



# 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)



**2015**  
Annual  
Report

\* For identification purpose only



# I. Important, Contents and Definitions

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## Important

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

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

All directors attended the Board meeting for considering this report.

(1) The global economy still be depressed. 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. (2) Extraordinary fluctuation in raw material prices will directly affect production cost and result in direct impact on the price of our products. (3) Appreciation of RMB will lower the competitiveness of our products in the international market. We will adopt measures to expand our product market coverage to avoid Renminbi fluctuation risk.

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 2015.

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# I. Important, Contents and Definitions

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## Definitions

“Company”, “the Company”, and “Shandong Molong”	refer to Shandong Molong Petroleum Machinery Company Limited
“the Group”	referred to the Company and its subsidiaries
“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.

## II. Company Profile



### I. Company Information

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

### II. Contact Information

	<b>The Secretary of the Board</b>	<b>Securities Affairs Representative</b>
Name	Zhao Hong Feng	Wang Jian Lei
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	dsh@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



## II. Company Profile

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

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

### IV. Registry Changes

Organization No.	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, Zhang Xiu Qin

Sponsor institution which execute supervisor duties retained by company in report period

Applicable     Not Applicable

Financial consultant which execute supervisor duties retained by company in report period

Applicable     Not Applicable

## II. Company Profile



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

Whether the company retroactive adjustment or restate previous year accounting data due to accounting policy alternative and correction of accounting error etc

Yes  No

Item	2015	2014	Year-on-year Increase/ Decrease (%)	2013
Operating Revenue	<b>1,613,917,735.08</b>	2,522,102,479.29	-36.01%	2,272,034,335.20
Net profit attributable to equity holders of Listed Company	<b>(259,565,004.32)</b>	20,233,190.77	-1,382.87%	(175,722,248.47)
Net profit after extraordinary gains or losses attributable to equity holders of Listed Company	<b>(281,474,328.22)</b>	15,047,953.20	-1,970.52%	(196,511,294.56)
Net cash flows from operating activities	<b>20,632,788.47</b>	400,589,007.36	-94.85%	(155,479,887.20)
Basic earning per Share (RMB)	<b>(0.33)</b>	0.03	-1,200.00%	(0.22)
Diluted earning per Share (RMB)	<b>(0.33)</b>	0.03	-1,200.00%	(0.22)
Net Assets Income Rate (%)	<b>-10.12%</b>	0.75%	-10.87%	-6.31%

Item	2015	2014	Year-on-year Increase/ Decrease (%)	2013
Total assets	<b>5,851,180,723.61</b>	6,044,500,696.03	-3.20%	5,793,466,052.68
Net assets attributable to shareholders of Listed Company (owners' interests attributable to shareholders of List Company)	<b>2,433,157,226.21</b>	2,694,285,331.17	-9.69%	2,674,103,955.73

### VII. Domestic and foreign accounting data difference in accounting standard

1. In the report period the difference retained profits and net asset is nonexistent by the IAS and Chinese accounting standard disclosed financial reports.
2. In the report period the difference retained profits and net asset is nonexistent by the overseas accounting standard and Chinese accounting standard disclosed financial reports.



## II. Company Profile

### VIII. Main financial indicators quarterly

Unit: RMB

	The first quarter	The second quarter	The third quarter	The forth quarter
Operation revenue	567,637,950.76	530,011,686.15	255,712,706.80	260,555,391.37
Vest in net profit of listed companies' Shareholders	4,592,299.53	5,720,987.38	2,405,037.84	(272,283,329.07)
Vest in net profit which deduct non-recurring profit and loss of listed companies' Shareholders	2,314,467.96	(12,142,445.62)	2,054,831.32	(273,701,181.88)
Cash flow net amount produced by business activities	(28,074,565.91)	154,833,480.72	(16,090,814.20)	(90,035,312.14)

Any above financial index or total number has great difference with disclosed quarterly report and semi-annual reports financial index.

Applicable  Not Applicable

### IX. Extraordinary Gains or Losses Items

Applicable  Not Applicable

Unit: RMB

Item	2015	2014	2013	Instruction
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	<b>(86,303.29)</b>	(60,684.55)	(370,184.13)	—
Government grant recognised in current profit and loss (excluding those grants that are closely related to the Company's business and that were granted in accordance with the standard amount or volume prescribed by the State)	<b>24,592,306.17</b>	2,940,738.77	12,615,077.46	—
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	<b>398,730.63</b>	—	—	—
Non-operating gain or loss other than the above	<b>400,766.42</b>	3,015,275.14	1,539,573.50	—
Less: Effect of extraordinary gains or losses	<b>3,320,969.18</b>	670,829.20	(2,899,186.46)	—
Effect of extraordinary gains or losses on minority shareholders interest (after tax)	<b>75,206.85</b>	39,262.59	1,551,913.13	—
Total	<b>21,909,323.90</b>	5,185,237.57	20,789,046.09	—

## II. Company Profile

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In report period company according to «Explanatory announcement No. 1 on information disclosure by companies offering securities to the public — non-recurring profit or loss» defined and enumerative non-recurring profit and loss projects are defined as recurring profit and loss project, explain the reason.

Applicable     Not Applicable

It's not exist that in report period company according to «Explanatory announcement No. 1 on information disclosure by companies offering securities to the public — non-recurring profit or loss» defined and enumerative non-recurring profit and loss projects are defined as recurring profit and loss project



## III. Company business summary

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### I. Company primary service in report period

- (1) For domestic market, the Group's oil well tubes major customers are PetroChina , Sinopec , CNOOC and Yanchang oil fields . And also cover machining shipbuilding high-pressure boiler gas cylinder tubes, Car dedicated pipes and other domains . The market development scope keep growing.
- (2) For overseas market, the Group continued to develop its business in Central Asia, Middle East, South America and North Africa during the reporting period and develop new customers relationship by mainly selling casing and tubing, line pipe products, subsea pipeline 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 market, and popularity in the international oil drilling equipment market. Currently, the Group has established and maintained good and long-term cooperative relationships with many overseas oil suppliers and oil field service companies, which results in raising the sales in the overseas markets. During the reporting period, the Group's revenue from exports accounted for approximately 51.48% 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 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 premium connection, large diameter ML-SST and ML-OTTM thread casing, ML-FR quick connection, ML110TS anti H<sub>2</sub>S corrosion high anti squeezing pipe, MLC/T-2 anti squeezing bend pitch thread connection casing, X100Q high grade steel line pipe, Low temperature high tenacity line pipe, 55Mn2 high wear resistance steel pipe, antiSpray riffling pump, antiscala antigas pump, slide valve anti sand feedback type pumping viscous pump 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 .

### III. Company business summary



#### II. Significant changes in prime assets

##### 1. Significant changes in prime assets

Prime assets	Significant change instructions
Stock rights assets	Mainly as a result of decreased 94.88% compare with beginning of the year company increase purchase Maolong Microfinance Company stock rights and shareholding ratio rise and bring into consolidation scope
Fixed assets	No significant change
Intangible assets	No significant change
Construction in process	Mainly as a result of increased 100.56% compare with beginning of the year progress payment for technical innovation of casting plant overall relocation project continuous
Other non-current assets	Mainly as a result of decreased 44.82% compare with beginning of the year advance payment for equipment shift to construction in process

##### 2. Primary overseas assets condition

Applicable     Not Applicable

#### III. 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, ML-IJ enhanced direct connection casing , MLC — FR quick connection casing , large diameter high thickness wall high steel grade anti H<sub>2</sub>S acid line pipe, ML95YG high strength and high toughness of the hydraulic oil cylinder seamless steel tube , large diameter thin-walled cylinder high-pressure alloy seamless steel pipe, slide valve anti sand feedback type pumping viscous pump, high temperature resistant anticorrosive pump are included in the Shandong provincial technology innovation project, anti-CO<sub>2</sub> 13 Cr oil pipe and casing, ML110SS, C110 anti-H<sub>2</sub>S 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 premium connection, large diameter ML-STT and ML-OTTM thread casing, ML-FR quick connection, ML110TS anti H<sub>2</sub>S corrosion high anti squeezing pipe, MLC/T-2 anti squeezing bend pitch thread connection casing, X100Q high grade steel line pipe, Low temperature high tenacity line pipe, 55Mn2 high wear resistance steel pipe, antiSpray riffling pump, antiscale antigas pump, slide valve anti sand feedback type pumping viscous pump 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. Discussion and analyzation of management

### I. Overview

During 2015. 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. Affected by the above factors, the product sales price dropped substantially, coupled with affected by the company's  $\Phi 180$  oil pipe production line production maintenance, the company 2015 annual business performance is impacted.

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

#### 1. Overview

Reference. Overview in the "Discussion and analyzation of management "

#### 2. Income and cost

##### (1) Operation income composition

Unit: RMB

	2015		2014		Year-on-year Increase/ Decrease
	Amount	Attributable to the percentage of the operating income	Amount	Attributable to the percentage of the operating income	
Operating Revenue	<b>1,613,917,735.08</b>	<b>100%</b>	2,522,102,479.29	100%	-36.01%
<b>By industry</b>					
Special equipment manufacturing	<b>1,613,917,735.08</b>	<b>100.00%</b>	2,522,102,479.29	100.00%	-36.01%
<b>By product</b>					
Tubings & Casings	<b>1,455,669,482.04</b>	<b>90.19%</b>	2,241,750,781.30	88.89%	-35.07%
Three kinds of pumping units	<b>44,075,407.13</b>	<b>2.73%</b>	69,191,280.09	2.74%	-36.30%
Petroleum machinery	<b>80,706,851.84</b>	<b>5.01%</b>	163,457,880.46	6.48%	-50.63%
Others	<b>33,465,994.07</b>	<b>2.07%</b>	47,702,537.44	1.89%	-29.84%
<b>Geographical segment</b>					
PRC	<b>791,549,269.47</b>	<b>49.05%</b>	1,364,198,107.29	54.09%	-41.98%
Abroad	<b>822,368,465.61</b>	<b>50.95%</b>	1,157,904,372.00	45.91%	-28.98%

## IV. Discussion and analyzation of management



### (2) Industry, productions or geographical account for the company revenue more than 10%

Applicable     Not Applicable

	Revenue from operations	Cost of sales	Gross profit margin	Year-on-year increase/decrease in revenue from Operations	Year-on-year Increase/decrease in cost of sales	Year-on-year increase/decrease in gross profit margin
<b>By industry</b>						
Special equipment manufacturing	1,455,669,482.04	1,349,457,710.75	7.30%	-35.07%	-28.02%	-7.39%
<b>By product</b>						
Tubings & Casings	1,455,669,482.04	1,349,457,710.75	7.30%	-35.07%	-28.02%	-7.39%
<b>Geographical segment</b>						
PRC	724,245,566.83	781,081,038.02	-7.85%	-40.49%	-31.65%	-13.95%
Abroad	731,423,915.21	568,376,672.73	22.29%	-25.39%	-22.34%	-3.05%

Condition of major business data statistical caliber was adjusted in the report period, After major business data statistical caliber was adjusted end of report period at last one year.

Applicable     Not applicable

### (3) Whether company entity sales revenue more than labour service revenue

Yes     No

By industry	Items	2015	2014	Year-on-year Increase/decrease (%)
Special equipment manufacturing	Sales volume	<b>37.53</b>	39.77	-5.64%
	Production volume	<b>36.37</b>	39.96	-8.98%
	Inventories	<b>12.31</b>	15.24	-19.23%

Reason of relevant data Year-on-year changement more than 30%

Applicable     Not applicable



## IV. Discussion and analyzation of management

### (4) Performance condition of company signed sales contract until this period report

Applicable     Not applicable

### (5) Operation income composition

*By product*

By product	items	2015		2014		Year-on-year Increase/Decrease
		Account	Attributable to the percentage of the operating costs	Account	Attributable to the percentage of the operating costs	
Tubings & Casings	Materials	<b>952,852,089.56</b>	<b>70.61%</b>	1,431,963,030.87	76.35%	-5.74%
Tubings & Casings	Depreciation	<b>154,108,070.57</b>	<b>11.42%</b>	152,667,702.31	8.14%	3.28%
Tubings & Casings	Labour Cost	<b>75,839,523.34</b>	<b>5.62%</b>	93,963,782.38	5.01%	0.61%
Tubings & Casings	Expenses	<b>166,658,027.28</b>	<b>12.35%</b>	196,930,082.83	10.50%	1.85%
Three kinds of pumping units	Materials	<b>25,583,158.61</b>	<b>68.02%</b>	39,699,265.96	71.88%	-3.86%
Three kinds of pumping units	Depreciation	<b>3,110,448.72</b>	<b>8.27%</b>	2,822,248.87	5.11%	3.16%
Three kinds of pumping units	Labour Cost	<b>5,735,712.57</b>	<b>15.25%</b>	7,505,746.03	13.59%	1.66%
Three kinds of pumping units	Expenses	<b>3,181,910.05</b>	<b>8.46%</b>	5,202,658.39	9.42%	-0.96%
Petroleum machinery	Materials	<b>51,453,574.81</b>	<b>79.46%</b>	101,367,742.27	84.50%	-5.04%
Petroleum machinery	Depreciation	<b>4,973,111.69</b>	<b>7.68%</b>	5,598,964.40	4.67%	3.01%
Petroleum machinery	Labour Cost	<b>5,458,767.12</b>	<b>8.43%</b>	7,541,438.23	6.29%	2.14%
Petroleum machinery	Expenses	<b>2,868,604.79</b>	<b>4.43%</b>	5,458,711.65	4.55%	-0.12%
Others	Materials	<b>11,856,608.67</b>	<b>73.00%</b>	20,048,369.95	76.25%	-3.25%
Others	Depreciation	<b>1,521,868.81</b>	<b>9.37%</b>	2,169,167.90	8.25%	1.12%
Others	Labour Cost	<b>2,005,878.32</b>	<b>12.35%</b>	2,957,956.22	11.25%	1.10%
Others	Expenses	<b>857,573.89</b>	<b>5.28%</b>	1,117,450.13	4.25%	1.03%

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

## IV. Discussion and analyzation of management



### (6) Whether consolidation scope changed in report period

Yes     No

Combined financial statement of company compare with last year, Not under the same control enterprise merger shouguang Maolong petty loan limited liability company. New established increase Shandong Molong import and export limited company.

### (7) In report period company's business, productions or service have significant change or adjustment

Applicable     Not applicable

### (8) Overview of the Company's major trade debtor and suppliers

*The main customer sales situation of company*

Total sales to top 5 customers (RMB) 682,143,521.26  
The percentage of the total sales for the year attributable to the total sales to top 5 customers (%) 42.26%

*Information on top 5 customers*

Serial number	Name of customer	Saleroom (Unit: RMB)	Percentage of total sales of the year (%)
1	UNIX TECHNO PLUS LTD.	211,648,249.36	13.11%
2	OFFSHORE ENGINEERING AND MARKETING LTD	185,980,020.54	11.52%
3	Hebei Zhongtai Steel Pipe Manufacturing Co., Ltd	114,075,523.38	7.07%
4	PetroChina Company Limited	89,664,657.19	5.56%
5	Campex Inc	80,775,070.79	5.00%
Total		682,143,521.26	42.26%

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



## IV. Discussion and analyzation of management

### Overview of the Company's major suppliers

Total purchase amount of the top 5 suppliers (RMB)	551,749,869.33
Percentage of the total purchase amount of the top 5 suppliers to the total purchase amount of the year	55.29%

### 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	ZiBo Qi Lin BoShan steel Co.,Ltd	179,506,274.80	17.99%
2	Lin Qu Tian Tai De Long Casting Co. Ltd	129,732,858.90	13.00%
3	Qingzhou Tian Tai De Long Casting Co. Ltd	114,389,171.50	11.46%
4	Shandong Shouguang Juneng Special Steel Co., Ltd	101,649,884.40	10.19%
5	LinYi LiYuan renewable resources development Co., Ltd	26,471,679.72	2.65%
Total		551,749,869.33	55.29%

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. Expenses

Unit: RMB

	2015	2014	Year-on-year increase/decrease	Description of Significant change
Selling expenses	<b>124,886,386.85</b>	156,540,037.32	-20.22%	Mainly as a result of current year sales sharp decrease, relevant expenses decrease.
Management expenses	<b>175,105,370.71</b>	143,541,730.67	21.99%	Mainly as a result of current year independent R&D nonpatented technology amortization increase, depreciation increase and wage increase
Finance expenses	<b>49,163,255.55</b>	51,351,540.56	-4.26%	
Assets impairment loss	<b>80,778,432.85</b>	8,251,501.69	878.95%	Mainly as a result of production's sale price decrease, required inventory decrease, prepared amount increase.

## IV. Discussion and analyzation of management

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### 4. R&D expenditures

Applicable     Not applicable

On the basis of property and research and development ultimately form intangible assets. Whether R&D expenditures have large nondeterminacy. The company R&D expenditures divided into research stage expenditures and development stage expenditures.

In the company new product research and development is from earlier stage to mature use. Need experience research stage and development stage: research stage include investigate and survey, demonstration, project approval and examine and approve for new product development, preliminary research work (formula and process design, equipment selection, technical standard etc), monthly new product development planning and examine and approve stage, check and accept for the monthly new product development planning and examine and approve signs new product research stage finish. Development stage includes trial production of new products, project acceptance inspection etc stage. Project acceptance inspection signs new product development stage finish.

Development stage beginning time-point: monthly new product development planning and examine and approve stage complete, new product preliminary study work has been finished, Product formula and technical standard have been confirmed.

Research stage expenditures, when it happened reckon in current profit and loss.

Development stage expenditures. Simultaneously satisfy following conditions and identified as intangible assets

- (1) Finish intangible assets and there is feasibility in the use and sales by technology.
- (2) The management has intention to finish intangible assets and use and sales.
- (3) The way produced economic interest by intangible assets. Can prove there is serviceability for produced productions by intangible assets or intangible assets exist market, intangible assets be used in interior.
- (4) There is enough technology, financial resources and other resource support to finish R&D of intangible assets. And it can be used and saled.
- (5) Expenditure belongs to intangible assets development stage can be measured reliably.

Expenditure belongs to intangible assets development stage which is not meet the above conditions when it happens reckon in current profit and loss. Development expenditure which have reckon in profit and loss at earlier stage is no longer recognized as assets in the future. R&D expenditures which has capitalized will be listed as development expenditure in the balance sheet. When this project receives serviceable condition and turns into intangible assets.



## IV. Discussion and analyzation of management

### Company R&D expenses

	2015	2014	Change (%)
Number of R&D people	175	198	-11.62%
Proportion of R&D people	10.36%	10.85%	-0.49%
R&D expenses (RMB)	57,561,045.69	81,958,206.51	-29.77%
R&D expenses accounts for operation revenue	3.57%	3.25%	0.32%
R&D expenses capitalized amount (RMB)	30,758,411.75	39,356,337.89	-21.85%
Capitalized R&D expenses accounts for R&D expenses	53.25%	48.02%	5.23%

### Reason for proportion which is R&D expenses accounts for operation revenue has a significant change

Applicable     Not applicable

### Reason and rationality explain for capitalized R&D expenses accounts for R&D expenses has a significant change

Applicable     Not applicable

## 5. Cash flow

Item	2015	2014	Unit: RMB
			Year-on-year increase/decrease (%)
Cash inflow subtotals from operating activities	1,715,592,002.68	2,181,332,250.01	-21.35%
Cash outflow subtotals from operating activities	1,694,959,214.21	1,780,743,242.65	-4.82%
Net cash flow from operating activities	20,632,788.47	400,589,007.36	-94.85%
Cash inflow subtotals from investment activities	4,847,341.32	654,388.12	640.74%
Cash outflow subtotals from investment activities	255,776,500.34	291,668,846.75	-12.31%
Net cash flow from investment activities	(250,929,159.02)	(291,014,458.63)	-13.77%
Cash inflow subtotals from financing activities	2,417,498,251.09	2,657,542,859.72	-9.03%
Cash outflow subtotals from financing activities	2,478,613,851.80	2,603,326,819.36	-4.79%
Net cash flow from financing activities	(61,115,600.71)	54,216,040.36	-212.73%
Net increase in cash and cash equivalents	(278,533,864.17)	166,296,425.19	-267.49%

### Explanation on why the related data was varied

Applicable     Not applicable

## IV. Discussion and analyzation of management



1. Net cash flow from operating activities decreased by 94.85% compared with same period last year. Mainly because the Company's production sale price sharply decrease ,sale income sharply decrease.
2. Cash outflow from investment activities increased by 640.74% compared with same period last year. Mainly because Company receive shouguang Baolong subsidiary corporation Maolong small loan company earning, before September additional investment.
3. Net cash flow from investment activities decreased by 212.73% compared with same period last year, mainly because this period received loan and L/G cash deposit decrease in other relevanted financial activities.

### Explanation on why cash flow from the company operating activities has a significant variance with the current year retained profits.

Applicable     Not applicable

Net cash flow from operating activities is RMB20,632,788.47 in this year. Current year retained profits RMB-286,498,946.90, has a significant difference. Mainly because deduct depreciation for plant assets, amortization of intangible assets, inventory decrease, operational receivables decrease, operational payables increase.

### III. Non-primary business analyzation

Applicable     Not applicable

	Amount	Percentage of the total profit	Explanation	Sustainability
Income from investment	(1,127,461.14)	0.38%	Mainly because current year company purchase Shouguang Molong petty loan company stock rights and merge previous formative earnings in September	NO
Impairment of asset	80,778,432.85	-27.06%	Mainly because current year production's price sharply decrease, company inventory falling price reserves.	NO
Non-operating income	26,700,315.46	-8.95%	Mainly because current year company receive public subsidy.	NO
Non-business expenses	1,394,815.53	-0.47%	Mainly because current year dispose loss of assets and penalty cost	NO



## IV. Discussion and analyzation of management

### IV. Analysis of Assets, liabilities condition

Unit: RMB

#### 1. Significant changes in assets

	31 December 2015		31 December 2014		Percentage change	Explanation on the major changes
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Funds	<b>349,815,773.50</b>	<b>5.98%</b>	615,209,216.38	10.18%	-4.20%	Decrease 43.14% compare with beginning of this year, Mainly because current period company income decrease
Amounts receivables	<b>497,239,999.28</b>	<b>8.50%</b>	608,640,409.68	10.07%	-1.57%	Decrease 18.30% compare with beginning of this year, Mainly because current period company income decrease
Inventory	<b>903,784,288.00</b>	<b>15.45%</b>	1,019,069,690.68	16.86%	-1.41%	Decrease 11.31% compare with beginning of this year, Mainly because current period inventory liquidating and inventory cost reduce.
investment property	—	<b>0.00%</b>	—	0.00%	0.00%	
long-term equity investment	<b>2,783,902.87</b>	<b>0.05%</b>	54,356,021.71	0.90%	-0.85%	Decrease 94.88% compare with beginning of this year, Mainly because current period bring Shouguang Molong petty loan company into merge, Merger and offset of long-term equity investment.
Fixed assets	<b>1,291,476,197.17</b>	<b>22.07%</b>	1,827,767,103.63	30.24%	-8.17%	Decrease 29.34% compare with beginning of this year, Mainly because fixed assets depreciation and parts of overhaul equipments shift to Construction in progress
Construction in progress	<b>1,710,795,797.18</b>	<b>29.24%</b>	853,004,896.75	14.11%	15.13%	Increase 100.56% compare with beginning of this year, Mainly because continuously input at new project and overhaul equipments shift to Construction in progress business accounting
short-term borrowing	<b>1,469,055,063.41</b>	<b>25.11%</b>	1,414,805,321.00	23.41%	1.70%	

## IV. Discussion and analyzation of management

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### 2. Assets and liabilities measured by fair value

Applicable     Not applicable

## V. Investment situation

### 1. Overall condition

Applicable     Not applicable

### 2. Significant equity investment that company gained in the report period.

Applicable     Not applicable

### 3. Significant non-equity investment that company was on going in the report period.

Applicable     Not applicable

### 4. Financial assets are measured by fair value

Applicable     Not applicable

### 5. Service condition of Raise funds

Applicable     Not applicable

There is no service condition of Raise funds in company report period.

## VI. Material assets and right offering

### 1. Sell significant asset

Applicable     Not applicable

Company didn't sell significant asset in the report period.

### 2. Sell significant stock rights

Applicable     Not applicable



## IV. Discussion and analyzation of management

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

Name of company	Company Type	The main products or services	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
MPM International Limited	Subsidiary corporation	Acquisition and sales of petroleum extraction and chemical machinery electric equipment	USD1,000,000	67,677,024.11	(2,691,216.90)	8,811,115.40	(2,541,843.72)	(2,576,372.07)
Shouguang Maolong new materials technological development Limited	Subsidiary corporation	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	1,244,728,577.91	454,202,025.17	13,000.00	(2,549,267.44)	(1,624,435.60)
Molong Electro-mechanical Equipment	Subsidiary corporation	Manufacture and sales of outer thickening oil well tubing and electrical complete equipment	USD1,000,000	99,017,733.28	57,753,709.23	57,074,170.71	169,491.79	(163,557.55)
Wendeng Baolong Recyclable Resource	Subsidiary corporation	Trading and sales of scrap metals	300,000	2,522,370.62	2,497,391.41	—	(879.97)	(879.97)
Shouguang Maolong Recycle	Subsidiary corporation	Trading of scrap metals	500,000	1,403,571.81	1,055,926.00	12,628,900.17	(804,647.96)	(275,882.46)
Shouguang Baolong	Subsidiary corporation	Manufacture and sales of oil equipment	150,000,000	802,966,997.00	56,995,860.98	885,701,342.32	(121,879,410.42)	(128,490,729.25)
Weihai Baolong	Subsidiary corporation	Manufacture and sales of metal material specialized for petroleum use	26,000,000	318,055,277.62	251,591,983.90	55,770,131.02	(42,305,075.01)	(45,448,019.74)
Molong Logistic Company	Subsidiary corporation	Warehouse (not including restricted items), loading of goods, logistic information enquiry	3,000,000	89,522,755.75	2,730,596.40	2,182,988.60	548,627.10	546,029.66
Shouguang Maolong Microfinance Company Limited	Subsidiary corporation	Origination of loans in Shouguang City; development of small enterprise business; management	150,000,000	155,965,240.80	154,074,421.11	3,464,024.40	2,774,848.76	2,080,767.97
Shandong Molong import and export limited	Subsidiary corporation	Operate cargo import and export in the country permissible range, Trade consultation service	10,000,000	59,106,750.69	10,037,024.68	394,482.56	49,366.25	37,024.68
Yalong Oil Machinery Co. Ltd	Joint stock company	Design, produce and sales of machinery Equipment: sales of hardware & electric material, electronic products, construction materials, steel products	6,400,000	20,600,555.78	9,192,415.07	17,163,486.12	409,106.46	327,204.00

In report period acquired and disposed Joint stock company's condition

Applicable     Not applicable

## IV. Discussion and analyzation of management



Name of company	In report period acquired and disposed Joint stock company's way	Effect to production and management and performance
Shandong Molong import and export limited	Newly established	From inception date to the end of current year revenue realization is 394,482.56RMB, Operating profit 49,366.25RMB.
Shouguang Maolong Microfinance Company	Purchase	Sep current year company increased investment of Maolong Microfinance Company and got corporate right of control , From SEP to DEC revenue is 3,464,024.40 RMB, Generated profit is 2,774,848.76RMB.

### Explanation for the holding and joint stock company's condition

Company major Joint stock company is Yalong Oil Machinery Co. Ltd. This company was founded in 20 May 1996. Registered capital is 6,400,000RMB. Legal person : Roger. Company type: Other LLC. The main products or services: Design, produce and sales of machinery Equipment: sales of hardware & electric material, electronic products, construction materials, steel products. The company's shareholding ratio is 30%. In current period this company's revenue realization is RMB17,163,486.12, Operating profit RMB409,106.46.

## VIII.A structured body situation controlled by company

Applicable     Not applicable

## IX. Prospects

### 1. The development trend of the industry in which the Company operates in 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%. Although global population and economy maintains sustained growth, it focuses on development towards lower energy intensity. 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 in the structure of world's energy supply. The global demand for coal and oil will peak. The global demand for natural gas will increase by more than 50%, and will be the fastest growing in the fossil fuel. In the long run, the proportion of wind power, nuclear power, photovoltaic industry in the overall energy structure will gradually increase. In this outlook period, although the growth rate oil is the slowest among fuel, the total daily global demand for fuel increase by will 19 million barrel and reach 109 million barrels in 2035. Therefore from a long-term analysis, the scale of special oil drilling equipment industry will continue to expand with wide market.

The Group considers that with the global economy still be depressed, But petroleum quantity demanded almost be steady. 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 a solid growth under these policies, and the petroleum machinery industry in which the Company operates in 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. Discussion and analyzation of management

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### 2. In line with its strategic plans, the work of the Company will focus on the following areas in 2016

- (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 2016, 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; Super deep oil well high intensity high anti squeezing casing; Shipbuilding seamless pipe, low temperature seamless pipe, recombination righting sucker rod, Surface of tungsten alloy plating anti corrosion 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 products development, the Group plans to actively research on suitable high level products based on the market demand and trend of natural gas, shale gas, coalbed methane, wind power and unclear power. 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,. And develop Coal mining industry safety device and tube for high pressure boiler, mechanical processing and other markets.
- (iv) In respect of foreign market, the Group plans to thoroughly consider the trading policy of various oil producing countries and the development of the 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 increase our market share.

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

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

## X. Investigation communication interview etc activities

### 1. In the company report period investigation communication interview etc activities registry form

Applicable     Not applicable

In the company report period it didn't occur investigation communication interview etc activity.

## IV. Discussion and analyzation of management



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

#### 1. Results

The Group's profit for the current year and the state of financial affairs of the Group and the Company at that date are set out in the consolidated financial statements on pages 75 to 92 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				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total revenue from operation	<b>1,613,918</b>	2,522,102	2,272,034	2,952,064	2,738,692
(Loss) Profit from operations	<b>(323,778)</b>	15,594	(217,502)	116,716	166,268
Total (loss) profit	<b>(298,473)</b>	21,489	(203,717)	165,854	200,065
Net (loss) profit	<b>(286,499)</b>	14,257	(177,608)	140,166	169,042
Minority interests	<b>(26,934)</b>	(5,977)	(1,886)	5,903	712
Net (loss) profit attributable to shareholders of the Company	<b>(259,565)</b>	20,233	(175,722)	134,263	168,330
Basic (loss) earnings share (RMB)	<b>(0.33)</b>	0.03	(0.22)	0.17	0.21

##### Assets and Liabilities

	For the year ended 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	<b>5,851,181</b>	6,044,501	5,793,466	5,285,751	4,688,931
Total liabilities	<b>3,313,096</b>	3,294,253	3,057,345	2,332,464	1,835,954
Net assets	<b>2,538,085</b>	2,750,247	2,736,121	2,953,287	2,852,978



## IV. Discussion and analyzation of management

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### 3. Changes in Share Capital

Details of changes in the share capital of the Company for 2015 are set out in note VI to the consolidated financial statements.

### 4. Reserves and Distributable Reserves

Details of changes in the reserves of the Group for 2015 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 2015 are set out in note VI to the consolidated financial statements.

### 6. Capitalised Interest

For 2015, the Group had capitalised interest amounting to RMB41.38 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. Discussion and analyzation of management



### 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 2015, 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	9,060,400	3.54%	1.14%

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 2015, please refer to section VIII 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 2015.



## IV. Discussion and analyzation of management

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### 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 2015 or at any time in 2015.

### 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 2015.

### 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 IV 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 56.62% (2014: approximately 54.5%) which is calculated based on the Group's total liabilities of approximately RMB3,313.10 million (2014: approximately RMB3,294.25 million) and total assets of approximately RMB5,851.18 million (2014: approximately RMB6,044.50 million).



### 22. Business Review

#### **Key financial and business performance indicators**

The key financial and business performance indicators comprise profitability growth, return on equity and gearing ratio. Details of relevant analyses are shown in "Discussion and analyzation of management" section of this annual report.

#### **Risk Management**

It is the Group's development strategy to establish a risk management system covering all the business segments to monitor, assess and manage various risks in the Group's activities. The management has identified the major risks of the Group and conduct regular review of industry, policy, operational and currency risks.

#### **Sustainability initiatives**

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

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



## V. Material Matters

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

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

Applicable     Not applicable

According to the profit distribution plan passed at the eighth meeting of fourth session of director board held on Mar 30, 2016, the Company does not recommend the payment of final dividend for the year ended 31 December 2015. The above profit distribution plan still needs to be considered and approved at the AGM.

#### Cash dividend policy special explanation

It accord with articles of association stipulate or resolutions of shareholders' meeting requirement.	Yes
Participation in profit standard and proportion is clear-cut and distinct.	Yes
Relevant decision-making process and institution is complete.	Yes
Independent directors are conscientiousness and give play to proper role.	Yes
Minority shareholders can fully express opinions and appeals. Legitimate rights and interests been fully protected.	Yes
Adjustment or changed cash dividend policy, conditions and procedures meet the specification and transparent.	Yes

#### 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).

There is no profit distribution in the past three years (the reporting period inclusive).

#### Bonus cash payment for the last three years (the reporting period inclusive)

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	Amount for profit for other ways' cash bonus	Ratio of other ways' cash bonus
2015	0.00	(259,565,004.32)	0.00%	—	0.00%
2014	0.00	20,233,190.77	0.00%	—	0.00%
2013	0.00	(175,722,248.47)	0.00%	—	0.00%

Sharing pre-arranged planning for the company profits and parent company can provide to common stock holder distribution of profit is positive but it not put forward common stock cash bonus in the company report period.

Applicable     Not applicable

## V. Material Matters

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### II Into equity pre-arranged planning for distribution of profits and capital reserve in this report period.

Applicable     Not applicable

The company will not distribute cash bonus, not send bonus, not into equity by the accumulation fund.

### III. Degree of performance for the promise

#### 1. Any company, shareholder, actual controller, buyer, director, supervisor, administrative officer or other related party has carried out affirmatory matter yet at the end of report in the company report period.

Applicable     Not applicable

It not exist that company, shareholder, actual controller, buyer, director, supervisor, administrative officer or other related party hasn't carried out affirmatory matter yet at the end of report in the company report period.

#### 2. Corporate assets or project has profit forecast, and still in the period of the profit forecast at report period. Explanation for profit forecast of corporate assets or project receives profit forecast.

Applicable     Not applicable

### IV. The condition of controlling shareholder and related party non-operating occupy capital.

Applicable     Not applicable

It not exist that controlling shareholder and related party non-operating occupy capital.

### V. Explanation for board of directors, board of supervisors, independent director (if any) to accounting firm current report period (nonstandard audit report).

Applicable     Not applicable

### VI. Compare with financial reports of last year, explanation for the change of accounting policy, accounting estimate and accounting method.

Applicable     Not applicable

There is no change of accounting policy, accounting estimate and accounting method in the report period.



## V. Material Matters

### VII. Explanation for major accounting errors correction and need to trace the restatement.

Applicable     Not applicable

There is no major accounting errors correction and need to trace the restatement.

### VIII. Compare with last year's financial reports, Explanation for changement of the consolidated statements range

Applicable     Not applicable

Compare with last year, Because current year unsame controlled company Combined to increase Shouguang maolong petty loan limited liability company, and newly establish Shandong Molong import and export limited company.

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

#### Appointed accounting firm

Name of the domestic accounting firm	<b>Shinewing Certified Public Accountants Ltd., (Special General Partner)</b>
Reward of the domestic accounting firm (Unit: RMB'0000)	120
Continued term of service of the domestic accounting firm	3 years
Name of CPA	Wang Gong Yong, Zhang Xiu Qin
Name of the foreign accounting firm (if any)	Not applicable
Reward of the foreign accounting firm (Unit: RMB'0000) (if any)	0
Continued term of service of the foreign accounting firm (if any)	Not applicable
Name of foreign CPA (if any)	Not applicable

#### Whether change appointed accounting firm at Current period

Yes     No

#### Engage audit of internal controls accounting firm, financial consultant or sponsor.

Applicable     Not applicable

### X. After announced annual report the company will suspend listing and delisting.

Applicable     Not applicable



### XI. Bankruptcy reorganization matter

Applicable     Not applicable

There is no bankruptcy reorganization matter in the report period.

### XII. Significant lawsuit and arbitration

Applicable     Not applicable

The company has not significant lawsuit and arbitration in the report period.

### XIII. punishment and rectification

Applicable     Not applicable

It not exist punishment and rectification in the company report period.

### XIV. Integrity condition of company, controlling shareholder and actual controller.

Applicable     Not applicable

There is no stock incentive plan, ESOP or other personnel encouragement method and implementation.

### XV. Condition of company stock incentive plan, ESOP or other personnel encouragement method and implementation.

Applicable     Not applicable

There is no stock incentive plan, ESOP or other personnel encouragement method and implementation.



## V. Material Matters

### XVI. Significant related party transaction

#### 1. Related to the day-to-day operations of related party transactions

Related transaction parties	Incidence relation	Associated transaction type	Content of related party transactions	Connection		Related transaction amount (RMB'0000)	Ratio in the same kind of transaction amount	Approved trading limit (RMB'0000)	Whether exceed approved trading limit	Related party transactions and settlement way	Getatable same kind of transaction price	Date of disclosure	Disclosure index
				transaction pricing principle	Connection transaction price								
Yalong Oil Machinery Co. Ltd	joint operation company	Sale of goods	Oil well pump and parts	market price	market price	685.90	15.57%	1,000	No	spot exchange or accept	Yes	—	—
Total				—	—	685.90	—	1,000	—	—	—	—	—

Big sales return details No

Explanation for transaction price has a big difference with market reference price (if any) Not applicable

Do the prediction for aggregate amount of daily related party transaction which will happen in the report period by category. Actual performance condition in the report period (if any). No

#### 2. Connected transaction of asset or share acquisition, selling

Applicable  Not applicable

There is no connected transaction of asset or share acquisition, selling in the company report period.

#### 3. Connected transaction of common investments abroad

Applicable  Not applicable

There is no connected transaction of common investments abroad in the company report period.

#### 4. Relevance credit and debt contacts

Applicable  Not applicable

It not exist relevance credit and debt contacts in the company report period.

#### 5. Other significant connected transaction

Applicable  Not applicable

There is no other significant connected transaction in the company report period.



### XVII. Significant contract and degree of performance

#### 1. Trusteeship, Contracting, lease condition

##### i. Trusteeship condition

Applicable     Not applicable

It not exist trusteeship condition in the company report period.

##### ii. Contracting condition

Applicable     Not applicable

It not exist Contracting condition in the company report period.

##### iii. Lease condition

Applicable     Not applicable

It not exist lease condition in the company report period.

#### 2. Significant guarantee

Applicable     Not applicable

It not exist guarantee condition in the company report period.

#### 3. Entrust others to manage spot assets

##### i. Entrust to manage money matters condition

Applicable     Not applicable

It not exist entrust to manage money matters condition in the company report period.

##### ii. Entrust loans condition

Applicable     Not applicable

It not exist entrust loans condition in the company report period.



## V. Material Matters

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### 4. Other significant contract

Applicable     Not applicable

It not exist other significant contract in the company report period.

### XVIII. Other significant explanation

Applicable     Not applicable

It not exist other significant explanation in the company report period.

### XIX. Subsidiary corporation material matter

Applicable     Not applicable

### XX. 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:

Applicable     Not applicable

#### 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.

Whether listed company and subsidiary corporation belong to heavy pollution industry which is specified by country environmental protection department.

Yes     No     Not applicable



## XXI. The status of corporate bonds

### 1. Corporate bonds' essential information

Name of bonds	Abbreviation of bonds	Code of bonds	Issue date	Due date	Balance of bonds (RMB'0000)	Interest rate	The way of repay capital with interest
Shandong Molong Petroleum Machinery Co., Ltd. (phase I) corporate bonds in 2012	12 Molong 01	112178.SZ	7 JUN 2013	7 JUN 2016	50,000	5.20%	Annual interest payments, due debt at a time.
Trading floor of corporation bonds appear on the market or make over		SZSE					
Investors appropriate arrangement			The company would suspend one day at 2015 annual report disclosure day (disclosure day is untrading day. suspended day will be the next trading day). Since the date of resumption. SZSE would do Investors appropriate arrangement for the bonds				
Corporation bonds' payment of interest and cash condition in report period.			The company issued 500,000,000RMB corporation bonds (12Molong 01) in JUN 2013. Until end of 2015, The company had paid 2014 and 2015 bond interest on time.				

### 2. Bond trustee and credit rating institution

#### Bond trustee:

Name	Guotaijunan Securities Co., Ltd	Business address	29 Floor NO.168 Yincheng Middle Road Pudong new area Shanghai City	Linkman	Meng Demin	Tel 021-38675953
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#### Credit rating institution which rate for the company in report period:

Name	Zhongchengxin Securities Evaluation Co., Ltd	Business address	Anji Building, 8 Floor, No. 760 Xizang South Road, Huangpu Area, Shanghai City
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## V. Material Matters

### 3. Service condition of corporation bonds raise funds

Service condition of corporation bonds raise funds and performed procedure	After deduct underwriting fee current period bond raise funds net amount 496,000,000.00RMB. The company use raise funds 496,000,000.00RMB until 31 Dec 2015. Raise funds net amount 350,083,333.30RMB used for repay of bank loan. Raise funds net amount 145,916,666.70RMB used for supplement working capital.
year end balance(0000RMB)	1.96
specified account of raise funds operation condition	Publisher has concluded and signed "Shandong Molong Petroleum Machinery Co., Ltd corporation bonds placement account and Regulatory capital agreement at 2013" with Agricultural Bank of China Co., Ltd Shouguang City sub-branch. And open specified account of raise funds at 14 Jun 2013.
Service condition of raise funds is In accordance with raising explanatory memorandum, using plan and other appoint.	Service condition of raise funds is In accordance with raising explanatory memorandum

### 4. Grade condition of corporation bonds information

Within the bond duration Zhong Chengxin Securities Evaluation Co., Ltd will track rating on a regular basis and track rating on a nonscheduled basis to publisher. Zhong Chengxin Securities Evaluation Co., Ltd issued "2012 corporation bonds tracking rating report of Shandong Molong Petroleum Machinery Co., Ltd.(year 2015)" at 13 May 2015. And announced "2012 corporation bonds tracking rating report of Shandong Molong Petroleum Machinery Co., Ltd.(year 2015)" at SZSE and Zhong Chengxin Securities Evaluation Co., Ltd website. Zhong Chengxin Securities Evaluation Co., Ltd still assess the company as AA-, still assess the "12墨龍01" as AA-.

Zhong Chengxin Securities Evaluation Co., Ltd will continuously pay attention to the changement of external operating environment, the important event can affect the company operation or financial status, Condition of company fulfill obligation etc. After company publishes 2015 annual report, Within two months assess grade of the company and corporation bonds. And it will be announced at SZSE and Zhong Chengxin Securities Evaluation Co., Ltd website. Remind investors concerned.

### 5. Company bond Mechanism of credit, Pay debts plan and other pay debts safeguard measure

Within the bond duration company bond Pay debts plan and other pay debts safeguard measure same with commitment of raising explanatory memorandum.

### 6. Bondholders meeting situation in report period

Not Applicable

### 7. The condition of bond trustee line of duty in report period

The trustee for current period bond is Guotai Junan security limited liability company. Within the bond duration Guotai Junan had announced "Shandong Molong Petroleum Machinery Co., Ltd. (phase I) issuance of corporate bonds in 2012 in 2014 announcement" at SZSE website at 30 April 2015.

After the company announced 2015 annual report within one month Guotai Junan security limited liability company will announce the trustee report 2015 at SZSE website.



### 8. Until the end of report period the company's major accounting data and financial indicators in recent two years.

Unit: 0000RMB

Items	2015	2014	Rate of change in the corresponding period
EBITA	<b>8,009.21</b>	36,330.44	-77.95%
Investment activity generated cash flow net amount	<b>(25,092.92)</b>	(29,101.45)	-13.77%
Financial activities generated cash flow net amount	<b>(6,111.56)</b>	5,421.6	-212.73%
Balance of cash and cash equivalent at the end of period	<b>21,830.9</b>	49,684.29	-56.06%
Liquidity ratio	<b>64.18%</b>	88.90%	-24.72%
Asset-liability ratio	<b>56.62%</b>	54.50%	2.12%
Quick ratio	<b>36.78%</b>	52.29%	-15.51%
EBITDA rate of all debts	<b>1.15%</b>	14.26%	-13.11%
Times interest earned	<b>(2.08)</b>	1.22	-270.49%
Times cash interest earned	<b>1.24</b>	5.1	-75.69%
EBITDA Times interest earned	<b>0.28</b>	2.85	-90.18%
Rate of loan redemption	<b>100.00%</b>	100.00%	—
Rate of Interest pay back	<b>100.00%</b>	100.00%	—

Reason for above accounting data and financial indicators Year-on-year chngement more than 30%

Applicable     Not applicable

- Current EBITA decreased 77.95% compare with same period last year, Mainly because company's amount of loss is significant in this year.
- Financial activities generated cash flow net amount decreased 212.73% compare with same period last year. Mainly because this period received loan and L/G cash deposit decrease in other relevant financial activities.
- Balance of cash and cash equivalent at the end of period decrease 56.06% compare with same period last year. Mainly because this period business activities generated cash flow net amount decrease.
- Times interest earned decreased 270.49% compare with same period last year. Mainly because company's amount of loss is significant in this year.
- Times cash interest earned decreased 75.69% compare with same period last year. Mainly because this period business activities generated cash flow net amount decrease.
- EBITDA Times interest earned decreased 90.18% compare with same period last year. Mainly because company's amount of loss is significant in this year.



## V. Material Matters

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**9. Asset rights limitation condition until end of report period.**

Not applicable

**10. Payment of interest and cash condition for the other bond and debt financing tools in the report period.**

Not applicable

**11. Obtained banking facilities condition, service condition and repayment of bank loan condition in report period**

Until 31 Dec 2015, The company obtained bank line 5,000,000,000RMB totally. Had been used 1,903,000,000RMB. Unused limit is 3,097,000,000RMB. In report period , The company pay bank loan on time. There is no exhibition period and exemption condition.

**12. Condition of corporate bond prospectus relevant agreement or commitment in the report period.**

Not applicable

**13. Big issues happened in the report period.**

Not applicable

**14. Whether corporation bond has guarantor.**

Yes     No

## VI. Changes in Share Capital and Shareholders



### I. Changes In Share Capital

Unit: Share

Item	Prior to the change		The change (+, -)				After the change Item		
	Number of shares	Percentage	New issue of shares	Share-granting	Accumulation fund turn to equity	Other	Sub-total Number of shares	Sub-total Number of shares	Percentage
I. Shares subject to lock-up	258,255,750	32.37%	—	—	—	(16,465,500)	(16,465,500)	241,790,250	30.31%
I.1 Other domestic shares	258,255,750	32.37%	—	—	—	(16,465,500)	(16,465,500)	241,790,250	30.31%
Domestic natural person shares	258,255,750	32.37%	—	—	—	(16,465,500)	(16,465,500)	241,790,250	30.31%
II. Shares not subject to lock-up	539,592,650	67.63%	—	—	—	16,465,500	16,465,500	556,058,150	69.69%
II.1 RMB ordinary shares	283,466,250	35.53%	—	—	—	16,465,500	16,465,500	299,931,750	37.59%
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%

Reason for share change

Applicable     Not applicable

Approve condition for share change

Applicable     Not applicable

Transfer ownership condition for share change

Applicable     Not applicable

Share change influence for the recently one year and recently one period basic EPS and diluted EPS, common stock holder net asset value per share etc financial index

Applicable     Not applicable

Other guide that company think it's necessary or securities regulatory institution ask for disclosure

Applicable     Not applicable

Restricted share chagement condition

Applicable     Not applicable



# VI. Changes in Share Capital and Shareholders

## II. Issuance and listing of securities

### 1. Securities issuance (have not preferred stock) condition

Applicable     Not applicable

### 2. Change condition presentation for the company sum of shares and shareholder structure change, corporate assets and liability composition

Applicable     Not applicable

### 3. Existing staff share condition

Applicable     Not applicable

## III. Shareholders' Profiles

### 1. Number of corporate shareholder and share holding condition

Unit: Share

Total number of ordinary shareholders at the end of report period	34,729	Total number of ordinary shareholders at the annual report disclosure day before last end of month	38,759	Total number of voted recovery preferred stockholder at the end of report period (if any)	0	Total number of voted recovery preferred stockholder at the annual report disclosure day before last end of month (if any)	0
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shareholder take more than 5% shares or top ten shareholders

Name of shareholder	Nature of shareholders	Shareholding ratio	Amount of holding shares at the end of report period	Increase/decrease in the report period	Number of Restricted shares held	Number of non-restricted shares held	Pledge or freeze condition	Shares in state	Number
Zhang En Rong	Domestic natural person	33.29%	265,617,000	0	199,212,750	66,404,250	—	—	—
HKSCC Nominees Limited	Overseas Overseas legal person	32.06%	255,813,490	0	0	255,813,490	—	—	—
Zhang Yun San	Domestic natural person	4.97%	39,668,400	6,666,000	22,956,000	16,712,400	—	—	—
Lin Fu Long	Domestic natural person	3.28%	26,162,000	0	19,621,500	6,540,500	—	—	—
Central Huijin Asset Management Co., Ltd	Domestic legal person	1.70%	13,536,100	13,536,100	0	13,536,100	—	—	—
Xie Xin Cang	Domestic natural person	0.43%	3,410,000	(7,395,000)	0	3,410,000	—	—	—
Song Li Rong	Domestic natural person	0.31%	2,512,554	2,512,554	0	2,512,554	—	—	—
Ji Lin Wu	Domestic natural person	0.26%	2,061,101	2,061,101	0	2,061,101	—	—	—
HuaXia Growth portfolio investment funds	Domestic non-state juridical person	0.24%	1,899,911	1,899,911	0	1,899,911	—	—	—
Chang Cheng	Domestic natural person	0.21%	1,650,800	1,650,800	0	1,650,800	—	—	—

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

## VI. Changes in Share Capital and Shareholders



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

Zhang Enrong is company controlling shareholder, He is father of Zhang Yunsan. Company doesn't know is there incidence relation or concerted action in the other shareholders.

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

Name of Shareholders	Shares at the end of the year	Class of shares	Amount
HKSCC Nominees Limited	255,813,490	H share	255,813,490
Zhang En Rong	66,404,250	A share	66,404,250
Zhang Yun San	16,712,400	A share	7,652,000
		H share	9,060,400
Central Huijin Asset Management Co., Ltd	13,536,100	A share	13,536,100
Lin Fu Long	6,540,500	A share	6,540,500
Xie Xin Cang	3,410,000	A share	3,410,000
Song Li Rong	2,512,554	A share	2,512,554
Ji Lin Wu	2,061,101	A share	2,061,101
HuaXia Growth portfolio investment funds	1,899,911	A share	1,899,911
Chang Sheng	1,650,800	A share	1,650,800

Explanation for the incidence relation or concerted action in the Top ten holders of shares not subject to lock-up, and between Top ten holders of shares not subject to lock-up and Top ten shareholders.

Explanation for top ten common stockholders participate in securities margin trading (if any) (Note 4)

Not applicable

Zhang Enrong is company controlling shareholder, He is father of Zhang Yunsan. Company doesn't know is there incidence relation or concerted action in the other shareholders.

Any top ten holders of common stockholder and Top ten holders of shares not subject to lock-up did appoint repurchase deal.

Yes  No

Top ten holders of common stockholder and Top ten holders of shares not subject to lock-up did not appoint repurchase deal.

## 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

Controlling shareholder did not change in the report period.

### Change condition of controlling shareholders in the report period.

Applicable  Not applicable



## VI. Changes in Share Capital and Shareholders

### 3. Beneficial controller of the Company

**Nature of actual controller: domestic natural person**

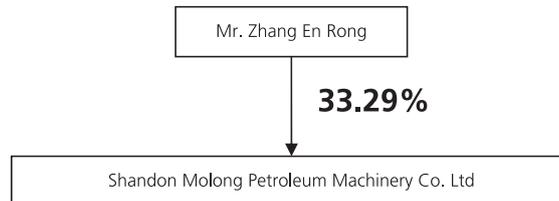
**Type of actual controller: natural person**

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

#### **Change condition of actual controller change**

Applicable     Not applicable

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



**Actual controller controls company by trust or other assets management way.**

Applicable     Not applicable

### 4. Other legal person shareholder who hold more than 10%

Applicable     Not applicable

### 5. Limit reducing holding-shares condition for the controlling shareholder, actual controller and other commitment to the subject shares

Applicable     Not applicable

## VII. Preferred stock

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Applicable     Not applicable

The company hasn't preferred stock



## VIII. 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	76	28 June 2013	27 June 2016	265,617,000	0	0	265,617,000
Zhang Yun San	Deputy Chairman and General Manager	Current	M	54	28 June 2013	27 June 2016	33,002,400	6,666,000	0	39,668,400
Lin Fu Long	Executive Director	Current	M	64	28 June 2013	27 June 2016	26,162,000	0	0	26,162,000
Guo Huan Ran	Executive Director	Current	M	48	28 June 2013	27 June 2016	0	0	0	0
Xiao Qing Zhou	Non-executive Director	Former	M	67	28 June 2013	8 Sep 2015	0	0	0	0
Guo Hong Li	Non-executive Director	Current	M	60	28 June 2013	27 June 2016	0	0	0	0
Wang Chun Hua	Independent non-executive Director	Current	F	63	28 June 2013	27 June 2016	0	0	0	0
John Paul Cameron	Independent non-executive Director	Current	M	51	28 June 2013	27 June 2016	0	0	0	0
Qin Xue Chang	Independent non-executive Director	Current	M	50	28 June 2013	27 June 2016	0	0	0	0
Fan Ren Yi	Supervisor	Current	M	51	25 May 2012	27 May 2016	0	0	0	0
Zhang Jiu Li	Supervisor	Current	M	51	25 May 2012	27 May 2016	0	0	0	0
Zhang Shou Kui	Deputy general manager	Current	M	46	25 May 2013	27 June 2016	0	0	0	0
Liu Zeng Xiang	Deputy general manager	Current	M	46	27 Nov 2015	24 Jun 2016	0	0	0	0
Li Peng	Deputy general manager	Current	M	38	27 Nov 2015	24 Jun 2016	0	0	0	0
Yang Jin	Financial Controller of Company	Current	M	52	29 March 2012	27 June 2016	0	0	0	0
Zhao Hong Feng	Secretary to the Board	Current	M	37	26 October 2012	27 June 2016	0	0	0	0
Hao Liang	Chairman of Supervisory Committee	Current	M	35	26 August 2014	27 Jun 2016	0	0	0	0
Total							324,781,400	6,666,000	0	331,447,400

### II. Changes of the Directors, Supervisors and Senior Management

Name	Position	Type	Date	Explanation
Xiao Qing Zhou	Non-executive Director	Former	8 Sep 2015	Personal reasons to resign
Liu Zeng Xiang	Deputy general manager	Appoint and dismiss	27 Nov 2015	Appointed deputy general manager for the company
Li Peng	Deputy general manager	Appoint and dismiss	27 Nov 2015	Appointed deputy general manager for the company

# VIII. Directors, Supervisors, Senior Management and Employees



## III. 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.

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.



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

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**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.

### **Non-executive directors**

**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 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.

**Mr. Qin Xue Chang**, born in July 1966, Chinese nationality with no right of permanent residence abroad, is an independent non-executive Director and the Chairman of Audit Committee, senior accountants, senior Chinese certified public accountants, securities and futures industry chartered certified public accountants, graduated from Shanxi University of Finance and Economics, 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,

# VIII. Directors, Supervisors, Senior Management and Employees



## 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.

## 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. Li Peng**, born in April 1978, Chinese nationality with no right of permanent residence abroad, executive business administration degree from Weifang technical college, is deputy general manager of the Company. Mr. Lippeng had served successively as Branch factory director, manager, general manager assistant, vice-general manager. There is abundant experience for product management, HRM, public administration, quality control. Now take charge company public administration and quality control.

**Mr. Liu Zeng Xiang**, born in April 1970, Chinese nationality with no right of permanent residence abroad, executive business management degree from Qindao University, is deputy general manager of the Company. Mr. Liu Zengxiang had served successively as northeast office manager, HRM, Logistics Manager, vice-general manager. There is abundant experience for marketing management, HRM, Logistics Management. Now take charge company HRD and logistics center.



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

**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.

### 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:

Applicable     Not applicable

Name	Name of subsidiaries	Position(s)	Whether receiving any remuneration or allowance from the shareholder unit
Zhang Yun San	Shandong Molong Import & Export Company Limited	Executive Director	No
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
Explanation for major position at the subsidiaries of the Group			Not applicable

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



### Major position at the other organization:

Applicable     Not applicable

Name	Name of the organization	Position(s)	Whether receiving any remuneration or allowance from the other organization
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

Any securities regulatory institution punishment to company's director, supervisor and senior executives who are incumbent and outgoing during report period at last 3 years.

Applicable     Not applicable



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

### IV. 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)	Whether receiving any remuneration or allowance from the shareholder unit
Zhang En Rong	Chairman	M	77	Current	70.19	No
Zhang Yun San	Deputy Chairman and General Manager	M	54	Current	60.77	No
Guo Huan Ran	Executive Director	M	49	Current	41.55	No
Lin Fu Long	Executive Director	M	64	Current	28.58	No
Guo Hong Li	Non-executive Director	M	60	Current	3.50	No
Xiao Qing Zhou	Non-executive Director	M	67	Former	2.93	No
Wang Chun Hua	Independent non-executive Director	F	63	Current	3.50	No
John Paul Cameron	Independent non-executive Director	M	51	Current	9.09	No
Qin Xue Chang	Independent non-executive Director	M	50	Current	7.50	No
Hao Liang	Chairman of Supervisory Committee	M	35	Current	4.46	No
Fan Ren Yi	Supervisor	M	51	Current	1.01	No
Zhang Jiu Li	Supervisor	M	51	Current	1.01	No
Liu Zeng Xiang	Deputy general manager	M	46	Current	9.85	No
Li Peng	Deputy general manager	M	38	Current	11.27	No
Zhang Shou Kui	Deputy general manager	M	46	Current	16.50	No
Yang Jin	Financial controller of the Company	M	52	Current	34.46	No
Zhao Hong Feng	Deputy general Manager and Secretary to the Board	M	37	Current	14.60	No
Total					320.77	

# VIII. Directors, Supervisors, Senior Management and Employees



Company directors, Supervisors and Senior Managements were awarded stock ownership incentive condition

Applicable     Not applicable

## V. Personnel of the Company

### 1. Number of staffs, professional structure and education level

Number of staff on active duty at parent company	1,690
Number of staff on active duty at major subsidiary corporation	484
Total number of staff on active duty	2,174
Total number of Paid employees at current period	2,174
Number of parent company and major subsidiary corporation should bear the cost for retired workers	0

Professional structure type	Professional structure	Number
Production personnel		2,057
Sales personnel		53
Technicist		27
Financial staff		18
Administrative staff		19
<b>Total</b>		<b>2,174</b>

Degree of education type	Degree of education	Number
Technical secondary school (high school) and the following qualifications		1,572
Junior college		449
Bachelor		115
Master		38
<b>Total</b>		<b>2,174</b>

### 2. Pay policy

The company provide stabilized and competitived remuneration for company staffs. Staffs remuneration include wages, bonuses, allowances and subsidies, employee welfare, insurance premium of pay medical treatment, industrial injury insurance and birth insurance premium etc social insurance premiums. The company enhanced technicist and production personnel's remuneration to fully mobilize staffs' positive initiative and creativity. Constantly improve the staff's satisfaction and loyalty



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

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### 3. Training plan

To enhance staffs' overall quality and work efficiency. HR formulates next year training plan at the end of every year. Include training demand analysis, content, time, participants, and training effectiveness. According with strategic target and develop requirement company trained new staffs' leadership, professional image, protocol, professional skill, job skills training by company learning platform, lecturer Part-time lecturers teach and web-based learning ways.

### 4. Labor outsourcing condition

Applicable     Not applicable

# IX. 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 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 optimize 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.
- (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.



## IX. Corporate Governance Report

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(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 2015.

(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.

### **Any significant variance between actual state of corporate governance and listed company governing listed company governing of CSRC issue.**

Yes     No

There is no significant variance between actual state of corporate governance and listed company governing listed company governing of CSRC issue.

## II. 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.

## III. Horizontal competition condition

Applicable     Not applicable

# IX. Corporate Governance Report



## IV. Current report stockholders' meeting condition

The Meeting Time	Meeting type	Percentage of investors	Date	Date of Announcement	Media for publication
2014	Annual general meeting	41.72%	26 Jun 2015	27 Jun 2015	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>

### Preferred stockholder who is recovered by voting power request convoke extraordinary general meeting.

Applicable     Not applicable

## V. In report period independent director perform his duties condition

### 1. The condition of independent directors attend the board of directors and stockholders' meeting

Name of independent director	The condition of independent directors attend the board of directors				Whether two consecutive did not attend the meeting in person
	Should attend the board of directors in current report period	Number of attendance	Number of attend by communication	Number of attendance by commission	
Wang Chun Hua	5	5	0	0	No
John Paul Cameron	5	0	5	0	No
Qin Xue Chang	5	2	3	0	No
Number of independent directors attend stockholders' meeting					1

Not attend the board of directors in person successive two times

Not applicable

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

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

Yes     No

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



## IX. Corporate Governance Report

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### 3. Other description of independent directors

#### Whether independent director's suggestion for company was accepted

Yes     No

#### Explanation for independent director's suggestion for company was accepted or unaccepted.

Not applicable

## VI. 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 2015.

# IX. Corporate Governance Report



## 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 2015, 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.

In 2015, the Board had convened five meetings and the Directors shall meet more frequently as and when required. At least 14 days' notice of all regular Board meetings is given to all Directors, and all Directors are given the opportunity to include matters for discussion in the agenda. The individual attendance record of each Director at such Board meetings is shown as follows:

Members of Directors	Position	Number of meetings attended/Total number of meetings
Zhang En Rong	Chairman and executive Director	5/5
Zhang Yun San	Vice Chairman and executive Director	5/5
Lin Fu Long	Executive Director	5/5
Guo Huan Ran	Executive Director	5/5
Xiao Qing Zhou ( <i>Note</i> )	Non-executive Director	3/5
Guo Hong Li	Non-executive Director	5/5
Qin Xue Chang	Independent non-executive Director	5/5
John Paul Cameron	Independent non-executive Director	5/5
Wang Chun Hua	Independent non-executive Director	5/5

*Note:* Mr Xiao Qing Zhou vacated office at 8 Sep 2015. No longer take charge of company Non-executive Director.

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.



## IX. Corporate Governance Report

### 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).

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 (Note 1)	Training matters (Note 2)
Zhang En Rong	a, b	i, ii, iii, iv
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

# IX. Corporate Governance Report



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.

## 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 2015, 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 company fourth session of the board's term ends in 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.



## IX. Corporate Governance Report

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### 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.

#### (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 2015:
  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 2014 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 2015, which was passed to the Board for approval.
  3. It reviewed the 2015 interim financial statements for the six months ended 30 June 2015, which was passed to the Board for approval.
  4. It reviewed the third quarter financial statements ended 30 September 2015, which was passed to the Board for approval.
- (2) It reviewed proposal which is the company continue contract external auditor

## IX. Corporate Governance Report



- (3) Auditing work conducted on the 2015 financial report of the Company was as follows:
1. It reviewed the 2015 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 2015 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 2015, 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 2015

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:

<b>Members of the Audit Committee</b>	<b>Duties</b>	<b>Number of meetings attended/ Total number of meetings</b>
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



## IX. Corporate Governance Report

### (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:

- 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;
- 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;
- to assess the independence of the Independent Non-Executive Directors; and
- 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. Qin Xue Chang and Ms. Wang Chun Hua. Mr. John Paul Cameron is the Chairman of the Remuneration and Evaluation Committee. It was primarily responsible for formulating the remuneration and assessment for the Directors and the Senior Management of the Company and formulating and examining the remuneration package of the Directors and the Senior Management of the Company, and accountable to the Board. The remuneration and assessment committee does not determine the remuneration for the Directors and the Senior Management directly, but advised its remuneration to the Board according to their job performance. In the reporting period, the remuneration and assessment committee formulated the 2015 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 2015 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:

<b>Members of the Remuneration and Assessment Committee</b>	<b>Duties</b>	<b>Number of meetings attended</b>
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.



## IX. Corporate Governance Report

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### 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 2015, 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 2015, 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 2015, the Company has not amended its Articles. The latest Articles can be viewed on the website of the Company and the website of the Stock Exchange



## 14. Others

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

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

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

## 15. Communication with shareholders

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

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

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



## IX. Corporate Governance Report

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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 2015, one general meetings (i.e. AGM held on 26 June 2015) was held by the Company. The attendance record of the Directors at the general meetings is set out below:

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.

# IX. Corporate Governance Report



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
2014 Annual general meeting	26 June 2015	The report of the board of directors of the Company (the "Board") for the year ended 31 December 2014	Passed	26 June 2015	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2014 Annual general meeting	26 June 2015	The report of the Supervisory Committee of the Company for the year ended 31 December 2014	Passed	26 June 2015	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2014 Annual general meeting	26 June 2015	Auditing report prepared in accordance with the "Accounting Standards for Business Enterprises" for the year ended 31 December 2014	Passed	26 June 2015	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2014 Annual general meeting	26 June 2015	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	26 June 2015	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2014 Annual general meeting	26 June 2015	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	26 June 2015	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2014 Annual general meeting	26 June 2015	The profit distribution plan: the board of Directors does not recommend the payment of final dividend for the year ended 31 December 2014	Passed	26 June 2015	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
2014 Annual general meeting	26 June 2015	The resolution in respect of providing securities for the banking credit business of subsidiaries	Passed	26 June 2015	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>

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

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



## IX. Corporate Governance Report

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### 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 2015 was RMB1,200,000.00.

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.

# IX. Corporate Governance Report



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

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

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

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

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

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  Suite A, 11th Floor Ho Lee Commercial Building 38-44 D'Aguilar Street Central Hong Kong	Registered Address in the PRC  No. 999 Wensheng Street Shouguang City Shandong Province The PRC

## VI. Particulars about Working of Board of Supervisors

**Whether board of supervisors discover the company exist risk under its supervision during reporting period.**

Yes     No

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



# IX. Corporate Governance Report

## VII. 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.

## VIII. Evaluation of internal control report

### 1、Any material deficiency was detected during the reporting period.

Yes     No

### 2、Self-assessment report on internal control

Date of disclosure of the full context of the self-assessment report on internal control	31 March 2015	
Index of full disclosure of self-assessment report on internal controls	www.cninfo.com.cn, announcement named "2015 Assessment Report on Internal Control of Shandong Molong Petroleum Machinery Company Limited"	
How many percentage of total assets Included in the scope of evaluation in the company combined financial statement total assets.		100.00%
How many percentage of operation revenue Included in the scope of evaluation in the company combined financial statement total assets.		100.00%

# IX. Corporate Governance Report



Type	Standard of affirming defect	
	Financial reports	Non-financial reports
Qualitative standard	<p>Signs of financial reporting great defect include: fraud of the company directors, supervisors and senior management personnel, the correction of the published financial report, Current report material misstatement is found by intra-company control. the audit committee and audit function is invalid to the company's external financial reports and financial reporting internal control supervision. Financial reporting important defect signs include: not in accordance with generally accepted accounting principles to select and apply appropriate accounting policies, procedures and control measures of anti fraud has not been established, the accounting treatment of unusual or special transaction do not set up corresponding control mechanism or no implementation, and no corresponding compensatory control, for the control of the final financial reporting process have one or more of the defects and can not guarantee reasonable preparation of financial statements to realize the fair reflection. Common Defects is other control defect in addition to the above major flaws and important defects control.</p>	<p>Non-financial reporting signs of major defects including: violate national laws and regulations or normative documents, making major decisions, lack of procedure is not scientific, lack of system can lead to systemic failure, significant or important defects can't get the rectification and other significant negative impact on the company. Other circumstances according to the influence degree were identified as important defects or defects in general.</p>
Quantitative criterion	<p>Refers to consider compensating control measures and major defects after actual deviation rate, overall impact levels above the level of the importance of the defects (0.5% of the total amount or 0.8% of the revenues or profits).Refers to consider important defects after compensating the control measures and actual deviation rate, the flaw overall impact level below the importance level (0.5% of the total amount or 0.8% of the revenues or profits), but higher than the general level (0.1% of the total amount or 0.5% of the revenues or profits).Defects commonly refers to consider compensating control measures and actual deviation rate, defect the overall level is lower than the general level (0.1% of the total amount of 0.5% of the revenues or profits).</p>	<p>Non-financial reporting major defects refers to the direct property losses in 5 million yuan (including) above, signs include: has been publicly disclosed and to the company regularly report produce negative impact; Enterprise key positions and personnel erosion is serious; Negative news frequently exposed by the media. Important defects refers to the direct property losses (including) in 500000–5 million yuan, signs include: was fined by the national government, but haven't produced a negative impact on the company annual report;The media exposure and have a negative impact. Defects commonly refers to the direct property losses under 500000, signs include: punished (provincial) the following government departments at the provincial level but haven't produced a negative impact on the company annual report.</p>
Number of great defect in financial reports		0
Number of great defect in non-financial reports		0
Number of significant defect in financial reports		0
Number of significant defect in non-financial reports		0



## IX. Corporate Governance Report

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### IX. Auditors' report on internal control

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

##### Deliberations 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 2015 in accordance with the Basic Standard and Implementation Guidelines and the requirements of other relevant laws and regulations.

Auditors' report on internal control disclosure Disclosure condition

Date of disclosure of the full context of the Auditors' report on internal control 31 March 2016

Index of full disclosure of Auditors' report on internal control [www.cninfo.com.cn](http://www.cninfo.com.cn), announcement named "2015 Assessment Report on Internal Control of Shandong Molong Petroleum Machinery Company Limited"

Auditors' report on internal control Opinion type Standard without reservation

Whether there is significant defect in non-financial reports No

#### Whether accounting firm issued nonstandard's Auditors' report on internal control

Yes  No

#### Whether the opinion of Audit of internal controls from Accounting firm is same with board of directors self-assessment report

Yes  No



XYZH/2016JNA30098

TO THE SHAREHOLDERS OF  
**SHANDONG MOLONG PETROLEUM MACHINERY COMPANY LIMITED**

We have audited the accompanying financial statements of Shandong Molong Petroleum Machinery Company Limited (the "Company"), which comprise the consolidated and the Company's balance sheets as at 31 December 2015, the consolidated and the Company's income statements, the consolidated and the Company's 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 fairly present 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 this is necessary to enable that the financial statements that are free from material misstatement whether due to fraud or error.

## II. Certified Public Accountants' Responsibility

Our responsibility is to express an 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 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 considers 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 consolidated and the Company's financial position as of 31 December 2015, and the consolidated and the Company's 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 2016

# Consolidated Balance Sheet



As at 31 December 2015

Unit: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
<b>Current assets:</b>			
Cash and bank balances	VI.1	<b>349,815,773.50</b>	615,209,216.38
Settlement reserve		—	—
Lending to banks and other financial institutions		—	—
Financial assets at fair value through profit or loss		—	—
Bills receivable	VI.2	<b>46,101,762.76</b>	90,685,848.66
Accounts receivable	VI.3	<b>497,239,999.28</b>	608,640,409.68
Loans and advances	VI.4	<b>136,329,884.59</b>	—
Prepayments	VI.5	<b>12,063,262.16</b>	40,431,669.87
Insurance receivables		—	—
Reinsurance receivables		—	—
Reinsurance contract reserve receivables		—	—
Interest receivables	VI.6	<b>4,594,396.68</b>	2,670,703.33
Dividend receivables		—	—
Other receivables	VI.7	<b>87,823,154.76</b>	48,859,721.67
Financial assets purchased under resales agreement		—	—
Inventories	VI.8	<b>903,784,288.00</b>	1,019,069,690.68
Assets classified as held for sale		—	—
Non-current assets due within one year		—	—
Other current assets	VI.9	<b>79,270,918.94</b>	48,939,615.27
<b>Total current assets</b>		<b>2,117,023,440.67</b>	2,474,506,875.54
<b>Non-current assets:</b>			
Loan and advances from other parties		—	—
Available-for-sales financial assets	VI.10	<b>10,030,000.00</b>	10,000,000.00
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investment	VI.11	<b>2,783,902.87</b>	54,356,021.71
Investment properties		—	—
Fixed assets	VI.12	<b>1,291,476,197.17</b>	1,827,767,103.63
Construction-in-progress	VI.13	<b>1,710,795,797.18</b>	853,004,896.75
Construction materials		—	—
Disposal of fixed assets		—	—
Biological asset		—	—
Oil and nature gas		—	—
Intangible assets	VI.14	<b>468,806,719.84</b>	478,528,348.61
Development expenditure	VI.15	—	—
Goodwill	VI.16	<b>68,483,383.21</b>	83,483,383.21
Long-term deferred expenses	VI.17	—	76,389.00
Deferred income tax assets	VI.18	<b>60,918,666.99</b>	43,762,193.71
Other non-current assets	VI.19	<b>120,862,615.68</b>	219,015,483.87
<b>Total non-current assets</b>		<b>3,734,157,282.94</b>	3,569,993,820.49
<b>Total assets</b>		<b>5,851,180,723.61</b>	6,044,500,696.03



# Consolidated Balance Sheet

As at 31 December 2015

Items	Notes	Balance at the end of the year	Unit: RMB Balance at the beginning of the year
<b>Current liabilities:</b>			
Short-term borrowings	VI.20	<b>1,469,055,063.41</b>	1,414,805,321.00
Borrowings from the central bank		—	—
Deposits from customers, banks and other financial institutions		—	—
Placements from banks and other financial institutions		—	—
Financial liabilities at fair value through profit or loss		—	—
Bills payable	VI.21	<b>304,242,384.43</b>	426,865,457.13
Accounts payable	VI.22	<b>904,789,898.53</b>	705,325,418.59
Receipts in advance	VI.23	<b>43,005,331.88</b>	151,391,041.52
Financial assets sold under repurchase agreements		—	—
Bank charges and commission payable		—	—
Salaries payable	VI.24	<b>26,953,318.48</b>	26,372,504.82
Taxes payable	VI.25	<b>7,387,844.14</b>	10,334,086.93
Interests payable	VI.26	<b>17,853,069.32</b>	21,635,356.93
Dividends payable		—	—
Other payables	VI.27	<b>23,979,858.24</b>	24,879,654.35
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	VI.28	<b>499,444,444.41</b>	—
Other current liabilities	VI.29	<b>1,808,000.00</b>	1,808,000.00
<b>Total current liabilities</b>		<b>3,298,519,212.84</b>	2,783,416,841.27

# Consolidated Balance Sheet



As at 31 December 2015

Unit: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
<b>Non-current liabilities</b>			
Long-term borrowings		—	—
Bonds payable	VI.30	—	498,111,111.09
including: Preferred stock		—	—
Perpetual capital securities		—	—
Long-term payables		—	—
Long-term salaries payable		—	—
Specific payable		—	—
Provision		—	—
Deferred income	VI.31	—	1,808,000.00
Deferred income tax liabilities	VI.18	<b>14,576,914.87</b>	10,917,268.07
Other non-current liabilities		—	—
<b>Total non-current liabilities</b>		<b>14,576,914.87</b>	510,836,379.16
<b>Total liabilities</b>		<b>3,313,096,127.71</b>	3,294,253,220.43
<b>Shareholders' equity:</b>			
Share capital	VI.32	<b>797,848,400.00</b>	797,848,400.00
Other equity instruments		—	—
including: Preferred stock		—	—
Perpetual capital securities		—	—
Capital reserve	VI.33	<b>849,500,658.42</b>	849,500,658.42
Less: Treasury stock		—	—
Other comprehensive income	VI.34	<b>(1,262,175.75)</b>	312,161.80
Special reserve	VI.35	—	—
Surplus reserve	VI.36	<b>176,686,903.51</b>	176,686,903.51
General risk reserve	VI.37	<b>11,236.91</b>	—
Undistributed profits	VI.38	<b>610,372,203.12</b>	869,937,207.44
<b>Total equity attributable to shareholders of Company</b>		<b>2,433,157,226.21</b>	2,694,285,331.17
Minority interests	VI.39	<b>104,927,369.69</b>	55,962,144.43
<b>Total shareholders' equity</b>		<b>2,538,084,595.90</b>	2,750,247,475.60
<b>Total liabilities and shareholders' equity</b>		<b>5,851,180,723.61</b>	6,044,500,696.03

Legal representative:

Comptroller principal:

Leading member of  
the accounting body:



# Company's Balance Sheet

As at 31 December 2015

Unit: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
<b>Current assets:</b>			
Cash and bank balances	XVI.1	<b>326,916,816.32</b>	603,738,557.50
Financial assets at fair value through profit or loss		—	—
Bills receivable	XVI.2	<b>42,709,812.76</b>	78,327,566.76
Accounts receivable	XVI.3	<b>729,394,966.45</b>	852,857,480.28
Prepayments	XVI.4	<b>256,081,439.26</b>	188,443,152.10
Interest receivables	XVI.5	<b>1,367,703.59</b>	2,670,703.33
Dividend receivables		—	—
Other receivables	XVI.6	<b>577,291,445.12</b>	272,409,135.72
Inventories	XVI.7	<b>664,063,395.95</b>	817,174,405.99
Assets classified as held for sale		—	—
Non-current assets due within one year		—	—
Other current assets	XVI.8	<b>5,892.62</b>	13,437,824.29
<b>Total current assets</b>		<b>2,597,831,472.07</b>	2,829,058,825.97
<b>Non-current assets:</b>			
Available-for-sales investments	XVI.9	<b>10,000,000.00</b>	10,000,000.00
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investment	XVI.10	<b>1,052,069,921.73</b>	1,042,069,921.73
Investment properties		—	—
Fixed assets	XVI.11	<b>724,838,147.91</b>	1,221,470,865.17
Construction in progress	XVI.12	<b>685,877,023.21</b>	274,360,340.88
Construction materials		—	—
Disposal of fixed assets		—	—
Biological asset		—	—
Oil and nature gas		—	—
Intangible assets	XVI.13	<b>204,967,332.34</b>	238,524,368.44
Development expenditure	XVI.14	—	—
Goodwill		—	—
Long-term deferred expenses		—	—
Deferred income tax assets	XVI.15	<b>55,795,860.96</b>	30,591,904.41
Other non-current assets		—	—
<b>Total non-current assets</b>		<b>2,733,548,286.15</b>	2,817,017,400.63
<b>Total assets</b>		<b>5,331,379,758.22</b>	5,646,076,226.60

# Company's Balance Sheet



As at 31 December 2015

Unit: RMB

Items	Notes	Balance at the end of the year	Balance at the beginning of the year
<b>Current liabilities:</b>			
Short-term borrowings	XVI.16	<b>1,354,119,063.41</b>	1,353,615,321.00
Financial liabilities at fair value through profit or loss		—	—
Bills payable	XVI.17	<b>379,257,384.43</b>	427,645,457.13
Accounts payable	XVI.18	<b>374,304,512.49</b>	391,534,463.53
Receipts in advance	XVI.19	<b>59,256,216.50</b>	167,732,495.64
Salaries payable	XVI.20	<b>19,647,436.97</b>	19,806,065.35
Taxes payable	XVI.21	<b>3,062,167.56</b>	4,439,685.96
Interests payable	XVI.22	<b>17,491,882.76</b>	21,557,773.76
Dividends payable		—	—
Other payables	XVI.23	<b>8,682,202.90</b>	9,439,187.44
Liabilities classified as held for sale		—	—
Non-current liabilities due within one year	XVI.24	<b>499,444,444.41</b>	—
Other current liabilities	XVI.25	<b>1,808,000.00</b>	1,808,000.00
<b>Total current liabilities</b>		<b>2,717,073,311.43</b>	2,397,578,449.81
<b>Non-current liabilities</b>			
Long-term borrowings		—	—
Bonds payable	XVI.26	—	498,111,111.09
including: Preferred stock		—	—
Perpetual capital securities		—	—
Long-term payables		—	—
Long-term salaries payable		—	—
Specific payable		—	—
Provision		—	—
Deferred income	XVI.27	—	1,808,000.00
Deferred income tax liabilities	XVI.15	<b>205,155.54</b>	400,605.50
Other non-current liabilities		—	—
<b>Total non-current liabilities</b>		<b>205,155.54</b>	500,319,716.59
<b>Total liabilities</b>		<b>2,717,278,466.97</b>	<b>2,897,898,166.40</b>



# Company's Balance Sheet

As at 31 December 2015

		Unit: RMB	
Items	Notes	Balance at the end of the year	Balance at the beginning of the year
<b>Shareholders' equity:</b>			
Share capital	XVI.28	<b>797,848,400.00</b>	797,848,400.00
Other equity instruments including: Preferred stock		—	—
Perpetual capital securities		—	—
Capital reserve	XVI.29	<b>849,481,990.92</b>	849,481,990.92
Less: Treasury stock		—	—
Other comprehensive income		—	—
Special reserve	XVI.30	—	—
Surplus reserve	XVI.31	<b>176,686,903.51</b>	176,686,903.51
Undistributed profits	XVI.32	<b>790,083,996.82</b>	924,160,765.77
<b>Total equity attributable to shareholders of Company</b>		<b>2,614,101,291.25</b>	2,748,178,060.20
<b>Total liabilities and shareholders' equity</b>		<b>5,331,379,758.22</b>	5,646,076,226.60

Legal representative:

Comptroller principal:

Leading member of  
the accounting body:

# Consolidated Income Statements



For the year ended 31 December 2015

Unit: RMB

Items	Notes	Amount of this year	Amount of previous year
<b>I. Total revenue from operations</b>	VI.43	<b>1,613,917,735.08</b>	2,522,102,479.29
Including: operating revenue	VI.43	<b>1,613,917,735.08</b>	2,522,102,479.29
Interest income	VI.43	—	—
Earned insurance premium		—	—
Brokerage and commission income		—	—
<b>II. Total costs of operations</b>		<b>1,936,568,687.67</b>	2,509,982,965.81
Including: Operating cost	VI.43	<b>1,495,373,781.61</b>	2,134,769,069.63
Interest expenses		—	—
Brokerage and commission income		—	—
Surrenders		—	—
Net amount of compensation paid		—	—
Net amount of reserves for reinsurance contract		—	—
Insurance dividend payments		—	—
Reinsurance premium		—	—
Business tax and surcharges	VI.44	<b>11,261,460.10</b>	15,529,085.94
Selling expenses	VI.45	<b>124,886,386.85</b>	156,540,037.32
Administrative expenses	VI.46	<b>175,105,370.71</b>	143,541,730.67
Finance costs	VI.47	<b>49,163,255.55</b>	51,351,540.56
Asset impairment losses	VI.48	<b>80,778,432.85</b>	8,251,501.69
Add: Gains from changes in fair value		—	—
Investment income	VI.49	<b>(1,127,461.14)</b>	3,474,237.41
Including: Gains from investment in associates and joint ventures		<b>(1,127,461.14)</b>	3,474,237.41
Exchange gain		—	—
<b>III. Operating (loss) profit</b>		<b>(323,778,413.73)</b>	15,593,750.89
Add: Non-operating income	VI.50	<b>26,700,315.46</b>	6,545,592.41
Including: Gain from disposal of non-current assets		—	434,559.21
Less: Non-operating expenses	VI.51	<b>1,394,815.53</b>	650,263.05
Including: Loss from disposal of non-current assets		<b>86,303.29</b>	495,243.76
<b>IV. Total (loss) profit</b>		<b>(298,472,913.80)</b>	21,489,080.25
Less: Income tax (credit) expenses	VI.52	<b>(11,973,966.90)</b>	7,232,414.63



# Consolidated Income Statements

For the year ended 31 December 2015

		Unit: RMB	
Items	Notes	Amount of this year	Amount of previous year
<b>V. Net (loss) profit</b>		<b>(286,498,946.90)</b>	14,256,665.62
Net (loss) profit attributable to the owners of the Company		<b>(259,565,004.32)</b>	20,233,190.77
Net (loss) profit attributable to non-controlling interests		<b>(26,933,942.58)</b>	(5,976,525.15)
<b>VI. Other comprehensive income, net of tax</b>	VI.56	<b>(1,660,759.37)</b>	(130,666.53)
Other comprehensive income net of tax attributable to the owners of the Company		<b>(1,574,337.55)</b>	(51,815.33)
(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. Shares enjoyed in other comprehensive income not subject to reclassification to profit and loss in investee companies under equity method		—	—
(ii) Items that maybe reclassified subsequently to profit or loss		<b>(1,574,337.55)</b>	(51,815.33)
1. Shares enjoyed in other comprehensive income to be reclassified to profit and loss in investee companies under equity method		—	—
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		<b>(1,574,337.55)</b>	(51,815.33)
6. Others		—	—
Other comprehensive expense attributable to the non-controlling interests (net of tax)		<b>(86,421.82)</b>	(78,851.20)
<b>VII. Total comprehensive (expense) income</b>		<b>(288,159,706.27)</b>	14,125,999.09
Total comprehensive (expense) income attributable to shareholders of Company		<b>(261,139,341.87)</b>	20,181,375.44
Total comprehensive (expense) income attributable to non-controlling interest		<b>(27,020,364.40)</b>	(6,055,376.35)
<b>VIII. (Loss) earnings per share:</b>			
(i) (Loss) earnings per share — basic	VI.55	<b>(0.33)</b>	0.03
(ii) (Loss) earnings per share — Diluted	VI.55	<b>(0.33)</b>	0.03

Legal representative:

Comptroller principal:

Leading member of  
the accounting body:

# Company Income Statements



For the year ended 31 December 2015

Unit: RMB

Items	Notes	Amount of this year	Amount of previous year
<b>I. Total revenue from operations</b>	XVI.36	<b>1,677,713,196.84</b>	2,718,418,201.90
Less: Operating cost	XVI.36	<b>1,479,088,909.85</b>	2,298,894,880.43
Business tax and surcharges	XVI.37	<b>10,276,740.18</b>	13,862,716.53
Selling expenses	XVI.38	<b>124,217,789.53</b>	147,891,671.65
Administrative expenses	XVI.39	<b>131,198,297.53</b>	114,070,365.53
Finance costs	XVI.40	<b>61,194,580.94</b>	53,722,670.35
Asset impairment losses	XVI.41	<b>55,084,817.00</b>	8,634,537.01
Add: Gains from changes in fair value		—	—
Investment income		—	—
Including: Gains from investment in associates and joint ventures		—	—
<b>II. Operating (loss) profit</b>		<b>(183,347,938.19)</b>	81,341,360.40
Add: Non-operating income	XVI.42	<b>24,309,247.70</b>	3,579,654.34
Including: Gain from disposal of non-current assets		—	427,654.67
Less: Non-operating expenses	XVI.43	<b>437,484.97</b>	275,399.62
including: Loss from disposal of non-current assets		<b>72,653.34</b>	153,380.33
<b>III. Total profit (loss)</b>		<b>(159,476,175.46)</b>	84,645,615.12
Less: Income tax (credit) expenses	XVI.44	<b>(25,399,406.51)</b>	6,861,478.58
<b>IV. Net (loss) profit</b>		<b>(134,076,768.95)</b>	77,784,136.54
<b>V. Other comprehensive income, net of tax</b>		—	—
(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. Shares enjoyed in other comprehensive income not subject to reclassification to profit and loss in investee companies under equity method		—	—
(ii) Items that maybe reclassified subsequently to profit or loss		—	—
1. Shares enjoyed in other comprehensive income to be reclassified to profit and loss in investee companies under equity method		—	—
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		—	—
<b>VI. Total comprehensive (expense) income</b>		<b>(134,076,768.95)</b>	77,784,136.54
<b>VII. Earnings per share:</b>			
(i) Earnings per share — basic		—	—
(ii) Earnings per share — diluted		—	—

Legal representative:

Comptroller principal:

Leading member of  
the accounting body:

Annual Report 2015



# Consolidated Statement of Cash Flow

For the year ended 31 December 2015

Unit: RMB

Items	Notes	Amount of this year	Amount of previous year
<b>I. Cash flows from operating activities</b>			
Cash receipts from the sale of goods or rendering of services		<b>1,549,661,942.67</b>	1,977,948,119.33
Net increase in deposits from customers, banks and other financial institutions		—	—
Net increase in deposits with the 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 financial assets at fair value through profit or loss		—	—
Interest, handling charges and commission received		<b>2,914,033.63</b>	—
Net increase in placements from banks and other financial institutions		—	—
Net increase in repurchase business capital		—	—
Receipts of tax refunds		<b>75,182,097.54</b>	55,555,000.71
Other cash receipts relating to operating activities	VI.58	<b>87,833,928.84</b>	147,829,129.97
<b>Sub-total of cash inflows from operating activities</b>		<b>1,715,592,002.68</b>	2,181,332,250.01
Cash payments for goods purchased and services rendered		<b>1,210,602,062.04</b>	1,293,076,611.84
Net increase in loans and advances to customers		<b>24,659,618.00</b>	—
Net increase in deposits with central bank and other financial institutions		—	—
Original insurance contract claims paid		—	—
Interest, brokerage charges and commission paid		—	—
Insurance dividend paid		—	—
Cash paid to and on behalf of employees		<b>122,767,445.69</b>	135,915,975.99
Payments of all types of taxes		<b>50,520,226.81</b>	60,635,608.25
Other cash payments relating to operating activities	VI.58	<b>286,409,861.67</b>	291,115,046.57
<b>Sub-total of cash outflows from operating activities</b>		<b>1,694,959,214.21</b>	1,780,743,242.65
<b>Net cash flows from operating activities</b>		<b>20,632,788.47</b>	400,589,007.36

# Consolidated Statement of Cash Flow



For the year ended 31 December 2015

Unit: RMB

Items	Notes	Amount of this year	Amount of previous year
<b>II. Cash flows from investing activities:</b>			
Cash receipts from disposals of investments		—	—
Cash receipts from gain of investments		<b>4,846,561.76</b>	—
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		<b>779.56</b>	654,388.12
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		<b>4,847,341.32</b>	654,388.12
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		<b>250,632,305.34</b>	291,668,846.75
Cash payments to acquire investments		—	—
Net increase in pledged loans		—	—
Net cash payments for acquisition of subsidiaries and other business units		<b>5,144,195.00</b>	—
Other cash payments relating to investing activities		—	—
Sub-total of cash outflows from investing activities		<b>255,776,500.34</b>	291,668,846.75
Net cash flows from investing activities		<b>(250,929,159.02)</b>	(291,014,458.63)
<b>III. Cash flows from financing activities:</b>			
Cash receipts from investors		—	—
including: Cash receipts from the minority interests in subsidiaries		—	—
Cash receipts from borrowings		<b>2,414,448,251.09</b>	2,549,780,885.72
Cash receipts from issuance of bonds		—	—
Other cash receipts relating to financing activities	VI.58	<b>3,050,000.00</b>	107,761,974.00
Sub-total of cash inflows from financing activities		<b>2,417,498,251.09</b>	2,657,542,859.72
Cash repayments for borrowings		<b>2,389,376,692.87</b>	2,503,720,244.31
Cash payments for distribution of dividends or profits and interest expenses		<b>89,237,158.93</b>	99,606,575.05
including: Cash payments for the minority interests in subsidiaries		—	—
Other cash payments relating to financing activities		—	—
Sub-total of cash outflows from financing activities		<b>2,478,613,851.80</b>	2,603,326,819.36
Net cash flows from financing activities		<b>(61,115,600.71)</b>	54,216,040.36



# Consolidated Statement of Cash Flow

For the year ended 31 December 2015

Items	Notes	Unit: RMB	
		Amount of this year	Amount of previous year
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>12,878,107.09</b>	2,505,836.10
<b>V. Net increase in cash and cash equivalents</b>		<b>(278,533,864.17)</b>	166,296,425.19
Add: Beginning balance of cash and cash equivalents		<b>496,842,889.68</b>	330,546,464.49
<b>VI. Ending balance of cash and cash equivalents</b>		<b>218,309,025.51</b>	496,842,889.68

Legal representative:

Comptroller principal:

Leading member of  
the accounting body:

# Company's Statement of Cash Flow



For the year ended 31 December 2015

Items	Notes	Unit: RMB	
		Amount of this year	Amount of previous year
<b>I. Cash flows from operating activities</b>			
Cash receipts from the sale of goods or rendering of services		<b>1,716,867,317.18</b>	2,120,256,427.56
Receipts of tax refunds		<b>74,602,097.54</b>	55,555,000.71
Other cash receipts relating to operating activities	XVI.47	<b>75,456,611.74</b>	185,172,696.68
Sub-total of cash inflows from operating activities		<b>1,866,926,026.46</b>	2,360,984,124.95
Cash payments for goods purchased and services rendered		<b>1,331,967,807.08</b>	1,413,992,562.85
Cash paid to and on behalf of employees		<b>94,605,632.06</b>	102,080,101.57
Payments of all types of taxes		<b>33,228,679.76</b>	35,813,449.27
Other cash payments relating to operating activities	XVI.47	<b>520,181,523.16</b>	305,725,197.84
<b>Sub-total of cash outflows from operating activities</b>		<b>1,979,983,642.06</b>	1,857,611,311.53
<b>Net cash flows from operating activities</b>		<b>(113,057,615.60)</b>	503,372,813.42
<b>II. Cash flows from investing activities:</b>			
Cash receipts from disposals of investments		—	—
Cash receipts from gain of investments		—	—
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		—	123,557,468.02
Net cash receipts from disposals of subsidiaries and other business units		—	—
Other cash receipts relating to investing activities		—	—
<b>Sub-total of cash inflows from investing activities</b>		—	123,557,468.02
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		<b>72,380,218.28</b>	103,798,148.91
Cash payments to acquire investments		<b>10,000,000.00</b>	400,000,000.00
Net cash payments for acquisition of subsidiaries and other business units		—	—
Other cash payments relating to investing activities		—	—
<b>Sub-total of cash outflows from investing activities</b>		<b>82,380,218.28</b>	503,798,148.91
<b>Net cash flows from investing activities</b>		<b>(82,380,218.28)</b>	(380,240,680.89)



# Company's Statement of Cash Flow

For the year ended 31 December 2015

Items	Notes	Amount of this year	Unit: RMB Amount of previous year
<b>III. Cash flows from financing activities:</b>			
Cash receipts from investors		—	—
Cash receipts from borrowings		<b>2,303,084,251.09</b>	2,488,355,885.72
Cash receipts from issuance of bonds		—	—
Other cash receipts relating to financing activities	XVI.47	<b>3,050,000.00</b>	107,761,974.00
<b>Sub-total of cash inflows from financing activities</b>		<b>2,306,134,251.09</b>	2,596,117,859.72
Cash repayments for borrowings		<b>2,328,115,692.87</b>	2,358,757,244.31
Cash payments for distribution of dividends or profits and interest expenses		<b>85,429,284.37</b>	87,679,777.36
Other cash payments relating to financing activities		—	—
<b>Sub-total of cash outflows from financing activities</b>		<b>2,413,544,977.24</b>	2,446,437,021.67
<b>Net cash flows from financing activities</b>		<b>(107,410,726.15)</b>	149,680,838.05
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>12,886,397.56</b>	2,450,535.61
<b>V. Net increase in cash and cash equivalents</b>		<b>(289,962,162.47)</b>	275,263,506.19
Add: Beginning balance of cash and cash equivalents		<b>485,372,230.80</b>	210,108,724.61
<b>VI. Ending balance of cash and cash equivalents</b>		<b>195,410,068.33</b>	485,372,230.80

Legal representative:

Comptroller principal:

Leading member of  
the accounting body:

# Consolidated Statements of Changes in Equity



For the year ended 31 December 2015

Unit: RMB

Items	Current year											Total equity	
	Equity attributable to shareholders of the Company										Minority interests		
	Share capital	Preferred stock	Perpetual bond	Other	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve			Retained profits
<b>I. Balance at the end of the previous year</b>	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
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>II. Balance at the beginning of current year</b>	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
<b>III. Changes in the current year</b>													
(i) Total comprehensive expense for the year	—	—	—	—	—	—	(1,574,337.55)	—	—	—	(259,565,004.32)	48,965,225.26	(212,162,879.70)
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	(1,574,337.55)	—	—	—	(259,565,004.32)	(288,159,706.27)	
1. Capital injection shareholders	—	—	—	—	—	—	—	—	—	—	—	75,964,721.12	75,964,721.12
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses changes to equity	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of shareholder's equity	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserves to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves offsetting against losses	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Provided	—	—	—	—	—	—	—	9,312,806.09	—	—	—	996,827.31	10,309,633.40
2. Utilized	—	—	—	—	—	—	—	9,312,806.09	—	—	—	996,827.31	10,309,633.40
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	20,868.54	32,105.45
<b>IV. Balance at the end of the current year</b>	797,848,400.00	—	—	—	849,500,658.42	—	(1,262,175.75)	—	176,686,903.51	11,236.91	610,372,203.12	104,927,569.69	2,558,084,595.90



# Consolidated Statements of Changes in Equity

For the year ended 31 December 2015

Unit: RMB

Items	Equity attributable to shareholders of the Company										Total equity		
	Share capital	Preferred stock	Perpetual bond	Other	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve		Retained profits	Minority interests
<b>I. Balance at the end of the previous year</b>	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	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>II. Balance at the beginning of current year</b>	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
<b>III. Changes in the current year</b>	—	—	—	—	—	—	(51,815.33)	—	7,778,413.65	—	12,454,777.12	(6,055,376.35)	14,125,999.09
(i) Total comprehensive (expenses) income for the year	—	—	—	—	—	—	(51,815.33)	—	7,778,413.65	—	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 changes 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 reserves to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves offsetting against losses	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Provided	—	—	—	—	—	—	—	8,814,440.83	—	—	—	1,017,721.37	9,832,162.20
2. Utilized	—	—	—	—	—	—	—	8,814,440.83	—	—	—	1,017,721.37	9,832,162.20
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>IV. Balance at the end of the current year</b>	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

Legal representative:

Comptroller principal:

Leading member of the accounting body:

# Company's Statements of Changes in Equity



For the year ended 31 December 2015

Unit: RMB

Items	Current year										Total equity
	Equity attributable to shareholders of the Company							Other			
	Share capital	Preferred stock	Perpetual bond	Other	Capital reserve	Less: Treasury stock	comprehensive income	Special reserve	Surplus reserve	Retained profits	
<b>I. Balance at the end of the previous year</b>	797,848,400.00	—	—	—	849,481,990.92	—	—	—	176,686,903.51	924,160,765.77	2,748,178,060.20
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—
<b>II. Balance at the beginning of current year</b>	797,848,400.00	—	—	—	849,481,990.92	—	—	—	176,686,903.51	924,160,765.77	2,748,178,060.20
<b>III. Changes in the current year</b>	—	—	—	—	—	—	—	—	—	(134,076,768.95)	(134,076,768.95)
(i) Total comprehensive expenses for the year	—	—	—	—	—	—	—	—	—	(134,076,768.95)	(134,076,768.95)
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—	—
1. Capital injection shareholders	—	—	—	—	—	—	—	—	—	—	—
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses changes to equity	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	—
2. Distributions to shareholders	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of shareholder's equity	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserves to share capital	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves offsetting against losses	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—
1. Provided	—	—	—	—	—	—	—	6,313,907.38	—	—	6,313,907.38
2. Utilized	—	—	—	—	—	—	—	6,313,907.38	—	—	6,313,907.38
(vi) Others	—	—	—	—	—	—	—	—	—	—	—
<b>IV. Balance at the end of the current year</b>	797,848,400.00	—	—	—	849,481,990.92	—	—	—	176,686,903.51	790,083,996.82	2,614,101,291.25

Unit: RMB



# Company's Statements of Changes in Equity

For the year ended 31 December 2015

Items	Equity attributable to shareholders of the Company										Total equity
	Other equity instruments					Last year					
	Share capital	Preferred stock	Perpetual bond	Other	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained profits	
<b>I. Balance at the end of the previous year</b>	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	—	—	—	—	—	—	—	—	—	—	—
<b>II. Balance at the beginning of current year</b>	797,848,400.00	—	—	—	849,481,990.92	—	—	—	168,908,489.86	854,155,042.88	2,670,393,923.66
<b>III. Changes in the current year</b>											
(i) Total comprehensive expenses for the year	—	—	—	—	—	—	—	—	7,778,413.65	70,005,722.89	77,784,136.54
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	77,784,136.54	77,784,136.54
1. Capital injection shareholders	—	—	—	—	—	—	—	—	—	—	—
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses changes 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. Distributions to shareholders	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of shareholder's equity	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserves to share capital	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves offsetting against losses	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—
1. Provided	—	—	—	—	—	—	—	4,324,204.91	—	—	4,324,204.91
2. Utilized	—	—	—	—	—	—	—	4,324,204.91	—	—	4,324,204.91
(vi) Others	—	—	—	—	—	—	—	—	—	—	—
<b>IV. Balance at the end of the current year</b>	797,848,400.00	—	—	—	849,481,990.92	—	—	—	176,686,903.51	924,160,765.77	2,748,178,060.20

Legal representative:

Comptroller principal:

Leading member of the accounting body:

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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. The Company's predecessor company is Shandong Molong Holdings Limited (山東墨龍集團總公司), 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 (registration number Qi Gu Lu Zong Zi No. 004025 (企股魯總字第004025號)) with a registered capital of Renminbi("RMB")40,500,000.00, total number of shares of 40,500,000 shares of RMB1 each.

On 28 February 2003, upon the approval by Office of Ministry of Finance (財政部辦公廳) with Cai Ban Qi [2003] No.30 (財辦企[2003]30號文), Gansu Industrial University Alloy Materials Factory (甘肅工業大學合金材料總廠) transferred 327,800 state-owned 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 Hong Kong Dollars ("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 HKD0.92 per share with a nominal value of RMB0.10 each. The Company's registered capital has changed to RMB64,799,800.00, and the total number of shares has changed to 647,998,000 shares.

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

Pursuant to the resolutions of 2006 Annual General Meeting convened on 25 May 2007, on the basis of a total of 647,998,000 shares as at 31 December 2006, the Company added its share capital from unallocated profit with bonus issue of 2 shares for every 1 share and added its share capital from capital reserve with the addition of 2 shares for every 1 share. As a result, 2,591,992,000 shares were issued in aggregate on 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.

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.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

## I. General Information (continued)

On 29 December 2009, the Company's board of directors has resolved to implement share consolidation, which, 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 address of the registered office and the principal place of business is 999 Wen Sheng Street, Shouguang City, Shandong Province.

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

Zhang Enrong, a natural person, is the controlling shareholder and ultimate control person of the Company.

## II. Scope of Consolidated Financial Statements

The consolidated financial statements of the Group has ten companies, including Shouguang Baolong Petroleum Material Company Limited, Shouguang Maolong Machinery Company Limited, Weihai Baolong Company Limited, etc. Compared with last year, Shouguang Moalong Micro-Credit Company Limited was consolidated through business combinations under common control and Shouguang Maolong Micro-credit Co., Ltd. was established and consolidated into the Group.

For the Group subsidiaries, please refer to Note 7, "Changes in the scope of consolidation" and Note 8 "Interests in other entities" for details.



1 January 2015 to 31 December 2015

(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. In accordance with Application Guidance for Accounting Standard for Business Enterprises (ASBEs) issued by the Ministry of Finance of the People, disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Provisions on Financial Reporting (revised 2014) issued by the China Securities Regulatory Commission, the Listing Rules issued by 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 historical records of profits, stable cash flows and ability to access financial resources to support the normal production and operation.

## IV. Significant Accounting Policies and Accounting Estimates

Notices to the specific accounting policies and accounting estimates: the Group adopts 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, amortization of intangible asset, 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 2015 and the results of their operations and their cash flows for the year ended 31 December 2015 in accordance with the requirement under ASBEs.

### 2. Financial year

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

### 3. Operating cycle

The Group's operating cycle is 12 months, from 1 January to 31 December. This operating cycle is adopted for classification criteria for liquidity of assets and liabilities.

### 4. Reporting currency

The functional currency of the Company and those subsidiaries established in the PRC is RMB. The functional currency of the overseas subsidiary is United States Dollars ("USD").

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



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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 realized by two or more transactions, the combination costs shall be the aggregate of the costs of all separate transactions). The amount of the combination costs in excess of the fair value of the identifiable net assets of the acquiree shall be recognized as goodwill. If the combination costs are less than the fair value of the identifiable net assets of the acquiree, the fair value of the identifiable assets, liabilities and contingent liabilities acquired from the combination as well as the fair value of the non-cash assets or the equity securities issued for paying the consideration will be reviewed. If the combination costs are still less than the fair value of the identifiable net assets after review, the balance shall be accounted for as non-operating income for the current period.

### 6. Basis of preparation of consolidated financial statement

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

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

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

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



1 January 2015 to 31 December 2015

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

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

### 6. Basis of preparation of consolidated financial statement (continued)

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

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

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

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 realized 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 2015 to 31 December 2015

(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, the Group recognizes its wholly owned assets and liabilities, other assets held and liabilities held jointly on proportionate basis, and recognizes revenues and expenses on a proportionate 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 capitalization. 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 recognized in the consolidated statement of financial position when the Group becomes a party to the contract of financial instrument.



1 January 2015 to 31 December 2015

(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 investment purpose and actual economic ownership at the time of initial recognition.

Financial assets at FVTPL consist of financial assets held for trading and those designated as financial assets at FVTPL 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 FVTPL 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 amortized cost, the amortization or impairment and gains or losses are recognized upon termination arising and are recognized in the profit or loss for the current period.

Loans and 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 2015 to 31 December 2015

(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 derecognized: (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 recognizes it as a related financial asset and recognizes the relevant liability accordingly.

On derecognition of a financial asset, the difference between the following amounts is recognized 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 recognized 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 recognized and the part that qualifies for derecognition, based on the fair values of the respective parts. The difference between the following amounts is recognized 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 2015 to 31 December 2015

(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) Methodology on impairment loss on financial assets and accounting treatment

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Impairment loss is recognized 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 amortized cost, the amount of the impairment loss recognized 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 recognized, the previously recognized 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 recognized 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 recognized 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 FVTPL" 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 amortized cost, using the effective interest method.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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 derecognizes 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) *Fair value measurement method of 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 assets at FVTPL and financial liabilities at FVTPL.

### 11. Provisions of accounts receivable

Accounts receivable includes trade receivables and other receivables, etc. The Group trade receivables derived from sales of goods and services rendered are initially recognized 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.

Possible bad debt loss is accounted for under the allowance method. Impairment test will be carried out singly or as a group at the end of the year and provision for bad debt will be made and accounted for in profit or loss for the current period. Receivables proved to be irrecoverable shall be recognized as bad debt loss after approval by the Group according to prescribed procedures, offsetting against the provision for bad debt made.



1 January 2015 to 31 December 2015

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

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

### 11. Provisions of accounts receivable (continued)

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

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

Judgment basis or amount standard for single item with significant amount	The Group recognizes accounts receivable of over RMB3.00 million and other receivables of over RMB2.00 million as single item with significant accounts receivable.
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Provision method for single item with significant amount and provided for bad debts in single item	The Group conducts impairment test for single item with significant accounts receivable separately, and tests financial assets without impairment separately, including conducting impairment test on financial asset groups with similar credit risk characteristics. For accounts receivable with impairment loss recognized in single item test, they ceased to be included in accounts receivable portfolio with similar risk characteristics for impairment test.
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#### (2) Accounts receivable provided for bad debts by the Group

##### Basis for determining portfolio

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

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

1 January 2015 to 31 December 2015

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

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

### 12. Loan and provision for loan

The Group has classified its loans into five categories: pass, special mention, substandard, doubtful and loss, according to the following standards:

*Pass loan:* Loans for which corporate borrowers (personal borrowers) may perform the loan agreement (including the loan extension agreement) and repay the loan when it is due. (Duration characteristics of the extension: one extension, the duration of which is no longer than 0.5 times the original loan tenure; or the duration of one extension does not exceed six months).

*Special mention loan:* Loans for which corporate borrowers (personal borrowers) are currently solvent and may pay interest on normal terms despite some factors that might have an adverse impact on repayment. (Duration characteristics of the extension: the loan is extended once for a duration of no longer than the original loan tenure; or the duration of the extension does not exceed twelve months). Loans for which corporate borrowers (personal borrowers) are currently insolvent and may not pay interest on normal terms but the repayment of principal could be recovered after the enforcement of collateral.

*Substandard loan:* Loans for which corporate borrowers (personal borrowers) are experiencing definable solvency issues and may not pay interest on normal terms, for which collection of loan in full is impossible relying solely on the normal income of the borrowers and on which certain losses might be inflicted even after the enforcement of collateral. (Duration characteristics of the extension: the duration of one or more extensions are longer than the original loan tenure but shorter than 18 months).

*Doubtful loan:* Loans for which collection in full is impossible from the corporate borrowers (personal borrowers), the interest is not paid on normal terms and on which significant losses might be inflicted even after the enforcement of collateral. (Duration characteristics of the extension: the duration of one or more extensions are longer than the original loan tenure but shorter than 30 months).

*Loss loan:* Loans for which collection in full is impossible from the corporate borrowers (borrowers), the interest is not paid on normal terms and which are considered uncollectable after all collection measures or all necessary legal proceedings, and loans for which corporate borrowers go bankrupt or borrowers are deceased and which are not fully repaid by liquidated assets or estates. (Duration characteristics of the extension: the duration of the extension is longer than 2.5 times the original loan tenure or longer than 30 months).

During the implementation of the five-tier classification of loans, the class that a corporate borrower (personal borrower) shall be included in could be adjusted in accordance with the results of the analysis on the corporate borrower's (personal borrower's) actual operations, asset changes, repayment of principal and interest in cases of loans and collateral guarantees.

In terms of the impairment of the loans and advances that have been extended, after considering whether the principal or interest of a loan is past due, whether the borrower will encounter liquidity problems and credit rating downgrades, or be relegated to a lesser position in the market competition, or violate the original contract terms, the following factors shall also be taken into account: the value of collaterals and pledges, sustainability of the borrower's business plan, the borrower's ability to increase performance in times of financial difficulties, recoverable amount from the project and expected recoverable amount in case of insolvent liquidation, other available sources of finance and the amount of the collaterals in case of realization, the expected time for the cash inflows. etc. After conducting a reasonable assessment and judgment on these factors, provision shall be made for impairment loss based on the differences between the expected cash flows and the carrying amount.



1 January 2015 to 31 December 2015

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

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

### 13. Inventories

Inventories of the Group mainly include raw materials, work-in-progress, entrusted processed materials 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 amortized by one-time written-off.

At the balance sheet date, inventories are calculated at the lower of cost and net realizable value. If the net present values of the inventories are lower than the cost, provision for impairment is recognized. The provisions for finished goods and large-amount raw materials are made on the excess of their costs over their lower net realizable values on an item-by-item basis. Other inventories items are assessed on collective basis.

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

### 14. Assets classified as held for sale

When relevant assets of the Group satisfy the following conditions, the Group shall recognize them as held for sale: such relevant assets must be available for sale under current condition as per common terms on sale of such assets; a resolution has been put forward by the approval lending departments of the Group on the disposal of such assets; an irrevocable transfer agreement has been entered into between the Group and the transferee; and such transfer shall be done within one year.

### 15. Long-term equity investments

Long-term equity investments include the Company's investment in entities, including investments in subsidiaries, associates and jointly ventures.

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

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

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



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

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

As for the package deals which acquire equity of investee under the same control through multiple deals and ultimately form consolidation, 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 consolidated party's financial statements of the ultimate controlling party on the date of consolidation. The balance between initial investment cost and book value of long-term equity investment before consolidation plus the book value of acquired new payment consideration of the further obtained shares on the date of consolidation shall adjust capital surplus. If the value of capital surplus is not enough to be offset, retained earnings shall be offset.

The acquisition cost will be the initial investment cost at the long-term equity investments acquired through a business combination not under common control.

As for the package deals which acquire equity of investee note under the same control through multiple deals and ultimately form consolidation, the Group shall handle each deal as one with controlling rights by means of accountancy. For those which are not package deals, initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will change to cost method. For shareholding which it holds before the date of acquisition which uses equity method, other related comprehensive income which use equity method for accounting shall not be adjusted, such investment shall use the same accounting basis as the invested company when it directly dispose related assets or liabilities upon disposal. For shareholding which it holds before acquisition and accounted for under fair value method in the available-for-sale financial assets, the accumulated change in fair value which is originally included in other comprehensive income shall be change to profit or loss for the current period on the date of consolidation.

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.

Equity investment (investments in subsidiaries) are subsequently accounted by cost method. When there is addition or recovery of investment, the amount of the additional investment costs paid and the fair value of the related transaction costs are included in carrying amounts of equity investments. The cash dividends or profit distribution declared by the investees are recognized as investment income in profit or loss.

Equity investments (investments in joint ventures and associates) are subsequently accounted by equity method. The book value of long-term equity investments changes 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.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

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

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.

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.

### 16. Investment Properties

Investment properties are land use rights held to earn rental and/or for capital appreciation as well as building held to earn rental.

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 amortized using the same policy as that for buildings and land use rights.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 16. Investment Properties (continued)

The Group reassesses and adjusts the estimated useful life, estimated residual value and depreciation (amortization) 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 derecognized 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 derecognized.

### 17. 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 are recognized when it is highly probable of economic benefits inflow to the Group and their costs can be measured reliably. 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 straight line method to measure the cost or expenses of the assets for the current period based on the usage of the assets. The useful lives, estimated residual rates and depreciation rate of each type of the fixed asset of the Group are as follows:

Items	Categories	Depreciation period (year)	Estimated Residual Value Rate (%)	Annual Depreciation 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 equipments	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.



1 January 2015 to 31 December 2015

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

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

### 17. Fixed assets (continued)

The depreciation policy of the finance leased fixed asset is consistent with that of its own fixed assets. 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. The Group currently has no finance leased fixed assets.

A fixed asset is derecognized 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 recognized in profit or loss for the current period.

### 18. 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, capitalized 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 amortization.

### 19. 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.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 19. Borrowing costs (continued)

When funds are borrowed under a specific-purpose borrowing the amount of interest to be capitalized 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. Capitalization rate confirmed as general borrowing weighted average rate.

During capitalization period, exchange difference arising from specific-purpose borrowings denominated in foreign currency is capitalized while exchange difference arising from general-purpose borrowings denominated in foreign currency is recognized in profit or loss.

### 20. Intangible Assets

#### (1) Intangible assets

The Group's intangible assets mainly include land use right (maritime use right), patented technology, non-patented technology and software, etc. Intangible assets are measured at the 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 amortization amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortization shall begin when the asset is available for use. The cost of land use right is amortized evenly over the whole period of the right. The cost of software use right and non-patented technology of the Company is amortized evenly over the shorter period of the expected useful life, the contractual beneficial period and the useful life specified in the law. The amortization 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 amortization 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.



1 January 2015 to 31 December 2015

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

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

### 20. Intangible Assets (continued)

#### (2) Research and Development ("R&D")

With reference to the nature of expenditures and uncertainty of the final achievement, expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

From early investigations to the applications after maturity, the new product R&D projects of the Group shall undergo the two phases of research and development: the phase of research includes such stages as investigation, substantiation, the initiation and approval of annual new product R&D plans, early researches (including formula design, process design, equipment selection, formulation of technical standards, etc.), the preparation and approval of monthly new product R&D plans and so on, among which the approval of monthly new product R&D plans symbolizes the end of the phase of research for a new product. The phase of development includes specifically such stages as trial production of the new product, project acceptance, etc., the latter of which symbolizes the end of the phase of development for a new product.

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

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

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

- (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (2) the management's intention to complete the intangible asset and use or sell it;
- (3) probable economic benefits to the 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 recognized as intangible asset in subsequent period. The capitalized expenditure in the development phase shall be recognized as intangible asset when the asset is ready to its intended use.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 21. 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.

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 recognized as an impairment loss of these assets and the amount shall not be reversed in the subsequent accounting period.

### 22. Long-term prepaid expenses

The Group's long-term prepaid expenses included electric platform and steel chartered cost. It will be amortized 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 amortization period of electric platform and steel chartered is 3 years.



1 January 2015 to 31 December 2015

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

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

### 23. 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 recognizes 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 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 recognized 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.

### 24. Provision

A provision is recognized as a liabilities when an obligation related to a contingency, such as guarantees provided to outsiders, factoring of commercial acceptance bills, pending litigations or arbitrations, product warranties and contingent events, 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 recognized as an interest expense.

If all or part of the expense necessary for settling the provision 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.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 25. Production Safety Fee

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

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

The provision of production safety fee is recognized 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 recognized as fixed assets. If the balance of "special reserve" is fully offset during the year, the production safety fee is recognized in profit and loss for the year.



1 January 2015 to 31 December 2015

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

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

### 26. Revenue recognition

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

#### (1) Sales of goods

Revenue from the sale of goods is recognized 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 recognizing revenue from the sales of goods. For domestic sales, the Group recognizes revenue when goods are delivered to and accepted by the customers. For export sales, the Group recognizes 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 recognized 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 recognized 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 recognized only to the extent of the expenses recognized 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 recognized and the costs incurred are recognized as an expense for the year.

#### (3) Interest income

When the economic interests related to transactions could flow in the enterprise and the amount of income could be reliably measured, the interest income will be determined according to the time when a customer utilizes the Group's capital and effective interest rate.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 26. Revenue recognition (continued)

#### (3) Interest income (continued)

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and the amortized interest income or interest expense during the relevant period. The effective interest rate is the rate used for the discount of future cash flows of the financial instruments to the carrying net amount by the expected maturity date, or where appropriate, through a shorter period. While estimating future cash flows, the Company will take all the contract terms relating to the financial instruments into consideration and exclude future credit loss. While calculating the effective interest rate, transaction costs, premiums or discounts and all fees and charges that are related to the effective interest rate between parties to the contract will be taken into consideration.

Where there is impairment of financial assets, the interest rate by which the interest income of these assets is determined will be decided by the rate that is used to discount future cash flows (namely the rate to account for loss).

### 27. 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 acquire non-current assets are recognized as deferred income and transferred to profit or loss over the useful lives of the related assets averagely.

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 recognized in profit or loss in the period in which they become receivable.

Reversal of recognized 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 recognized in the profit or loss in current period. In case there is no relevant deferred income, reversal will be directly recognized in the profit or loss in current period.

1 January 2015 to 31 December 2015

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

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

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

Deferred tax assets and liabilities are recognized 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 recognized as deferred tax assets. No deferred tax liabilities are recognized in respect of temporary difference arising from the initial recognition of goodwill. Such assets and liabilities are not recognized 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 recognized deferred tax assets will be reduced.

### 29. 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 recognized 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 recognized as future finance charges to be amortized 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 recognized according to each period using effective income method.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 29. Leasing (continued)

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

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 recognized loss of unguaranteed residual value that might be recovered, which would be return in the original recognized amount of investment and recalculated lease implicit interest rate. The financing revenue would be recognized according to modified net value of lease investment and the lease implicit interest rate. It might be accounted to the current profit or loss when the contingent rental actual occurs.

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

Lease payment for operating lease is recognized 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 recognized as profit or loss for the current period upon occurrence.

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

Rental income is recognized 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 capitalized 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.

### 30. Recognition of taxation

Income tax is recognized 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 recognized in profit or loss for the period, except when they arise from transactions or events that are directly recognized in shareholders' equity, in which case they are recognized 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 recognized 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.



1 January 2015 to 31 December 2015

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

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

### 31. 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.

### 32. Other Significant Accounting Policies and Accounting Estimates

Preparing the financial statements, the management of the Company us required to make estimation and assumptions. These estimations and assumptions may affect the carrying amounts of accounting policy, assets, liabilities, revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 amortized cost exists. If there is impairment loss evidence, the Group assesses the amount of impairment loss to be recognized. Impairment evidence includes information shown the expected future cash flow of individual or a group of accounts receivable decreases significantly, negative credit information of individual or a group of accounts receivable and etc. Impairment loss will be written back is there is evidence shown that the impairment on accounts receivable could be recovered subsequently.

#### (2) Provision for inventories

As set out in Note IV.13, the Group assesses the net realizable value of inventories periodically and makes allowance for inventories which the cost is higher than the net realizable value. Net realizable 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 realizable 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.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

### 32. Other Significant Accounting Policies and Accounting Estimates (continued)

#### (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 recognized impairment loss on goodwill could not be reversed.

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

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

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

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

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

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

Amortization 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, amortization 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.



1 January 2015 to 31 December 2015

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

### 32. Other Significant Accounting Policies and Accounting Estimates (continued)

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

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 recognized impairment loss on intangible assets could not be reversed.

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

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

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

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

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

#### (1) Impact on changes in accounting policy

There is no change in accounting policy during this reporting period.

#### (2) Impact on changes in accounting estimates

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

### 34. Prior period adjustment

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



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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## 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	Income tax rate
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%
Shouguang Maolong Micro-Credit Company Limited (“Maolong Miro-Credit”)	25%
Shandong Molong Import & Export Company Limited (“Molong Import & Export”)	25%

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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 2014" (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 Gao Zi [2014] No. 33) 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 was recognized as an Advanced Technology Enterprise and obtained a Certificate of Advanced Technology Enterprise No. GR201437000051. The Company was subject to an enterprise income tax rate of 15% for the three consecutive years since 1 January 2014 to 31 December 2016.

## VI. Notes to the Consolidated Financial Statements

Unless otherwise stated, the term of 'beginning of the year' refers to 1 January 2015 and the term of 'end of the year' refers to 31 December 2015. 'This year' refers to the 1 January 2015 to 31 December 2015. 'Previous year' refers to the 1 January 2014 to 31 December 2014. 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	82,768.08	83,692.32
Bank balance	151,614,579.43	323,835,489.16
Other monetary assets	198,118,425.99	291,290,034.90
<b>Total</b>	<b>349,815,773.50</b>	<b>615,209,216.38</b>
Include: Fund deposited in overseas	1,266,927.95	3,133,676.26

- (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 RMB84,128,661.69 (at the beginning of the year: RMB176,490,478.32), borrowings and deposit for letter of credit of RMB nil (at the beginning of the year: RMB10,404,906.58), deposit for letter of guarantee of RMB22,050,000.00 (at the beginning of the year: RMB 22,050,000.00) and fixed deposit of RMB91,939,764.30 (at the beginning of the year: RMB82,344,650.00)



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 1. Cash and cash equivalents (continued)

- (3) At the end of the year, the Group had bank acceptance bills deposit with maturity date over 3 months of RMB37,616,983.69 (at the beginning of the year: RMB68,391,676.70), borrowings and deposit for letter of credit with maturity date over 3 months of RMB nil (at the beginning of the year: RMB5,000,000.00); and deposit for letter of guarantee with maturity date over 3 months of RMB1,950,000.00 (at the beginning of the year: RMB nil); fixed deposits with maturity date over 3 months of RMB91,939,764.30 (at the beginning of the year: RMB44,974,650.00).

### 2. Bills Receivable

#### (1) Classification of bills receivable

Items	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance notes	27,629,547.57	90,685,848.66
Commercial acceptance notes	18,472,215.19	—
Total	46,101,762.76	90,685,848.66

#### (2) Pledged bills receivable

Items	Pledged amount at the end of the year
Bank acceptance notes	2,530,000.00
Total	2,530,000.00

At the end of the year, bills receivable amounted of RMB2,530,000.00 was pledged to China Zheshang Bank in exchange of equivalent amount of credit limits. At the end of the year, the Group did not utilize the credit limits. These pledged bills receivables will be matured by 26 February 2016.

#### (3) At the end of the year, the bills endorsed to other parties but not mature are as follows:

Items	Amount derecognized at the end of the year	Amount not derecognized at the end of the year
Bank acceptance notes	162,128,636.15	—
Commercial acceptance notes	415,149.00	—
Total	162,543,785.15	—

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 2. Bills Receivable (continued)

- (4) At the end of the year, the Group had no bills receivable converted into trade receivables due to failure to settle of bills receivable.

### 3. Accounts Receivable

Items	Balance at the end of the year	Balance at the beginning of the year
Accounts receivable	522,733,882.88	621,391,569.93
Less: provision for bad debts	25,493,883.60	12,751,160.25
Net amount	497,239,999.28	608,640,409.68

#### (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 recognizes 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 recognizes 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	348,177,426.95	576,617,038.85
More than one year but within two years	129,100,380.57	29,538,088.45
More than two years but within three years	19,960,595.76	2,318,690.87
More than three years	1,596.00	166,591.51
Net amount	497,239,999.28	608,640,409.68

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 2015 to 31 December 2015

(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				
	Book amount		Provision for bad debts		Carrying value
	Amount	Proportion (%)	Amount	Proportion (%)	
Single item with significant accounts receivable and provided for bad debts in individual assessment for impairment loss	43,608,469.83	8.34	22,213,266.98	50.94	21,395,202.85
Single item with insignificant accounts receivable and single item with significant other receivable but not impaired under individual assessment for impairment loss	473,469,333.00	90.58	—	—	473,469,333.00
Single item with insignificant accounts receivable but provided for bad debts individually	5,656,080.05	1.08	3,280,616.62	58.00	2,375,463.43
<b>Total</b>	<b>522,733,882.88</b>	<b>100.00</b>	<b>25,493,883.60</b>	<b>—</b>	<b>497,239,999.28</b>

Items	Balance at the beginning of the year				
	Book amount		Provision for bad debts		Carrying value
	Amount	Proportion (%)	Amount	Proportion (%)	
Single item with significant accounts receivable and provided for bad debts in individual assessment for impairment loss	14,376,029.00	2.31	10,479,971.25	72.90	3,896,057.75
Single item with insignificant accounts receivable and single item with significant other receivable but not impaired under individual assessment for impairment loss	604,328,444.90	97.26	—	—	604,328,444.90
Single item with insignificant accounts receivable but provided for bad debts individually	2,687,096.03	0.43	2,271,189.00	84.52	415,907.03
<b>Total</b>	<b>621,391,569.93</b>	<b>100.00</b>	<b>12,751,160.25</b>	<b>—</b>	<b>608,640,409.68</b>

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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)

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

Companies	Carrying amount	Provision for bad debt	Ratio (%)	Reason for provision
Shandong Coal Machinery Equipment Co., Ltd.	25,411,133.71	7,426,627.81	29.23	Recovery at risk
Wenlai Jinlong Investment Company Limited, Beijing Office	7,729,482.54	6,532,536.40	84.51	Aging over two years with low possibility of recovery
SBI Company (USA)	4,040,915.14	4,040,915.14	100.00	Aging over three years with low possibility of recovery
Shengli Oilfield Highland Petroleum Equipment Co., Ltd	3,284,636.96	3,284,636.96	100.00	Aging over three years with low possibility of recovery
Samasu International Oil Corporation	3,142,301.48	928,550.67	29.55	Recovery at risk
Total	43,608,469.83	22,213,266.98	—	

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

Companies	Carrying amount	Provision for bad debt	Ratio (%)	Reason for provision
Shandong Wantong Hydraulic Co., Ltd.	1,471,183.18	441,354.95	30.00	Recovery at risk
South China Petrochemical Group	1,340,798.61	1,340,798.61	100.00	Aging over three years with low possibility of recovery
Metal One Corporation	1,127,611.24	333,209.33	29.55	Recovery at risk
PT. Dhiva Inter Sarana	782,446.33	231,213.04	29.55	Recovery at risk
China Petroleum Technology Development Corporation	594,152.90	594,152.90	100.00	Aging over one years with uncertainty in recovery
Zibo QiLin Electrical and Logistics Company Limited	244,795.51	244,795.51	100.00	Irrecoverable
Hanting Energy Resource Private Service Company Limited	95,092.28	95,092.28	100.00	Aging over three years with low possibility of recovery
Total	5,656,080.05	3,280,616.62	—	



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 3. Accounts Receivable (continued)

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

The impairment loss on accounts receivables amounted to RMB12,799,423.35. There is no reversal of provision for bad debt or recovery of impaired accounts receivable during this year.

#### (4) Accounts receivable written off as uncollectible during this year.

Items	Amounts written off
Accounts receivable written off as uncollectible	56,700.00

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

Items	Amount	Aging	Percentage of the total accounts receivable (%)	Impairment loss at the end of the year
Petroamazonas EP	76,581,962.96	Within one year	14.65	0.00
Yan Chang Oil Field Co., Limited	41,046,770.70	Within one year	7.85	0.00
	14,479,975.92	One to two years	2.77	0.00
China Petroleum & Chemical Co., Ltd, Supplies Equipment Department	53,804,246.19	Within one year	10.29	0.00
Peak Pipe and Supply, LLC	8,230,853.15	Within one year	1.57	0.00
	38,527,090.80	One to two years	7.37	0.00
HeBei ZhongTai Steel Pipe Manufacture Co., Limited	36,876,907.33	Within one year	7.05	0.00
Total	269,547,807.05		51.55	0.00

#### (6) At 31 December 2015, the Group had no pledged accounts receivable.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 4. Loans and Advances

#### (1) Loans and advances details

Items	Balance at the end of the year	Balance at the beginning of the year
Gross loans and advances to customers	148,943,805.00	—
Less: Provision for impairment losses	12,613,920.41	—
Net amount	136,329,884.59	—

#### (2) The collateral types of loans and advances are as follows:

Types	Balance at the end of the year	Balance at the beginning of the year
Pledged loans	85,781,269.46	—
Mortgage loans	7,414,200.00	—
Guaranteed loans	43,134,415.13	—
Total	136,329,884.59	—

#### (3) The five classification of loans and advances and provision for impairment loss are as follows:

Types	Balance at the end of the year						Provision for impairment loss
	Book amount		General provision for impairment loss		Specific provision for impairment loss		
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	
Pass	96,365,187.00	64.70	963,651.87	1.00	—	0.00	963,651.87
Special mention	10,136,618.00	6.81	101,366.18	1.00	202,732.36	2.00	304,098.54
Sub standard	41,197,000.00	27.66	411,970.00	1.00	10,299,250.00	25.00	10,711,220.00
Doubtful	1,245,000.00	0.83	12,450.00	1.00	622,500.00	50.00	634,950.00
Loss	—	—	—	—	—	—	—
Total	148,943,805.00	100.00	1,489,438.05	—	11,124,482.36	—	12,613,920.41



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 4. Loans and Advances (continued)

#### (4) Classification by lender

Types	Balance at the end of the year				Net amount
	Carrying amount		Provision for impairment loss		
	Amount	Proportion (%)	Amount	Proportion (%)	
Business	91,919,687.00	61.71	11,352,021.87	12.35	80,567,665.13
Personal	57,024,118.00	38.29	1,261,898.54	2.21	55,762,219.46
Total	148,943,805.00	100.00	12,613,920.41	—	136,329,884.59

#### (5) The top five balances of loans are as follows:

Entities	Amount	Loan period	Percentage of the total loans (%)	The balance of provision for impairment loss as at the end of the year
Linqu day Tai Delong Casting Co., Ltd.	7,500,000.00	Within one year	5.04	75,000.00
Qingzhou Tongbao Supplies Limited	7,500,000.00	Within one year	5.04	75,000.00
Shandong Ferrer Chemical Co., Ltd.	7,500,000.00	Within one year	5.04	75,000.00
Shouguang Lishui Fertilizer Co., Ltd.	7,500,000.00	Within one year	5.04	1,950,000.00
Shouguang Skandia Shipping Co., Ltd.	6,980,000.00	Within one year	4.69	1,814,800.00
Total	36,980,000.00		24.85	3,989,800.00

#### (6) As at the end of the year, the Group's total overdue loans amounted to RMB 52,528,618.00, the overdue situation is as follows:

Overdue by	Amount	Percentage of the total loans and advances (%)	The balance of provision for impairment loss as at the end of the year
Over 360 days	34,982,000.00	23.49	9,295,020.00
180–360 days	9,070,000.00	6.09	1,333,550.00
90–180 days	2,066,618.00	1.39	61,998.54
Within 90 days	6,410,000.00	4.30	958,200.00
Total	52,528,618.00	35.27	11,648,768.54

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 5. 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	11,359,384.66	94.16	40,372,275.65	99.85
One to two years	693,193.89	5.75	31,180.00	0.08
Two to three years	—	—	—	—
More than three years	10,683.61	0.09	28,214.22	0.07
Total	12,063,262.16	100.00	40,431,669.87	100.00

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

Entities	Balance at the end of the year	Aging	Percentage of the total prepayments (%)
Shandong Shouguang Giant Special Steel Co., Ltd.	7,643,646.31	Within one year	63.36
Zibo QiLin FuShan Steel Co., Limited	1,105,982.72	Within one year	9.17
Weihai Iron and Steel Institute	120,000.00	Within one year	0.99
	493,693.89	One to two years	4.09
Qinhuangdao Ding Thermal Equipment Co., Ltd.	400,000.00	Within one year	3.32
China Xin Import and Export Co.	381,046.84	Within one year	3.16
Total	10,144,369.76		84.09

### 6 Interests Receivable

#### (1) Classification of interest receivable

Items	Balance at the end of the year	Balance at the beginning of the year
Interest on fixed deposits	554,753.38	743,209.80
Interest on pledged deposits	812,950.21	1,927,493.53
Interest on loans and advances	3,226,693.09	—
Total	4,594,396.68	2,670,703.33



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 6 Interests Receivable (continued)

- (2) The above interest includes overdue loan interest within 90 days amounted RMB595,890.00. There is no other overdue interest.

### 7 Other Receivables

Items	Balance at the end of the year	Balance at the beginning of the year
Other receivables	87,942,274.01	48,978,840.92
Less: provision for bad debts	119,119.25	119,119.25
Net amount	87,823,154.76	48,859,721.67

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

Aging	Balance at the end of the year	Balance at the beginning of the year
Within one year	62,490,582.87	25,861,995.30
One to two years	10,264,344.37	15,461,067.37
Two to three years	14,770,000.00	267,301.29
More than three years	298,227.52	7,269,357.71
Net amount	87,823,154.76	48,859,721.67

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

Items	Balance at the end of the year				Carrying value
	Book amount		Provision for bad debts		
	Amount	Proportion (%)	Amount	Proportion (%)	
Single item with significant other receivables and provided for bad debts in individual assessment for impairment loss	—	—	—	—	—
Single item with insignificant other receivables and single item with significant other receivable but not impaired under individual assessment for impairment loss	87,823,154.76	99.86	—	—	87,823,154.76
Single item with insignificant other receivables but provided for bad debts individually	119,119.25	0.14	119,119.25	100.00	—
Total	87,942,274.01	100.00	119,119.25	—	87,823,154.76

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 7 Other Receivables (continued)

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

Items	Balance at the beginning of the year				Carrying value
	Book amount		Provision for bad debts		
	Amount	Proportion (%)	Amount	Proportion (%)	
Single item with significant other receivables and provided for bad debts in individual assessment for impairment loss	—	—	—	—	—
Single item with insignificant other receivables and single item with significant other receivable but not impaired under individual assessment for impairment loss	48,859,721.67	99.76	—	—	48,859,721.67
Single item with insignificant other receivables but provided for bad debts individually	119,119.25	0.24	119,119.25	100.00	—
<b>Total</b>	<b>48,978,840.92</b>	<b>100.00</b>	<b>119,119.25</b>	<b>—</b>	<b>48,859,721.67</b>

(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
<b>Total</b>	<b>119,119.25</b>	<b>119,119.25</b>	<b>—</b>	

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

The Group has not provided any impairment loss on other receivables, recovered or reversal of impairment loss on other receivables.

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



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 7 Other Receivables (continued)

#### (5) Classification of other receivables by nature

Nature	Balance at the end of the year	Balance at the beginning of the year
Current account with entities	60,013,314.95	32,439,506.91
Current account with individuals	1,235,680.00	1,257,000.00
Deposits	24,693,948.31	14,892,827.76
Others	1,880,211.50	270,387.00
Total	87,823,154.76	48,859,721.67

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

Entities	Nature	Amount	Aging	Proportion (%)	The balance of provision for bad debts as at the end of year
JESORO OIL LTD	Current account	39,993,311.56	Within one year	45.48	0.00
Shouguang City Yangkou Town Finance Department	Deposit for project development	14,530,000.00	Two to three years	16.52	0.00
Shouguang City Yangkou Town Financial Statistics Center	Current account	7,860,601.48	Within two years	8.94	0.00
Australia's Rio Tinto	Current account	7,770,193.12	Within one year	8.84	0.00
People's Republic of China Weifang Customs	Deposit	7,740,226.31	Within one year	8.80	0.00
Total		77,894,332.47		88.58	0.00

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 8. 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	219,715,781.95	8,186,591.20	211,529,190.75	230,974,251.85	14,094,273.76	216,879,978.09
Work-in-progress	321,920,163.35	21,377,704.74	300,542,458.61	389,217,664.90	6,983,415.60	382,234,249.30
Entrusted processing materials	7,620,583.03	161,309.79	7,459,273.24	21,941,068.85	572,454.32	21,368,614.53
Finished goods	431,434,494.81	47,181,129.41	384,253,365.40	411,746,691.68	13,159,842.92	398,586,848.76
Total	980,691,023.14	76,906,735.14	903,784,288.00	1,053,879,677.28	34,809,986.60	1,019,069,690.68

#### (2) Allowance for inventories

Items	Balance at the beginning of the year		Reduction during this year		Balance at the end of the year
	Allowance made during this year	Reversal of allowance	Written-off		
Raw material	14,094,273.76	—	5,907,682.56	—	8,186,591.20
Work-in-progress	6,983,415.60	18,534,047.64	3,318,419.64	—	21,377,704.74
Entrusted processing materials	572,454.32	—	411,144.53	—	161,309.79
Finished goods	13,159,842.92	38,169,685.63	4,969,738.00	—	47,181,129.41
Total	34,809,986.60	56,703,733.27	14,606,984.73	—	76,906,735.14

#### (3) Provision of allowance for inventories

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

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



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 9. Other current assets

Items	Balance at the end of the year	Balance at the beginning of the year
Prepaid value-added tax	76,941,169.12	48,939,615.27
Prepaid income tax	2,178,186.58	—
Prepaid other taxes	151,563.24	—
Total	79,270,918.94	48,939,615.27

### 10. 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	—	—	—	—	—	—
At cost	10,030,000.00	—	10,030,000.00	10,000,000.00	—	10,000,000.00
Total	10,030,000.00	—	10,030,000.00	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 (Excluding Hong Kong)	—	—
Hong Kong	—	—
Other areas	—	—
Sub-total	—	—
Unlisted	10,030,000.00	10,000,000.00
Total	10,030,000.00	10,000,000.00

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 10. Available-for-sale financial assets (continued)

#### (3) Analysis of Available-for-sale financial assets under cost method

Investee company	Shareholding (%)	Carrying value			At the end of the year
		Beginning of the year	Additions	Disposals	
Shouguang Mihe Water Company Limited	9.73	10,000,000.00	—	—	10,000,000.00
Shouguang Hand-in-hand Private Lending Service Center	10.00	—	30,000.00	—	30,000.00
Total	—	10,000,000.00	30,000.00	—	10,030,000.00

Investee company	Impairment loss				Cash dividend
	Beginning of the year	Additions	Disposal	At the end of the year	
Shouguang Mihe Water Company Limited	—	—	—	—	—
Shouguang Hand-in-hand Private Lending Service Center	—	—	—	—	—
Total	—	—	—	—	—

- (4) The Group's available-for-sales financial assets represent investment in external entities do not have any indication of impairment, therefore no provision for impairment is made for available-for-sales financial assets.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 11. Long-term Equity Investment

#### (1) Classification of long-term equity investment

Investee companies	Movement of the year											
	Beginning of the year	Increase in investment	Decrease in investment	Investment gains and losses recognized under the equity method	Adjustment on other comprehensive income	Other changes in equity	Cash dividend declared	Provision of impairment	Others decrease	Balance at the end of the year	Impairment at the end of the year	
Associate	—	—	—	—	—	—	—	—	—	—	—	—
Yalong Oil Pump Company Limited ("Yalong Oil Pump")	2,835,741.67	—	—	98,161.20	—	—	150,000.00	—	—	2,783,902.87	—	—
Shouguang Maolong Microfinance Co., Ltd. ("Maolong Microfinance")	51,520,280.04	—	—	(1,422,184.10)	—	—	4,500,000.00	—	45,598,095.94	—	—	—
Total	54,356,021.71	—	—	(1,324,022.90)	—	—	4,650,000.00	—	45,598,095.94	2,783,902.87	—	—

Note: Other decreases in Maolong Microfinance is attributed to acquisition of additional equity interests in the company resulting in inclusion of the company within the Group's scope of consolidation.

#### (2) Investment in associates

Investee Companies	Type of Organization	Place of Registration	Place of Operation	Place of Operation	Legal Person	Code of Organization	Business Scope	Registered capital	Percentage of shareholding (%)
Associate	—	—	—	—	—	—	—	—	—
Yalong Oil Pump	LLC	Karamay, Xinjiang	Karamay, Xinjiang	Xinjiang	Luo Jie	22895641-2	Manufacturing	6,400,000.00	30.00

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 11. 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	2,783,902.87	54,356,021.71
Total	2,783,902.87	54,356,021.71

- (4) There is no impairment indicators and the Group does not provide impairment loss for long-term equity investment.
- (5) At 31 December 2015, 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 2015 to 31 December 2015

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

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

### 12. Fixed Assets

#### (1) Details of fixed assets

Items	Buildings	Machinery and equipment	Electronic and other equipments	Vehicles	Total
<b>A. Costs</b>					
1. Balance at the beginning 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
2. Additions for the year	23,036,667.00	20,445,536.50	509,071.60	938,485.26	44,929,760.36
(1) Additions	6,251,822.00	10,778,538.06	461,981.60	796,578.26	18,288,919.92
(2) Transferred from construction-in-progress	12,550,000.00	9,666,998.44	—	—	22,216,998.44
(3) Additions from business combinations	4,234,845.00	—	47,090.00	141,907.00	4,423,842.00
3. Reductions for the year	28,000.00	562,866,271.88	156,746.19	35,100.00	563,086,118.07
(1) Disposal or retirement	28,000.00	1,478,030.00	156,746.19	35,100.00	1,697,876.19
(2) Other reductions	—	561,388,241.88	—	—	561,388,241.88
4. Balance at the end of the year	632,630,602.70	1,594,250,535.60	101,283,154.54	15,929,944.97	2,344,094,237.81
<b>B. Accumulated depreciation</b>					
1. Balance at the beginning of the year	124,903,314.02	812,787,377.68	69,636,730.54	11,113,672.34	1,018,441,094.58
2. Additions for the year	29,639,937.81	157,036,564.09	8,343,973.94	1,590,153.21	196,610,629.05
(1) Provision	28,930,704.04	157,036,564.09	8,320,161.07	1,527,241.12	195,814,670.32
(2) Others	709,233.77	—	23,812.87	62,912.09	795,958.73
3. Reductions for the year	12,541.21	178,295,876.96	136,977.13	30,685.00	178,476,080.30
(1) Disposal or retirement	12,541.21	1,400,590.00	136,977.13	30,685.00	1,580,793.34
(2) Others	—	176,895,286.96	—	—	176,895,286.96
4. Balance at the end of the year	154,530,710.62	791,528,064.81	77,843,727.35	12,673,140.55	1,036,575,643.33
<b>C. Impairment</b>					
1. Balance at the beginning of the year	4,986,478.28	11,055,919.03	—	—	16,042,397.31
2. Additions for the year	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions for the year	—	—	—	—	—
(1) Disposal or retirement	—	—	—	—	—
4. Balance at the end of the year	4,986,478.28	11,055,919.03	—	—	16,042,397.31
<b>D. Carrying values</b>					
1. At the beginning 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
2. At the end of the year	473,113,413.80	791,666,551.76	23,439,427.19	3,256,804.42	1,291,476,197.17

(1) During this year, depreciation expenses of RMB198,428,371.16 was recognized in profit or loss (during previous year: RMB198,207,669.48).

(2) During this year, the amount of fixed assets transferred from construction in progress was RMB22,216,998.44.

(3) During this year, the Group recognized loss on disposal of fixed assets amounted to RMB86,303.29.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 12. 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	473,113,413.80	479,732,143.40
Medium lease term (10–50 years)	473,113,413.80	479,732,143.40
Outside China	—	—
Total	473,113,413.80	479,732,143.40

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

#### (4) Fixed assets without certificate of ownership

Items	Carring value	Reasons without certificate of ownership
140 Plant	9,651,174.86	Application in process
New Dormitory Building	4,598,462.34	Application in process
Molong Garden 7th floor	8,572,500.00	Application in process
Logistics Park Plant	9,495,521.54	Application in process
Molong Garden Room, Block 4 on the 12th street	3,552,500.04	Application in process
Electric Furnace Plant	66,581,315.10	Application in process
Scrap steel plant	7,350,304.77	Application in process
Total	109,801,778.65	—

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



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 13. 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	1,087,442,447.70	—	1,087,442,447.70	686,093,340.23	—	686,093,340.23
Seawater Desalination Project	43,655,564.46	—	43,655,564.46	13,463,230.27	—	13,463,230.27
Heat and Gas Utilisation Project	73,882,929.92	—	73,882,929.92	33,598,467.40	—	33,598,467.40
Oxygen Station Project	98,222,793.86	—	98,222,793.86	98,158,042.80	—	98,158,042.80
Employee Technical Development Training Centre	13,126,858.52	—	13,126,858.52	11,458,300.00	—	11,458,300.00
Φ180 Petroleum Special Pipe Mill Shutdown Transformation	390,866,271.60	—	390,866,271.60	—	—	—
Others	3,598,931.12	—	3,598,931.12	10,233,516.05	—	10,233,516.05
<b>Total</b>	<b>1,710,795,797.18</b>	<b>—</b>	<b>1,710,795,797.18</b>	<b>853,004,896.75</b>	<b>—</b>	<b>853,004,896.75</b>

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

Items	Balance at the beginning of the year	Additions	Reductions		Balance at the end of the year
			Transferred to fixed assets	Other reduction	
Casting Plant Relocation And Technological Improvement Project	686,093,340.23	413,899,705.47	12,550,598.00	—	1,087,442,447.70
Seawater Desalination Project	13,463,230.27	30,192,334.19	—	—	43,655,564.46
Heat and Gas Utilisation Project	33,598,467.40	40,284,462.52	—	—	73,882,929.92
Oxygen Station Project	98,158,042.80	64,751.06	—	—	98,222,793.86
Employee Technical Development Training Centre	11,458,300.00	1,668,558.52	—	—	13,126,858.52
Φ180 Petroleum Special Pipe Mill Shutdown Transformation	—	390,866,271.60	—	—	390,866,271.60
<b>Total</b>	<b>842,771,380.70</b>	<b>876,976,083.36</b>	<b>12,550,598.00</b>	<b>—</b>	<b>1,707,196,866.06</b>

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 13. Construction-in-progress (continued)

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

Projects	Budget amount	Investment to budgeted (%)	Progress (%)	Accumulated interest capitalized	Including: capitalized interest amount during this year	Interest capitalized during this year (%)	Sources of Fund
Casting Plant Relocation And Technological Improvement Project	800,000,000.00	135.93	95.00	72,010,609.05	36,940,074.20	4.64	Self raised fund and loan from financial institution
Seawater Desalination Project	150,000,000.00	29.10	95.00	1,694,749.84	1,502,986.14	4.64	Self raised fund and loan from financial institution
Heat and Gas Utilisation Project	120,000,000.00	61.57	95.00	2,610,951.30	2,132,391.09	4.64	Self raised fund and loan from financial institution
Oxygen Station Project	100,000,000.00	98.22	95.00	2,198,515.18	800,399.80	4.64	Self raised fund and loan from financial institution
Employee Technical Development Training Centre	26,000,000.00	50.49	55.00	—	—	—	Self raised fund
Φ 180 Petroleum Special Pipe Mill Shutdown Transformation	10,000,000.00	63.73	65.00	—	—	—	Self raised fund
<b>Total</b>	<b>1,206,000,000.00</b>	<b>—</b>	<b>—</b>	<b>78,514,825.37</b>	<b>41,375,851.23</b>	<b>—</b>	

During this year, interest capitalization rate is 4.64% and 4.64% for the Company and Maolong New Material respectively (previous year: 5.33% and 6% respectively for the Company and Shouguang Baolong).

- (3) The Group's construction-in-progress does not have any impairment indicators, no provision is provided.
- (4) 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 2015 to 31 December 2015

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

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

### 14. Intangible Assets

#### (1) Details of intangible assets

Items	Land use rights/ Maritime use rights	Software	Non-patent technology	Patent technology	Total
<b>A. Costs</b>					
1. Balance at the beginning of the year	386,652,878.49	770,036.72	323,314,354.43	2,541,868.11	713,279,137.75
2. Additions for the year	36,647,400.00	—	30,758,411.75	—	67,405,811.75
(1) Acquisition	36,647,400.00	—	—	—	36,647,400.00
(2) Internally generated	—	—	30,758,411.75	—	30,758,411.75
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the year	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the year	423,300,278.49	770,036.72	354,072,766.18	2,541,868.11	780,684,949.50
<b>B. Accumulated amortization</b>					
1. Balance at the beginning of the year	31,435,495.29	751,190.60	167,324,069.49	1,271,658.31	200,782,413.69
2. Additions for the year	8,571,073.26	13,589.76	68,030,991.08	511,786.42	77,127,440.52
(1) Amortization	8,571,073.26	13,589.76	68,030,991.08	511,786.42	77,127,440.52
3. Reductions for the year	—	—	—	—	—
(1) Disposals	—	—	—	—	—
4. Balance at the end of the year	40,006,568.55	764,780.36	235,355,060.57	1,783,444.73	277,909,854.21
<b>C. Impairment</b>					
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
<b>D. Carrying values</b>					
1. At the beginning of the year	355,217,383.20	18,846.12	122,021,909.49	1,270,209.80	478,528,348.61
2. At the end of the year	383,293,709.94	5,256.36	84,749,330.16	758,423.38	468,806,719.84

The internally generated intangible assets are 18.08% of the total intangible assets.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 14. Intangible Assets (continued)

- (2) The land-use right/maritime use right by geographical information and lease term:

Items	Balance at the end of the year	Balance at the beginning of the year
Land-use right in the PRC	383,293,709.94	355,217,383.20
Medium-term lease (10–50 years)	383,293,709.94	355,217,383.20
Land-use right outside the PRC	—	—
<b>Total</b>	<b>383,293,709.94</b>	<b>355,217,383.20</b>

- (3) During this year, RMB77,127,440.52 (previous year: RMB47,972,003.22) was recognized as amortization expense for intangible assets in the consolidated income statements.

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

### 15. Research and Development Expenditure

Items	Balance at the beginning of the year	Additions	Reductions		Balance at the end of the year
		Internal development expenses	Recognized as intangible assets	Recognized as intangible assets	
Various type of sleeves	—	10,700,654.00	6,443,772.54	4,256,881.46	—
Various type of oil tubing	—	38,227,385.21	24,314,639.21	13,912,746.00	—
<b>Total</b>	<b>—</b>	<b>48,928,039.21</b>	<b>30,758,411.75</b>	<b>18,169,627.46</b>	<b>—</b>

The internally generated intangible assets are 18.08% of the total intangible assets.

The Company's division in research and development phase and capitalization of development expenditure specific basis can be found in Note IV.20.

At 31 December 2015, all new product research and development work has been completed.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 16. 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

#### (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	15,000,000.00	—	74,490,000.00
Total	59,490,000.00	15,000,000.00	—	74,490,000.00

#### (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	68,483,383.21	83,483,383.21
Total	68,483,383.21	83,483,383.21

(4) The Group's goodwill was generated by business consolidation not under common control of Maolong New Materials in 2007.

(5) RMB 15,000,000.00 was recognized as impairment of goodwill during this year. (Previous year: RMB Nil)

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 16. Goodwill (continued)

- (6) The Group performs the impairment review on goodwill as stated in Note IV.21.

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 2015 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 11.75% 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.

### 17. Long term deferred expenses

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



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

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

#### (1) Deferred tax assets recognized before setoff

Items	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	25,613,002.85	3,866,429.98	12,870,279.50	1,960,691.48
Including: accounts receivable	25,493,883.60	3,848,562.09	12,751,160.25	1,942,823.59
other receivables	119,119.25	17,867.89	119,119.25	17,867.89
Provision for inventories	63,499,548.87	9,624,453.93	34,809,986.60	5,778,344.08
Salaries payables	—	—	26,350,820.61	4,607,098.62
Amortization of intangible assets	123,596,678.83	27,545,929.55	87,523,411.08	18,527,612.61
Depreciation and impairment of fixed assets	—	—	8,782,561.33	2,195,640.33
Deductible losses	100,902,983.99	15,424,728.75	19,959,031.48	4,989,757.87
Deferred income	1,808,000.00	271,200.00	3,616,000.00	542,400.00
Impairment of intangible assets	7,777,377.38	1,166,606.61	19,888,386.55	2,983,257.98
Unrealized profits arisen from intra-group transactions	12,476,820.98	3,019,318.17	8,709,562.97	2,177,390.74
Total	335,674,412.90	60,918,666.99	222,510,040.12	43,762,193.71

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

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

#### (2) Recognized 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	31,770,406.73	7,942,601.69	33,057,747.92	8,264,436.98
Including: Long-term investments	15,237.51	3,809.38	15,237.51	3,809.38
Fixed assets	2,386,740.22	596,685.06	2,938,145.75	734,536.44
Intangible assets	29,368,429.00	7,342,107.25	30,104,364.66	7,526,091.16
Interests receivable	1,367,703.59	205,155.54	2,670,703.33	400,605.50
Unrealized losses arisen from intra-group transactions	42,861,050.97	6,429,157.64	9,008,902.36	2,252,225.59
<b>Total</b>	<b>75,999,161.29</b>	<b>14,576,914.87</b>	<b>44,737,353.61</b>	<b>10,917,268.07</b>

Note 1: On 31 December 2007, the Company acquired 100% of interests in Shouguang Maolong Machinery Company Limited (hereinafter referred to as "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 recognized 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 recognized.

#### (3) Details of tax assets not recognized are shown as follows:

Items	Balance at the end of the year	Balance at the beginning of the year
Deductible temporary differences	33,443,153.93	—
Deductible losses	258,026,813.62	98,614,758.76
<b>Total</b>	<b>291,469,967.55</b>	<b>98,614,758.76</b>

Note: The deductible tax losses in certain subsidiaries could not be available for offset against future profits due to the unpredictability of future profit streams. Hence, no deferred tax assets are recognized as at 31 December 2015.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

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

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

Items	Balance at the end of the year	Balance at the beginning of the year	Note
2017	3,514,811.37	3,604,023.09	—
2018	42,072,215.21	42,074,676.62	—
2019	72,439,584.00	52,936,059.05	—
2020	140,000,203.04	—	—
Total	258,026,813.62	98,614,758.76	—

### 19. 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)	87,757,302.15	127,016,280.00
Prepayments for acquisition of fixed assets (Note 2)	24,161,389.80	79,674,985.14
Prepayments for acquisition of construction projects (Note 3)	8,943,923.73	12,324,218.73
Total	120,862,615.68	219,015,483.87

Note 1: The Group had prepayments for acquisition for land use rights of RMB87,757,302.15 included in other non-current assets.

Note 2: The Group had prepayments for acquisition of plant, machinery and equipment of RMB24,161,389.80 included in other non-current assets. The Group has not received these fixed assets.

Note 3: The Group had prepayments for acquisition of construction projects of RMB8,943,923.73 included in other non-current assets. These construction projects have not yet started.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 20 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
Guaranteed loans	64,936,000.00	61,190,000.00
Credit loans	1,404,119,063.41	1,353,615,321.00
Total	1,469,055,063.41	1,414,805,321.00

During this year, the weighted average interest rate for the Group is 4.05% (Previous years: 5.33%).

The guaranteed loans are provided to its subsidiary, MPM Limited.

(2) The Group had no overdue and unsettled short term borrowings at the end of the reporting period.

(3) The Group has repaid RMB467,124,000.00 of short term borrowings up to the report date.

### 21. Bills payable

Nature	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance notes	304,242,384.43	426,865,457.13
Total	304,242,384.43	426,865,457.13

At the end of the reporting period, the bank acceptance notes of RMB304,242,384.43 will be expired in the next fiscal year. The Group had no overdue bills payable.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 22. Accounts payable

#### (1) Details of accounts payable

Items	Balance at the end of the year	Balance at the beginning of the year
Material	567,358,760.06	526,501,001.59
Project equipment	337,431,138.47	178,824,417.00
Total	904,789,898.53	705,325,418.59

#### (2) Aging analysis of accounts payable:

Items	Balance at the end of the year	Balance at the beginning of the year
Within 2 months	313,980,268.53	72,961,435.65
2-3 months	67,292,476.06	73,123,800.49
3-4 months	56,806,383.33	49,624,238.06
4 months-1 year	272,138,820.43	415,504,204.35
1-2 years	147,796,667.79	62,410,570.50
2-3 years	23,762,226.63	14,625,194.89
Over 3 years	23,013,055.76	17,075,974.65
Total	904,789,898.53	705,325,418.59

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 22. Accounts payable (continued)

#### (3) The significant accounts payable aged over one year as follows:

Suppliers	Balance	Nature	Reason for unsettled
Shouguang the Yellow River Delta Logistics Services Ltd.	5,981,874.56	Delivery charges	Not billed
Jinan Tongchuang Electronics Co., Ltd.	4,435,272.51	Acquisition of materials	Not billed
Shouguang Yu Sheng Economic Ltd.	4,171,985.96	Acquisition of materials	Not billed
Shouguang Housing Construction and Installation Co., Ltd.	4,075,533.08	Project fee	Not billed
Shandong Space Steel Engineering Limited	3,906,684.00	Project fee	Not billed
Shandong Tiantai Construction Co., Ltd.	3,590,000.00	Project fee	Not billed
Shenyang East Metallurgical Technology Co., Ltd.	3,563,081.91	Acquisition of materials	Not billed
Shandong Shouguang First Construction Co., Ltd.	3,113,000.00	Project fee	Not billed
Total	32,837,432.02		

### 23. Receipts in advance

#### (1) Receipts in advance

Items	Balance at the end of the year	Balance at the beginning of the year
Sales of goods	43,005,331.88	151,391,041.52
Total	43,005,331.88	151,391,041.52
Including: Over 1 year	8,656,280.49	5,448,192.71

#### (2) The significant receipt in advance with aging over one year

Name of entities	Balance at the end of the year	Reason for unsettled
British Oil Pipe	2,265,197.03	According to the contract, items as not been shipped
Mark — Sarthe Gan Limited Liability Company	1,635,912.52	According to the contract, items as not been shipped
UMW Oilfield International (L) Ltd	1,017,341.86	According to the contract, items as not been shipped
Total	4,918,451.41	



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 24. Salaries Payable

#### (1) Classification of salaries payable

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Short-term employee benefits	26,312,782.88	120,022,021.90	119,476,721.81	26,858,082.97
Post-employment benefits defined contribution plans	59,721.94	11,447,456.26	11,411,942.69	95,235.51
Total	26,372,504.82	131,469,478.16	130,888,664.50	26,953,318.48

#### (2) Short-term employee benefits

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Salaries, bonuses, allowance and subsidies	22,240,431.89	95,670,814.25	97,218,306.20	20,692,939.94
Staff welfare	—	15,228,814.58	15,228,814.58	—
Social insurance	34,575.86	5,843,802.37	5,847,264.93	31,113.30
Including: Medical insurance	25,146.08	4,436,157.66	4,437,256.51	24,047.23
Injury insurance	6,286.52	814,531.81	817,385.90	3,432.43
Birth insurance	3,143.26	593,112.90	592,622.52	3,633.64
Union fund and staff education fund	4,037,775.13	3,278,590.70	1,182,336.10	6,134,029.73
Total	26,312,782.88	120,022,021.90	119,476,721.81	26,858,082.97

The Group's salaries payable included unpaid salary bonuses, allowance, and etc of RMB20,692,939.94 at the end of the year and it will be settled by the second quarter in 2016.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 24. 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	56,578.68	10,836,733.68	10,801,684.40	91,627.96
Unemployment insurance	3,143.26	610,722.58	610,258.29	3,607.55
Total	59,721.94	11,447,456.26	11,411,942.69	95,235.51

#### (4) Retirement benefits

PRC

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is defined contribution retirement plan and responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. During the year ended 31 December 2015, the total amount contributed by the Group to this scheme and charged to the consolidated statement of profit or loss was approximately RMB10,836,733.68 (2014: RMB10,302,953.55).

### 25. Taxes Payable

Items	Balance at the end of the year	Balance at the beginning of the year
Value added tax	517,268.91	1,144,672.84
Business tax	—	153,089.27
Enterprise income tax	540,564.30	2,472,917.23
Individual income tax	1,580,077.95	71,303.90
Urban maintenances and construction tax	256,784.87	856,574.92
Property tax	1,348,371.23	1,168,151.84
Land use tax	2,435,816.30	2,435,816.27
Educational surcharges	183,417.77	611,839.27
Local water conservancy construction funds	36,683.55	122,367.88
Stamp duty	365,514.26	1,297,353.01
Other	123,345.00	—
Total	7,387,844.14	10,334,086.93

At the end of the year, there is no Hong Kong Profits Tax payable included in taxes payable.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 26. Interests Payable

Items	Balance at the end of the year	Balance at the beginning of the year
Bank loan interests	3,107,863.84	6,890,151.45
Corporate bond interest	14,745,205.48	14,745,205.48
Total	17,853,069.32	21,635,356.93

As of 31 December 2015, the Group has no overdue unsettled interest.

### 27. Other payables

#### (1) Other payables

Items	Balance at the end of the year	Balance at the beginning of the year
Total	23,979,858.24	24,879,654.35
Including: Over 1 year	7,489,179.26	7,447,507.94

#### (2) Details of other payables

Other payables	Balance at the end of the year	Balance at the beginning of the year
Accrued energy charges	11,915,078.93	12,327,140.22
Deposits	9,377,921.34	11,090,333.08
Others	2,686,857.97	1,462,181.05
Total	23,979,858.24	24,879,654.35

(3) At the end of the year, the Group has no significant other payable aged over one year.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 28. Non-current liabilities due within one year

Items	Balance at the end of the year	Balance at the beginning of the year
Bond payable due within one year	499,444,444.41	—
Total	499,444,444.41	—

Details of bond payable as stated in Note VI.30.

### 29. Other current liabilities

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

Notes: Details of government grant as stated in Note VI.31.

### 30. Bonds payable

#### (1) Classification of bonds payable

Items	Balance at the end of the year	Balance at the beginning of the year
Bonds with installment interest payments and principal payment at maturity	—	498,111,111.09
Total	—	498,111,111.09



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 30. Bonds payable (continued)

#### (2) Movement on bonds payable

Nature of the bond	Nominal value	Date of issue	Period	Issued amount	Balance at the beginning of the year
Bonds with installment interest payments and principal payment at maturity	500,000,000.00	2013-6-7	Three years	496,000,000.00	498,111,111.09
Total	500,000,000.00	—	—	496,000,000.00	498,111,111.09

Nature of the bond	Issue during the year	Accrued interest on par value	Premium Discount	Repayment	Other decrease	Balance at the end of the year
Bonds with installment interest payments and principal payment at maturity	—	26,000,000.00	1,333,333.32	—	499,444,444.41	—
Total	—	26,000,000.00	1,333,333.32	—	499,444,444.41	—

On 7 June 2013, the Company issued a 3-year corporate bond with a nominal value of RMB500,000,000 with interest rate of 5.20% per annum, interests will be paid on 7 June of each year until the principal is repaid. The company has paid the second year's interest of RMB26,000,000 on 8 June 2015. The actual amount received by the Company is RMB496,000,000 with the effective interest at 5.5%. The other decrease during the year is attributed to this corporate bond matured in June 2016 and will be shown under in the non-current liabilities due within one year.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 31. 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	1,808,000.00	—	1,808,000.00	—	Assets related government grants
Total	1,808,000.00	—	1,808,000.00	—	

- (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 recognized it as deferred income, RMB1,808,000.00 was recognized as income in current year.

#### (3) Government grant

Government grant project	Balance at the beginning of the year	Addition grant received	Recognized as income	Others	Balance at the end of the year	Capital nature/ Revenue nature
High-end petroleum equipments projects	3,616,000.00	—	1,808,000.00	1,808,000.00	—	Capital nature
Total	3,616,000.00	—	1,808,000.00	1,808,000.00	—	

Other movements are deferred income that will be recognized as other operating income during the year of 2016.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 32. 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	
<b>Total shares</b>	<b>797,848,400.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>797,848,400.00</b>	

#### 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	
<b>Total shares</b>	<b>797,848,400.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>797,848,400.00</b>	

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 33. Capital Reserves

#### This year

Items	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 capital reserves	18,667.50	—	—	18,667.50
Total	849,500,658.42	—	—	849,500,658.42

#### Previous year

Items	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 capital reserves	18,667.50	—	—	18,667.50
Total	849,500,658.42	—	—	849,500,658.42

### 34. Other comprehensive income

Items	Movement for the year						
	Attributable to the owner of company at the beginning of the year	Income tax	Less: Previously recognized 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 from the translation of foreign currency financial statements	312,161.80	(1,660,759.37)	—	—	(1,574,337.55)	(86,421.82)	(1,262,175.75)
Total	312,161.80	(1,660,759.37)	—	—	(1,574,337.55)	(86,421.82)	(1,262,175.75)



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 35. Special Reserve

#### This year

Items	Balance at the beginning of the year	Addition	Reduction	Balance at the end of the year
Production safety fee	—	9,312,806.09	9,312,806.09	—
Total	—	9,312,806.09	9,312,806.09	—

#### Previous year

Items	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	—

Note: According to the 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 Ministry of Finance ("MoF") and State Administration of Work Safety, the Group recorded the related product safety fee as required.

### 36. Surplus Reserve

#### This year

Items	Balance at the beginning of the year	Addition	Reduction	Balance at the end of the year
Statutory surplus reserve	176,686,903.51	—	—	176,686,903.51
Total	176,686,903.51	—	—	176,686,903.51

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

#### Previous year

Items	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

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 37. General risk reserve

#### This year

Items	Balance at the beginning of the year	Addition	Reduction
General risk reserve	11,236.91	—	Notes
Total	11,236.91	—	—

Notes: As Shouguang Mao Tong Macro-Credit Company is consolidated during this year, the balance as at the beginning of the year is RMB nil. The general risk reserve is provided pursuant to the Notice on Strengthening Loan Classification Management for Small Scale Loan Company to Improve Risk Provision [2013] No. 11 ([2013]11號《關於加強小額貸款公司貸款分類管理提高風險撥備水平有關問題的通知》) enforced by Shandong Province Department of Finance and Financial Affairs Office of Shandong Province on 15 March 2013.

### 38. Retained Profits

#### This year

Items	Amount	Appropriation ratio (%)
<b>Last year closing balance</b>	869,937,207.44	—
Add: Opening adjustments of retained earning	—	—
Including: ASBEs retrospective adjustment on provisions of new accounting standards	—	—
Including: Changes in accounting policies	—	—
Significant prior year adjustment	—	—
Change in consolidation scope under common control	—	—
Other adjustments	—	—
<b>Balance at the beginning of the year</b>	869,937,207.44	—
Add: Net profit attributable to the owners of the Company	(259,565,004.32)	—
Less: Appropriation of statutory surplus reserve	—	—
Appropriation of arbitrary surplus reserve	—	—
Appropriation of general risk reserve	—	—
Dividend paid	—	—
Share dividend transfer to share capital	—	—
<b>Balance at the end of the year</b>	610,372,203.12	—



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 38. Retained Profits (continued)

#### Previous year

Items	Amount	Appropriation ratio (%)
<b>Last year closing balance</b>	857,482,430.32	—
Add: Opening adjustments of retained earning	—	—
Including: ASBEs retrospective adjustment on provisions of new accounting standards	—	—
Including: Changes in accounting policies	—	—
Significant prior year adjustment	—	—
Change in consolidation scope under common control	—	—
Other adjustments	—	—
<b>Balance at the beginning of the year</b>	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 risk reserve	—	—
Dividend paid	—	—
Share dividend transfer to capital share	—	—
<b>Balance at the end of the year</b>	869,937,207.44	—

Note : Appropriation to statutory surplus reserve:

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.

### 39. 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
Shouguang Baolong	30.00	27,955,476.78	55,645,977.07
Maolong Micro-Credit	50.00	77,037,210.55	—
Others	—	(65,317.64)	316,167.36
<b>Total</b>	—	104,927,369.69	55,962,144.43

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 40. Net current assets

Items	Balance at the beginning of the year	Balance at the end of the year
Current assets	2,117,023,440.67	2,474,506,875.54
Less: current liabilities	3,298,519,212.84	2,783,416,841.27
Net current assets	(1,181,495,772.17)	(308,909,965.73)

### 41. Total assets less current liabilities

Items	Balance at the beginning of the year	Balance at the end of the year
Total assets	5,851,180,723.61	6,044,500,696.03
Less: current liabilities	3,298,519,212.84	2,783,416,841.27
Total assets less current liabilities	2,552,661,510.77	3,261,083,854.76

### 42. Borrowings

Items	Balance at the beginning of the year	Balance at the end of the year
Short-term borrowings	1,469,055,063.41	1,414,805,321.00
Bonds payables	499,444,444.41	498,111,111.09
Total	1,968,499,507.82	1,912,916,432.09



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 42. Borrowings (continued)

#### (1) Borrowings analysis

Items	Balance at the beginning of the year	Balance at the end of the year
<b>Bank loan</b>		
Repayable within 1 year	1,469,055,063.41	1,414,805,321.00
Repayable over 1 years	—	—
Sub-total	1,469,055,063.41	1,414,805,321.00
<b>Other borrowings and payables</b>		
Repayable within 1 year	499,444,444.41	—
Repayable after 1 year	—	498,111,111.09
Sub-total	499,444,444.41	498,111,111.09
Total	1,968,499,507.82	1,912,916,432.09

#### (2) Borrowing maturity analysis

##### Bank borrowings

Items	Balance at the beginning of the year	Balance at the end of the year
Repayable on demand or within 1 year	1,469,055,063.41	1,414,805,321.00
1 to 2 years	—	—
2 to 5 years	—	—
Over 5 years	—	—
Total	1,469,055,063.41	1,414,805,321.00

##### 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	499,444,444.41	—
1 to 2 years	—	498,111,111.09
2 to 5 years	—	—
Over 5 years	—	—
Total	499,444,444.41	498,111,111.09

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 43. Operating revenue and operating costs

Items	Incurred during this year		Incurred during previous year	
	Revenue	Cost	Revenue	Cost
Main operation	1,597,599,619.85	1,468,064,928.79	2,455,561,259.84	2,077,014,318.40
Other operation	16,318,115.23	27,308,852.82	66,541,219.45	57,754,751.23
<b>Total</b>	<b>1,613,917,735.08</b>	<b>1,495,373,781.61</b>	<b>2,522,102,479.29</b>	<b>2,134,769,069.63</b>

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: Compared with the previous year, a larger decline in gross profit margin during this year, mainly due to the company's product price decreased sharply.

The Group's balance of operating income arised from the top five client is RMB682,143,521.26 (the balance of last year: RMB989,822,623.23) and accounted for 42.26% of the total operating income (last year: 39.25%), details as stated follows:

Name of customers	Operating revenue	Percentage of the total sales revenue (%)
UNIX TECHNO PLUS LTD.	211,648,249.36	13.11
OFFSHORE ENGINEERING AND MARKETING LTD	185,980,020.54	11.52
Hebei Zhongtai Steel Pipe Manufacture Co., Limited	114,075,523.38	7.07
China National Petroleum Corporation	89,664,657.19	5.56
Campex Inc.	80,775,070.79	5.00
<b>Total</b>	<b>682,143,521.26</b>	<b>42.26</b>



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 44. Tax and levies on operations

Items	Incurring during this year	Incurring during the previous year	Tax rate
Business tax	199,447.38	547,550.00	5% of operating revenue 7% of value-added-tax and business tax payables
Urban maintenances and construction tax	5,956,468.42	8,066,980.78	5% of value-added-tax and business tax payables
Educational surcharges	4,254,620.26	5,762,129.31	1% of value-added-tax and business tax payables
Local water conservancy construction funds	850,924.04	1,152,425.85	
Total	11,261,460.10	15,529,085.94	

### 45. Selling expenses

Items	Incurring during this year	Incurring during the previous year
Delivery expenses	83,406,761.87	109,079,334.30
Salary	3,069,735.09	2,598,034.90
Agency fees	30,269,600.07	37,324,104.45
Depreciation charges	1,294,136.07	1,239,965.67
Travelling expenses	1,494,381.44	1,320,094.02
Entertainment	2,354,772.78	1,721,057.79
Transportation fees	254,467.92	446,526.85
Office expenses	348,210.38	372,156.74
Other	2,394,321.23	2,438,762.60
Total	124,886,386.85	156,540,037.32

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 46. Administrative expenses

Items	Incurring during this year	Incurring during the previous year
Amortization of intangible assets	77,127,440.52	47,972,003.22
Research and development fees of new products	26,802,633.94	42,601,868.62
Depreciation charges	20,232,138.25	17,072,056.80
Salary and Staff welfare expenses	14,196,371.57	12,011,670.54
Taxes	15,925,332.87	14,699,465.71
Machinery material consumption	4,870,373.00	2,000,713.27
Entertainment	1,179,888.92	1,596,819.16
Directors' fees	2,011,091.25	2,008,309.86
Water and electricity fees	3,359,051.27	1,277,798.25
Agent fee	2,110,900.57	801,220.79
Repairment fee	1,063,205.60	566,979.21
Others	6,226,942.95	932,825.24
Total	175,105,370.71	143,541,730.67

### 47. Finance Costs

#### (1) Finance costs breakdown

Items	Incurring during this year	Incurring during the previous year
Interest expenses	51,551,240.71	68,061,182.60
Less: Interest income	13,376,172.52	24,336,634.20
Add: Foreign exchange gain	9,059,331.49	(286,411.27)
Add: Other expenses	1,928,855.87	7,913,403.43
Total	49,163,255.55	51,351,540.56

#### (2) Interest expenses breakdown

Items	Incurring during this year	Incurring during the previous year
Bank loan interest	56,947,926.48	70,326,077.26
Bond interest under effective interest rate	27,333,333.32	27,333,333.32
Discount charges on bank acceptance notes	8,645,832.14	148,633.25
Sub-total	92,927,091.94	97,808,043.83
Less: capitalized interest expenses	41,375,851.23	29,746,861.23
Total	51,551,240.71	68,061,182.60



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 47. Finance Costs (continued)

#### (2) Interest expenses breakdown (continued)

During this year, borrowing interest capitalized for the Company and Maolong New Materials is 4.64% and 4.64% respectively (during previous year: the Company and Shouguang Baolong was 5.23% and 6% respectively).

#### (3) Interest income breakdown

Items	Incurred during this year	Incurred during the previous year
Interest income from bank deposits	13,376,172.52	24,336,634.20
Total	13,376,172.52	24,336,634.20

### 48. Impairment loss on of assets

Items	Incurred during this year	Incurred during the previous year
Impairment loss on inventories	52,575,410.96	6,364,531.17
Impairment loss on accounts receivable	12,799,423.35	1,886,970.52
Impairment loss on goodwill	15,000,000.00	—
Impairment loss on intangible assets	403,598.54	—
Total	80,778,432.85	8,251,501.69

### 49. 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	(1,127,461.14)	3,474,237.41
others	—	—
Total	(1,127,461.14)	3,474,237.41

Note 1: Investment income sourced from unlisted equity investment during the year is -RMB1,127,461.14.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 50. 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	—
Included: Income on disposal of fixed assets	—	434,559.21	—
Government grants	24,592,306.17	2,940,738.77	24,592,306.17
Others	2,108,009.29	3,170,294.43	2,108,009.29
<b>Total</b>	<b>26,700,315.46</b>	<b>6,545,592.41</b>	<b>26,700,315.46</b>

Non-recurring loss during the year is RMB26,700,315.46 (2014: RMB 6,545,592.41).

#### (2) Government grants

Items	Incurring during this year	Incurring during the previous year	Source and basis	Related to assets/ Related to income
Government subsidies	22,784,306.17	1,132,738.77	Note 1 to Note 13	Related to income
Sub-total	22,784,306.17	1,132,738.77		
Deferred income amortized	1,808,000.00	1,808,000.00	Note 14	Related to assets
<b>Total</b>	<b>24,592,306.17</b>	<b>2,940,738.77</b>		

*Note 1:* Pursuant to the Notice on the Granting of Financial Support for Foreign Trade Development in Weifang Municipality in 2013 (Shou Cai Yu Zhi [2014] No. 1138) issued by Shouguang City Finance Bureau, the Group was granted a related subsidy of RMB60,000.00 in January 2015.

*Note 2:* Pursuant to the Measures on the Administration of the Subsidies for the Early Phase-out of Yellow label Vehicles issued by Weifang Municipality, the Group was granted a related subsidy of RMB30,000.00 in February 2015.

*Note 3:* Pursuant to the Notice on the Granting of Financial Support for Foreign Trade Development in Weifang Municipality in 2014 (Shou Cai Qi [2015] No. 20) issued by Shouguang City Finance Bureau, the Group was granted a related subsidy of RMB175,000.00 in March 2015.

*Note 4:* Pursuant to the Interim Measures for the Administration of Special Funds for Intellectual Property Rights (Patents) in Shandong Province and its amendment notice (Lu Cai Jiao [2013] No. 45) issued by Shandong Provincial Department of Finance and Shandong Intellectual Property Office, the Group was granted a related subsidy of RMB70,000.00 in April 2015.

*Note 5:* Pursuant to the Notice on the Special Funds for Circular Economy in Weifang Municipality (Shou Cai Qi [2015] No. 6) issued by Shouguang City Finance Bureau, the Group was granted a related subsidy of RMB20,000.00 in April 2015.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 50. Non-operating income (continued)

#### (2) Government grants (continued)

- Note 6:* Pursuant to the Notice of Shouguang City Finance Bureau on the Granting of Special Funds (Shou Cai Yu Zhi [2014] No. 934) issued by Shouguang City Finance Bureau, the Group was granted a related subsidy of RMB19,950,000.00 in May 2015.
- Note 7:* Pursuant to the Detailed Implementation Rules of Shouguang City Human Resource and Social Security Bureau on Actively Introducing and Cultivating High-skilled Talents (Shou Ren She [2013] No. 64) issued by Shouguang City Human Resource and Social Security Bureau, the Group was granted a related subsidy of RMB395,200.00 in September 2015.
- Note 8:* Pursuant to the Notice of the CPC Shouguang Municipal Committee and Shouguang Municipal People's Government on Issuing the Opinions on the Implementation of the "Double-Hundred-Talent Plan" for High level Entrepreneurial and Innovative Talents (Shou Fa [2012] No. 23), the Group was granted a related subsidy of RMB570,000.00 in October 2015.
- Note 9:* Pursuant to the Measures for the Administration of Shouguang Mayor Quality Awards (Shou Cai Ban Fa [2013] No. 112) issued by Shouguang Municipal People's Government, the Group was granted a related subsidy of RMB100,000.00 in November 2015.
- Note 10:* Pursuant to the Policies on the Foreign Trade Development in Weifang Municipality in 2014 (Wei Cai Qi [2014] No. 45) issued by Weifang City Finance Bureau and Weifang Commerce Administration, the Group was granted a related subsidy of RMB60,000.00 in November 2015.
- Note 11:* Pursuant to the Notice for Enterprises on Involving People Having Difficulties in Finding Jobs in the Claiming for Social Insurance (Wei Ren She Guan [2014] No. 7) issued by Weifang City Human Resource and Social Security Bureau, the Group was granted a related subsidy of RMB130,135.90 in December 2015.
- Note 12:* Pursuant to the Notice on the Declaration of Special Funds for Foreign Trade Development in Shandong Province in 2015 (Wei Cai Qi [2015] No. 47) issued by Weifang City Finance Bureau, the Group was granted a related subsidy of RMB164,900.00 in December 2015.
- Note 13:* Pursuant to such documents of Shandong Economic and Information Technology Committee as the Notice on Issuing the List of the Second Batch of Technological Innovation Projects and Programs (Lu Jing Xin Ji [2015] No. 229) and the Application for the Financial Incentive Funds for Key Projects concerning Foreign Capital Using, the Group was granted a total amount of RMB1,059,070.27 in various government subsidies in 2015.
- Note 14:* According to Lu-fa-gai investment [2011] No. 1354 "2011 Central Budget Investment Plan Notice on Key Industry and Technology Improvements" (魯發改投資 [2011]1354 號《關於轉發國家下達我省重點產業振興和技術改造中央專項 2011 年中央預算內投資計劃的通知》) issued by Shandong development and reform Committee with Shandong economic and information technology committee, the company received a government grants of RMB9,040,000.00 in December 2011, 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 RMB1,808,000.00 during the year (Amortized in 5 years, each year RMB1,808,000.00).

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 51. Non-operating expenses

Items	Incurred during this year	Incurred during the previous year	Included in this year non- recurring expenses
Loss on disposal of non-current assets	86,303.29	495,243.76	86,303.29
Included: Loss on disposal of fixed assets	86,303.29	495,243.76	86,303.29
Donations	104,000.00	127,000.00	104,000.00
Others	1,204,512.24	28,019.29	1,204,512.24
<b>Total</b>	<b>1,394,815.53</b>	<b>650,263.05</b>	<b>1,394,815.53</b>

The amount included in non-recurring loss is RMB1,394,815.53 (2014: RMB650,263.05).

### 52. Income tax expenses

#### (1) Income tax expenses

Items	Incurred during this year	Incurred during previous year
Current tax	105,575.91	4,864,581.26
Including: PRC	71,047.56	4,093,757.10
Hong Kong	34,528.35	770,824.16
Underprovision deferred tax in prior year	(12,079,542.81)	2,367,833.37
<b>Total</b>	<b>(11,973,966.90)</b>	<b>7,232,414.63</b>

#### (2) Income tax (credit) expense and accounting (loss) profit reconciliation

Reconciliation between income tax expenses and accounting profit is set out as follows:

Items	Incurred during this year	Incurred during previous year
Profit before tax	(298,472,913.80)	21,489,080.25
Income tax calculated at tax rate of 15% on the Company	(44,770,937.07)	3,223,362.02
Tax effect of non-taxable income	(308,700.00)	(494,250.81)
Tax effect of non-deductible expenses	3,678,742.45	584,844.86
Tax adjustment on research and development expenses	(3,462,577.00)	(5,220,697.48)
Tax effect of tax loss not recognized	40,957,117.22	10,519,133.09
Tax effect of inconsistent tax rates among subsidiaries	(19,447,526.55)	(666,200.50)
Adjustments on deferred tax recognized in previous year	12,565,963.75	—
Others	(1,186,049.70)	(713,776.55)
<b>Income tax expenses</b>	<b>(11,973,966.90)</b>	<b>7,232,414.63</b>



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 53. Auditor's remuneration

Auditor's remuneration for the current year is RMB1,200,000.00 (Previous year: RMB1,100,000.00).

### 54. Depreciation and amortization

The depreciation charge and the amortization charge for this year are RMB198,428,371.16 and RMB77,127,440.52 respectively (previous year: RMB198,207,669.48 and RMB47,972,003.22 respectively).

### 55. 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.

Items	During this year	During previous year
(Loss) profit attributable to the Owners of the Company	(259,565,004.32)	20,233,190.77
Net (loss) profits after deducting non operating profit and loss attributable to the owners of the Company	(281,474,328.22)	15,047,953.20
Issued ordinary shares	797,848,400.00	797,848,400.00
Basic (loss) earnings per share (RMB/Share)	(0.33)	0.03
Basic (loss) earnings per share (RMB/Share) (Excluding the non-recurring profit and loss)	(0.35)	0.02

Calculation of weighted average number of ordinary shares:

Items	During this year	During previous year
Issued ordinary shares at 1 January	797,848,400.00	797,848,400.00
Add: provident fund transfer to Capital Reserve	—	—
Issued ordinary shares at 31 December	797,848,400.00	797,848,400.00

#### (2) Diluted (loss) 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 interest expenses payable to dilutive potential ordinary shares that have been recognized in current period, income or expense from the conversion of dilutive potential ordinary shares, and the related income tax effects.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 55. Earnings per share (continued)

#### (2) Diluted (loss) 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	During this year	During previous year
Adjusted consolidated net profit attributable to the Company ordinary shareholders	(259,565,004.32)	20,233,190.77
Adjusted consolidated net profit attributable to the Company ordinary shareholders (excluding the non-recurring profit and loss)	(281,474,328.22)	15,047,953.20
Adjusted weighted average number of the ordinary shares issued by the Company	797,848,400.00	797,848,400.00
Diluted earnings per share (\$/share)	(0.33)	0.03
Diluted earnings per share (\$/share) (excluding the non-recurring profit and loss)	(0.35)	0.02

### 56. Other comprehensive income

Items	During this year	During previous year
Translation to presentation currency	(1,660,759.37)	(130,666.53)
Total	(1,660,759.37)	(130,666.53)

### 57. 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	1,035,263,254.92	1,622,856,041.20
Salaries	109,821,843.15	128,778,299.47
Depreciation	198,428,371.16	198,207,669.48
Amortization	77,127,440.52	47,972,003.22
Product license	147,055,599.45	188,464,282.84
Utilities	188,816,135.82	207,982,746.41
Other tax expenses	15,925,332.87	14,699,465.71
Others	22,927,561.28	25,890,329.29
Total	1,795,365,539.17	2,434,850,837.62



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 58. 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	Incurring during this year	Incurring during previous year
Government grants	22,273,738.68	2,193,383.72
Interest income	14,679,172.26	26,271,980.31
Reduce in bank acceptance note	30,774,693.01	86,070,750.79
Other	20,106,324.89	33,293,015.15
Total	87,833,928.84	147,829,129.97

(2) Other cash payment relating to operating activities

Items	Incurring during this year	Incurring during previous year
Delivery expenses	83,390,672.95	109,132,899.53
Development fees for new products	4,408,898.74	39,805,433.51
Consumables	937,458.42	2,002,399.60
Agency fees	32,253,333.10	38,125,325.24
Travelling fees	1,795,310.29	1,818,690.83
Repair expenses	1,014,156.77	566,979.21
Water and electricity expenses	1,359,051.27	1,277,798.25
Entertainment	3,534,661.70	3,317,876.95
Increased in restricted bank deposit	46,965,114.30	44,974,650.00
Others	110,751,204.13	50,092,993.45
Total	286,409,861.67	291,115,046.57

(3) Other cash receipts relating to investing activities

Items	Incurring during this year	Incurring during previous year
Increased in security deposit for letter of guarantee	3,050,000.00	38,860,000.00
Increased in the guarantee deposit for bank loan	—	68,901,974.00
Total	3,050,000.00	107,761,974.00

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 58. Notes to cash flow statements (continued)

#### (2) Additional information for consolidated cash flow statement (continued)

Items	Incurred during this year	Incurred during previous year
<b>1. Reconciliation of net income to cash flow:</b>		
Net (loss) profit	(286,498,946.90)	14,256,665.62
Add: Provision for impairment loss of asset	80,778,432.85	8,251,501.69
Depreciation of fixed asset	195,814,670.32	195,951,986.62
Amortization of intangible asset	77,127,440.52	47,972,003.22
Amortization of long-term deferred expense	76,389.00	83,333.28
Loss on disposal of fixed asset, intangible asset and other long-term asset	(398,730.63)	60,684.55
Fixed asset written off	86,303.29	—
Gain from changes in fair value	—	—
Finance costs	58,060,956.96	68,061,182.60
Investment income	1,127,461.14	(3,474,237.41)
(Decrease) increase in deferred tax assets	(15,739,189.60)	2,243,368.34
Increase in deferred tax liabilities	3,659,646.79	124,465.03
Decrease in inventories	66,862,638.28	129,746,195.75
Decrease in operating receivables	63,488,389.59	16,002,974.68
Increase in operating payables	(222,004,673.14)	(76,883,116.61)
Others	(1,808,000.00)	(1,808,000.00)
Net cash flows from operating activities	20,632,788.47	400,589,007.36
<b>2. Significant investing and financing activities not involving cash receipt or payment:</b>		
Conversion of debts to capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired on finance lease	—	—
<b>3. Changes in cash and cash equivalents:</b>		
Balance of cash at the end of the year	218,309,025.51	496,842,889.68
Less: Balance of cash at the beginning of the year	496,842,889.68	330,546,464.49
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	(278,533,864.17)	166,296,425.19



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 58. Notes to cash flow statements (continued)

- (3) The related information about acquisition and disposal of the subsidiaries and other operating companies at that time.

Items	Incurred during this year	Incurred during previous year
Related information about acquisitions of subsidiaries and other operating companies		
<b>1. Acquisition price of subsidiaries and other operating companies</b>	30,000,000.00	—
<b>2. Acquisition cash and cash equivalent in subsidiaries and other operating companies</b>	30,000,000.00	—
Less: cash and cash equivalent of subsidiaries and other operating companies	24,855,805.00	—
<b>3. Net cash amount paid for acquisitions of subsidiaries and other operating companies.</b>	5,144,195.00	—
<b>4. Net assets acquired in subsidiaries</b>	151,993,653.14	—
Current assets	139,606,372.45	—
Non-current assets	12,563,589.09	—
Current liabilities	176,308.40	—
Non-current liabilities	—	—

### (4) Cash and cash equivalents

Items	Incurred during this year	Incurred during previous year
<b>1. Cash</b>		
Including: Cash on hand	82,768.08	83,692.32
Bank deposit available for payments on demand	151,614,579.43	323,835,489.16
Other funds available for payments on demand	66,611,678.00	172,923,708.20
<b>2. Cash and cash equivalents</b>	218,309,025.51	496,842,889.68
Restricted other monetary fund	131,506,747.99	118,366,326.70
<b>3. Cash and cash equivalents at the end of the year</b>	349,815,773.50	615,209,216.38

Note: The restricted other monetary funds included the secured 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 RMB37,616,983.69 RMB1,950,000.00 and RMB91,939,764.30 respectively, which totally equal to RMB131,506,747.99.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 59. Restricted assets of the ownership or the right

Items	Balance at the end of the year	Reasons for restriction
Cash and cash equivalents	131,506,747.99	Pledged deposits and fixed deposits
Bills receivable	2,530,000.00	Pledged bills receivable

### 60. Foreign currency monetary items

#### (1) Foreign currency monetary items

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	4,300,221.19	6.4936	27,923,916.32
Euro ("EUR")	8,845,007.71	7.0952	62,757,098.70
HKD	4,374.13	0.8378	3,664.56
Accounts receivable			
Include: USD	29,440,564.02	6.4936	191,175,246.52
EUR	228,263.45	7.0952	1,619,574.83
Prepayments			
Include: USD	7,355,473.80	6.4936	47,763,504.67
Short term borrowings			
Include: USD	80,241,324.29	6.4936	521,055,063.41
Accounts payable			
Include: USD	1,434,644.38	6.4936	9,316,006.75
Receipts in advance			
Include: USD	3,563,704.80	6.4936	23,141,273.49
Other payables			
Include: USD	25,230.08	6.4936	163,834.05
Interests payable			
Include: USD	224,995.71	6.4936	1,461,032.14

#### (2) Foreign operating entities

A subsidiary, MPM Limited's (shareholding and voting rights is 90%) registration and principal place of business is in Hong Kong and its functional currency is USD.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

## VII. Change in scope of consolidation

### 1. Consolidated between companies not under common control

#### (1) Business combination occurred this year between companies not under common control

Name of the acquiree	Equity acquisition time	Equity acquisition cost	Proportion of equity acquired	Way of acquisition
Maolong Micro-credit	2015-9-7	30,000,000.00	20.00%	Acquisition

Name of the acquiree	Acquisition date	Basis for determining the acquisition date	Income of the acquiree from the acquisition date to the end of the year	Net profit of the acquiree from the acquisition date to the end of the year
Maolong Micro-credit	2015-9-1	Note	3,464,024.40	2,080,767.97

Note: Maolong Micro-credit was founded on 12 March 2012 with a registered capital of RMB150,000,000.00, among which RMB45,000,000.00 was contributed by its immediate holding company Shouguang Baolong, representing 30% of equity, and RMB105,000,000.00 was contributed by eight shareholders, representing 70% of equity. The Group used the equity method to account for.

On 10 April 2015, by the resolution of the shareholders meeting of Maolong Micro-credit and the approval of relevant regulatory authority, Shouguang Baolong Company accepted the transfer of the respective 10% of equity from Shandong Zhida Machinery Co., Ltd. and Shandong Shenglong Steel Structure Co., Ltd. for a consideration of RMB30,000,000.00, and increased its shareholding ratio to 50%. Thereby Shouguang Baolong Company obtained a majority shareholding in Maolong Micro-credit. On 2 September 2015, Shouguang Baolong Company made the payment for equity transfer to Maolong Micro-credit, which then transferred the money to the two equity transferors respectively on 6 September 2015 and 7 September 2015. The acquisition date is 1 September 2015.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

## VII. Change in scope of consolidation (continued)

### 1. Consolidated between companies not under common control (continued)

#### (2) Acquisition cost and goodwill

Items	Shouguang Maolong Micro-credit Co., Ltd.
Cash	30,000,000.00
Fair value of non-cash assets	—
Fair value of debt issued or assumed	—
Fair value of equity interests issued	—
Fair value of contingent consideration	—
Fair value of equity interests held prior to acquisition date	45,598,095.94
Total acquisition cost	75,598,095.94
Less: Fair value of identifiable net assets acquired	75,996,826.57
Amount of acquisition cost less fair value of identifiable net assets acquired	398,730.63

Notes: Fair values as at acquisition date are audited balances extracted from the audited report by Shinewing Certified Public Accountants Ltd., (Special General Partner) Jinan branch.

#### (3) Net identifiable assets and liabilities of acquiree as at acquisition date

Items	Shouguang Maolong Micro-credit Co., Ltd.	
	Carrying amounts as at acquisition date	Fair values as at acquisition date
Asset:		
Cash and bank balances	24,855,805.00	24,855,805.00
Loans and advances to customers	122,143,823.50	112,073,865.13
Interests receivable	5,793,547.50	2,676,702.32
Fixed assets	3,627,883.27	3,627,883.27
Deferred income tax assets	—	1,417,283.67
Other non-current assets	7,488,422.15	7,488,422.15
Other assets	30,000.00	30,000.00
Liabilities:	—	—
Salaries payable	40,824.35	40,824.35
Taxes payable	2,146,561.99	135,484.05
Net assets	161,752,095.08	151,993,653.14
Less: Non-controlling interests	80,876,047.54	75,996,826.57
Net assets acquired	80,876,047.54	75,996,826.57

Notes: Fair values of identifiable assets and liabilities as at acquisition date are audited balances extracted from the audited report by Shinewing Certified Public Accountants Ltd., (Special General Partner) Jinan branch. No acquiree's contingent liabilities are assumed in business combination.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

## VII. Change in scope of consolidation (continued)

### 1. Consolidated between companies not under common control (continued)

#### (4) Gain or loss arising from the re-measurement of the original equity held by the company prior to the acquisition date at the fair value

Name of the acquiree	The book value on the acquisition date of the original equity held by the company prior to the acquisition date	The fair value on the acquisition date of the original equity held by the company prior to the acquisition date	Gain or loss arising from the re-measurement of the original equity held by the company prior to the acquisition date at the fair value	Methods and major assumptions by which the fair value of the original equity held by the company prior to the acquisition date is determined	The amount of other comprehensive income that is associated with the original equity held by the company prior to the acquisition date and recognized as investment income
Shouguang Maolong Micro-credit Co., Ltd.	45,598,095.94	45,598,095.94	0.00	—	0.00

The shareholding ratio of the Group in this company prior to the acquisition date was 30%. The Company used the equity method for the relevant calculation and only recognized the investment income after the annual audit, and so the fair value of the equity is the same as their book values.

### 2. Changes in consolidated scope due to other reasons

Company name	Reason for the inclusion in the consolidated scope	Shareholding ratio (%)	Net asset on 31 December 2015	2015 Net Profit
Shangdong Molong Import & Export Corporation	Newly established	100.00	10,037,024.68	37,024.68

Shangdong Molong Import & Export Corporation is a wholly-owned subsidiary of the Company that was established on 20 October 2015 with a registered capital of RMB10 million.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

## VIII. Interests in other entity

### 1. Interests in subsidiaries

#### (1) Composition of the Group

Name of subsidiaries	Place of operation	Place of incorporation	Nature of business	Shareholding(%)		Method of acquisition
				Direct	Indirect	
MPM Limited	Hong Kong	Hong Kong	Trading	90.00	0.00	Subsidiaries acquired through business consolidation not under common control
Maolong Machinery	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	Trading	0.00	100.00	Subsidiaries acquired through business consolidation not under common control
Maolong Recycle	Shouguang, Shandong province	Shouguang, Shandong province	Trading	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	Invested
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	Invested
Molong Import & Export Company	Shouguang, Shandong province	Shouguang, Shandong province	Import & Export	100.00	0.00	Invested
Maolong Micro-Credit	Shouguang, Shandong province	Shouguang, Shandong province	Finance	0.00	50.00	Subsidiaries acquired through business consolidation not under common control



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

## VIII. Interests in other entity (continued)

### 1. Interests in subsidiaries (continued)

#### (1) Composition of the Group (continued)

Name of subsidiaries	Type of organisation	Legal representative	Registered capital	Code of organisation
MPM Limited	Limited Company		USD1,000,000.00	
Maolong Machinery	Limited Company	Lin Fu Long	RMB412,380,000.00	91370783724814405U
Molong Electro-mechanical Equipment	Limited Company	Zhang Huan Jun	USD1,000,000.00	913707837326145935
Baolong Recyclable Resource	Limited Company	Zhang Jin Hui	RMB300,000.00	76576543-5
Maolong Recycle	Limited Company	Zhang Huan Jun	RMB500,000.00	9137078374566977XE
Shouguang Baolong	Limited Company	Guo Huan Ran	RMB150,000,000.00	913707836613984230
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	91370783579393156F
Molong Import & Export Company	Limited Company	Zhang Yun San	RMB10,000,000.00	91370783MA3BXH885J
Maolong Micro-Credit	Corporation	Guo Huan Ran	RMB150,000,000.00	91370700592605774F

#### (2) Significant non-wholly owned subsidiary

Name of subsidiaries	Shareholding of Non-controlling interest (%)	Profit or loss attributable to minority shareholders during this year	Dividends declared to minority shareholders during this year	Balance of non-controlling interests as at the end of year
Shouguang Baolong	30.00	(27,690,500.29)	—	27,955,476.78
Maolong Micro-Credit	50.00	1,040,383.98	—	77,037,210.55
Total	—	(26,650,116.31)	—	104,992,687.33

Note: Maolong Micro-credit is included into the scope of consolidation during this year. Details as stated in Note VII.1.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

## VIII. Interests in other entity (continued)

### 1. Interests in subsidiaries (continued)

#### (3) The main financial information of important 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
Shouguang Baolong	360,893,408.00	522,440,733.86	883,334,141.86	747,861,955.71	—	747,861,955.71
Maolong Micro-Credit	144,080,813.49	11,884,427.31	155,965,240.80	1,890,819.69	—	1,890,819.69

Name of subsidiaries	Balance at the beginning of the year					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Shouguang Baolong	187,120,704.13	614,273,007.25	801,393,711.38	615,907,121.15	—	615,907,121.15
Maolong Micro-Credit	—	—	—	—	—	—

Name of subsidiaries	During this year				During previous year			
	Turnover	Profit for the year	comprehensive income	Net cash flow (used in) from operating activities	Turnover	Profit for the year	comprehensive income	Net cash flow (used in) from operating activities
Shouguang Baolong	889,165,366.72	(126,011,230.65)	(126,011,230.65)	(31,788,434.10)	1,403,300,433.43	(15,823,795.79)	(15,823,795.79)	(158,766,904.50)
Maolong Micro-Credit	3,464,024.40	2,080,767.97	2,080,767.97	222,857,880.77	—	—	—	—

Note: Maolong Micro-Credit was consolidated on 1 September 2015. The income statement and cash flow statement was consolidated from September 2015 to December 2015.

#### (4) Significant restriction on the use of Group's assets to settle the Group's liabilities

Nil

#### (5) To provide financial support or other supports to consolidated structured entities

Nil



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

## VIII. Interests in other entity (continued)

### 2. Change and in the owner's equity share subsidiaries but still control the subsidiaries

Nil

### 3. Interests in associates

#### (1) Significant associates

Name of associates	Place of operation	Place of registration	Business scope	Shareholding (%)		Investment in associates
				Direct	Indirect	
Yalong Oil Pump Company Limited	Karamay, Xinjiang	Karamay, Xinjiang	Manufacturing	0.00	30.00	1,920,000.00

#### (2) Financial information of significant associates

(1) Yalong Oil Pump Company Limited

Items	Balance at the end of previous year/ Incurred during this year	Balance at the beginning of the current year/ Incurred during pervious year
Current assets:	16,735,778.25	18,484,665.80
Include: Cash and cash equivalents	1,324,637.41	1,987,741.75
Non-current assets	3,864,777.53	3,522,584.70
Total assets	20,600,555.78	22,007,250.50
Current liabilities:	4,691,408.83	5,925,307.55
Non-current liabilities	6,716,731.88	6,716,731.88
Total liabilities	11,408,140.71	12,642,039.43
Minority interest	0.00	0.00
Equity attributable to shareholders of the Company	9,192,415.07	9,365,211.07
Proportionate share of net assets	2,757,724.52	2,809,563.32
The nominal value of investment in associates equity	2,783,902.87	2,820,504.16
Total revenue from operations	17,163,486.12	18,291,630.69
Finance costs	(305.11)	127.46
Income tax expense	76,467.42	117,221.53
Net profit	327,204.00	597,439.99
Total comprehensive income	327,204.00	597,439.99
Dividend received from the associates	150,000.00	0.00

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

## VIII. Interests in other entity (continued)

### 3. Interests in associates (continued)

#### (2) Financial information of significant associates (continued)

(2) Shouguang Micro-Credit Company Limited

Items	Balance at the end of previous year/ Incurred during this year	Balance at the beginning of the current year/ Incurred during pervious year
Current assets:	—	168,390,402.11
Include: Cash and cash equivalents	—	20,083,638.11
Non-current assets	—	3,812,020.39
Total assets	—	172,202,422.50
Current liabilities:	—	955,255.94
Non-current liabilities	—	0.00
Total liabilities	—	955,255.94
Minority interest	—	0.00
Equity attributable to shareholders of the Company	—	171,247,166.56
Proportionate share of net assets	—	51,374,149.97
The nominal value of investment in associates equity	—	51,535,517.55
Total revenue from operations	—	12,908,323.71
Finance costs	—	(850,014.73)
Income tax expense	—	3,661,117.17
Net profit	—	10,983,351.37
<b>Total comprehensive income</b>	<b>—</b>	<b>10,983,351.37</b>
Dividend received from the associates	—	0.00

Note: Maolong Micro-Credit is included in the scope of consolidation by the business combination not under common control during this year. Details as stated in Note VII 1.

- (3) There is no significant limitation in the associates' ability of transfer assets to the Company; the Group has contingent liability incurred related to the investment in associates.
- (4) There is no accumulated loss in associates exceeds interests in associates.
- (5) The Group does not have unconsolidated structured entities.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

## IX. Risks associated with financial instruments

Major financial instruments of the Group include borrowings, accounts receivable, accounts payable, etc. Detailed descriptions of these financial instruments are set out in Note IV.10. 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 EUR; except for the Company and its subsidiaries MPM Limited of which conducted purchases and sales transactions in USD, HKD and EUR; all the business activities of the remaining principal operations of the Group are settled with RMB. On 31 December 2015, except for the assets and liabilities denominated in USD, odd monies denominated in EUR and balances denominated 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 denominated in USD may affect the operating results of the Group.

Items	31 December 2015	31 December 2014
Cash and cash equivalents — (USD)	4,300,221.19	46,639,997.59
Cash and cash equivalents — (EUR)	8,845,007.71	194,516.10
Cash and cash equivalents — (HKD)	4,374.13	6,214.13
Accounts receivable — (USD)	29,440,564.02	26,030,345.38
Accounts receivable — (EUR)	228,263.45	61,448.88
Other receivables — (USD)	7,355,473.80	3,291,856.20
Short-term borrowings — (USD)	80,241,324.29	119,759,000.00
Accounts payable — (USD)	1,434,644.38	1,698,091.48
Other payables — (USD)	25,230.08	25,230.08
Receipts in advance — (USD)	3,563,704.80	26,777,539.73
Interest payable — (USD)	224,995.71	929,635.60

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 RMB, incurs, the Group will mitigate such risk through suitable adjustment of sales strategies.



1 January 2015 to 31 December 2015

(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. At 31 December 2015, the Group's interest-bearing debts are mainly represented by floating rate loan denominated RMB and USD, amounted to RMB767,872,000.00 (At 31 December 2014: RMB605,036,521.00), and the fixed rate contracts denominated in USD and RMB amounted to RMB1,200,627,507.82 (At 31 December 2014: RMB1,309,768,800.00).

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, seizing advantages from early repayment terms results in to reducing the risk of interest rate fluctuations.

##### (3) Price risk

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

#### (2) Credit risk

A 31 December 2015, 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 recognized in the consolidated balance sheet: in respect of those financial instruments that are measured by fair value, the book value reflects its risk exposure, but not its maximum risk exposure, the maximum risk exposure will change when 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 RMB269,547,807.05.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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

Liquidity risk refers to the risk that the Group encounters difficulties in meeting obligations associated with financial liabilities at repayment date. In managing liquidity risk, the management of the Group maintains sufficient cash and cash equivalents 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. At 31 December 2015, the Group had outstanding bank facilities of RMB3,096,716,300.15 (At 31 December 2014: RMB1,863,173,400.00), including outstanding short-term bank facilities of RMB3,096,716,300.15 (At 31 December 2014: RMB1,863,173,400.00).

Maturity analysis of financial assets and financial liabilities of the Group based on contractual undiscounted cash flow are set out as follows:

At the end of the year:

	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
<b>Financial assets</b>					
Cash and cash equivalents	349,815,773.50	—	—	—	349,815,773.50
Bills receivable	46,101,762.76	—	—	—	46,101,762.76
Accounts receivable	497,239,999.28	—	—	—	497,239,999.28
Loans and advances	136,329,884.59	—	—	—	136,329,884.59
Interest receivables	4,594,396.68	—	—	—	4,594,396.68
Other receivables	87,823,154.76	—	—	—	87,823,154.76
<b>Financial liabilities</b>					
Short-term borrowings	1,469,055,063.41	—	—	—	1,469,055,063.41
Bills payable	304,242,384.43	—	—	—	304,242,384.43
Accounts payable	904,789,898.53	—	—	—	904,789,898.53
Other payables	23,979,858.24	—	—	—	23,979,858.24
Interest payables	17,853,069.32	—	—	—	17,853,069.32
Bonds payable	499,444,444.41	—	—	—	499,444,444.41

At the end of last year:

Items	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
<b>Financial assets</b>					
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
<b>Financial liabilities</b>					
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
Bond payables	—	498,111,111.09	—	—	498,111,111.09

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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 effective.

Based on the above basis, assuming all other variables remain unchanged, the impacts of probable and rational changes in exchange rate to the profit and loss for the period and after-tax consequences of equity are set out below:

Items	Exchange rate change	2015		2014	
		Impact on net profit	Impact on shareholders' equity	Impact on net profit	Impact on shareholders' equity
All foreign currencies	Appreciate 5% against RMB	(9,512,833.26)	(9,512,833.26)	(18,916,559.44)	(18,916,559.44)
All foreign currencies	Depreciate 5% against RMB	9,512,833.26	9,512,833.26	18,916,559.44	18,916,559.44

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

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

Changes in market interest rates affects interest income or expense of variable rate financial instruments.

For fixed interest rate financial instruments measured at fair value, changes in market interest rates only affects interest income or expense.

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

Based on the above assumptions, assuming all other variables remain unchanged, the impacts 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	2015		2014	
		Impact on net profit	Impact on shareholders' equity	Impact on net profit	Impact on shareholders' equity
Floating rate borrowings	Increase by 1%	(2,272,579.62)	(2,272,579.62)	(1,883,614.88)	(1,883,614.88)
Floating rate borrowings	Decrease by 1%	2,272,579.62	2,272,579.62	1,883,614.88	1,883,614.88



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

## X. Fair Value Measurement

During the reporting period, the Group has no 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.

Except for financial liabilities stated below, differences between the carrying amounts and the fair values of financial assets and liabilities not measured 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 liability — bonds payable	499,444,444.41	491,700,000.00	498,111,111.09	474,650,000.00

Fair values of the bonds payable trading in active markets are determined by quoted market price in these active markets.

## XI. Related Party Relationships and Transactions

### 1. Related Party Relationships

#### (1) Controlling shareholder and the ultimate controlling entity

- (1) Controlling shareholder and the ultimate control entity.

At 31 December 2015, Mr. Zhang Enrong, who owns 33.29% of voting shares in the Company, is the controlling shareholder of the Company.

- (2) Controlling shareholder'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	265,617,000.00	33.29	33.29

#### (2) Subsidiaries

- (1) Subsidiaries

The details of the subsidiaries are disclosed on Note VIII.1.

#### (3) Joint Venture and Associate

The details of the joint venture and associate are disclosed on Note VIII.3.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

## XI. Related Party Relationships and Transactions (continued)

### 2. Related Party Transactions

#### (1) Consolidated related party transactions

##### (1) Goods purchased and service accepted

Related party	Related party transactions	Incurred during this year	Incurred during previous year
Associate			
Yalong Oil Pump	Oil well pumping and accessories	1,831,778.75	—
Total		1,831,778.75	—

##### (2) Sale of goods and service rendered

Related party	Related party transactions	Incurred during this year	Incurred during previous year
Associates			
Yalong Oil Pump	Oil well pumping and accessories	6,859,000.16	8,533,230.93
Shouguang Molong Culture Communication Co., Ltd.	Conduit and fittings	481,659.07	—
Total		7,340,659.23	8,533,230.93

#### (2) The Company's related party transactions

##### (1) Goods purchased and service accepted

Related party	Related party transactions	Incurred during this year	Incurred during previous year
Associates			
Ya'long Karamay Petroleum Machinery Co., Ltd.	Oil well pumping and accessories	1,831,778.75	—
Related party holding from the same ultimate holding company			
Shouguang Baolong	Casting scrap steel	850,012,003.36	1,295,847,022.93
Molong Electro-mechanical Equipment	Casting, core rod, electrical cabinet	48,873,675.52	88,510,995.02
Weihai Baolong	Casting, Oil well pipes tubing	43,655,374.84	197,288,618.98
Molong Logistic Company	Delivery service	841,166.77	1,476,287.93
Total		945,213,999.24	1,583,122,924.86



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

## XI. Related Party Relationships and Transactions (continued)

### 2. Related Party Transactions (continued)

#### (2) The Company's related party transactions (continued)

##### (2) Sale of goods and service rendered

Related party	Related party transactions	Incurred during this year	Incurred during previous year
Associates			
Ya'long Karamay Petroleum Machinery Co., Ltd.	Oil well pumping and accessories	6,859,000.16	8,533,230.93
Shouguang Molong Culture Communication Co., Ltd.	Conduit and accessories	481,659.07	—
Related party holding from the same ultimate holding company			
Maolong New Materials	Oil well pumping and accessories	53,326,414.34	194,102,781.69
	Oil well pumping, petroleum machinery parts	9,256,267.71	153,823,536.19
MPM Limited	Scrap steel	45,560,526.47	101,856,683.11
Shouguang Baolong	Scrap metal	8,866,053.48	24,997,579.82
Shouguang Maolong Micro-Credit Company Limited	Scrap steel and steel bar	5,017.26	1,056,743.73
Weihai Baolong	Diesel	427,580.07	272,739.35
Molong Logistic Company			
Total		124,782,518.56	484,643,294.82

##### (3) Lease agreements with related parties

Lessor	Lessee	Type of leased assets	Rental Income recognized during this year	Rental Income recognized during last year
The Company	Molong Logistic Company	Land	20,000.00	10,000.00

##### (4) Guarantee with related parties

Guarantor	Guarantee	Guaranteed amount	Guarantee start date	Guarantee due date	Whether the guarantee is fulfilled
The Company	MPM Limited	USD10,000,000	2015-1-27	2016-1-15	No

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

## XI. Related Party Relationships and Transactions (continued)

### 2. Related Party Transactions (continued)

#### (2) The Company's related party transactions

(5) Asset transfer with related party

Related party	Transaction type	Amount of this year	Amount of last year
Molong Electro-mechanical Equipment	Sale of fixed assets	71,083.52	75,817.04

#### (3) The Group and the Company

Remuneration of the key management

(1) Directors' and supervisors' emoluments

Details of emoluments paid and payable to each directors and supervisors of the Company for this year are as follows:

Name	Fees	Salaries and other allowances	Retirement benefit scheme contributions	Other	Total
<b>Executive directors</b>					
Zhang Enrong	—	701,945.00	—	—	701,945.00
Zhang Yunsan	—	578,564.61	19,391.58	9,695.79	607,651.98
Guo Huanran	—	386,418.59	19,391.58	9,695.79	415,505.96
Lin Fulong	—	285,843.04	—	—	285,843.04
<b>Non-executive directors</b>					
Guo Hongli	34,986.67	—	—	—	34,986.67
Xiao Qingzhou	29,258.33	—	—	—	29,258.33
Wang Chunhua	34,986.67	—	—	—	34,986.67
John Paul Cameron	90,880.00	—	—	—	90,880.00
Qin Xuechang	74,986.67	—	—	—	74,986.67
<b>Supervisors</b>					
Hao Liang	—	32,932.50	7,758.66	3,879.33	44,570.49
Fan Renyi	10,100.00	—	—	—	10,100.00
Zhang Jiuli	10,100.00	—	—	—	10,100.00
Total	285,298.34	1,985,703.74	46,541.82	23,270.91	2,340,814.81



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

## XI. Related Party Relationships and Transactions (continued)

### 2. Related Party Transactions (continued)

#### (3) The Group and the Company (continued)

Remuneration of the key management (continued)

##### (1) Directors' and supervisors' emoluments (continued)

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

Name	Fees	Salaries and other allowances	Retirement benefit scheme contributions	Other	Total
<b>Executive directors</b>					
Zhang 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
<b>Non-executive directors</b>					
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
<b>Supervisors</b>					
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
<b>Total</b>	<b>277,059.86</b>	<b>2,012,464.72</b>	<b>37,251.36</b>	<b>21,607.22</b>	<b>2,348,383.16</b>

Notes 1: Zhang Yunsan is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

Notes 2: Xiao Qingzhou resigned as non-executive director on 8 September 2015. No non-executive director appointed during this year. Liu Huaiduo resigned as supervisor on 22 August 2014, Hao Liang was appointed as supervisor on 25 August 2014.

Notes 3: During this year, none of the directors and the chief executive of the Company waived or agreed to waive any emoluments paid by the Group.

Notes 4: During this year, no emoluments have been paid or payable by the Group to the directors as an inducement to join or upon joining the Group. Also, no emoluments have been paid or payable by the Group to the directors or former directors as compensation for loss of office.

Notes 5: The remunerations of directors and supervisors are determined by the remuneration committee having regards to the Group's remuneration management policies.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

## XI. Related Party Relationships and Transactions (continued)

### 2. Related Party Transactions (continued)

#### (3) The Group and the Company (continued)

Remuneration of the key management (continued)

(2) Five highest paid individuals:

During this year, among five individuals with the highest remuneration, four (during previous year: four) were directors of the Group. The remuneration of the remaining one (during previous year: one) are as follows:

Items	Incurred during this year	Incurred during previous year
Salaries and other allowances	325,511.96	338,258.00
Retirement benefits schemes contributions	14,472.96	13,029.12
Others	4,582.80	4,093.74
Total	344,567.72	355,380.86

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 bands (number of individual):

Items	This year	Previous year
Nil–HK\$1,000,000	5	5
Total	5	5



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

## XI. Related Party Relationships and Transactions (continued)

### 3. Balances of related parties

#### (1) The Group

(1) Receivables with 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	Joint venture Ya'long Karamay Petroleum Machinery Co., Ltd.	3,221,441.98	—	1,930,131.84	—
Bills receivable	Ya'long Karamay Petroleum Machinery Co., Ltd.	—	—	2,000,000.00	—
Other receivables	Ya'long Karamay Petroleum Machinery Co., Ltd.	480,000.00	—	480,000.00	—
Total		3,701,441.98	—	4,410,131.84	—

(2) Payable with related party:

Items	Related party/Relationship	Balance at the end of the year	Balance at the beginning of the year
Accounts payable	Joint venture Ya'long Karamay Petroleum Machinery	2,143,181.14	—
Total		2,143,181.14	—

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

## XI. Related Party Relationships and Transactions (continued)

### 3. Balances of related parties (continued)

#### (2) The Company

(1) Receivable with related parties:

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	Joint venture				
Accounts receivable	Ya'long Karamay				
	Petroleum Machinery	3,221,441.98	—	1,930,131.84	—
Accounts receivable	Maolong New Material	247,376,094.93	—	245,771,497.84	—
<b>Sub-total</b>		250,597,536.91	—	247,701,629.68	—
Bills receivable	Joint venture				
Bills receivable	Ya'long Karamay				
	Petroleum Machinery	—	—	2,000,000.00	—
<b>Sub-total</b>		—	—	2,000,000.00	—
Other receivables	Subsidiaries				
Other receivables	Shouguang Baolong	190,000,000.00	—	190,000,000.00	—
Other receivables	Maolong New Material	246,445,822.54	—	—	—
Other receivables	Molong Logistic				
	Company	35,695,808.82	—	36,574,664.83	—
Other receivables	Molong Import & Export	43,777,623.88	—	—	—
Other receivables	Joint venture				
Other receivables	Ya'long Karamay				
	Petroleum Machinery	480,000.00	—	480,000.00	—
<b>Sub total</b>		516,399,255.24	—	227,054,664.83	—
Prepayments	Subsidiaries				
Prepayments	Maolong Machinery	250,230,892.96	—	162,087,960.53	—
<b>Sub total</b>		250,230,892.96	—	162,087,960.53	—
<b>Total</b>		1,017,227,685.11	—	638,844,255.04	—



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

## XI. Related Party Relationships and Transactions (continued)

### 3. Balances of related parties (continued)

#### (2) The Company (continued)

(2) Payable with 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	3,496,475.00	8,042,624.25
Bills receivable	Weihai Baolong	5,235,000.00	2,000,000.00
Bills receivable	Shouguang Baolong	313,217,175.43	300,908,397.85
Bills receivable	Maolong New Materials	26,737,100.00	49,961,166.10
<b>Sub total</b>		<b>348,685,750.43</b>	<b>360,912,188.20</b>
Accounts payable	Subsidiaries		
Accounts payable	Molong Electro-mechanical Equipment	54,788,054.29	55,690,564.47
Accounts payable	Weihai Baolong	11,198,073.61	23,348,259.71
Accounts payable	Joint venture		
Accounts payable	Ya'long Karamay Petroleum Machinery	2,143,181.14	—
<b>Sub total</b>		<b>68,129,309.04</b>	<b>79,038,824.18</b>
Receipts in advance	Subsidiaries		
Receipts in advance	MPM Limited	26,392,262.97	35,805,049.47
<b>Sub total</b>		<b>26,392,262.97</b>	<b>35,805,049.47</b>
<b>Total</b>		<b>443,207,322.44</b>	<b>475,756,061.85</b>

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

## XII. Contingent event

At 31 December 2015, the Group and the Company has no material contingent event.

## XIII. Commitment

### 1. The Group

#### (1) Material Commitments

- (1) *Capital commitments 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	87,943,027.50	274,402,850.94
Total	87,943,027.50	274,402,850.94

#### (2) Commitments in previous year

The Company had executed as stated in contracts.

- (3) Other than commitments stated above, there is no other material commitment at 31 December 2015.

### 2. The Company

#### (1) Material Commitments

- (1) *Capital Commitments of the Company 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	596,000.00	44,227,063.52
Total	596,000.00	44,227,063.52

#### (2) Commitments in previous year

The Company had executed as stated in contracts.

- (3) Other than commitments stated above, there is no other material commitment at 31 December 2015.



# Notes to the Financial Statements

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1 January 2015 to 31 December 2015

(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 RMB200,000,000.00 and USD36,000,000.00 up to the date of this report.

### 2. Subsequent Profit Distribution Plan

On 30 March 2016, the profit distribution plan is approved on the eighth meeting of the 4th Board of Directors. No final dividend is distributed for this year. The profit distribution plan is subject to approval in the shareholder meeting.

3. The reconstruction works for  $\Phi$ 180 OCTG have been completed and resumed production on 5 February 2016.

4. Apart from matters described above, the Company has no significant subsequent events to be disclosed at 31 December 2015.

## XV. Other significant items

### 1. Segment Reporting

#### (1) Basis of segment reporting

The Group identifies and discloses the operating segments, according to the internal organization structure, management requirements and internal reporting system. According to the internal organization structure, management requirements and internal reporting system of the Group, the Group's operating segments are divided into 4 reportable segments. The Group's management regularly evaluates the operating results of these reportable segments to determine the resources to be allocated and evaluates its results. Each of the Group's reportable segments includes casing, tubing, three kinds of pumping units, petroleum machinery and others.

#### (2) Accounting policies of reporting 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 2015 to 31 December 2015

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

## XV. Other significant items (continued)

### 1. Segment Reporting (continued)

#### (3) Segment Reporting Information

2015 segment report

	Casing and tubing	Three kinds of pumping units	Petroleum machinery plant	Other	Unallocated Items	Inter-segment elimination	Total
Operation revenue	—	—	—	—	—	—	—
External income	1,455,669,482.04	44,075,407.13	80,706,851.84	33,465,994.07	—	—	1,613,917,735.08
Inter-segment income	—	—	—	—	—	—	—
Total segment income	1,455,669,482.04	44,075,407.13	80,706,851.84	33,465,994.07	—	—	1,613,917,735.08
Total operating income	1,455,669,482.04	44,075,407.13	80,706,851.84	33,465,994.07	—	—	1,613,917,735.08
Segment costs	1,553,034,388.85	41,329,369.76	71,562,375.75	46,373,927.05	—	—	1,712,300,061.41
Segment (loss) profit	(97,364,906.81)	2,746,037.37	9,144,476.09	(12,907,932.98)	—	—	(98,382,326.33)
Adjusting items:							
Administrative expenses	—	—	—	—	175,105,370.71	—	—
Finance costs	—	—	—	—	49,163,255.55	—	—
Investment income	—	—	—	—	1,127,461.14	—	—
Operating (loss) profit	(97,364,906.81)	2,746,037.37	9,144,476.09	(12,907,932.98)	(225,396,087.40)	—	(323,778,413.73)
Non-operating income	—	—	—	—	26,700,315.46	—	26,700,315.46
Non-operating expenses	—	—	—	—	1,394,815.53	—	1,394,815.53
Total (loss) profit	(97,364,906.81)	2,746,037.37	9,144,476.09	(12,907,932.98)	(200,090,587.47)	—	(298,472,913.80)
Income tax credit	—	—	—	—	(11,973,966.90)	—	(11,973,966.90)
Net (loss) profit	(97,364,906.81)	2,746,037.37	9,144,476.09	(12,907,932.98)	(188,116,620.57)	—	(286,498,946.90)
Total segment assets	4,832,069,634.48	115,153,065.83	244,990,477.77	199,613,985.97	459,353,559.57	—	5,851,180,723.61
Total segment liabilities	1,336,552,214.59	26,453,556.63	150,561,469.96	4,595,463.83	1,794,933,422.69	—	3,313,096,127.71
Supplementary Information:							
Depreciation	178,958,306.95	5,807,021.65	2,213,815.31	2,951,810.42	8,497,416.83	—	198,428,371.16
Amortization	66,336,911.98	14,434.76	2,205,020.52	—	8,571,073.26	—	77,127,440.52
Interest income	—	—	—	—	(13,376,172.52)	—	(13,376,172.52)
Finance costs	—	—	—	—	62,539,428.07	—	62,539,428.07
Impairment losses recognized in this year	80,778,432.85	—	—	—	—	—	80,778,432.85
Non-current assets other than long-term equity investment	3,382,683,962.88	46,963,667.26	96,675,900.19	52,751,287.40	152,298,562.34	—	3,731,373,380.07
Capital expenditures	246,520,711.44	3,987,834.06	123,759.84	5,144,195.00	—	—	255,776,500.34
Including: Construction in progress	200,651,485.77	108,547.01	—	—	—	—	200,760,032.78
Purchase of fixed assets	15,110,813.92	3,879,287.05	123,759.84	—	—	—	19,113,860.81
Purchase of intangible assets	30,758,411.75	—	—	—	—	—	30,758,411.75
Purchase of equity investments	—	—	—	5,144,195.00	—	—	5,144,195.00



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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	47,702,537.44	—	—	2,522,102,479.29
Inter-segment income	—	—	—	—	—	—	—
Total segment income	2,241,750,781.30	69,191,280.09	163,457,880.46	47,702,537.44	—	—	2,522,102,479.29
Total operating income	2,241,750,781.30	69,191,280.09	163,457,880.46	47,702,537.44	—	—	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 profit	148,116,603.18	8,646,669.02	32,094,399.95	18,155,112.56	—	—	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 profit (loss)	148,116,603.18	8,646,669.02	32,094,399.95	18,155,112.56	(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 profit (loss)	148,116,603.18	8,646,669.02	32,094,399.95	18,155,112.56	(185,523,704.46)	—	21,489,080.25
Income tax expense	—	—	—	—	7,232,414.63	—	7,232,414.63
Net profit (loss)	148,116,603.18	8,646,669.02	32,094,399.95	18,155,112.56	(192,756,119.09)	—	14,256,665.62
Total segment assets	4,930,172,985.61	152,283,696.52	281,271,940.03	35,803,688.45	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
Amortization	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 recognized 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	18,359,558.52	147,245,576.92	—	3,515,637,798.78
Capital expenditures	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

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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)	791,549,269.47	1,364,198,107.29
Hong Kong	—	—
Overseas	822,368,465.61	1,157,904,372.00
Total	1,613,917,735.08	2,522,102,479.29

### 3. Reliability on major customers

The Group's major customers during this year includes UNIX Techno Plus Ltd., Offshore Engineering and Marketing Ltd., Hebei Zhongtai Steel Pipe Manufacture Co., Ltd., PetroChina Company Limited and Campex Inc. Please refer to Note VI.43 for details.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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	36,512.93	40,943.88
Bank balance	128,761,877.40	312,407,578.72
Other monetary assets	198,118,425.99	291,290,034.90
<b>Total</b>	<b>326,916,816.32</b>	<b>603,738,557.50</b>
Include: Fund deposited in overseas	—	—

- (1) At the end of the year, other fund held by the Company included bank acceptance security deposit of RMB84,128,661.69 (as at the beginning of the year: RMB176,490,478.32), borrowings and deposit for letter of credit of RMB nil (at the beginning of the year: RMB10,404,906.58), deposit for letter of guarantee of RMB22,050,000.00 (at the beginning of the year: RMB22,050,000.00), fixed deposits of RMB91,939,764.30 (at the beginning of the year: RMB82,344,650.00).
- (2) 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 RMB37,616,983.69 (at the beginning of the year RMB68,391,676.70), deposit for letter of credit with maturity date over 3 months of RMB nil (at the beginning of the year RMB5,000,000.00), and deposit for letter of guarantee with maturity date over 3 months of RMB1,950,000.00 (RMB nil at the beginning of the year), bills deposit with maturity date over 3 months of RMB91,939,764.30 (at the beginning of the year: RMB44,974,650.00).
- (3) The Company has no funds deposited abroad.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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

Items	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance notes	24,237,597.57	78,327,566.76
Commercial acceptance notes	18,472,215.19	—
Total	42,709,812.76	78,327,566.76

#### (2) Pledged bills receivable

Items	Pledged amount at the end of the year
Bank acceptance notes	2,530,000.00
Total	2,530,000.00

At the end of the year, bills receivables of the Company amounted of RMB2,530,000.00 was pledged to China Zheshang Bank in exchange of equivalent amount of credit limits. At the end of the year, the Company did not utilize the credit limits. These pledged bills receivables will be matured by 26 February 2016.

#### (3) At the end of the year, the bills endorsed to other parties but not mature are as follows:

Items	Amount derecognized at the end of the year	Amount not derecognized at the end of the year
Bank acceptance notes	149,569,111.40	—
Commercial acceptance notes	415,149.00	—
Total	149,984,260.40	—

#### (4) At the end of the year, the Company had no bills receivable converted into trade receivables due to failure to settle of bills receivable.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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	754,644,054.54	865,307,145.02
Less: provision for bad debts	25,249,088.09	12,449,664.74
Net amount	729,394,966.45	852,857,480.28

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

Prior to accepting new customers, the Company assesses the credit quality of potential customers and offers credit limit in accordance with internal credit assessment policies. Apart from requiring new customers to pay in advance, the Company offers tailor-made credit policies to individual customers. The Company allows a general three to six months credit period, and at most 1 year for major customers. For domestic sales, the Company recognizes 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 recognizes 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	629,772,624.82	822,362,929.76
More than one year but within two years	79,661,745.87	29,186,111.56
More than two years but within three years	19,960,595.76	1,308,438.96
More than three years	—	—
Net amount	729,394,966.45	852,857,480.28

Account receivable overdue 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 balance are still considered fully recoverable.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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 Classification of Accounts Receivable

Category	Balance at the end of the year				
	Carrying amount		Provision of bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Proportion (%)	
Single item with significant accounts receivable and provided for bad debts in individual assessment for impairment	43,608,469.83	5.78	22,213,266.98	50.94	21,395,202.85
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under individual assessment for impairment	705,624,300.17	93.50	—	—	705,624,300.17
Single item with insignificant accounts receivable but provided for bad debts individually	5,411,284.54	0.72	3,035,821.11	56.10	2,375,463.43
<b>Total</b>	<b>754,644,054.54</b>	<b>100.00</b>	<b>25,249,088.09</b>	<b>—</b>	<b>729,394,966.45</b>

Category	Balance at the end of the year				
	Carrying amount		Provision of bad debts		Carrying amount
	Amount	Ratio (%)	Amount	Ratio (%)	
Single item with significant accounts receivable and provided for bad debts in individual assessment for impairment	14,376,029.00	1.66	10,479,971.25	72.9	3,896,057.75
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under individual assessment for impairment	848,545,515.50	98.06	—	—	848,545,515.5
Single item with insignificant accounts receivable but provided for bad debts individually	2,385,600.52	0.28	1,969,693.49	82.57	415,907.03
<b>Total</b>	<b>865,307,145.02</b>	<b>100.00</b>	<b>12,449,664.74</b>	<b>—</b>	<b>852,857,480.28</b>



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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 Classification of Accounts Receivable (continued)

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

Companies	Carrying value	Provision for bad debt	Ratio (%)	Reason for provision
Shandong Xinmei Machinery Equipment (Group) Co., Ltd	25,411,133.71	7,426,627.81	29.23	Recovery at risk
Wenlai Jinlong Investment Company Limited, Beijing Office	7,729,482.54	6,532,536.40	84.51	Aging over two years with uncertain recoverability
SBI Company (USA)	4,040,915.14	4,040,915.14	100.00	Aging over three years with low possibility of recovery
Shengli Oilfield Highland Petroleum Equipment Co., Ltd.	3,284,636.96	3,284,636.96	100.00	Aging over three years with low possibility of recovery
Samasu International Oil Corporation	3,142,301.48	928,550.67	29.55	Recovery at risk
<b>Total</b>	<b>43,608,469.83</b>	<b>22,213,266.98</b>	<b>—</b>	

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

Companies	Carrying value	Provision for bad debt	Proportion (%)	Reason for provision
Shandong Wantong Hydraulic Machinery Co., Ltd.	1,471,183.18	441,354.95	30.00	Recovery at risk
South China Petrochemical Group	1,340,798.61	1,340,798.61	100.00	Aging over three years with low possibility of recovery
Metal One Corporation	1,127,611.24	333,209.33	29.55	Recovery at risk
PT. Dhiva Inter Sarana	782,446.33	231,213.04	29.55	Recovery at risk
China Petroleum Technology & Development Company	594,152.90	594,152.90	100.00	Aging over one years with uncertain recoverability
Hanting Energy Resource Private Service Company Limited	95,092.28	95,092.28	100.00	Aging over three years with low possibility of recovery
<b>Total</b>	<b>5,411,284.54</b>	<b>3,035,821.11</b>	<b>—</b>	

#### (3) Provision for the year, back (or back) of bad debts

The impairment loss on accounts receivables amounted to RMB12,799,423.35, no bad debt recovered or reversed for this year.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 3. Accounts Receivable (continued)

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

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

Companies	Balance at the end of the year	Aging	Proportion (%)	Impairment loss at the end of the year
Maolong New Materials	247,376,094.93	Within one year	32.78	0.00
Petroamazonas EP	76,581,962.96	Within one year	10.15	0.00
Yanchang Oil Field Co., Limited	41,046,770.70	Within one year	5.44	0.00
China Petroleum & Chemical Co., Limited	14,479,975.92	One to two years	1.92	0.00
Peak Pipe and Supply, LLC	53,804,246.19	Within one year	7.13	0.00
	8,230,853.15	Within one year	1.09	0.00
	38,527,090.80	One to two years	5.11	0.00
Total	480,046,994.65		63.62	0.00

### 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	255,871,255.65	99.92	188,429,588.49	99.99
One to two years	199,500.00	0.07	2,880.00	—
Two to three years	—	—	—	—
More than three years	10,683.61	0.01	10,683.61	0.01
Total	256,081,439.26	100.00	188,443,152.10	100.00



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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 Baolong Machinery Company Limited	250,230,892.96	Within one year	97.72
Shandong Shouguang Juneng Special Steel Co., Ltd	4,135,653.60	Within one year	1.61
Qinhuangdao Zhongding Thermal Equipment Co., Ltd.	400,000.00	Within one year	0.16
China Juxin Import & Export Co., Limited	381,046.84	Within one year	0.15
Liaocheng Baohui Steel Pipe Co. Ltd	199,896.65	Within one year	0.08
Total	255,347,490.05		99.72

### 5. Interests Receivable

Items	Balance at the end of the year	Balance at the beginning of the year
Fixed deposit interest	554,753.38	743,209.80
Guaranteed deposit interest	812,950.21	1,927,493.53
Total	1,367,703.59	2,670,703.33

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	577,410,564.37	272,528,254.97
Less: Impairment	119,119.25	119,119.25
Net amount	577,291,445.12	272,409,135.72

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

## XVI. Notes to statement of financial position of the Company (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	335,623,403.41	23,386,739.54
One to two years	1,077,232.89	242,006,076.18
Two and three years	240,465,808.82	20,301.29
More than three years	125,000.00	6,996,018.71
Net amount	577,291,445.12	272,409,135.72

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

Category	Balance at the end of the year				Carrying balance
	Book balance		Impairment loss		
	Amount	Ratio (%)	Amount	Ratio (%)	
Single item with significant other receivables and provided for bad debts in individual assessment for impairment	—	—	—	—	—
Single item with insignificant other receivable and single item with significant other receivable but not impaired under individual assessment for impairment	577,291,445.12	99.98	—	—	577,291,445.12
Single item with insignificant other receivables but provided for bad debts individually	119,119.25	0.02	119,119.25	100.00	0.00
Total	577,410,564.37	100.00	119,119.25	—	577,291,445.12



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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

Category	Balance at the beginning of the year				Carrying balance
	Book balance		Impairment loss		
	Amount	Ratio (%)	Amount	Ratio (%)	
Single item with significant other receivables and provided for bad debts in individual assessment for impairment	—	—	—	—	—
Single item with insignificant other receivable and single item with significant other receivable but not impaired under individual assessment for impairment	272,409,135.72	99.96	—	—	272,409,135.72
Single item with insignificant other receivables but provided for bad debts individually	119,119.25	0.04	119,119.25	100.00	0.00
<b>Total</b>	<b>272,528,254.97</b>	<b>100.00</b>	<b>119,119.25</b>	<b>—</b>	<b>272,409,135.72</b>

#### (3) 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
<b>Total</b>	<b>119,119.25</b>	<b>119,119.25</b>	<b>—</b>	

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

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.

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

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 6. Other Receivables (continued)

#### (6) Classification of other receivables by nature

Nature	Balance at the end of the year	Balance at the beginning of the year
Current account with entities	559,365,675.12	271,149,135.72
Deposits	16,942,090.00	250,000.00
Current account with individuals	983,680.00	1,010,000.00
Total	577,291,445.12	272,409,135.72

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

Companies	Nature	Amount	Aging	Proportion (%)	The balance of provision for bad debts as at the end of year
Maolong New Materials	Current account	246,445,822.54	Within one year	42.68	0.00
Shouguang Baolong Petroleum Material Company Limited	Current account	190,000,000.00	Two to three years	32.91	0.00
Shandong Molong Import & Export Company Limited	Current account	43,777,623.88	Within one years	7.58	0.00
JESORO OIL LTD	Current account	39,993,311.56	Within one year	6.93	0.00
Molong Logistic Company	Current account	35,695,808.82	Two to three years	6.18	0.00
Total		555,912,566.80		96.28	0.00



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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 material	120,856,917.89	7,191,375.21	113,665,542.68	129,198,814.57	13,099,057.77	116,099,756.80
Work-in-progress	274,739,766.84	21,377,704.74	253,362,062.10	360,258,127.31	6,162,076.74	354,096,050.57
Entrusted processing materials	7,515,907.70	161,309.79	7,354,597.91	21,941,068.85	572,454.32	21,368,614.53
Finished goods	323,455,136.40	33,773,943.14	289,681,193.26	335,017,920.98	9,407,936.89	325,609,984.09
Total	726,567,728.83	62,504,332.88	664,063,395.95	846,415,931.71	29,241,525.72	817,174,405.99

#### (2) Allowance for inventories

Items	Balance at the beginning of the year		Reduction during this year		Balance at the end of the year
	Allowance made during the year	Allowance made during the year	Reversal of allowance	Written-off	
Raw material	13,099,057.77	—	5,907,682.56	—	7,191,375.21
Work-in-progress	6,162,076.74	18,534,047.64	3,318,419.64	—	21,377,704.74
Entrusted processing materials	572,454.32	—	411,144.53	—	161,309.79
Finished goods	9,407,936.89	27,879,668.32	3,513,662.07	—	33,773,943.14
Total	29,241,525.72	46,413,715.96	13,150,908.80	—	62,504,332.88

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

Items	Specific basis of net realizable value	Reason of reversal
Raw materials	The price of the materials and semi-	Production
Work-in-progress	manufactured products minus the cost of	Production
Entrusted processing materials	further processing and related selling expenses and taxes	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 2015 to 31 December 2015

(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 value-added tax	5,892.62	13,437,824.29	Deemed deductible
Total	5,892.62	13,437,824.29	

### 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	—	—	—	—	—	—
At cost	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



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

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

#### (3) Analysis of Available-for-sale financial assets under cost method

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

### 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		
	Book Amount	Impairment	Carrying Amount	Book Amount	Impairment	Carrying Amount
Investment in subsidiaries	1,052,069,921.73	—	1,052,069,921.73	1,042,069,921.73	—	1,042,069,921.73
Investment in associates and joint ventures	—	—	—	—	—	—
Total	1,052,069,921.73	—	1,052,069,921.73	1,042,069,921.73	—	1,042,069,921.73

#### (2) Investment in subsidiaries

Investee Companies	Balance at the beginning of the year			Balance at the end of the year	Provision of impairment for the year	Provision of impairment at the end of the year
		Additions	Reductions			
Maolong New Materials	706,743,691.73	—	—	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	—	—
Molong Import & Export	—	10,000,000.00	—	10,000,000.00	—	—
Total	1,042,069,921.73	10,000,000.00	—	1,052,069,921.73	—	—

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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)

#### (3) Analysis of Long-term equity Investment

Items	Balance at the end of the year	Balance at the beginning of the year
Listed	—	—
Unlisted	1,052,069,921.73	1,042,069,921.73
Total	1,052,069,921.73	1,042,069,921.73

- (4) There is no impairment indicators and the Company does not provide impairment loss for long-term equity investment.
- (5) At 31 December 2015, 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 2015 to 31 December 2015

(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	347,496,906.81	1,492,226,460.07	52,766,348.64	11,148,457.51	1,903,638,173.03
2. Additions for the year	171,822.00	14,372,796.18	251,404.27	70,005.61	14,866,028.06
(1) Additions	171,822.00	7,942,074.62	251,404.27	70,005.61	8,435,306.50
(2) Transferred from construction in progress	—	6,430,721.56	—	—	6,430,721.56
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the year	28,000.00	562,851,271.88	115,654.31	26,700.00	563,021,626.19
(1) Disposal or retirement	28,000.00	1,463,030.00	115,654.31	26,700.00	1,633,384.31
(2) Other reductions	—	561,388,241.88	—	—	561,388,241.88
4. Balance at the end of the year	347,640,728.81	943,747,984.37	52,902,098.60	11,191,763.12	1,355,482,574.90
B. Accumulated depreciation					
1. Balance at the beginning of the year	87,255,761.79	556,895,447.63	29,845,024.51	8,171,073.93	682,167,307.86
2. Additions for the year	16,276,686.09	103,510,504.21	5,984,661.99	1,131,284.77	126,903,137.06
(1) Provision	16,276,686.09	103,510,504.21	5,984,661.99	1,131,284.77	126,903,137.06
3. Reductions for the year	12,541.21	178,283,408.21	104,703.51	25,365.00	178,426,017.93
(1) Disposal or retirement	12,541.21	1,388,121.25	104,703.51	25,365.00	1,530,730.97
(2) Others	—	176,895,286.96	—	—	176,895,286.96
4. Balance at the end of the year	103,519,906.67	482,122,543.63	35,724,982.99	9,276,993.70	630,644,426.99
C. Impairment					
1. Balance at the beginning of the year	—	—	—	—	—
2. Additions for the year	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions for the year	—	—	—	—	—
(1) Disposal or retirement	—	—	—	—	—
4. Balance at the end of the year	—	—	—	—	—
D. Carrying values					
1. At the beginning of the year	260,241,145.02	935,331,012.44	22,921,324.13	2,977,383.58	1,221,470,865.17
2. At the end of the year	244,120,822.14	461,625,440.74	17,177,115.61	1,914,769.42	724,838,147.91

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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 RMB130,479,009.25 was recognized in profit or loss (during previous year: RMB130,512,154.56).
- (2) During this year, the amount of fixed assets transferred from construction in progress was RMB6,430,721.56.
- (3) During this year, the Company recognized loss on disposal of fixed assets amounted to RMB72,653.34.
- (4) 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	244,120,822.14	260,241,145.02
Medium lease term (10–50 years)	244,120,822.14	260,241,145.02
Outside China	—	—
Total	244,120,822.14	260,241,145.02

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

Items	Carrying amount	Reason for without certificates of ownership
Logistic Park Plant	9,495,521.54	Application in progress
Molong Garden Building 7	8,572,500.00	Application in progress
Total	18,068,021.54	

#### (4) There is no impairment indicators for fixed assets held by the Company. Hence, no impairment provision is made for fixed assets.

#### (5) At the end of the year, the Company had no fixed assets pledged or guaranteed.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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	291,411,820.49	—	291,411,820.49	267,788,828.11	—	267,788,828.11
Φ180 OCTG Plant Shutdown Transformation	390,866,271.60	—	390,866,271.60	—	—	—
Other	3,598,931.12	—	3,598,931.12	6,571,512.77	—	6,571,512.77
<b>Total</b>	<b>685,877,023.21</b>	<b>—</b>	<b>685,877,023.21</b>	<b>274,360,340.88</b>	<b>—</b>	<b>274,360,340.88</b>

#### (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	Other reduction	
Casting Plant Relocation and Technological Improvement Projects	267,788,828.11	23,622,992.38	—	—	291,411,820.49
Φ180 Petroleum Special Pipe Mill Shutdown Transformation	—	390,866,271.60	—	—	390,866,271.60
<b>Total</b>	<b>267,788,828.11</b>	<b>414,489,263.98</b>	<b>—</b>	<b>—</b>	<b>682,278,092.09</b>

Projects	Budget amount	Investment to budgeted (%)	Progress (%)	Accumulated interest capitalized	Including: capitalized interest amount during the year	Interest capitalized during this year (%)	Sources of
							fund
Casting Plant Relocation and Technological Improvement Projects	320,000,000.00	91.07	95.00	43,648,603.65	14,660,249.43	4.64	Self-finance and bank loan
Φ180 Petroleum Special Pipe Mill Shutdown Transformation	10,000,000.00	63.73	65.00	—	—	—	Self-finance
<b>Total</b>	<b>330,000,000.00</b>	<b>—</b>	<b>—</b>	<b>43,648,603.65</b>	<b>14,660,249.43</b>	<b>—</b>	

During this year, interest capitalized rate is 4.64% (previous year: 5.33%).

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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)

- (3) The Company's construction-in-progress does not have any impairment indicators, no provision is provided.
- (4) At the end of the year, 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	301,845,184.93	2,541,868.11	444,210,588.04
2. Additions for the year	—	—	30,758,411.75	—	30,758,411.75
(1) Acquisition	—	—	—	—	—
(2) Internally generated	—	—	30,758,411.75	—	30,758,411.75
(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	332,603,596.68	2,541,868.11	474,968,999.79
B. Accumulated depreciation					
1. Balance at the beginning of the year	14,358,741.51	751,190.60	155,336,253.73	1,271,658.31	171,717,844.15
2. Additions for the year	2,777,588.64	13,589.76	61,012,483.03	511,786.42	64,315,447.85
(1) Amortization	2,777,588.64	13,589.76	61,012,483.03	511,786.42	64,315,447.85
3. Reductions for the year	—	—	—	—	—
(1) Disposals	—	—	—	—	—
4. Balance at the end of the year	17,136,330.15	764,780.36	216,348,736.76	1,783,444.73	236,033,292.00
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	124,694,756.77	18,846.12	112,540,555.75	1,270,209.80	238,524,368.44
2. At the end of the year	121,917,168.13	5,256.36	82,286,484.47	758,423.38	204,967,332.34

The internal generated intangible assets are 40.15% of the total intangible assets.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 13. Intangible Assets (continued)

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

Items	Balance at the end of the year	Balance at the beginning of the year
Land-use right in the PRC	121,917,168.13	124,694,756.77
Medium-term lease (10–50 years)	121,917,168.13	124,694,756.77
Land-use right outside the PRC	—	—
Total	121,917,168.13	124,694,756.77

During this year, RMB64,315,447.85 (previous year: RMB37,951,827.84) was recognized as amortization expense for intangible assets in the consolidated income statements

### 14. Research and development expenditure

For details, please refer to Note VI.15.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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

#### Deferred tax assets recognized before setoff

Items	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	25,368,207.34	3,805,231.10	12,568,783.99	1,885,317.60
Including: accounts receivable	25,249,088.09	3,787,363.21	12,449,664.74	1,867,449.71
other receivables	119,119.25	17,867.89	119,119.25	17,867.89
Provision for inventories	62,504,332.88	9,375,649.93	29,241,525.72	4,386,228.86
Salaries payables	—	—	19,806,065.35	2,970,909.80
Amortization of intangible assets	119,315,550.43	26,475,647.45	84,708,121.32	17,823,790.17
Deductible losses	98,010,172.47	14,701,525.87	—	—
Deferred income	1,808,000.00	271,200.00	3,616,000.00	542,400.00
Impairment of intangible assets	7,777,377.38	1,166,606.61	19,888,386.55	2,983,257.98
<b>Total</b>	<b>314,783,640.50</b>	<b>55,795,860.96</b>	<b>169,828,882.93</b>	<b>30,591,904.41</b>

#### Recognized 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
Interests receivable	1,367,703.59	205,155.54	2,670,703.33	400,605.50
<b>Total</b>	<b>1,367,703.59</b>	<b>205,155.54</b>	<b>2,670,703.33</b>	<b>400,605.50</b>



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 16. Short-term borrowings

#### (1) Classification of short term borrowings

Nature of loan	Balance at the end of the year	Balance at the beginning of the year
Credit loans	1,354,119,063.41	1,353,615,321.00
Total	1,354,119,063.41	1,353,615,321.00

(2) The Company had no overdue and unsettled short term borrowings at the end of the reporting period.

(3) The Company has repaid RMB401,508,000.00 of short-term borrowings up to the report date.

### 17. Bills payable

Types of bills	Balance at the end of the year	Balance at the beginning of the year
Banks acceptance note	329,257,384.43	427,645,457.13
Business acceptance note	50,000,000.00	—
Total	379,257,384.43	427,645,457.13

### 18. Accounts payable

#### (1) Details of accounts payable

Items	Balance at the end of the year	Balance at the beginning of the year
Materials	359,544,788.63	359,999,885.13
Construction equipment	14,759,723.86	31,534,578.40
Total	374,304,512.49	391,534,463.53

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 18. 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	65,791,906.53	193,715,440.73
2-3 months	20,523,802.30	34,805,288.75
3-4 months	26,083,206.63	36,333,892.35
4 months - 1 year	168,276,488.39	88,666,437.25
1-2 years	72,847,717.42	19,904,321.79
2-3 years	7,887,991.86	11,875,799.21
Over 3 years	12,893,399.36	6,233,283.45
Total	374,304,512.49	391,534,463.53

#### (3) Significant payable aged over one year

Clients	Amount	Nature	Reason for unsettled
Jinan Tongchuang Trade Co. Ltd.	4,435,272.51	Acquisition of materials	Not billed
Shouguang Yusheng Trade Co. Ltd.	4,171,985.96	Acquisition of materials	Not billed
Shouguang Friendship Transportation Company Limited	2,832,631.04	Acquisition of materials	Not billed
Wuxi Yousiweike Petroleum Drilling Tools. Co., Ltd.	2,398,200.70	Acquisition of materials	Not billed
Qindao Renze International Logistics Co., Ltd.	2,331,076.14	Delivery charges	Not billed
Shandong Metallurgical Co., Ltd.	1,912,336.75	Acquisition of materials	Not billed
Qingzhou Hanlong Steel Machinery Co. Ltd	1,776,418.38	Processing fee	Not billed
Guanyun Xingye Transportation Co. Ltd	1,688,345.37	Acquisition of materials	Not billed
Shandong Mining Machinery Group Co., Ltd	1,539,108.38	Acquisition of materials	Not billed
Wuxi Huguang Industrial Furnace Co., Limited	1,480,000.00	Acquisition of materials	Not billed
Total	24,565,375.23		



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 19. 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	59,256,216.50	167,732,495.64
Total	59,256,216.50	167,732,495.64
Including: over 1 year	21,794,280.68	5,285,699.71

#### (2) Significant receipts in advance aged over one year

Entities	Balance at the end of the year	Balance at the beginning of the year
MPM INTERNATIONAL LIMITED	18,136,612.97	Goods not yet delivered
UMW Oilfield International (L) Ltd	1,017,341.86	Goods not yet delivered
Total	19,153,954.83	—

### 20. 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	19,806,065.35	90,031,762.31	90,190,390.69	19,647,436.97
Post-retirement benefits-defined contribution plans	—	8,239,871.77	8,239,871.77	—
Total	19,806,065.35	98,271,634.08	98,430,262.46	19,647,436.97

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 20. Salaries payable (continued)

#### (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	16,923,304.96	71,349,654.80	73,040,255.36	15,232,704.40
Staff welfare	—	11,879,806.56	11,879,806.56	—
Social insurance premiums	—	4,269,808.67	4,269,808.67	—
Including: Medical insurance	—	3,230,684.86	3,230,684.86	—
Injury insurance	—	597,685.65	597,685.65	—
Birth insurance	—	441,438.16	441,438.16	—
Union fund and staff education fund	2,882,760.39	2,532,492.28	1,000,520.10	4,414,732.57
<b>Total</b>	<b>19,806,065.35</b>	<b>90,031,762.31</b>	<b>90,190,390.69</b>	<b>19,647,436.97</b>

The Group's salaries payable included unpaid salary bonus, subsidies, and etc., of RMB15,232,704.40 at the end of the year and it will be paid before the end of the second quarter of 2016.

#### (3) Defined contribution plan

Item	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Retirement insurance	—	7,798,433.61	7,798,433.61	—
Unemployment insurance	—	441,438.16	441,438.16	—
<b>Total</b>	<b>—</b>	<b>8,239,871.77</b>	<b>8,239,871.77</b>	<b>—</b>



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 21. Taxes payable

Items	Balance at the end of the year	Balance at the beginning of the year
Business tax	—	153,089.77
Enterprise income tax	70,609.58	97,168.69
Individual income tax	42,219.47	45,976.17
Urban maintenances and construction tax	225,267.17	776,447.81
Property tax	664,202.20	664,202.19
Land use tax	1,591,678.00	1,591,677.99
Educational surcharges	160,905.12	554,605.61
Local water conservancy construction funds	32,181.02	110,921.13
Stamp duty	275,105.00	445,596.60
Total	3,062,167.56	4,439,685.96

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

### 22. 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	2,746,677.28	6,812,568.28
Total	17,491,882.76	21,557,773.76

(2) The Company has no overdue interest payable.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 23. Other payables

#### (1) Other payables

Items	Balance at the end of the year	Balance at the beginning of the year
Total	8,682,202.90	9,439,187.44
including: Over 1 year	4,750,199.95	6,226,784.36

#### (2) Details of other payables

Other payables	Balance at the end of the year	Balance at the beginning of the year
Accrued energy charges	3,341,679.73	2,031,346.95
Deposits	4,939,502.74	6,277,355.08
Others	401,020.43	1,130,485.41
Total	8,682,202.90	9,439,187.44

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

### 24. Non-current liabilities mature within one year

The details of non-current liabilities mature within one year are set out in Note VI.28.

### 25. Other current liabilities

The details of other current liabilities are set out in Note VI.29.

### 26. Bonds Payables

The details of bonds payables are set out in Note VI.30.

### 27. Deferred Income

The details of deferred income are set out in Note VI.31.

### 28. Share Capital

The details of share capital are set out in Note VI.32.



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 29. Capital Reserves

#### This year

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

#### Previous year

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

### 30. Special Reserves

#### This year

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Production safety fee	—	6,313,907.38	6,313,907.38	—
Total	—	6,313,907.38	6,313,907.38	—

#### Previous year

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

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 31. Surplus Reserves

The details for surplus reserve are set out in Note VI.36.

### 32. Retained Profits

#### This year

Items	Amount	Appropriation rate (%)
Last year closing balance	924,160,765.77	—
Add: Opening adjustments of retained earning	—	—
Including: ASBEs retrospective adjustment on provisions of new accounting standards	—	—
Including: Changes in accounting policies	—	—
Significant prior year adjustment	—	—
Change in consolidation scope under common control	—	—
Other adjustments	—	—
Balance at the beginning of the year	924,160,765.77	—
Add: Net profit attributable to the owners of the company	(134,076,768.95)	—
Less: Appropriation of statutory surplus reserve	—	—
Appropriation of arbitrary surplus reserve	—	—
Appropriation of general risk reserve	—	—
Dividend paid	—	—
Share dividend transfer to capital	—	—
Balance at the end of the year	790,083,996.82	—



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 32. Retained Profits (continued)

#### Previous year

Items	Amount	Appropriation rate (%)
Last year closing balance	854,155,042.88	—
Add: Opening adjustments of retained earning	—	—
Including: ASBEs retrospective adjustment on provisions of new accounting standards	—	—
Including: Changes in accounting policies	—	—
Significant prior year adjustment	—	—
Change in consolidation scope under common control	—	—
Other adjustments	—	—
<b>Balance at the beginning of the year</b>	<b>854,155,042.88</b>	<b>—</b>
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 risk reserve	—	—
Dividend paid	—	—
Share dividend transfer to capital	—	—
<b>Balance at the end of the year</b>	<b>924,160,765.77</b>	<b>—</b>

### 33. Net current assets

Items	Balance at the end of the year	Balance at the beginning of the year
Current assets	2,597,831,472.07	2,829,058,825.97
Less: current liabilities	2,717,073,311.43	2,397,578,449.81
<b>Net current assets</b>	<b>(119,241,839.36)</b>	<b>431,480,376.16</b>

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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	5,331,379,758.22	5,646,076,226.60
Less: current liabilities	2,717,073,311.43	2,397,578,449.81
Total assets less current liabilities	2,614,306,446.79	3,248,497,776.79

### 35. Borrowings

Items	Balance at the end of the year	Balance at the beginning of the year
Short-terms borrowings	1,354,119,063.41	1,353,615,321.00
Bonds payables	499,444,444.41	498,111,111.09
Total	1,853,563,507.82	1,851,726,432.09

#### (1) Borrowings analysis

Items	Balance at the end of the year	Balance at the beginning of the year
Bank loan		
— Repayable within 1 year	1,354,119,063.41	1,353,615,321.00
Sub-total	1,354,119,063.41	1,353,615,321.00
Other borrowings and payables	—	—
— Repayable within 1 year	499,444,444.41	—
— Repayable after 1 year	—	498,111,111.09
Sub-total	499,444,444.41	498,111,111.09
Total	1,853,563,507.82	1,851,726,432.09



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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 on demand or within 1 year	1,354,119,063.41	1,353,615,321.00
Total	1,354,119,063.41	1,353,615,321.00

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	499,444,444.41	—
1 to 2 years	—	498,111,111.09
2 to 5 years	—	—
Over 5 years	—	—
Total	499,444,444.41	498,111,111.09

### 36. Operating revenue and operating costs

Items	Incurred during this year		Incurred during previous year	
	Revenue	Cost	Revenue	Cost
Main operation	1,580,995,699.42	1,370,888,814.07	2,411,613,882.29	2,005,922,349.02
Other operation	96,717,497.42	108,200,095.78	306,804,319.61	292,972,531.41
Total	1,677,713,196.84	1,479,088,909.85	2,718,418,201.90	2,298,894,880.43

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 during this year.

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

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

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

### 36. Operating revenue and operating costs (continued)

#### Gross profit

Items	Incurred during this year	Incurred during previous year
Income from main operation	1,580,995,699.42	2,411,613,882.29
Costs for main operation	1,370,888,814.07	2,005,922,349.02
Gross profit	210,106,885.35	405,691,533.27

The company's balance of operating income arised from the top five client is RMB681,042,343.20 (the balance of last year: RMB1,045,084,622.72) and accounted for 40.60% of the total operating income (last year: 38.45%), details as stated as follows:

Name of customer	Operating revenue	Percentage of the total sales revenue (%)
UNIX TECHNO PLUS LTD.	211,648,249.36	12.62
OFFSHORE ENGINEERING AND MARKETING LTD	185,980,020.54	11.09
Hebei Zhongtai Steel Pipe Manufacturing Co., Ltd.	114,075,523.38	6.80
PetroChina Company Limited	89,664,657.19	5.34
Campex Inc.	79,673,892.73	4.75
Total	681,042,343.20	40.60

### 37. Tax and levies on operations

Items	Incurred during this year	Incurred during previous year	Tax rate
Business tax	3,730.00	306,720.00	5% of operating revenue
Urban maintenances and construction tax	5,531,620.89	7,299,382.73	7% of value-added tax and business tax payables
Educational surcharges	3,951,157.74	5,213,844.84	5% of value-added tax and business tax payables
Local water conservancy construction funds	790,231.55	1,042,768.96	1% of value-added tax and business tax payables
Total	10,276,740.18	13,862,716.53	



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 38. Selling expenses

Items	Incurred during this year	Incurred during previous year
Delivery expenses	83,129,812.30	108,335,058.03
Salary	3,069,735.09	2,598,034.90
Agency fees	29,907,017.82	29,440,035.15
Depreciation charges	1,294,136.07	1,239,965.67
Travelling expenses	1,477,973.94	1,306,766.92
Entertainment	2,342,114.78	1,714,364.79
Transportation fees	254,467.92	446,526.85
Office expenses	348,210.38	372,156.74
Other	2,394,321.23	2,438,762.60
Total	124,217,789.53	147,891,671.65

### 39. Administrative expenses

Items	Incurred during this year	Incurred during previous year
Amortization of intangible assets	64,315,447.85	37,951,827.84
Research and development fees of new products	26,802,633.94	42,601,868.62
Salary and Staff welfare expenses	11,174,381.85	9,778,809.83
Depreciation charges	7,630,780.76	7,395,746.80
Taxes	9,879,897.07	8,972,374.80
Machinery material consumption	847,414.42	1,897,476.13
Entertainment	966,956.23	1,323,443.52
Directors' fees	2,011,091.25	2,008,309.86
Water and electricity fees	1,130,478.58	1,079,353.10
Others	6,439,215.58	1,061,155.03
Total	131,198,297.53	114,070,365.53

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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	Incurring during this year	Incurring during previous year
Interest expenses	61,887,271.74	66,535,383.05
Less: Interest income	13,126,975.49	19,119,452.20
Add: Foreign exchange gain (loss)	9,174,346.18	(341,450.66)
Add: Other expenses	3,259,938.51	6,648,190.16
Total	61,194,580.94	53,722,670.35

#### (2) Interest expenses breakdown

Items	During this year	During previous year
Bank loan interest	47,198,489.52	58,886,816.44
Bond interest under effective interest rate	27,333,333.32	27,333,333.32
Discount charges on bank acceptance notes	2,015,698.33	148,633.25
Sub-total	76,547,521.17	86,368,783.01
Less: capitalized interest expenses	14,660,249.43	19,833,399.96
Total	61,887,271.74	66,535,383.05

During this year, borrowing interest capitalized for the Company is 4.64% (2014: 5.33%).

#### (3) Interest income breakdown

Items	Incurring during this year	Incurring during previous year
Interest income from bank deposits	13,126,975.49	19,119,452.20
Total	13,126,975.49	19,119,452.20



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 41. Impairment loss on of assets

Items	Incurred during this year	Incurred during previous year
Impairment loss on accounts receivable	12,799,423.35	1,642,175.01
Impairment loss on inventories	42,285,393.65	6,992,362.00
Total	55,084,817.00	8,634,537.01

### 42. Non-operating income

#### (1) Breakdown of non-operating income

Items	Incurred during this year	Incurred during previous year	The amount of non-recurring items included in this year
Total income on disposal of non-current assets	—	427,654.67	—
Included: Income on disposal of fixed assets	—	427,654.67	—
Income on disposal of intangible assets	—	—	—
Government grants	23,878,116.08	2,596,483.72	23,878,116.08
Others	431,131.62	555,515.95	431,131.62
Total	24,309,247.70	3,579,654.34	24,309,247.70

Non-recurring loss during the year is RMB24,309,247.70 (2014: RMB3,579,654.34).

#### (2) Government grants

Items	Incurred during this year	Incurred during previous year	Source and basis	Related to assets/ Related to income
Government subsidies	22,070,116.08	788,483.72	Note VI.50.1-13	Revenue nature
Deferred income amortized	1,808,000.00	1,808,000.00	Note VI.50.14	Capital nature
Total	23,878,116.08	2,596,483.72		

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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	Incurring during this year	Incurring during previous year	Included in this year of non recurring profit and loss
Loss on disposal of non-current assets	72,653.34	153,380.33	72,653.34
Including: Loss on disposal of fixed assets	72,653.34	153,380.33	72,653.34
Loss on disposal of intangible assets	—	—	—
Debt restructuring loss	—	—	—
Non-monetary assets exchange loss	—	—	—
Donation	104,000.00	104,000.00	104,000.00
Inventories losses	—	—	—
Others	260,831.63	18,019.29	260,831.63
Total	437,484.97	275,399.62	437,484.97

The amount included in non-recurring loss is RMB437,484.97 (2014: RMB275,399.62).

### 44. Income tax expenses

#### (1) Income tax expenses

Items	Incurring during this year	Incurring during previous year
Current tax	—	—
Including: PRC	—	1,967,745.15
Hong Kong	—	—
Deferred tax	(25,399,406.51)	4,893,733.43
Total	(25,399,406.51)	6,861,478.58



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

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

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

### 44. Income tax expenses (continued)

#### (2) Income tax (credit) expense and accounting (loss) profits reconciliation

Reconciliation between income tax expenses and accounting profit is set out as follows:

Items	Incurred during this year	Incurred during previous year
Profit before tax	(159,476,175.46)	84,645,615.12
Income tax calculated at tax rate of 15% on the Company	(23,921,426.32)	12,696,842.27
Tax effect of non-deductible expenses	494,730.96	182,942.79
Additional charge on research and development expenditure	(3,462,577.00)	(5,059,678.71)
Tax effect of tax loss not recognized	2,947,115.54	—
Other tax effects	(1,457,249.69)	(958,627.77)
Income tax expenses (credit)	(25,399,406.51)	6,861,478.58

### 45. Depreciation and amortization

The depreciation charge and the amortization charge for this year are RMB130,479,009.25 and RMB64,315,447.85 respectively (previous year: RMB130,512,154.56 and RMB37,951,827.84 respectively).

### 46. Supplementary notes to the Company's statement of profit or loss

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

Items	Incurred during this year	Incurred during previous year
Consumables	1,197,313,824.33	1,992,103,008.83
Salaries	84,569,715.71	94,291,308.27
Depreciation	130,479,009.25	130,512,154.56
Amortization	64,315,447.85	37,951,827.84
Product license	147,055,599.45	188,464,282.84
Utilities	86,753,194.19	100,320,682.64
Other tax expenses	9,879,897.07	8,972,374.80
Others	14,138,309.06	8,241,277.83
Total	1,734,504,996.91	2,560,856,917.61

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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	Incurring during this year	Incurring during previous year
Government grants	22,070,116.08	788,483.72
Interest income	14,429,975.23	21,054,798.31
Decrease in foreign exchange guarantees deposit	30,774,693.01	86,070,750.79
Others	8,181,827.42	77,258,663.86
<b>Total</b>	<b>75,456,611.74</b>	<b>185,172,696.68</b>

##### (2) Other cash payments relating to operating activities

Items	Incurring during this year	Incurring during previous year
Delivery expenses	83,175,871.37	108,382,428.86
Development fees for new products	4,408,898.74	39,805,433.51
Consumables	847,414.42	1,897,476.13
Agency fees	31,889,910.30	30,225,160.26
Travelling fees	1,773,622.69	1,801,992.23
Repair expenses	388,371.17	549,260.52
Water and electricity expenses	1,130,478.58	1,079,353.10
Entertainment	3,309,071.01	3,037,808.31
Increased in restricted bank deposits	46,965,114.30	44,974,650.00
Others	346,292,770.58	73,971,634.92
<b>Total</b>	<b>520,181,523.16</b>	<b>305,725,197.84</b>

##### (3) Other cash receipts relating to financing activities

Items	Incurring during this year	Incurring during previous year
Reduced in security deposit for letter of guarantee	3,050,000.00	38,860,000.00
Reduced in guarantee deposit for bank loan	—	68,901,974.00
<b>Total</b>	<b>3,050,000.00</b>	<b>107,761,974.00</b>



# Notes to the Financial Statements

1 January 2015 to 31 December 2015

(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	Incurred during this year	Incurred during previous year
<b>1. Reconciliation of net income to cash flow:</b>		
Net (loss) profit	(134,076,768.95)	77,784,136.54
Add: Provision for impairment loss of asset	55,084,817.00	8,634,537.01
Depreciation of fixed asset	126,903,137.06	130,782,775.92
Amortization of intangible asset	64,315,447.85	37,951,827.84
Amortization of long-term deferred expense	—	—
Loss on disposal of fixed asset, intangible asset and other long-term asset	—	(274,274.34)
Fixed assets written off	72,653.34	—
Gain from changes in fair value	—	—
Finance costs	72,520,000.35	66,535,383.05
Investment losses	—	—
(Increase) decrease in deferred tax assets	(25,203,956.55)	5,184,035.35
Decrease in deferred tax liabilities	(195,449.96)	(290,301.92)
Decrease in inventories	110,825,616.39	74,627,411.37
Increase in operating receivables	(219,496,967.22)	(20,556,124.79)
(Decrease) increase in operating payables	(161,998,144.91)	124,801,407.39
Others	(1,808,000.00)	(1,808,000.00)
Net cash flows (used in) from operating activities	(113,057,615.60)	503,372,813.42
<b>2. Significant investing and financing activities not involving cash receipt or payment:</b>	—	—
Conversion of debts to capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired under finance lease	—	—
<b>3. Changes in cash and cash equivalents:</b>	—	—
Balance of cash at the end of the year	195,410,068.33	485,372,230.80
Less: Balance of cash at the beginning of the year	485,372,230.80	210,108,724.61
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	(289,962,162.47)	275,263,506.19

# Notes to the Financial Statements



1 January 2015 to 31 December 2015

(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	Inurred during this year	Inurred during previous year
1. Cash		
Including: Cash on hand	36,512.93	40,943.88
Bank deposit available for payments on demand	128,761,877.40	267,432,928.72
Other funds available for payments at on demand	66,611,678.00	217,898,358.20
2. Cash and equivalents	195,410,068.33	485,372,230.80
Restricted other monetary fund	131,506,747.99	118,366,326.70
3. Cash and cash equivalents at the end of the year	326,916,816.32	603,738,557.50

Note: The restricted other monetary funds included the secured 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 RMB37,616,983.69, RMB1,950,000.00 and RMB91,939,764.30 respectively. The total amount were RMB131,506,747.99.

## XIV. Approval of the Financial Statements

This financial statement was approved by the Board of Directors on 30 March 2016.



# Supplementary Information on the Financial Statements

1 January 2015 to 31 December 2015

(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	(86,303.29)	
Decreased tax reduction and tax rebate due to no paper approval document	—	
Government subsidies recognize in profit and loss of the year	24,592,306.17	
Included in the current profits and losses of the charge of non-financial enterprises		
Fund possession fee charged	—	
Cost of acquisition of subsidiaries, associated and joint ventures investment cost exceeds fair value of identifiable net assets	398,730.63	
Non-monetary assets exchange gains and losses	—	
Gain of trust or asset management	—	
Provision for impairment due to force majeure, such as natural disasters	—	
Debt restructuring gain or losses	—	
Corporate restructuring costs	—	
Loss of fair trading price of the transaction over the fair value of the portion of the profit or loss	—	
Results of subsidiaries under common control from the beginning of the year to date of combination	—	
Gains and losses unrelated to the Company's normal business operations or matters arising	—	
In addition to effective hedging business related to the Company's business related, the changes in fair value of financial assets and financial liabilities held for trading and disposal of financial assets and financial liabilities held for trading and available-for-sale financial assets investment income	—	
Reversal of impairment of receivables under individual assessment	—	
Income of foreign entrusted loans	—	
Gains and losses from subsequent changes in fair value of investment properties under fair value model	—	
Impact on profit or loss from one off adjustments according to tax, accounting and other laws and regulations	—	
Custodian fee income from entrusted operation	—	
The non-operating income and expenses	400,766.42	
Other gains and losses comply with the definition of non-recurring gains and losses	—	
Sub-total	25,305,499.93	
Less: Income tax effect	3,320,969.18	
Effect of minority interests (after tax)	75,206.85	
Total	21,909,323.90	

# Supplementary Information on the Financial Statements



1 January 2015 to 31 December 2015

(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			
	2015	2014	Basic		Diluted	
	2015	2014	2015	2014	2015	2014
Net profit (loss) attributable to holders of ordinary shares of the company	(10.12)	0.75	(0.33)	0.03	(0.33)	0.03
Net profit (loss) attributable to holders of ordinary shares of the company after deducting the non-recurring gain and loss	(10.98)	0.56	(0.35)	0.02	(0.35)	0.02

Shandong Molong Petroleum Machinery Company Limited

30 March 2016



## XI. Documents Available for Inspection

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1. The financial statements which were signed and sealed by the legal representative, financial controller and head of the financial department of the Company.
2. The original copy of the auditors' report which was sealed by the accounting firm and signed by a certified public accountant.
3. Original copies of all of the documents and announcements of the Company which have been disclosed in the designated newspaper and website as approved by China Securities Regulatory Commission during the reporting period.

**Shandong Molong Petroleum Machinery Company Limited**

March 30, 2016

