75,685,547.01
1-2 years	19,904,321.79	28,167,025.41
2-3 years	11,875,799.21	3,337,381.39
Over 3 years	6,233,283.45	5,082,420.69
Total	391,534,463.53	330,301,216.50

(3) Significant payable aged over one year

Entities	Balance at the end of the year	Balance at the beginning of the year
Shandong Metallurgical Machinery Co., Ltd.	1,912,336.75	Unsettled
Wuxi Huguang Industrial Furnace Co., Limited	1,480,000.00	Unsettled
Chengdu Pang Cheng Metallurgical Engineering Technology Co., Ltd.	1,460,000.00	Unsettled
Total	4,852,336.75	—

20. Receipts in advance

(1) Receipts in advance

Items	Balance at the end of the year	Balance at the beginning of the year
Receipts in advance	167,732,495.64	218,914,621.07
Total	167,732,495.64	218,914,621.07
Including: over 1 year	5,285,699.71	1,108,824.80

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

20. Receipts in advance (continued)

(2) Significant receipts in advance aged over one year

Name of entities	Balance at the end of the year	Balance at the beginning of the year
America Trading Company	3,782,070.47 (\$620,326.80)	According to the contract, items as not been shipped
Total	3,782,070.47 (\$620,326.80)	

21. Salaries payable

(1) Classification of salaries payable

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Short-term employee benefit	16,941,477.46	99,213,913.20	96,349,325.31	19,806,065.35
Post-retirement benefits- defined contribution plans	—	7,669,487.22	7,669,487.22	—
Total	16,941,477.46	106,883,400.42	104,018,812.53	19,806,065.35

(2) Short-term employee benefit

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Salaries, bonuses, allowance and subsidies	15,666,086.93	81,849,552.00	80,592,333.97	16,923,304.96
Staff welfare	—	10,488,481.27	10,488,481.27	—
Social insurance premiums	—	4,004,811.94	4,004,811.94	—
Including: Medical insurance	—	3,010,455.99	3,010,455.99	—
Injury insurance	—	585,205.70	585,205.70	—
Birth insurance	—	409,150.25	409,150.25	—
Union fund and staff education fund	1,275,390.53	2,871,067.99	1,263,698.13	2,882,760.39
Total	16,941,477.46	99,213,913.20	96,349,325.31	19,806,065.35



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

21. Salaries payable (continued)

(3) Defined contribution plan

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Retirement insurance	—	7,260,336.97	7,260,336.97	—
Unemployment insurance	—	409,150.25	409,150.25	—
Enterprise annuity payment	—	—	—	—
Total	—	7,669,487.22	7,669,487.22	—

The Group's salaries payable included unpaid salary bonuses, subsidies, and etc., of RMB16,923,304.96 at the end of the year and it will be paid before the end of the second quarter of 2015.

22. Taxes payable

Items	Balance at the end of the year	Balance at the beginning of the year
Value-added tax	—	14,060,390.55
Business tax	153,089.77	—
Enterprise income tax	97,168.69	—
Individual income tax	45,976.17	2,024,421.49
Urban maintenances and construction tax	776,447.81	994,179.46
Property tax	664,202.19	664,441.39
Land use tax	1,591,677.99	955,006.80
Educational surcharges	554,605.61	710,175.32
Local water conservancy construction funds	110,921.13	141,704.20
Stamp duty	445,596.60	281,078.30
Total	4,439,685.96	19,831,397.51

At the end of the reporting period, Hong Kong profits tax included in income tax payable is RMB Nil.

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

23. Interests payable

(1) Classification of interests payable

Items	Balance at the end of the year	Balance at the beginning of the year
Corporate bond interests	14,745,205.48	14,745,205.48
Bank loan interests	6,812,568.28	9,456,895.95
Total	21,557,773.76	24,202,101.43

(2) The Company has no overdue interest payable.

24. Other payables

(1) Other payables

Items	Balance at the end of the year	Balance at the beginning of the year
Total	9,439,187.44	16,898,117.61
including: Over 1 year	6,226,784.36	2,466,570.50

(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	2,031,346.95	7,756,539.96
Deposits received	6,277,355.08	7,463,182.48
Others	1,130,485.41	1,678,395.17
Total	9,439,187.44	16,898,117.61

(3) The Company has no significant other payables aged over one year.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

25. Other current liabilities

The details of other current liabilities are set out in Note VI.27.

26. Bonds Payables

The details of bonds payables are set out in Note VI.28.

27. Deferred income

The details of deferred income are set out in Note VI.29.

28. Share capital

The details of share capital are set out in Note VI.30.

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	849,481,990.92	—	—	849,481,990.92
Total	849,481,990.92	—	—	849,481,990.92

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

30. Special Reserves

This year

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Safety production fee	—	4,324,204.91	4,324,204.91	—
Total	—	4,324,204.91	4,324,204.91	—

Previous year

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Safety production fee	—	4,952,778.10	4,952,778.10	—
Total	—	4,952,778.10	4,952,778.10	—

31. Surplus Reserves

The details for surplus reserve are set out in Note VI.34.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

32. Undistributed Profits

This year

Item	Amount	Appropriation rate (%)
Last year closing balance	854,155,042.88	—
Add: adjustment to the undistributed profits at beginning of the year	—	—
Including: 《企業會計準則》 retrospective adjustment on provisions of new accounting standards	—	—
Including: Changes in accounting policies	—	—
Significant prior year adjustment	—	—
Change in consolidation scope	—	—
Other adjustments	—	—
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Balance at the beginning of the year	854,155,042.88	—
<hr/>		
Add: Net profit attributable to the owners of the company	77,784,136.54	—
Less: Appropriation of statutory surplus reserve	7,778,413.65	10.00
Appropriation of arbitrary surplus reserve	—	—
Appropriation of general reserve	—	—
Dividend paid	—	—
Share dividend transfer to capital	—	—
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Balance at the end of the year	924,160,765.77	—
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Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

32. Undistributed Profits (continued)

Previous year

Item	Amount	Appropriation rate (%)
Last year closing balance	981,137,343.28	—
Add: Opening adjustments of retained earning	—	—
Including: 《企業會計準則》 retrospective adjustment on provisions of new accounting standards	—	—
Changes in accounting policies	—	—
Significant prior year adjustment	—	—
Change in consolidation scope	—	—
Other adjustments	—	—
Balance at the beginning of the year	981,137,343.28	—
Add: Net profit attributable to the owner of the Company	(87,089,880.40)	—
Less: Appropriation of statutory surplus reserve	—	—
Appropriation of arbitrary surplus reserve	—	—
Appropriation of general reserve	—	—
Dividend paid	39,892,420.00	—
Share dividend transfer to capital	—	—
Balance at the end of the year	854,155,042.88	—

33. Net Current Assets

Items	Balance at the end of the year	Balance at the beginning of the year
Current assets	2,829,058,825.97	2,750,377,761.75
Less: current liabilities	2,397,578,449.81	2,279,867,119.74
Net current assets	431,480,376.16	470,510,642.01



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

34. Total Assets less Current Liabilities

Items	Balance at the end of the year	Balance at the beginning of the year
Total assets	5,646,076,226.60	5,451,345,728.59
Less: current liabilities	2,397,578,449.81	2,279,867,119.74
Total assets less current liabilities	3,248,497,776.79	3,171,478,608.85

35. Borrowings

The company's borrowings are summarized as follows

Items	Balance at the end of the year	Balance at the beginning of the year
Short-terms borrowing	1,353,615,321.00	1,223,404,006.00
Bonds payables	498,111,111.09	496,777,777.77
Total	1,851,726,432.09	1,720,181,783.77

(1) Borrowings analysis

Items	Balance at the end of the year	Balance at the beginning of the year
Bank loan		
— Repayable within 1 year	1,353,615,321.00	1,223,404,006.00
Sub-total	1,353,615,321.00	1,223,404,006.00
Other borrowings and payables		
— Repayable within 1 year	—	—
— Repayable after 1 year	498,111,111.09	496,777,777.77
Sub-total	498,111,111.09	496,777,777.77
Total	1,851,726,432.09	1,720,181,783.77

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

35. Borrowings (continued)

(2) Borrowing maturity analysis

Bank borrowings:

Items	Balance at the end of the year	Balance at the beginning of the year
Repayable within 1 year	1,353,615,321.00	1,223,404,006.00
Total	1,353,615,321.00	1,223,404,006.00

Other borrowings and payables:

Items	Balance at the end of the year	Balance at the beginning of the year
Repayable on demand or within one year		
1 to 2 years	498,111,111.09	—
2 to 5 years	—	496,777,777.77
Over 5 years	—	—
Total	498,111,111.09	496,777,777.77

36. Operating Revenues and Operating Costs

Items	During this year		During previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Main operation	2,411,613,882.29	2,005,922,349.02	2,213,965,977.86	2,002,271,672.07
Other operation	306,804,319.61	292,972,531.41	149,973,842.87	152,016,648.24
Total	2,718,418,201.90	2,298,894,880.43	2,363,939,820.73	2,154,288,320.31

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 outside.



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

36. Operating Revenues and Operating Costs (continued)

- (1) This year, the company's top five customers total revenue of RMB 1,045,084,622.72 (previous year: RMB932,545,892.84), accounting for 38.45% of the total this year, total operating revenue (previous year: 39.45%), as follows

Name of customer	Operating revenue	the percentage of the total sales revenue(%)
China National Petroleum Corporation	339,385,369.63	12.48
UNIX TECHNO PLUS LTD.	237,537,982.60	8.74
Maolong New Materials Company	194,102,781.69	7.14
MPM INTERNATIONAL LIMITED	153,205,665.13	5.64
YanChang Oil Field Co., Limited	120,852,823.67	4.45
Total	1,045,084,622.72	38.45

37. Tax and Levies on Operations

Items	During this year	During previous year	Tax rate
Business tax	306,720.00	—	5% of operating revenue
Urban maintenances and construction tax	7,299,382.73	1,817,647.41	7% of value-added tax and business tax payables
Educational surcharges	5,213,844.84	1,298,319.56	5% of value-added tax and business tax payables
Local water conservancy construction funds	1,042,768.96	259,663.91	1% of value-added tax and business tax payables
Total	13,862,716.53	3,375,630.88	

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

38. Selling expenses

Items	During this year	During previous year
Delivery expenses	108,335,058.03	57,436,151.56
Salary	2,598,034.90	1,855,075.72
Agency fees	15,639,542.74	1,512,220.55
Depreciation charges	1,239,965.67	1,277,064.43
Travelling expenses	1,306,766.92	1,131,768.78
Entertainment	1,714,364.79	627,928.08
Transportation fees	446,526.85	506,943.37
Office expenses	372,156.74	406,829.03
Others	2,438,762.60	1,959,391.97
Total	147,891,671.65	66,713,373.49

39. Administrative expenses

Items	During this year	During previous year
Amortisation of intangible assets	37,951,827.84	50,766,328.91
Research and development fees of new products	42,601,868.62	46,123,207.86
Salary and Staff welfare expenses	9,778,809.83	8,936,024.13
Depreciation charges	7,395,746.80	7,991,539.51
Taxes	8,972,374.80	7,375,545.61
Machinery material consumption	1,897,476.13	4,399,409.16
Entertainment	1,323,443.52	1,474,938.97
The board fees	2,008,309.86	1,095,914.28
Water and electricity fees	1,079,353.10	560,408.18
Others	1,061,155.03	5,099,548.12
Total	114,070,365.53	133,822,864.73



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. 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	66,535,383.05	59,218,456.92
Less: Interest income	19,119,452.20	12,073,108.73
Add: Foreign exchange loss	(341,450.66)	(4,982,594.61)
Add: Other expenses	6,648,190.16	7,334,562.86
Total	53,722,670.35	49,497,316.44

(2) Interest expenses breakdown

Items	During this year	During previous year
Bank loan interest	58,886,816.44	54,560,676.88
Bank loan interest	27,333,333.32	14,745,205.48
Discount charges on bank acceptance notes	148,633.25	40,849.33
Sub-total	86,368,783.01	69,346,731.69
Less: Capitalised interest expenses	19,833,399.96	10,128,274.77
Total	66,535,383.05	59,218,456.92

During this year, borrowing interest capitalised is 5.33% for the Company (2013: 5.23%).

(3) Interest income breakdown

Items	During this year	During previous year
Interest income from bank deposits	19,119,452.20	10,534,775.40
Interest income from non-financial enterprise	—	1,538,333.33
Total	19,119,452.20	12,073,108.73

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. 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	1,642,175.01	5,624,248.70
Provision of bad debt	6,992,362.00	37,571,025.60
Intangible assets impairment loss	—	33,968,375.45
Total	8,634,537.01	77,163,649.75

42. Non-operating income

(1) Breakdown of non-operating income

Items	During this year	During previous year	The amount of non-recurring items included in this year
Total income on disposal of non-current assets	427,654.67	158,637.07	427,654.67
Included: Income on disposal of fixed assets	427,654.67	158,637.07	427,654.67
Income on disposal of intangible assets	—	—	—
Government grants	2,596,483.72	11,435,000.00	2,596,483.72
Others	555,515.95	1,495,363.88	555,515.95
Total	3,579,654.34	13,089,000.95	3,579,654.34

Non-operating income during this year is RMB3,579,654.34 (Previous year: RMB13,089,000.95).

(2) Breakdown of government grants

Items	During this year	During previous year	Source and basis	Related to assets/ Related to income
Government subsidies	788,483.72	9,627,000.00	Note VI.47 (1) to (4)	Related to income
Deferred income amortised	1,808,000.00	1,808,000.00	Note VI.47 (6)	Related to assets
Total	2,596,483.72	11,435,000.00		



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

43. Non-operating expenses

Items	During this year	During previous year	Included in this year of non recurring profit and loss
Loss on disposal of non-current assets	153,380.33	570,448.17	153,380.33
Including: Loss on disposal of fixed assets	153,380.33	570,448.17	153,380.33
Loss on disposal of intangible assets	—	—	—
Debt restructuring loss	—	—	—
Non-monetary assets exchange loss	—	—	—
Donation expenses	104,000.00	94,000.00	104,000.00
Inventory losses	—	—	—
Others	18,019.29	—	18,019.29
Total	275,399.62	664,448.17	275,399.62

Non-operating expenses during this year is RMB275,399.62 (Previous year: RMB664,448.17).

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		
Including: PRC	1,967,745.15	—
Hong Kong	—	—
Deferred income tax	4,893,733.43	(21,406,901.69)
Total	6,861,478.58	(21,406,901.69)

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

44. Income tax (credit) expenses (continued)

(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 profit (loss)	84,645,615.12	(108,496,782.09)
Income tax calculated at tax rate of 15% on the Company	12,696,842.27	(16,274,517.31)
Tax effect of non-deductible expenses	182,942.79	117,893.37
Additional charge on research and development expenditure	(5,059,678.71)	(5,266,794.04)
Tax effect of tax loss not recognized	—	—
Difference between applicable income tax rate for previous year and applicable tax rate for deferred tax assets or liabilities recognized	(958,627.77)	16,516.29
Income tax expenses (credit)	6,861,478.58	(21,406,901.69)

45. Depreciation and amortisation

The depreciation charge and the amortisation charge for this year are RMB130,512,154.56 and RMB37,951,827.84 respectively (Previous year: RMB122,442,864.03 and RMB50,766,328.91 respectively).

46. Supplementary notes to the Company's year: RMB amortisation charge

Details of expenses (including operating cost, selling expenses and administrative expenses) by nature:

Items	During this year	During previous year
Consumables	1,992,103,008.83	1,868,117,479.67
Salaries	94,291,308.27	89,630,042.94
Depreciation charges	130,512,154.56	122,442,864.03
Amortisation	37,951,827.84	50,766,328.91
Product license	188,464,282.84	108,370,833.00
Utilities	100,320,682.64	89,732,048.30
Other tax expenses	8,972,374.80	7,375,545.61
Others	8,241,277.83	18,389,416.07
Total	2,560,856,917.61	2,354,824,558.53



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. Notes to statement of financial position of the Company (continued)

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	788,483.72	9,656,000.00
Interest income	21,054,798.31	10,519,430.26
Decrease in foreign exchange guarantees deposit	86,070,750.79	—
Others	77,258,663.86	162,673,325.97
Total	185,172,696.68	182,848,756.23

(2) Other cash payments relating to operating activities

Items	During this year	During previous year
Delivery fee	108,382,428.86	57,822,035.98
Development fees for new products	39,805,433.51	46,123,207.86
Consumable	1,897,476.13	5,067,848.63
Agency fees	30,225,160.26	2,884,423.14
Travelling fees	1,801,992.23	1,425,853.18
Repair expenses	549,260.52	277,717.48
Water and electricity expenses	1,079,353.10	560,408.18
Entertainment	3,037,808.31	2,102,867.05
Increased in foreign exchange guarantees deposit	—	64,685,182.51
Increased in restricted deposits	44,974,650.00	—
Others	73,971,634.92	49,044,051.30
Total	305,725,197.84	229,993,595.31

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. 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)

(3) Other cash receipts relating to financing activities

Items	During this year	During previous year
Reduced in security deposit for letter of guarantee	38,860,000.00	—
Reduced in guarantee deposit for bank loan	68,901,974.00	—
Total	107,761,974.00	—

(4) Other cash payments relating to financing activities

Items	During this year	During previous year
Increase in security deposit for letter of guarantee	—	13,860,000.00
Increase in the guarantee deposit for bank loan	—	73,901,974.00
Total	—	87,761,974.00



Notes to the Financial Statements

1 January 2014 to 31 December 2014

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

XVI. 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
1. Reconciliation of net income to cash flow:		
Net profit (loss)	77,784,136.54	(87,089,880.40)
Add: Provision for impairment loss of asset	8,634,537.01	77,163,649.75
Depreciation of fixed assets	130,782,775.92	126,522,936.65
Amortisation of intangible assets	37,951,827.84	50,766,328.91
Amortisation of deferred expenditure	—	—
Loss on disposal of fixed asset, intangible asset and other long-term asset	(274,274.34)	411,811.10
Fixed assets written off	—	—
Gain from changes in fair value	—	—
Finance costs	66,535,383.05	57,148,960.98
Investment income	—	—
Decrease (Increase) in deferred tax assets	5,184,035.35	(21,639,953.46)
(Decrease)Increase in deferred tax liabilities	(290,301.92)	233,051.77
Decrease in inventories	74,627,411.37	53,014,724.89
Increase in operating receivables	(20,556,124.79)	(359,130,214.75)
Increase (decrease) in operating payables	124,801,407.39	(186,413,711.47)
Others	(1,808,000.00)	(1,808,000.00)
Net cash flows from (used in) operating activities	503,372,813.42	(290,820,296.03)
2. Significant investing and financing activities not involving cash receipt or payment:		
Conversion of debts to capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired under finance lease	—	—
3. Changes in cash and cash equivalents:		
Balance of cash at the end of the year	485,372,230.80	210,108,724.61
Less: Balance of cash at the beginning of the year	210,108,724.61	354,662,620.79
Add: Balance of cash equivalents at the end of the year	—	—
Less: Balance of cash equivalents at the beginning of the year	—	—
Net increase (decrease) in cash and cash equivalents	275,263,506.19	(144,553,896.18)

Notes to the Financial Statements



1 January 2014 to 31 December 2014

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

XVI. 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	40,943.88	25,452.47
Bank deposit available for payments at any moment	267,432,928.72	81,343,970.87
Other funds available for payments at any moment	217,898,358.20	128,739,301.27
2. Cash and equivalents	485,372,230.80	210,108,724.61
Restricted other fund	118,366,326.70	267,224,401.49
3. Cash and cash equivalent at the end of the year	603,738,557.50	477,333,126.10

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 RMB68,391,676.70, RMB5,000,000.00 and RMB44,974,650.00 respectively.

XIV. Approval of the Financial Statements

This financial statement was approved by the Board of Directors on 30 March 2014.



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號公開非經常性損益(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	(60,684.55)	
Authority approval or without official approval or accidental file tax return, relief	—	
Government subsidies in profit and loss of the year	2,940,738.77	
Included in the current profits and losses of the charge of non-financial enterprises fund possession fee	—	
Enterprises to obtain subsidiaries, associates and joint ventures investment cost is less than the investment made to enjoy the fair value of identifiable net assets invested to produce income	—	
Non-monetary assets exchange gains and losses	—	
Loss commissioned investment or asset management	—	
Due to force majeure, such as natural disasters and the impairment provision of the assets	—	
Debt restructuring gain or losses	—	
Corporate restructuring costs	—	
Significant loss of fair trading price of the transaction over the fair value of the portion of the profit or loss	—	
Subsidiaries under common control business combination from the beginning to the profit or loss of the merger date	—	
Gains and losses unrelated to the Company's normal business operations or matters arising	—	
In addition to effective hedging business with the Company's business related, the changes in fair value of financial assets held for trading, trading financial liabilities, as well as disposal of financial assets and financial liabilities held for trading and available-for-sale financial assets investment income	—	
Impairment of receivables separate impairment test back	—	
Income of foreign entrusted loans	—	
Losses from changes in fair value of investment property using the fair value model for subsequent measurement of the resulting	—	
According to tax, accounting and other laws and regulations require a one-time adjustment of the profit and loss impact on profit or loss	—	
Custodian fee income entrusted operation	—	
In addition to the above, the non-operating income and expenditure	3,015,275.14	
Other gains and losses in line with the definition of non-recurring gains and losses	—	
Sub-total	5,895,329.36	
Less: Income tax effect	670,829.20	
Effect of minority interests (after tax)	39,262.59	
Total	5,185,237.57	

Supplementary Information on the Financial Statements



1 January 2013 to 31 December 2013

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

2. Return on Net Assets and (Loss) Earnings per Share

Profit during the reporting period	Weighted average return on assets (%)		Earnings per share			
	2014	2013	Basic		Diluted	
			2014	2013	2014	2013
Net profit (loss) attributable to holders of ordinary shares of the company	0.75	(6.31)	0.03	(0.22)	0.03	(0.22)
Net profit (loss) attributable to holders of ordinary shares of the company after deducting the non-recurring gain and loss	0.56	(7.06)	0.02	(0.25)	0.02	(0.25)

Shandong Molong Petroleum Machinery Company Limited

March 30, 2015



XI. Documents Available for Inspection

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 30, 2015

