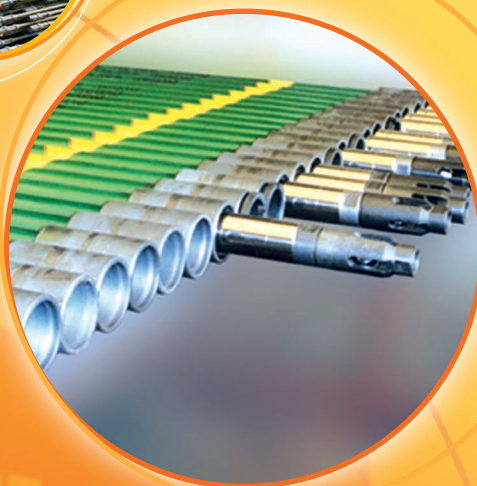




# 山東墨龍石油機械股份有限公司

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)



**2016**  
Annual  
Report



# I. Important, Contents and Definitions



## Important

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

Zhang En Rong, the chairman of the Company, Yang Jin, the financial controller of the Company and Ding Zhi Shui, the head of the financial department, declare that they guarantee the truthfulness and completeness of the financial statements of the Annual Report.

Except for the following Directors, All Directors attended the Board meeting for considering this report.

Name of absent	Title	Reason of absence	Authorized representative
Zhang YunSan	Director	Illness	No

Shinewing Certified Public Accountants has issued an unqualified auditor's report with emphasis of matter paragraph for the company. The Board and the Supervisory Committee have made detailed descriptions to the relevant matters. Investors are advised to beware of the investment risks involved.

Shinewing Certified Public Accountants believe that the company did not keep an effective internal control over financial statement in all major aspects in accordance with The Basic Norms of Internal Control and relevant provisions as at December 31, 2016.

(1) The global economy is still 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 plans not to dispatch cash dividends nor bonus shares and not to increase share capital with provident fund.

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# I. Important, Contents and Definitions

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## Definitions

### Definition Items

"Company", "the Company", and  
"Shandong Molong"

"the Group"

"SZSE"

"SEHK"

"Listing Rules of Shenzhen Stock  
Exchange"

"Listing Rules of SEHK"

### Definition content

refer to Shandong Molong Petroleum Machinery Company Limited

referred to the Company and its subsidiaries

refer to Shenzhen Stock Exchange

refer to Stock Exchange of Hong Kong Limited

refer to the Rules governing the listing of securities on the Shenzhen Stock  
Exchange

refer to the Rules governing the listing of securities on the Hong Kong Stock  
Exchange, unless otherwise specified.

## II. Company Profile and Major Financial Indicators



### I. Company Information

Stock Name 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
English Name of the Company	Shandong Molong Petroleum Machinery Co., Ltd*
Abbreviation of the English Name	Shandong Molong
Legal Representative of the Company	Zhang En Rong
Registered Address of the Company	No. 999 WenSheng Street, Shouguang City, Shandong Province
Postal Code of Registered Address	262700
Office Address	No. 999 WenSheng Street, Shouguang City, Shandong Province
Postal Code of Office Address	262700
Website of the Company	<a href="http://www.molonggroup.com">http://www.molonggroup.com</a>
Email Address	<a href="mailto:sdml@molonggroup.com">sdml@molonggroup.com</a>

### II. Contact Information

	<b>The Secretary of the Board</b>	<b>Securities Affairs Representative</b>
Name	Zhao Hong Feng	Wang 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	<a href="mailto:zhf@molonggroup.com">zhf@molonggroup.com</a>	<a href="mailto:dsh@molonggroup.com">dsh@molonggroup.com</a>

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

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

\* For identification purpose only



## II. Company Profile and Major Financial Indicators

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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.	91370000734705456P
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 of 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 and Major Financial Indicators



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

Whether the company made retroactive adjustment or restated accounting data in previous years due to the changes in variation policy and correction of accounting error, etc.

Yes       No

	2016	2015	Year-on-year Increase/Decrease (%)	2014
Operating Revenue (RMB)	<b>1,531,118,375.18</b>	1,613,917,735.08	-5.13%	2,522,102,479.29
Net profit attributable to equity holders of Listed Company (RMB)	<b>(612,476,376.18)</b>	(259,565,004.32)	-135.96%	20,233,190.77
Net profit after extraordinary gains or losses attributable to equity holders of Listed Company (RMB)	<b>(621,542,167.29)</b>	(281,474,328.22)	-120.82%	15,047,953.20
Net cash flows from operating activities (RMB)	<b>104,417,132.72</b>	20,632,788.47	406.07%	400,589,007.36
Basic earning per Share (RMB)	<b>(0.77)</b>	(0.33)	-133.33%	0.33
Diluted earning per Share (RMB)	<b>(0.77)</b>	(0.33)	-133.33%	0.33
Net Assets weighted Income Rate (%)	<b>-28.80%</b>	-10.12%	-18.68%	0.75%

	2016	2015	Year-on-year Increase/Decrease (%)	2014
Total assets (RMB)	<b>5,772,042,841.06</b>	5,851,180,723.61	-1.35%	6,044,500,696.03
Net assets attributable to shareholders of Listed Company (owners' interests attributable to shareholders of Listed Company) (RMB)	<b>1,819,068,091.94</b>	2,433,157,226.21	-25.24%	2,694,285,331.17

### VII. Domestic and foreign accounting data differences in accounting standards

1. In the report period of the Company, there is no difference regarding to net profits and net assets disclosed in the financial reports under either IAS or Chinese Accounting Standards.
2. In the report period of the Company, there is no difference regarding to net profits and net assets disclosed in the financial reports under either overseas accounting standards or Chinese Accounting Standards.



## II. Company Profile and Major Financial Indicators

### VIII. Main financial indicators quarterly

Unit: RMB

	The first quarter	The second quarter	The third quarter	The fourth quarter
Operation revenue	383,768,219.17	387,263,654.05	334,192,841.82	425,893,660.14
Net profit attributable to equity holders of Listed Company	(58,287,789.22)	(87,989,070.79)	(72,695,268.57)	(393,504,247.60)
Net profit after extraordinary gains or losses attributable to equity holders of Listed Company	(65,932,487.27)	(88,349,158.38)	(73,137,787.66)	(394,122,733.98)
Net cash flows from operating activities	41,786,260.26	(151,051,938.76)	(155,952,767.58)	369,635,578.80

The above financial indicators or aggregate is material different from the relevant financial indicators disclosed in quarterly reports or semi-annual reports of the Company.

Applicable       Not Applicable

For the first three quarters in 2016, the Company did not implement effective internal control policy and procedure on part of operating revenue recognition and measurement, as well as the operating cost settlement. The aforesaid material defect has resulted in misstatement of operating revenue and operating cost in the financial statements, which are therefore revised accordingly.



## II. Company Profile and Major Financial Indicators



### IX. Extraordinary Gains or Losses Items

Applicable     Not Applicable

Unit: RMB

Item	2016	2015	2014	Note
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	<b>182,163.01</b>	(86,303.29)	(60,684.55)	—
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>4,188,016.16</b>	24,592,306.17	2,940,738.77	—
The attributable gains when the investment costs of subsidiaries, associates, and joint-ventures are lower than the fair value of identifiable net assets of these investment units	—	398,730.63	—	—
Reversal of bad debt provision for accounts receivable provided for impairment separately	<b>3,284,636.96</b>	—	—	—
Non-operating gain or loss other than the above	<b>1,951,878.38</b>	400,766.42	3,015,275.14	—
Effect of extraordinary gains	<b>126,955.22</b>	—	—	—
Less: Effect of tax	<b>30,984.97</b>	3,320,969.18	670,829.20	—
Effect of extraordinary gains or losses on minority shareholders interest (after tax)	<b>636,873.65</b>	75,206.85	39,262.59	—
<b>Total</b>	<b>9,065,791.11</b>	21,909,323.90	5,185,237.57	—

In the report period of the Company, please explain whether the extraordinary profit or loss is defined according to “Explanatory Announcement No. 1 on information disclosure by companies offering securities to the public — extraordinary profit or loss”, and whether the recurring profit and loss is defined according to the extraordinary profit or loss under the same Explanatory Announcement.

Applicable     Not Applicable

There is no recurring profit and loss defined according to extraordinary profit or loss under “Explanatory Announcement No. 1 on information disclosure by companies offering securities to the public — extraordinary profit or loss” in the report period of the Company.



## III. Company Business Summary

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### I. Company primary service in report period

The company does not need to comply with the disclosure requirements for special industry

During the reporting period, the company is mainly engaged in energy equipment industry for product research and development, production and sales. The main products includes tube for oil and gas exploitation, fluid and structural tube, pumping unit, oil well pump, sucker rod, cylinder sleeve for drilling machine, valve parts and components, heavy casting and forging. these products are mainly used on drilling and production of oil, natural gas, coalbed methane and shale gas, machining and city pipe network. the sales of pipe products is the main source of income and profit, exceed 80% of sales revenue. The company's main business structure has not changed significantly during the reporting period.

The company's business model is making production plan in line with customer requirement. The company's products especially pipe products are divided into API standard product and non-standard product which is special product with individual needs. Generally, the customer give the product standard, model and quantity according to their own needs, the company's production system organize production and deliver the goods according to customer order.

Company is belonging to energy equipment industry which includes covering oil, natural gas, shale gas, coal and coal-bed methane. In the long run, the demand for oil and coal reach to peak while the demand of natural gas will have larger growth, so the industry market space is large. The industry is influenced by the cycle of economic development, market consumption demand changes, the price of crude oil cycle and raw material price cycle changes, etc. Because of these changes in recent years, the market demand is low, disordered competition, lead to the company performance is affected.

# III. Company Business Summary



## II. Significant changes in prime assets

### 1. Significant changes in prime assets

Prime assets	Significant change instructions
Stock rights assets	No significant change
Fixed assets	Increased by 137.45%, Because of technical innovation of casting plant shift to fixed assets.
Intangible assets	No significant change
Construction in process	Mainly as a result of Decreased 98.15% compare with beginning of the year, for technical innovation of casting plant shift to fixed assets.

### 2. Primary overseas assets condition

Applicable     Not Applicable

## III. Core Competence Analysis

The company does not need to comply with the disclosure requirements for special industry.

In the domestic market, the main customers during the reporting period the company oil well pipe products still for the group with four domestic oil companies; Fluid and structure of tube clients included mechanical processing, ship manufacturing, high pressure boiler, gas pipe and tube in various fields, such as market expansion range widening.

In terms of overseas market, during the reporting period the company continue to increase in west Asia, South America, Middle East, north Africa and other regions of the exploration, new development of new customers, mainly sales of oil casing pipe, line pipe, sucker rod and the castings and forgings and other products. In addition, during the reporting period, the company's oil casing pipe, line pipe products through the oil company, Iran, and other African countries product certification. By the development of new customers and international well-known oil companies product certification, further expand the overseas market and improve the visibility of a company in the international market of oil drilling equipment.

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 developed straight, direct deduction of high pressure oil pipe series special fasteners, special upset tubing, high pressure, gas seal thread casing pipe, special pump. At the same time, the company continues to increase at the provincial level technical innovation project application and protection of intellectual property rights, during the reporting period the company has six products listed in the Shandong provincial technological innovation project, the new patent 5 and 6 new authorized patents, including one invention patent, 5 utility model patents.

Company will continue to implement the established strategy, deepen the internal tapping, increasing internal technical reformation, realize to optimize the internal control to improve, to improve the core competitiveness of the company.



## IV. Discussion and Analyzation of Management

### I. Overview

In 2016, affected by the economic situation, the decline in market demand and competition Although have recovery at the end of the year, but still not optimistic. Because of the price volatility in raw material prices, the product sales price fell sharply and the price fluctuates frequently, resulting in the company operating performance have a significant impact. During the reporting period, the company achieved operating income of 1.53 billion yuan, decrease 5.13%; net profit attributable to shareholders of listed companies -0.612 billion yuan, decrease 135.96%; basic earnings per share -0.77, decrease 133.33%.

### 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

	2016		2015		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>1,531,118,375.18</b>	<b>100%</b>	1,613,917,735.08	100%	-5.13%
<b>By industry</b>					
Special equipment manufacturing	<b>1,531,118,375.18</b>	<b>100.00%</b>	1,613,917,735.08	100.00%	-5.13%
<b>By product</b>					
Tubings & Casings	<b>1,376,899,726.43</b>	<b>89.93%</b>	1,455,669,482.04	90.19%	-5.41%
Three kinds of pumping units	<b>27,228,938.56</b>	<b>1.78%</b>	44,075,407.13	2.73%	-38.22%
Petroleum	<b>20,432,578.68</b>	<b>1.33%</b>	80,706,851.84	5.01%	-74.68%
Others	<b>106,557,131.51</b>	<b>6.96%</b>	33,465,994.07	2.07%	218.40%
<b>Geographical segment</b>					
PRC	<b>1,198,770,210.20</b>	<b>78.29%</b>	791,549,269.47	49.05%	51.45%
Abroad	<b>332,348,164.98</b>	<b>21.71%</b>	822,368,465.61	50.95%	-59.59%

## IV. Discussion and Analyzation of Management



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

Applicable     Not Applicable

Unit: RMB

	Revenue from operations	Cost of sales	Gross profit margin	Year-on-year increase/decrease in revenue from Operations	Year-on-year Increase/decrease in cost of sales	Year-on-year increase/decrease in gross profit margin
<b>By industry</b>						
Special equipment manufacturing	1,376,899,726.43	1,515,569,636.99	-10.07%	-5.41%	12.31%	-17.37%
<b>By product</b>						
Tubings & Casings	1,376,899,726.43	1,515,569,636.99	-10.07%	-5.41%	12.31%	-17.37%
<b>Geographical segment</b>						
PRC	1,066,166,934.80	1,224,492,043.55	-14.85%	47.21%	56.77%	-7.00%
Abroad	310,732,791.63	291,077,593.44	6.33%	-57.52%	-48.79%	-15.97%

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 physical sales revenue is more than labour service revenue

Yes     No

By industry	Items	Unit	2016	2015	Year-on-year Increase/decrease (%)
Special equipment manufacturing	Sales volume	10,000 tonne	48.93	37.53	30.38%
	Production volume	10,000 tonne	46.98	36.37	29.17%
	Inventories	10,000 tonne	10.36	12.31	-15.84%

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

Applicable     Not applicable



## IV. Discussion and Analyzation of Management

Sales increase is mainly in the domestic market, during the reporting period the company product structure, fluid and oil well pipe with pipe clients included mechanical processing, ship manufacturing, high pressure boiler, gas pipe and tube in various fields, which expanding scope of market development and sales increased substantially.

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

Applicable  Not applicable

### (5) Operation income composition

*By product*

Unit: RMB

By product	items	Account	2016 Attributable to the percentage of the operating costs	2015		
				Account	Attributable to the percentage of the operating costs	Year-on- year Increase/ decrease (%)
Tubings & Casings	Materials	<b>1,082,695,062.18</b>	<b>71.44%</b>	952,852,089.56	70.61%	0.83%
Tubings & Casings	Depreciation	<b>155,411,057.29</b>	<b>10.25%</b>	154,108,070.57	11.42%	-1.17%
Tubings & Casings	Labour Cost	<b>70,517,030.30</b>	<b>4.65%</b>	75,839,523.34	5.01%	-0.36%
Tubings & Casings	Expenses	<b>206,946,487.22</b>	<b>13.65%</b>	166,658,027.28	12.35%	1.30%
Three kinds of pumping units	Materials	<b>17,241,060.16</b>	<b>64.30%</b>	25,583,158.61	68.02%	-3.72%
Three kinds of pumping units	Depreciation	<b>2,747,125.28</b>	<b>10.25%</b>	3,110,448.72	8.27%	1.98%
Three kinds of pumping units	Labour Cost	<b>4,347,670.99</b>	<b>16.21%</b>	5,735,712.57	15.25%	0.96%
Three kinds of pumping units	Expenses	<b>2,478,445.97</b>	<b>9.24%</b>	3,181,910.05	8.46%	0.78%
Petroleum	Materials	<b>12,658,341.17</b>	<b>73.85%</b>	51,453,574.81	79.46%	-5.61%
Petroleum	Depreciation	<b>1,757,669.65</b>	<b>10.25%</b>	4,973,111.69	7.68%	2.57%
Petroleum	Labour Cost	<b>1,659,964.20</b>	<b>9.68%</b>	5,458,767.12	8.43%	1.25%
Petroleum	Expenses	<b>1,065,332.25</b>	<b>6.22%</b>	2,868,604.79	4.43%	1.79%
Others	Materials	<b>53,853,410.74</b>	<b>70.00%</b>	11,856,608.67	73.00%	-3.27%
Others	Depreciation	<b>8,691,863.88</b>	<b>11.00%</b>	1,521,868.81	9.37%	1.88%
Others	Labour Cost	<b>10,236,534.91</b>	<b>13.00%</b>	2,005,878.32	12.35%	0.90%
Others	Expenses	<b>4,451,741.90</b>	<b>6.00%</b>	857,573.89	5.28%	0.48%

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

### (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)	335,026,623.18
The percentage of the total sales for the year attributable to the total sales to top 5 customers (%)	21.88%
The percentage of the total sales for the year attributable to the total sales to top 5 customers of related transaction (%)	0.00%

*Information on top 5 customers*

Serial number	Name of customer	Saleroom (Unit: RMB)	Percentage of total sales of the year(%)
1	Tianjin Ruimai commercial Co., LTD	86,095,048.21	5.62%
2	Beijing SanLiYuanChen steel pipe sales center	75,104,274.27	4.91%
3	OFFSHORE ENGINEERING AND MARKETING LTD	70,583,902.88	4.61%
4	PetroChina Company Limited	60,451,607.77	3.95%
5	British petroleum pipe co., LTD	42,791,790.05	2.79%
Total		335,026,623.18	21.88%

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)	417,801,565.45
Percentage of the total purchase amount of the top 5 suppliers to the total purchase amount of the year	38.67%
Percentage of the total purchase amount of the top 5 suppliers of related transaction.	0.00%

### 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	152,332,929.26	14.10%
2	Shan Dong Lu Li steel Co., Ltd	105,132,841.21	9.73%
3	Shandong Shouguang Juneng Special Steel Co., Ltd	76,809,535.99	7.11%
4	LinYi LiYuan renewable resources development Co., Ltd	47,289,264.84	4.38%
5	Shan Dong Ka Te International Trade Company	36,236,994.15	3.35%
Total		417,801,565.45	38.67%

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



## IV. Discussion and Analyzation of Management



### 3. Expenses

Unit: RMB

	2016	2015	Year-on-year increase/ decrease	Description of Significant change
Selling expenses	<b>50,980,617.53</b>	124,886,386.85	-59.18%	The main reason for Freight drop at the current year sales is structure changes: exports substantially reduced; domestic fluid and structural pipe sales accounted for increased dramatically, and this kind of product the customer to the most practiced by sales, the company does not undertake the freight. Intermediary fee dramatically reduced because of the decline of the year export amount, pay intermediary fees reduced correspondingly.
Management expenses	<b>157,120,673.19</b>	175,105,370.71	-10.27%	Because of the tax and administration cost decrease.
Finance	<b>52,507,807.22</b>	49,163,255.55	6.80%	—
Tax and Others	<b>17,949,257.54</b>	11,261,460.10	59.39%	According to the ministry of finance, the VAT accounting regulations (finance and accounting), 22 (2016), as well as on the prescribed > < VAT accounting issues of interpretation ", Starting from December 5, 2016, the group will present the property tax, land use tax, stamp duty, and presentation in the amount in taxes and additional projects, in May 2016, before the amount still presented in "management cost" project.
Assets Impairment loss	<b>216,617,900.36</b>	80,778,432.85	168.16%	Because of company's business losses, the company in accordance with the requirements of accounting standards for enterprises to make inventory, fixed assets, goodwill, provision for impairment of assets and ready to be caused by bad loans.

### 4. R&D expenditures

On the basis of probability as to whether research and development ultimately would generate intangible assets, in view that R&D expenditures have large nondeterminacy, the Company's R&D expenditures are divided into research stage expenditures and development stage expenditures.



## IV. Discussion and Analyzation of Management

In the company new product research and development from earlier stage to mature use go through research stage and development stage: research stage covers investigation and survey, demonstration, project approval and examination and approval for new product development, preliminary research work (formula and process design, equipment selection, technical standard etc), monthly new product development planning and examination and approval stage, checking and accepting for the monthly new product development planning and examination and approval of commissioning of new product. Development stage includes trial production of new products, project acceptance inspection etc. Project acceptance inspection signify new product development stage completion.

Development stage beginning time-point: monthly new product development planning and examination and approval stage completion, new product preliminary study work completion, product formula and technical standard confirmation.

Research stage expenditures, when occurred are reckoned in current profit and loss.

Development stage expenditures: when simultaneously satisfying following conditions, 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 belonging to intangible assets development stage which is not meeting the above conditions when it happens it reckoned in current profit and loss. Development expenditure which was reckoned in profit and loss at earlier stage is no longer recognized as assets in the future. R&D expenditure which has capitalized will be listed as development expenditure in the balance sheet, when the project receives serviceable condition and turns into intangible assets.

### Company R&D expenses

	2016	2015	Change (%)
Number of R&D people	171	175	-2.29%
Proportion of R&D people	10.16%	10.36%	-0.20%
R&D expenses (RMB)	43,092,392.39	57,561,045.69	-25.14%
R&D expenses accounts for operation revenue	2.81%	3.57%	-0.76%
R&D expenses capitalized amount (RMB)	10,393,822.25	30,758,411.75	-66.21%
Capitalized R&D expenses accounts for R&D expenses	24.12%	53.25%	-29.13%

## IV. Discussion and Analyzation of Management



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

Unit: RMB

Item	2016	2015	Year-on-year increase/decrease
Cash inflow subtotals from operating activities	<b>1,587,318,021.13</b>	1,715,592,002.68	-7.48%
Cash outflow subtotals from operating activities	<b>1,482,900,888.41</b>	1,694,959,214.21	-12.51%
Net cash flow from operating activities	<b>104,417,132.72</b>	20,632,788.47	406.07%
Cash inflow subtotals from investment activities	<b>10,211,311.43</b>	4,847,341.32	110.66%
Cash outflow subtotals from investment activities	<b>309,830,900.37</b>	255,776,500.34	21.13%
Net cash flow from investment activities	<b>(299,619,588.94)</b>	(250,929,159.02)	-20.28%
Cash inflow subtotals from financing activities	<b>3,200,207,277.24</b>	2,417,498,251.09	32.38%
Cash outflow subtotals from financing activities	<b>2,732,539,846.25</b>	2,478,613,851.80	10.24%
Net cash flow from financing activities	<b>467,667,430.99</b>	(61,115,600.71)	865.22%
Net increase in cash and cash equivalents	<b>290,189,730.40</b>	(278,533,864.17)	204.71%

Explanation on why the related data was varied

Applicable     Not applicable

1. Net operating cash flow increased by 406.07% compare with the same period last year, the main reason is company strengthen receivable which increased cash inflows at current year; Pay taxes to reduce, microcredit loans increased year on year decrease in cash outflows, two aspects reasons caused the business activities of net cash flow to increase from a year earlier.
2. Investment activities cash inflow increased by 110.66%, mainly because of back "Shouguang minas river water co. LTD." investment fund.
3. Financing activities of cash inflows from the same period last year increased by 32.38%, mainly is due to this issue loans increase from the same period.



## IV. Discussion and Analyzation of Management

4. Net financing activities increased by 865.22%, because of the loan increase.
5. Net cash and cash equivalents increased by 204.71%, because of operating cash flow and financing cash flow increased.

During the reporting period the company business activities generated cash flows and the reason why there are significant differences between this year's net income

Applicable     Not applicable

Net operating cash flow is RMB108,058,927.59, net profit is RMB-650,705,699.73. Reason: (1) Depreciation, amortization of intangible assets, impairment of assets is RMB467,476,904.98; (2) Company change the sales model of the original fluid and tube structure, business receivables decrease RMB231,272,731.93; These reasons lead to operation activities generated cash flows and net profit this year make a big difference

### III. Non-primary business analyzation

Applicable     Not applicable

Unit: RMB

	Amount	Percentage of the total profit	Explanation	Sustainability
Income from investment	50,624.92	-0.01%	Mainly because Bank financing income.	NO
Impairment of asset	216,617,900.36	-36.13%	Mainly because current year production's price sharply decrease, company inventory falling price reserves.	NO
Non-operating income	7,342,777.08	-1.22%	Mainly because current year company receive public subsidy.	NO
Non-business expenses	1,020,719.53	-0.17%	Mainly because Company Pay acceptance discount to client.	NO

## IV. Discussion and Analyzation of Management



### IV. Analysis of Assets, liabilities condition

#### 1. Significant changes in assets

Unit: RMB

	31 December 2016		31 December 2015			Explanation on the major changes
	Amount	Percentage of total assets	Amount	Percentage of total assets	Percentage change	
Funds	<b>679,448,755.91</b>	<b>11.77%</b>	349,815,773.50	5.98%	5.79%	Increased acceptance deposit, loan and credit guarantee.
Amounts receivables	<b>304,148,614.98</b>	<b>5.27%</b>	497,239,999.28	8.50%	-3.23%	Because of company strengthen collection and provision for bad debts
Inventory	<b>768,734,172.36</b>	<b>13.32%</b>	903,784,288.00	15.45%	-2.13%	Because of Digestive inventory.
investment property	—	—	—	—	0.00%	—
long-term equity investment	<b>2,707,572.57</b>	<b>0.05%</b>	2,783,902.87	0.05%	0.00%	—
Fixed assets	<b>3,066,573,497.65</b>	<b>53.13%</b>	1,291,476,197.17	22.07%	31.06%	Caused by casting technical transformation project to fixed asset.
Construction in progress	<b>31,579,353.99</b>	<b>0.55%</b>	1,710,795,797.18	29.24%	-28.69%	Caused by casting technical transformation project to fixed asset.
short-term loan	<b>2,436,842,117.30</b>	<b>42.22%</b>	1,469,055,063.41	25.11%	17.11%	Due to the company added liquidity.
long-term loan	<b>145,000,000.00</b>	<b>2.51%</b>	—	—	2.51%	—

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

Applicable     Not applicable



## IV. Discussion and Analyzation of Management

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### 3. Limited rights by the report of the final property

Items	At the end of the book value	Reason
Cash	170,950,000.00	Cash deposit
Bill receivable	6,200,000.00	Pledge bill
Intangible assets	75,848,686.65	Secured borrowings

## 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

Applicable  Not applicable

#### Main subsidiary and invested company with impact on the Company's net profit by more than 10%.

Unit: RMB

Name	Type	Primary service	Registered			Operating		Net Profit
			capital	Total assets	Net assets	revenue	Operating Profit	
Shouguang Baolong Petroleum Material Company Limited	subsidiary corporation	Production and sales of oil equipment	150 million	1,543,227,177.59	14,119,244.00	726,791,301.10	(123,114,939.15)	(121,352,942.15)
Weihai Baolong Special Petroleum Materials Co., Ltd	subsidiary corporation	Oil special metal materials manufacturing and sales	26 million	222,884,295.02	153,146,826.15	169,797,975.41	(98,728,465.66)	(98,445,157.75)

#### Explanation on main subsidiary and invested company.

The main invested company of the Group is Kelamayi Yalong Oil Machinery Co.,LTD. The company was founded on May 20 of 1996. The registered capital is RMB6,400,000. The legal person is Luo Jie. The type of company is other LLC. The main products or services are: transportation of general goods; design, manufacturing and sales of machinery; manufacturing of metal structural parts, plastic structural bars, valves, pressure piping accessories, electric transformer, PTD and control cabinet, manufacturing of preparatory high/low transformer; construction of steel structure; hardware; electronic parts; labor protection use; construction materials; sales of chemicals; processing of wooden products; rent of house, vehicle and equipment; loading and offloading; storage; cleaning and planting; technical service of oil fields; maintenance of machinery and electric parts and properties management. The Group's shareholding ratio is 30%. In the reported period, the revenue of the company is RMB10,446,491.74. The operating losses are RMB318,854.89.

### VIII. A structured body situation controlled by company

Applicable  Not applicable



## IV. Discussion and Analyzation of Management

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### 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 will 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.

#### 2. In line with its strategic plans, the work of the Company will focus on the following areas in 2017

- (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 2017, the Group will put further efforts on the new products development such as fast buckle casing, X70QS pipeline for acidic environment, large diameter thick wall drilling platform with a pile of legs, cold drawn high-strength cylinder with a seamless tube, special long-stroke antigas sand pump, anti-gas feedback pump, surface spray 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. Discussion and Analyzation of Management

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- (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.

## 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 96 to 114 of the annual report.



## IV. Discussion and Analyzation of Management

### 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

	2016 RMB'000	For the year ended 31 December			
		2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Total revenue from operation	<b>1,531,118</b>	1,613,918	2,522,102	2,272,034	2,952,064
(Loss) Profit from operations	<b>(605,808)</b>	(323,778)	15,594	(217,502)	116,716
Total (loss) profit	<b>(599,486)</b>	(298,473)	21,489	(203,717)	165,854
Net (loss) profit	<b>(650,706)</b>	(286,499)	14,257	(177,608)	140,166
Minority interests	<b>(38,229)</b>	(26,934)	(5,977)	(1,886)	5,903
Net (loss) profit attributable to shareholders of the Company	<b>(612,476)</b>	(259,565)	20,233	(175,722)	134,263
Basic (loss) earnings share (RMB)	<b>(0.77)</b>	(0.33)	0.03	(0.22)	0.17

#### Assets and Liabilities

	2016 RMB'000	For the year ended 31 December			
		2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Total assets	<b>5,772,043</b>	5,851,181	6,044,501	5,793,466	5,285,751
Total liabilities	<b>3,886,376</b>	3,313,096	3,294,253	3,057,345	2,332,464
Net assets	<b>1,885,667</b>	2,538,085	2,750,247	2,736,121	2,953,287

### 3. Changes in Share Capital

Details of changes in the share capital of the Company for 2016 are set out in note V to the consolidated financial statements.

### 4. Reserves and Distributable Reserves

Details of changes in the reserves of the Group for 2016 are set out in note V 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 2016 are set out in note V to the consolidated financial statements.

## IV. Discussion and Analyzation of Management



### 6. Capitalised Interest

For 2016, the Group had capitalised interest amounting to RMB47,330,000.

### 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 X of this annual report.

### 9. Continuing Related Party Transactions

For all related party transactions set out in note X 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.

### 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 2016, 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	23,108,000	4.27%	2.90%
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%



## IV. Discussion and Analyzation of Management

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Except 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 2016, please refer to section IX 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 2016.

### **13. Share Option Scheme**

The Company does not have any share option scheme.

### **14. Substantial Shareholders**

The details are set out section VII 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 2016 or at any time in 2016.

### **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 2016.

### **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.

## IV. Discussion and Analyzation of Management

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### 19. Corporate Governance

The principal Code on Corporate Governance adopted by the Company is set out in section X 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 67.33% (2015: approximately 56.62%) which is calculated based on the Group's total liabilities of approximately RMB3,886.38 million (2015: approximately RMB3,313.10 million) and total assets of approximately RMB5,772.04 million (2015: approximately RMB5,851.18 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. Directors' Report

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The board of the Directors (the "Board") hereby presents their report and the audited financial statements of the Group for the Year.

### Principal Activities

The Company was mainly engaged in the research and development, production and sales of the products needed by the energy equipment industry. The main products include petroleum extraction tubes, fluid and structural pipes, oil well machineries, oil well pumps, sucker rods, valve parts and large castings and so on. The principal activities of subsidiaries detailed in note VII to the financial statements. During the reporting period, the Company's main business composition did not have any significant changes.

### Results Analysis and Dividends

The Group's principal activities for the year ended 31 December 2016 is set out in the "Management Discussion and Analysis" section of this annual report.

The Directors of the Company do not recommend the payment of any dividends in respect of the Year.

### Key Financial and Business Performance Indicators

The key financial and business performance indicators together with details of relevant analyses on gearing ratio are shown in "Management Discussion and Analysis" section of this annual report.

### Risk Management

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

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



## Financial Review

During the reporting period, the Company recorded operating income of RMB1,531 million, representing a year-on-year decrease of 5.13%; net profit attributable to shareholders of the listed company of RMB-612 million, representing a year-on-year decrease of 135.96%; basic earnings per Share of RMB-0.77, representing a year-on-year decrease of 133.33%. The Group's financial review for the year ended 31 December 2016 is set out in "Management Discussion and Analysis" section of this annual report.

## Property, Plant and Equipment

Details of changes in the property, plant and equipment of the Group for 2016 are set out in note 13 to the consolidated financial statements under note V to the financial statements.

## Long-term Investments and Fixed Assets

Details of long-term investments and fixed assets of the Company are set out in note 12 and note 13 to the consolidated financial statements under note V to the financial statements of this annual report, respectively.

## Share Capital and Share Options

The movements in the Company's authorised and issued share during the Year are set out in "Changes in Share Capital and Shareholders" section of this annual report and note 33 to the consolidated financial statements under note V to the financial statements.

During the Year, the Company did not implement share option scheme.

## 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.

## 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 Group in 2016.

## Reserves and Distributable Reserves

Details of changes in the reserves and distributable reserves of the Group for 2016 are set out in note 39 to the consolidated financial statements under note V to the financial statements.



## V. Directors' Report

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### Major Customers and Suppliers

During the Year under review, sales to the Group's five largest customers accounted for approximately 21.88% of the Group's total sales for the Year and sales to the largest customer included therein accounted for approximately 5.62% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 38.67% of the Group's total purchases for the Year and purchases from the largest supplier included therein accounted for approximately 14.10% of the Group's total purchases.

To the knowledge of the Directors, none of the Directors or any of their close associates, or any existing shareholders (which own more than 5% of the Company's issued share capital), had any interest in the Group's five largest customers or suppliers.

### Environmental Protection

The environmental protection policy adopted by the Group is set out in the section head "Environmental, Social and Governance Report" of this annual report.

### Employees

Details of employees and remuneration policy of the Group is set out in the sections head "Directors, Supervisors, Senior Management and Employees" and "Environmental, Social and Governance Report" of this annual report.

### Donations

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. The expenses for charitable donations and assisting staff with difficulties during the Year are more than RMB100,000.

### Directors

The Directors who held office during the Year and up to the date of this annual report were:

#### Executive Director:

Mr. Zhang En Rong

Mr. Zhang Yun San

Mr. Guo Huan Ran

Mr. Yang Jin





### Non-executive Directors:

Ms. Wang Chun Hua

Mr. Guo Hong Li

### Independent non-executive Directors:

Mr. Qin Xue Chang

Mr. Ji Yan Song

Ms. Quan Yu Hua

### Supervisors:

Mr. Hao Liang

Mr. Zhang Jiu Li

Mr. Zheng Jian Guo

The biographical details of the Directors are set out in the section head "Directors, Supervisors, Senior Management and Employees" of this annual report.

### 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, respectively. None of the Directors or Supervisors has entered into any service contracts with the Company which is not determinable by the Company within one year without payment compensation, other than statutory compensation.

### Remuneration of the Directors and Supervisors and Five Highest Paid Individuals

The remuneration of the Directors, Supervisors and Senior Management is set out in the section head "Directors, Supervisors, Senior Management and Employees" of this annual report. The details of the remuneration of the Directors and five highest paid individuals are as follows:

Name	Remuneration (RMB)
Zhang En Rong	701,945.00
Zhang Yun San	603,302.55
Guo Huan Ran	413,202.77
Yang Jin	351,616.05
Li Peng	243,481.61



## V. Directors' Report

### Directors' and Supervisors' Interests in Contracts

There were no contracts which were significant to the Group's business and in which any of the Directors or Supervisors had a material interest, whether directly or indirectly, subsisted at the end of 2016 or at any time in 2016.

### 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 and officers. Throughout 2016, no claim had been made against the Directors and the officers of the Company.

### Directors', Supervisors' and Chief Executive's Interests in Securities under the Securities and Futures Ordinance in Hong Kong

As at 31 December 2016, interests of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the 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 Company and to the Stock Exchange, were as follows:

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

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total registered capital
Zhang En Rong	Beneficial Interest	265,617,000	49.03%	33.29%
Zhang Yun San	Beneficial Interest	23,108,000	4.27%	2.90%
Lin Fu Long	Beneficial Interest	26,162,000	4.83%	3.28%

Name	Type of interest	Number of H shares	Percentage of H shares	Percentage of total registered capital
Zhang Yun San	Beneficial Interest	9,060,400	3.54%	1.14%

Note: Zhang En Rong is the controlling shareholder of the Company. He is father of Zhang Yun San. The Company is not aware of any relationship between the other shareholders of the Company or whether such shareholders are parties to any concerted action.

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 Company and to the Stock Exchange.



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

None of the Directors or Supervisors or their respective associates (as defined under the Rule 1.01 of the Listing Rules) was granted by the Company or its subsidiaries any rights to acquire any shares in or debentures of the Company or had exercised any such rights in 2016.

### Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2016, to the best knowledge of the Directors, Supervisors and chief executive, as indicated on the register of interests and/or short positions required to be maintained pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of SFO, the substantial shareholders and other persons had the following interests and/or short positions in the Shares or underlying Shares of the Company as follows:

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

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total registered capital
Zhang En Rong	Beneficial Interest	265,617,000	49.03%	33.29%
Zhang Yun San	Beneficial Interest	23,108,000	4.27%	2.90%
Lin Fu Long	Beneficial Interest	26,162,000	4.83%	3.28%

Name	Type of interest	Number of H shares	Percentage of H shares	Percentage of total registered capital
Zhang Yun San	Beneficial Interest	9,060,400	3.54%	1.14%

Note: Zhang En Rong is the controlling shareholder of the Company. He is father of Zhang Yun San. The Company is not aware of any relationship between the other shareholders of the Company or whether such shareholders are parties to any concerted action.

### Related Party Relationships and Connected Transactions

The details of related party transactions during the Year are set out in note X to the financial statements and XVI. Significant related party transaction of VI. Material Matters of this annual report.

### Competition and Conflict of Interests

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the Listing Rules, or has any other conflict of interests with the Group during the Year.



## V. Directors' Report

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### Corporate Governance

The details of corporate governance of the Company are set out in the section head "Corporate Governance Report" of this annual report.

### Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2016. To the best knowledge of the Directors, the Company has fulfilled the public float requirements under Rule 8.08 of the Listing Rules.

### Auditors

The Company has appointed ShineWing CPA Limited (Special General Partnership) as the auditor of the Company. ShineWing CPA Limited (Special General Partnership) will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

### Events after the Reporting Period

#### (1) Borrowings after the reporting period

Up to the date of the annual financial report, the Group has borrowings from bank of RMB232,100,000.00 and USD4,000,000.00.

#### (2) Disposal of non-current assets

On 14 December 2016, the Company entered into Compensation Agreement on Recovering State-owned Land with the Land Reserve Center of Shouguang City, the Land Reserve Center of Shouguang City reclaimed certain land and relevant buildings under the land certificate No. of Shou Guo Yong (2002) Zi No. 03013 according to the relevant conference direction of Shouguang City Party Committee and Municipal Government, and grant compensation to the Company of RMB65,043,879.00.

#### (3) Selling of shares and granting loans to the Company by the controlling shareholders

Mr. Zhang En Rong, the Chairman of the Group, reduced 30,000,000 tradable shares without selling restriction of the Company in block trading through the trading system of Shenzhen Stock Exchange on 13 January 2017, the shares reduced representing 3.76% of the total share capital of the Company. After the reduction, Mr. Zhang En Rong held 235,617,000 shares of the Company, accounting for 29.53% of the total share capital of the Company, of which 36,404,250 shares are tradable shares without selling restriction and he remains the controlling shareholder of the Group.

On 18 January 2017, upon approval with resolution in the 2nd interim meeting of the 5th Board of the Company, the Company borrowed RMB150,000,000.00 from Zhang En Rong, the controlling shareholder and Chairman, for the operation and development of the listed company. The term of the loan is no more than 36 months, and the interest rate of the borrowing is the benchmark interest rate of the bank loan for the same period.



On 30 March 2017, Mr. Zhang En Rong (the controlling shareholder of the Company), who owns 235,617,000 A shares of the Company in issue (representing 29.53% of the entire issued capital the Company), entered into an irrevocable deed of undertaking for financial support (the "Deed of Undertaking") and also agreed that:

- (a) as at 30 March 2017, the loan owed by the Group to Mr. Zhang En Rong amounted to RMB150,000,000 (the "Shareholder Loan"). Mr. Zhang En Rong has guaranteed that he will not demand the Group to repay the Shareholder Loan unless the financial condition of the Group has significantly improved with sufficient funds for repayment;
- (b) from the date of signing of the Deed of Undertaking by Mr. Zhang En Rong, whenever it is necessary for the Company, the controlling shareholder will obtain funds by taking reasonable measures such as pledging the shares of the Company and provide to Shandong Molong for its operating requirements, repayment of loans and refinancing;
- (c) other than the purposes as mentioned in item (b) above, Mr. Zhang En Rong will not pledge and/or sell his shares of the Company to any other party. At the same time, the controlling shareholder will provide financial support to the Company with his other financial capability or potential financial capability until the Company has sufficient funds to operate and repay its financial debts due.

#### **(4) Investigation proceedings conducted by the China Securities Regulatory Commission against the controlling shareholder, the general manager and the Company**

On 8 February 2017, the China Securities Regulatory Commission (the "CSRC" ) served Notices of Investigation (Ref.: Lu Zheng Diao Cha Zi No. [2017] 001 and Lu Zheng Diao Cha Zi No. [2017] 002) on Mr. Zhang En Rong, the controlling shareholder of the Company, and Mr. Zhang Yun San, the general manager of the Company for their suspected breaches of securities laws and regulations. The CSRC has decided to initiate investigation proceedings against Mr. Zhang En Rong and Mr. Zhang Yun San in accordance with the relevant provisions of the Securities Law of the People' s Republic of China.

On 21 March 2017, the CSRC served a Notice of Investigation (Ref.: Lu Zheng Diao Cha Zi No. [2017] 003) on the Company for its suspected breaches of securities laws and regulations. The CSRC has decided to initiate investigation proceedings against the Company in accordance with the relevant provisions of the Securities Law of the People' s Republic of China.

#### **(5) Delisting risk warning of Shenzhen Stock Exchange**

Pursuant to Clause No.1 of Delisting Risk Warning of Section 2 under Risk Warning of Chapter 13 of the Rules Governing the Listing of Securities on Shenzhen Stock Exchange: "If the audited net profit of company's latest two accounting years were negative, or if the net profit of company's latest two accounting years were negative as a result of retroactive restatement", delisting risk warning will be implemented on trading of shares. Net profit attributable to shareholders of the listed company of the Company was RMB-259,565,000 and RMB-612,476,000 in 2015 and 2016 respectively, therefore, the A shares of the Company will be implemented "delisting risk warning" special treatment.



## V. Directors' Report

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(6) Apart from matters described above, the Company has no significant subsequent events.

On behalf of the Board

**Shandong Molong Petroleum Machinery Company Limited**

*Chairman*

**Zhang En Rong**

Shandong, the PRC

30 March 2017

## VI. 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 fourth meeting of fifth session of the Board held on March 30, 2017, the Company does not recommend the payment of final dividend for the year ended 31 December 2016. 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
2016	0.00	(612,476,376.18)	0.00%	0.00	0.00%
2015	0.00	(259,565,004.32)	0.00%	0.00	0.00%
2014	0.00	20,233,190.77	0.00%	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

### 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.



## VI. Material Matters

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### 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, Supervisory Committee, 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.

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

Applicable     Not applicable

The company did not execute the internal control policy and procedure effectively against recognition, measurement of operating revenue and carry-over of operating costs in the first three quarters of 2016, which resulted in material misstatement on operating revenue and operating costs in the financial statement, therefore making corrections.



## VI. Material Matters



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

Applicable     Not applicable

There is no explanation for changement of the consolidated statements range.

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

#### Appointed accounting firm

Name of the domestic accounting firm	Shinewing Certified Public Accountants Ltd., (Special General Partner)
Reward of the domestic accounting firm (Unit: RMB'0000)	120
Continued term of service of the domestic accounting firm	4 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

According to the Shenzhen stock exchange stock listing rules "the thirteenth chapter" alert in section two paragraph one "delisting risk warning": a company with "the last two fiscal years' audited net profit continuous to be negative or two recent accounting years' net profit caused by retrospective restatement continuous to be negative", will be issued with delisted stock trading risk warning. The Company's net profit attributable to shareholders of listed companies is RMB-259,565,000 in 2015 and net profit attributable to shareholders of listed companies at RMB-612,476,000 in 2016, so the company stock will receive the implementation of delisting risk warning.



## VI. Material Matters

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### 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.

## VI. 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 (RMB'0000)	Approved trading limit (RMB'0000)	Whether exceed approved trading limit	Related party transactions and settlement way		Date of disclosure	Getatable same kind of transaction price	Disclosure index
				transaction pricing principle	transaction price					party	of			
Yalong Oil Machinery Co. Ltd	joint operation company	Sale of goods	Oil well pump and parts	market price	market price	27.21	1.00%	1,000	No	spot exchange or accept	Yes	—	—	—
Total				—	—	27.21	—	1,000	—	—	—	—	—	—

Big sales return details No

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

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

#### 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.



## VI. Material Matters

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5. Other significant connected transaction

Applicable     Not applicable

On December 21, 2016, at the fifth session of the Board's meeting, Mr Zhang Yunsan committed to use his capital in the sum of RMB 60 million to support the development of the Company without interest. For details please refer to the Company's announcement of December 22, 2016 on the cninfo news platform (<http://www.cninfo.com.cn>) regarding disclosure of the commitment of shareholder and the announcement of related party transactions.

## 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.

## VI. Material Matters

---



### ii. Entrust loans condition

Applicable     Not applicable

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

### 4. Other significant contract

Applicable     Not applicable

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

## XVIII. Social Responsibility Report

### 1. Performing accurate poverty alleviation social responsibility

During the reporting period the company temporarily not accurate poverty alleviation work, also no subsequent precision poverty alleviation plan.

### 2. Performing other social responsibility

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

#### i. 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.

#### ii. 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.



## VI. Material Matters

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### iii. 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

### XIX. Other significant explanation

Applicable     Not applicable

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

### XX. Subsidiary corporation material matter

Applicable     Not applicable

## VII. Changes in Share Capital and Shareholders



### I. Changes In Share Capital

#### I. Changes In Share Capital

	Prior to the change		New issue of shares	Share- granting	The change (+, -) Accumulation fund turn to equity		Other	Sub-total		After the change	
	Number of shares	Percentage			Number of shares	Number of shares		Number of shares	Percentage		
I. Shares subject to lock-up	241,790,250	30.31%	0	0	0	6,540,500	6,540,500	248,330,750	31.13%		
I.1 Other domestic shares	241,790,250	30.31%	0	0	0	6,540,500	6,540,500	248,330,750	31.13%		
Domestic natural person shares	241,790,250	30.31%	0	0	0	6,540,500	6,540,500	248,330,750	31.13%		
II. Shares not subject to lock-up	556,058,150	69.69%	0	0	0	(6,540,500)	(6,540,500)	549,517,650	68.87%		
II.1 RMB ordinary shares	299,931,750	37.59%	0	0	0	(6,540,500)	(6,540,500)	293,391,250	36.77%		
II.2 Overseas-listed foreign shares											
(H shares)	256,126,400	32.10%	0	0	0	0	0	256,126,400	32.10%		
III. Total number of shares	797,848,400	100.00%	0	0	0	0	0	797,848,400	100.00%		

Reason for shareholding change

Applicable     Not applicable

On the Company's AGM on 29 June 2016, the Company's executive Director Lin Fulong ceased to be a Director upon expiry of service term. All his shares were locked-up during the half year after his cessation of directorship according to the requirements of the listing rules.

Approval for shareholding change

Applicable     Not applicable

Transfer of ownership for shareholding change

Applicable     Not applicable

Shareholding change would affect the recent one year and recent one period basic EPS and diluted EPS, common stock holder net asset value per share and other financial indicators

Applicable     Not applicable



## VII. Changes in Share Capital and Shareholders

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

Applicable     Not applicable

### II. Restricted share chagement condition

Applicable     Not applicable

Unit: share

Name	Initial restricted shares	This restricted number of shares	Restricted shares increase	The final restricted number of shares	Reason	Terminate the sale date
Lin Fu Long	19,621,500	0	6,540,500	26,162,000	Executive director's term, the outgoing	27 January 2017
Total	19,621,500	0	6,540,500	26,162,000	—	—

## 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



# VII. Changes in Share Capital and Shareholders



## 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	47,256	Total number of ordinary shareholders at the annual report disclosure day before last end of month	55,308	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%	255,812,690	0	0	255,812,690	—	—
Zhang Yun San	Domestic natural person	4.03%	32,168,400	(7,500,000)	22,956,000	9,212,400	—	—
Lin Fu Long	Domestic natural person	3.28%	26,162,000	0	26,162,000	0	—	—
Central Huijin Asset Management Co., Ltd	Domestic legal person	1.70%	13,536,100	0	0	0	—	—
Wu Bing	Domestic natural person	0.15%	1,227,800	0	0	0	—	—
Jing Tao	Domestic natural person	0.15%	1,207,900	0	0	0	—	—
Liang Yong Qiang	Domestic natural person	0.13%	1,000,000	0	0	0	—	—
Li Wen Dong	Domestic natural person	0.11%	909,800	0	0	0	—	—
Li Da Huan	Domestic natural person	0.10%	815,000	0	0	0	—	—

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.



## VII. Changes in Share Capital and Shareholders

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

Name of Shareholders	Shares at the end of the year	Class of shares	
		Class of shares	Amount
HKSCC Nominees Limited	255,812,690	H share	255,813,690
Zhang En Rong	66,404,250	A share	66,404,250
Central Huijin Asset Management Co., Ltd	13,536,100	A share	13,536,100
Zhang Yun San	9,212,400	A share	152,000
		H share	9,060,400
Wu Bing	1,227,800	A share	1,227,800
Jin Tao	1,207,900	A share	1,207,900
Liang Yong Qiang	1,000,000	A share	1,000,000
Li Wen Dong	909,800	A share	909,800
Li Da Huan	815,000	A share	815,000
Chen Long	749,100	A share	749,100

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. 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.

Explanation for top ten common stockholders participate in securities margin trading (if any) Not applicable

Any top ten holders of common stock and top ten holders of shares not subject to lock-up conducting any repurchase of shares.

Yes  No

Top ten holders of common stock and top ten holders of shares not subject to lock-up did not conduct any repurchase of shares.

## VII. Changes in Share Capital and Shareholders



### 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 Co., Ltd.	China Director and Chairman of Shandong Molong Petroleum Machinery	No

Controlling shareholder did not change in the report period.

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

Applicable     Not applicable

### 3. Beneficial controller of the Company

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

#### Type of actual controller: natural person

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

#### Change condition of actual controller change

Applicable     Not applicable

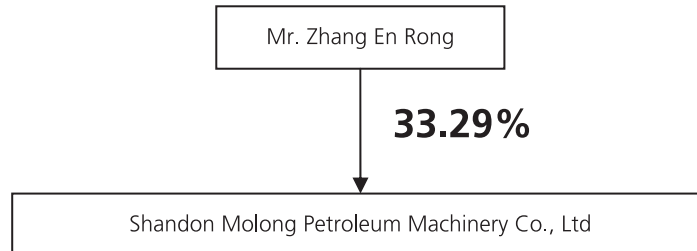
Controlling shareholder did not change in the report period.



## VII. Changes in Share Capital and Shareholders

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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. Restrictions on reduction of shares for the controlling shareholder, actual controller, party to restructuring and other commitment entity**

Applicable     Not applicable

## VIII. Preferred Stock

---



Applicable     Not applicable

The company hasn't preferred stock



# IX. 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	78	29 June 2016	28 June 2019	265,617,000	0	0	265,617,000
Zhang Yun San	Deputy Chairman and General Manager	Current	M	55	29 June 2016	28 June 2019	39,668,400	0	7,500,000	32,168,400
Lin Fu Long	Executive Director	Former	M	65	28 June 2013	27 June 2016	26,162,000	0	0	26,162,000
Guo Huan Ran	Executive Director	Current	M	49	29 June 2016	28 June 2019	0	0	0	0
Yang Jin	Executive Director	Current	M	53	29 June 2016	28 June 2019	0	0	0	0
Guo Hong Li	Non-executive Director	Current	M	61	29 June 2016	28 June 2019	0	0	0	0
Wang Chun Hua	Non-executive Director	Current	F	64	29 June 2016	28 June 2019	0	0	0	0
Qin Xue Chang	Independent Director	Current	M	51	29 June 2016	28 June 2019	0	0	0	0
Ji Yan Song	Independent Director	Current	M	49	29 June 2016	28 June 2019	0	0	0	0
Quan Yu Hua	Independent Director	Current	F	61	29 June 2016	28 June 2019	0	0	0	0
Wang Chun Hua	Independent Director	Former	F	64	28 June 2013	27 June 2016	0	0	0	0
John Paul Cameron	Independent Director	Former	M	52	28 June 2013	27 June 2016	0	0	0	0
Hao Liang	Chairman of Supervisory Committee	Current	M	36	29 June 2016	28 June 2019	0	0	0	0
Zhang Jiu Li	Supervisory	Current	M	52	29 June 2016	28 June 2019	0	0	0	0
Zheng Jian Guo	Supervisory	Current	M	59	29 June 2016	28 June 2019	0	0	0	0
Fan Ren Yi	Supervisory	Former	M	52	28 June 2013	27 June 2016	0	0	0	0
Zhang Shou Kui	Deputy general manager	Current	M	47	29 June 2016	28 June 2019	0	0	0	0
Liu Zeng Xiang	Deputy general manager	Current	M	47	29 June 2016	28 June 2019	0	0	0	0
Li Peng	Deputy general manager	Current	M	39	29 June 2016	28 June 2019	0	0	0	0
Zhao Hong Feng	Deputy general manager, Secretary to the Board	Current	M	38	29 June 2016	28 June 2019	0	0	0	0
Total							331,447,400	0	7,500,000	323,947,400

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

Name	Position	Type	Date	Explanation
Lin Fu Long	Executive Director	Former	29 June 2016	Executive Director term expired
Wang Chun Hua	Independent Director	Redesignated	29 June 2016	Independent Director's term expired and then redesignated as non-executive Director
John Paul Cameron	Independent Director	Former	29 June 2016	Executive Director term expired
Fan Ren Yi	Supervisory	Former	29 June 2016	Executive Supervisor term expired

# IX. Directors, Supervisors, Senior Management and Employees

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## 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.



## IX. 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.

**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.

### 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. Guo Hong Li**, born in September 1956, Chinese nationality with no right of permanent residence abroad. Mr. Guo has more than 30 years of experience in financial industry. Has held Shouguang city credit cooperatives, director of Shouguang city bank director, deputy governor of Shouguang branch of agricultural bank, bank. The general manager of “Weifang Binhai Yu Feng pawnshop” at present.

### Independent non-executive Directors

**Mr. Qin Xue Chang**, born in July 1966, Chinese nationality with no right of permanent residence abroad, is an independent non-executive to and the Chairman of Audit committee, senior accountants, senior Chinese certified public accountants, securities and futures industry chartered certified public accountants, graduated from Shanxi university of finance and economics, 1988, was assigned to Weifang bureau of certified public accountants, successive development, consulting, training department director of foreign business department, director of the office director, public department director and deputy director, director, deputy director of the accountants, such as the current Haoxin Wintop (Shandong) certified public accountants, Shandong Hengchang auction co., LTD., chairman, general manager, Shandong Wintop assets appraisal co., LTD., chairman, Weifang chamber of commerce, vice President of the international chamber of commerce in Shandong province, Shandong youth entrepreneur association director, certified public accountant association, committee member of Weifang, Weifang straight authority youth federation vice chairman, Weifang, chairman of the union modern placement services, Shandong economic and trade vocational college part-time professor.



# IX. Directors, Supervisors, Senior Management and Employees

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**Mr. Ji Yan Song**, born in May 1968, Chinese nationality with no right of permanent residence abroad, is a former Junan Securities Institute Industry Co., Ltd., the department of information technology investment manager, Hua An Securities Co., Ltd., director of the institute, the trust co., Ltd, chief investment officer of China Merchants Fund Management Co., Ltd., organization department director; The current Shenzhen chairman Zong Color Investment Management Co., Ltd., Shanghai force tripod capital (limited partnership) company limited partners.

**Ms. Quan Yu Hua**, born in May 1956, Chinese nationality with no right of permanent residence abroad, is a former member of China construction bank, Huimin area center branch, Huimin district tax official local division deputy section chief, section chief, the national audit office of Jinan TePaBan section chief, China construction bank Shandong branch, trust and investment corporation financing manager pearl spring of China construction bank Jinan branch five customer manager. The incumbent Shandong High-end Blueberry Biological Technology Co., Ltd. Director.

## 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. Zheng Jian Guo**, Bachelor Degree, Chinese nationality with no right of permanent residence abroad, has more than and 20 years of business management experience and served as deputy director of Taiyuan Heavy Machinery Co. Ltd. rolling chamber Institute straightening machine factory, steel rolling forging equipment factory, Taiyuan Heavy Industry Limited by Share Ltd rolling forging equipment branch manager, Taiyuan Heavy Limited by Share Ltd chief engineer of Shanxi Province, the executive director of the Institute of Mechanical Engineering, Chinese Metal Institute of Academic Committee of rolling branch. He has won the first prize of science and technology progress in Shanxi Province, and second prize of national science and technology progress.



# IX. Directors, Supervisors, Senior Management and Employees

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## 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.

**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.

# IX. Directors, Supervisors, Senior Management and Employees



## 4. Company Secretary

**Mr. Chan Wing Nang, Billy**, born in June 1961, is the company secretary of the Company. Mr. Chan graduated from the University of Newcastle, United Kingdom with a bachelor degree in Civil Engineering in 1986. He also has a master degree in business administration from the University of Warwick, United Kingdom. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Chan has over 10 years of experience in the accounting and consulting field. Prior to joining the Group, Mr. Chan was a director in a consulting company. Mr. Chan joined the Group on 13 December 2004. For the financial year of 2016, Mr. Chan has taken not less than 15 hours of relevant professional training.

### Major position at the subsidiaries of the Group:

Applicable       Not applicable

Name	Name of subsidiaries	Positions	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
Zhang Yun San	Shouguang Maolong New Material Technology Development Company 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
Zhang Shou Kui	Shouguang Mihe Water Company Limited	Director	No
Explanation for major position at the subsidiaries of the Group:			Not applicable



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

### Major position at the other organization:

Applicable       Not applicable

Name	Name of the organization	Positions	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	Haixin 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

## 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.

# IX. Directors, Supervisors, Senior Management and Employees



## 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	78	Current	70.19	No
Zhang Yun San	Deputy Chairman and General Manager	M	55	Current	60.33	No
Guo Huan Ran	Executive Director	M	49	Current	41.32	No
Lin Fu Long	Executive Director	M	65	Former	16.5	No
Guo Hong Li	Non-executive Director	M	61	Current	3.5	No
Wang Chun Hua	Non-executive Director	F	64	Current	3.5	No
John Paul Cameron	Independent non-executive Director	M	52	Former	4.96	No
Qin Xue Chang	Independent non-executive Director	M	51	Current	7.5	No
Hao Liang	Chairman of Supervisory Committee	M	36	Current	5.54	No
Fan Ren Yi	Supervisor	M	52	Former	0.5	No
Zhang Jiu Li	Supervisor	M	52	Current	1.01	No
Ji Yan Song	Independent non-executive Director	M	49	Current	3.75	No
Quan Yu Hua	Independent non-executive Director	F	61	Current	3.75	No
Zheng Jian Guo	Supervisor	M	59	Current	0.5	No
Zhang Shou Kui	Deputy general manager	M	47	Current	17.16	No
Liu Zeng Xiang	Deputy general manager	M	47	Current	9.92	No
Yang Jin	Financial controller of the Company	M	53	Current	35.16	No
Li Peng	Deputy general manager	M	39	Current	24.35	No
Zhao Hong Feng	Deputy general Manager and Secretary to the Board	M	38	Current	13.08	No
Total		—	—	—	322.52	—

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

Applicable     Not applicable



# IX. Directors, Supervisors, Senior Management and Employees

## V. Personnel of the Company

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

Number of staff on active duty at parent company	1,359
Number of staff on active duty at major subsidiary corporation	566
Total number of staff on active duty	1,925
Total number of Paid employees at current period	1,925
Number of parent company and major subsidiary corporation should bear the cost for retired workers	0

<b>Professional structure type</b>	<b>Professional structure</b>	<b>Number</b>
Production personnel		1,683
Sales personnel		49
Technician		23
Financial staff		17
Administrative staff		153
<hr/>		
Total		1,925

<b>Degree of education type</b>	<b>Degree of education</b>	<b>Number</b>
Technical secondary school (high school) and the following qualifications		1,469
Junior college		308
Bachelor		111
Master		37
<hr/>		
Total		1,925

### 2. Pay policy

The company provide stabilized and competitive 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 technician and production personnel's remuneration to fully mobilize staffs' positive initiative and creativity. Constantly improve the staff's satisfaction and loyalty.

# IX. 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



## X. 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 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 meetings, and board meetings are convened and held in strict compliance with the Articles and Rules of Procedure of the Board 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 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 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.



## X. Corporate Governance Report

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- (V) **Performance appraisal and incentive mechanism:** During the year, the Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and personal performance in accordance with the Articles of the Company. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of the Company.
- (VI) **Information disclosure and transparency:** The Secretary to the Board 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 2016.
- (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

The Company considers that there is no significant variance between actual state of corporate governance and requirements of governance and restrictive guidelines relating to a listed company issued by the CSRC.

## 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.



# X. Corporate Governance Report

## III. Horizontal competition condition

Applicable     Not applicable

## IV. Current report stockholders' meeting condition

The Meeting Time	Meeting type	Percentage of investors	Date	Date of Announcement	Media for publication
2015	Annual general meeting	41.72%	25 June 2016	30 June 2016	<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	Should attend the board of directors in current report period	The condition of independent directors attend the board of directors				Whether two consecutive did not attend the meeting in person
		Number of attendance	Number of attend by communication	Number of attendance by commission	Number of absence	
Wang Chun Hua	7	5	2	0	0	No
John Paul Cameron	3	0	3	0	0	No
Qin Xue Chang	7	1	6	0	0	No
Ji Yan Song	4	1	3	0	0	No
Quan Yu Hua	4	1	3	0	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 directors' disagreement on matters raised to the Company

#### Whether the independent directors have raised any disagreement on matters to the Company

Yes     No

During the reporting period, independent directors have not raised any disagreement on matters to the Company.

# X. 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, no Directors have indicated that they had breached the Model Code throughout 2016.



## X. 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 2016, 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 9(3) 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, The vice Chairman of the Board and an executive Director. Beside from this, there is no financial, business and relatives relationship among members of the Board.

In 2016, the Board had convened seven 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	7/7
Zhang Yun San	Vice Chairman and executive Director	7/7
Lin Fu Long	Executive Director	3/3
Guo Huan Ran	Executive Director	7/7
Yang Jin	Executive Director	4/4
Guo Hong Li	Non-executive Director	7/7
Wang Chun Hua	Non-executive Director	4/4
Qin Xue Chang	Independent non-executive Director	7/7
John Paul Cameron	Independent non-executive Director	3/3
Wang Chun Hua	Independent non-executive Director	3/3
Ji Yan Song	Independent non-executive Director	4/4
Quan Yu Hua	Independent non-executive Director	4/4

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

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



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

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

## 5. Induction and training

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

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

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

### Training Records

Name	Type of trainings <i>(Note 1)</i>	Training matters <i>(Note 2)</i>
Zhang En Rong	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
Guo Hong Li	a, b	i, ii, iii, iv
Qin Xue Chang	a, b	i, ii, iii, iv
Ji Song Yan	a, b	i, ii, iii, iv
Quan Yu Hua	a, b	i, ii, iii, iv
John Paul Cameron	a, b	i, ii, iii, iv
Wang Chun Hua	a, b	i, ii, iii, iv



## X. Corporate Governance Report

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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 2016, 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 2019.

### 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.

# X. Corporate Governance Report



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

## 10. The Board Committees of the Company

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

The Strategic Committee was established on 26 December 2012 and its current members are Mr. Zhang Yun San, Mr. Qin Xue Chang, Mr. Ji Yan Song and Ms Quan Yu 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. Ji Yan Song and Ms Quan Yu 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 2016:
  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 2015 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 2016, which was passed to the Board for approval.
  3. It reviewed the 2016 interim financial statements for the six months ended 30 June 2016, which was passed to the Board for approval.
  4. It reviewed the third quarter financial statements ended 30 September 2016, which was passed to the Board for approval.
- (2) It reviewed proposal which is the company continue contract external auditor.



## X. Corporate Governance Report

- (3) Auditing work conducted on the 2016 financial report of the Company was as follows:
1. It reviewed the 2016 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 2016 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 2016, 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 2016

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 Director	4/4
Wang Chun Hua	Independent non-executive Director	2/2
John Paul Cameron	Independent non-executive Director	2/2
Ji Yan Song	Independent non-executive Director	2/2
Qun Yu Hua	Independent non-executive Director	2/2



# X. Corporate Governance Report



## (C) The Nomination Committee

The Nomination Committee was established on 18 January 2005 and its current members are Ms. Quan Yu Hua, Mr. Zhang Yun San, Mr. Qin Xue Chang and Mr. Ji Yan Song, with Ms. Quan Yu 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:

<b>Members of the Nomination committee</b>	<b>Duties</b>	<b>Number of meetings attended/Total number of meetings</b>
Wang Chun Hua	Committee Chairman and Independent non-executive Director	1/1
Zhang Yun San	Deputy Chairman and executive Director	1/1
John Paul Cameron	Independent non-executive Director	1/1
Qin Xue Chang	Independent non-executive Director	1/1
Ji Yan Song	Independent non-executive Director	0/0
Quan Yu Hua	Independent non-executive Director	0/0

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

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

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.



## X. Corporate Governance Report

### (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. Ji Yan Song, Mr. Zhang Yun San, Mr. Qin Xue Chang and Ms. Quan Yu Hua. Mr. Ji Yan Song 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 2016 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 2016 and assessment of the Directors and the Senior Management of the Company

The Remuneration and Assessment Committee had met 1 time during 2016. 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 (Chairman)	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
Mr. Ji Yan Song	Committee Chairman and Independent non-executive Director	0/0
Ms. Quan Yu Hua	Independent non-executive Director	0/0

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.

# X. 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 2016, 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. Management accounts are provided to the board of directors quarterly and the Company performs internal self-criticism and auditing.

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 2016, 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 2016, 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.



## X. Corporate Governance Report

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### 14. Others

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

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

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

### 15. Communication with shareholders

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

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

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

# X. Corporate Governance Report



## 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 2016, one general meetings (i.e. AGM held on 29 June 2016) 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> )	0/0
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.

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

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

## 17. Other description of independent directors

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

The remuneration required from audit and non-audit services provided by auditor for the year of 2016 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.



## X. Corporate Governance Report

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### (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 to convene an extraordinary general meeting or a class shareholders' meeting, and the subject matter of the meeting shall be specified.
- (2) The Board 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 agrees to convene an extraordinary general meeting, a notice of general meeting will be made within 5 days after the decision of the Board. If there is any change to the original proposed resolutions, consent from the original proposers should be obtained.

If the Board 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. And shareholders have the right to request the Supervisory Committee to convene an extraordinary general meeting in writing form.

- (4) If the Board agrees to convene an extraordinary general meeting, a notice of general meeting will be made within 5 days after the decision of the Board. 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 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.

# X. Corporate Governance Report



## (c) Enquiries to the Board

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

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

## VII 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.

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

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

## IX. Evaluation of internal control report

**1. Any material deficiency was detected during the reporting period.**

Yes     No



# X. Corporate Governance Report

## 2. Self-assessment report on internal control

Date of disclosure of the full context of the self-assessment report on internal control 6 April 2017

Index of full disclosure of self-assessment report on internal controls [www.cninfo.com.cn](http://www.cninfo.com.cn), announcement named "2016 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%

Type	Standard of affirming defect	
	Financial reports	Non-financial reports
Qualitative standard	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.	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.



# X. Corporate Governance Report



Type	Standard of affirming defect	
	Financial reports	Non-financial reports
Quantitative criterion	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).	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 have not 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 have not produced a negative impact on the company annual report.
Number of great defect in financial reports		1
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

## X. 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 2016 in accordance with the Basic Standard and Implementation Guidelines and the requirements of other relevant laws and regulations.

Auditors' report on internal control disclosure condition	Disclosure
Date of disclosure of the full context of the Auditors' report on internal control	6 April 2017
Index of full disclosure of Auditors' report on internal control	www.cninfo.com.cn, announcement named "2016 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

The opinions of certified public accountants issued by non-standard audit report of internal control.



## X. Corporate Governance Report

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In the first three quarters of 2016, the revenue recognition, quantity measurement and tallying and recording of operating costs have misstatements due to ineffective implementation of audit of internal control policies and procedures. The management in the preparation of the 2016 annual financial statements has adjusted the relevant items of the financial statements with amendment and restatement of the first quarterly report, interim report and the third quarterly report as approved by the Board's meeting on March 30, 2017. The mistakes of Company's operating income and operating costs indicate that the Company's internal control has deficiencies. Effective internal control can provide financial reports and related information with reasonable assurance, and the major defects make MoLong lose such kind of internal control.

MoLong has identified the major defects, and included them in the enterprise internal control evaluation report. In the audit of Shandong Molong's 2016 annual financial statements, we have considered the effect of timing, nature and extent of the major defects of the audit procedures. This report does not affect the 2016 annual audit report.

### **Whether the opinion of auditor on internal controls from the accounting firm is in line with the Board's self-assessment report**

Yes     No

## XI. Company Secretary

Details of Company Secretary please refer to Part 4 of Section IX of this Annual Report.

# XI. Environmental, Social and Governance Report



This Report is prepared according to Environmental, Social and Governance Reporting Guidelines as described in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”), and describes the efforts Shandong Molong Petroleum Machinery Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) made during 2016 fiscal year to achieve its environmental, social and governance goals and the performances in 2016 and provides the related policies the Group implemented and the conventional materials.

The Company was mainly engaged in the research and development, production and sales of the products needed by the energy equipment industry. The main products include petroleum extraction tubes, fluid and structural pipes, oil well machineries, oil well pumps, sucker rods, valve parts and large castings and so on. The Company’s products are mainly used for energy drilling, such as, petroleum, natural gas, coalbed gas, shale gas, machining, city steel pipe and other industries.

## Environment

The Group practices a green and low-carbon development strategy, strictly complies with China’s environmental protection legislations, regulations, policies and standards, including Environmental Protection Laws, Air Pollution Prevention and Control Law, Prevention and Control of Environment Pollution Caused by Solid Wastes and other laws and regulations and normative documents as to the governance of exhaust emission and wastes discharged to water and land, actively responds to climate changes, vigorously advance cleaner production, protects the environment and is dedicated to constructing a resource-saving and environment-friendly company.

The Company’s board of directors (the “Board”) believes that as of the fiscal year ended 31 December 2016, the Group’s annual cost of compliance with environmental protection legislations, regulations, policies and standards are not significant. It is expected that such compliance cost to be spent in the future is also insignificant. The Board believes that the Group has taken adequate measures to reduce waste and pollution in accordance with applicable environmental legislation, regulations, policies and standards in the course of its work.

### A. Policy for Reducing Emissions

#### A1 Policy for Green House Gas Emission

The green house gas emission is one of the major causes to the current global warming. In order to prevent and reduce pollution, the Group takes the following measures to reduce green house gas emission:

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



# XI. Environmental, Social and Governance Report

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## **A2. Policy for Waste Water Discharge**

The Group's production process and technology does not involve a lot of water usage or waste water discharges. Related measures are only applicable to the norms for general production and daily office work:

1. Recycling water is used in the product production devices;
2. Water-saving signs are displayed on the office room, washroom, pantry, dining room and employee dormitory.

## **A3. Policy for Reducing Wastes**

1. optimizes the production processes and flows, improves the utilization rate of production materials, and reduces the quantity of waste materials;
2. classifies hazardous wastes, labels hazardous wastes, and the final commissioning of qualified subcontractors for recycling and disposal of such hazardous wastes;
3. carries out a simple classification of general wastes, and sells them to the recyclable waste collectors on a regular basis;
4. recycles scrap iron produced in the processing processes;
5. prepares annual hazardous waste management plan, sets up indicators of amount of wastes required by the relevant departments, conducts a monthly assessment, and, if necessary, takes appropriate control measures to reduce waste;
6. reduces the leakage of various types of oil by strengthening management;
7. Strengthens quality control to reduce waste caused by poor quality.

## **B Policy for Effective Use of Resource**

### **B1. Green Office Policy**

1. reduces the use of office resources, such as setting a single page print to double-sided printing;
2. wholly achieves paperless office within the Group;
3. reminds employees and visitors to save water during daily operation;
4. uses water-saving toilets, automatic faucets and LED lights in the office buildings;
5. reminds employees to control the power and fuel for running the office air conditioning, lighting, machinery and equipment and vehicles;
6. uses energy-saving power supply for plant lighting, transparent tiles, and take full advantage of natural lighting.



## **B2. Green Manufacturing Policy**

1. optimizes production processes and flows, improves the utilization rate of production materials, and reduces the quantity of waste materials;
2. uses environmental-protection and emission-reduction production materials, and fully uses cleaner energy for production;
3. adopt new technologies or green processes to reduce pollutants.

## **C Policy for Reducing the Significant Impact on Environment and Natural Resources**

1. provides green products and green operation flows;
2. all products are accredited by the industry to meet the product's environmental protection requirements;
3. strictly prohibits the use of asbestos within the plant;
4. develops training plans to constantly improve the employee's environmental protection awareness and on-site environmental protection and control ability via training;
5. publicizes the environmental protection among supply chains and deems the environmental protection requirements as one of the supplier review indicators.

## **Society**

Strong sense of social responsibility, environmental protection, environmental security and economic sustainable development is the key factor to ensure the success of the business. In business development and other social activities, the Group maintains a view of values of being tolerant, open, reliable and cooperative, and introduces effective measures to ensure that the Group's policy in the society, safety, and environment can be fully implemented. These measures relate to our employees, business partners, supply chain partners and global individual communities and cultures.

### **I. Employment and Labor Practices**

The Group strongly recognizes that employees are important assets, and makes efforts to improve the following four areas, including employment, health and safety, development and training, and labor standards. As of the date of this report, the Group has not received any complaints and illegal notices relating to the employment of workers, and there are no reports of violations of the relevant occupational health and safety legislation, and the number of working days lost due to work-related injuries.

#### **A. Employment**

The Group has formulated and implemented a set of human resource policies and procedures, including the Group's recruitment, promotion guidelines, salary scale, holidays and statutory paid holidays, maternity leave and working hours to ensure equal treatment for all employees. Their employment, remuneration and promotion opportunities are not affected by nationality and ethnicity. The Group complies with the provisions of China's Labor Contract Law and the related employment laws to provide a good and safe working environment for employees. In addition, the Group and other subsidiary have reached the local (including Hong Kong) minimum wage standards.



## XI. Environmental, Social and Governance Report

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In order to enhance the ability to hire all kinds of talents, our compensation system is based on position and performance. On top of the stable basic income, an incentive scheme with employee performance linked to the incentive to encourage employees' loyalty.

In addition, the Group will also purchase additional commercial insurance for a part of the employees who has reached a certain seniority, in order to improve the additional security of employees. Employee benefits are also included: free shuttle bus, meal allowance, accommodation allowance, etc.

### **B. Health and Safety**

The Group is committed to providing a safe and healthy working environment for employees and workers, and has taken the necessary work security measures to prevent the occurrence of industrial accidents and reduce the risks of the project. The Group according to the job requirements for different positions, develops work safety guidelines for employees, provides regular work safety training to the employees, conducts regular on-site safety inspection, and requires workers to use safety equipment, provides sufficient and appropriate protective equipment and requires workers and employees to wear such safety protection gears before stepping into production plants. In addition, the Group takes appropriate measures to ensure that all technician, including electrician and welders are special trained and have all the required licenses or qualifications. The Group has project supervisors and safety officers for each production project to evaluate and implement safety measures and emergency plans during the production period, comply with national and industry standards procure and inspect protective equipment, and assess of production lines of the specific requirement of the type of work, so as to achieve on-demand distribution, regular replacement, and on-site supervision of such protective equipment. Moreover, the Group also sets up bulletin boards to publish guidelines on safety in production to improve the safety awareness of workers on the production line. When the safety of the person is in danger, any person has the right to stop operations to prevent accidents.

The Group is highly concerned about the health and safety of employees, is dedicated to improving the working environment to prevent occupation disease. We actively respond to issues relevant to occupation health and safety put forward by employees, and recognize and reward such employees making contribution to the continuous improvement topics of occupation health and safety. We also ensure that all employees understand and are responsible for their own safety and the safety of the affected persons. The Group provides PPE for employees, such as helmets, protective glasses, protective masks, protective gloves, safety belt, semi faced and full faced filtering respirators. The human resources department each year arranges qualified medical institutions to conduct physical examination for employees who may suffer occupation diseases and follow up individual cases. In addition, the Group also attaches great importance to the development of mental health of employees, and carries out group exchange and other activities to relieve the employees' pressure at work.

### **C. Development and Training**

The Group focuses on the cultivation of potential talents, and has a training staff dedicated to training. The Group, through systematic training curriculum, matches the talent's ability with its strategies to effectively inherit technology and company culture, and to achieve knowledge integration. In addition, the Group, through a sharing training mode featured with "Inheriting, Helping and Leading", promotes all of its employees to achieve ability self-improvement. The Group focuses on the development of the management and technical talents, including talents with potentials, key professional talents, key management talents, technical experts and etc. Moreover, the Group also advocates mutual cooperation with talents, so that, in three to five years, such talents, with accumulated experience, will form the backbone force for the Group's continuous development.

# XI. Environmental, Social and Governance Report



The Company attaches importance to talent training, and provides occupation career planning and organizes various training for employees, to enhance the quality of employees, so as to achieve common development of employees and the company. In order to improve the overall quality of the employees and work efficiency, the human resources department, at the end of each year, will develop next year's training plan, including training needs analysis, content, time, attendance and training effectiveness evaluation. The Company, through its learning platform, lectures of internal lecturers and external lecturers, network learning and etc. and according to strategic targets and the needs of development, provides new employees with training in the areas such as management and leadership, professional image and etiquette, enhancement of the professional skills, job skills, etc.

## D. Labor Standards

The Group has been creating equal employment opportunity. The Group has recruited talents for each vacancy through Internet or other appropriate channels and fairly selected appropriate talents in accordance with the ability, skills and other requirements of applicants. We will not reject any applicants because of their race, color, sex, language, religion, politics or other factors.

The Group has been advocating a principle of balance between work and family. We do not encourage overtime work. Even if the departments need to work overtime temporarily, we will, through the overtime approval process, strictly control the overtime working hours. Any overtime work shall need to be approved by the Department Manager, and be complied with local labor laws and ensured that employees have enough time to rest, so as to prevent the employees from suffering from serious reduced quality of life because of long working hours and meanwhile reduce the risk of any possible work-related accident due to long working hours.

The Group strictly complies with the relevant child labor and forced labor employment ordinance and other laws of the places where it operates. All applicants must provide proof of identity for verification. Before we enter into employment contracts with the employees, we give employees sufficient time to read carefully and understand the relevant content of the contracts. We only sign related employment contracts with employees after they fully understand such contracts.

## II. Operating Practices

Good corporate governance is a symbol of corporate modernization and a prerequisite for sustainable development of the corporate. The Group has been investing a large number of resources and human resources, developing appropriate corporate governance practices according to the business needs, and conducting continuous integration of the essence of corporate governance which is incorporated into the management structure and internal control procedures. Meanwhile, the Group is also dedicated to maintaining the highest moral integrity, so that all business activities can achieve the highest standards or best practices, to ensure that our actions can fully comply with applicable laws and regulations.

The Group is committed to continuously improving the performance and quality of products and services, reaching a high moral level as a company in terms of supply chain management, internal control and product quality assurance, and ensuring its compliance with the standards established based on relevant laws and regulations to meet industry and customer expectation. The realization of comprehensive corporate governance at a high standard will enable the Group to be more efficient as to each topic of the Group's sustainable development and help maintain and increase the stakeholders' interests.

### A Supply Chain Management

The Group has formulated "Material Procurement and Management System". The Group, according to a series of quantitative criteria, such as, the compliance conditions, price, quality, supply stability, timely delivery rate, incoming passing rate, customer complaints and customer service, strictly selects suppliers and, according to the evaluation results of suppliers, maintains a long-term relationship with suppliers. The Group implements a strict test and control flow in the process of production. In the incoming material warehousing and production stage, the Group continues to monitor the quality of the materials provided by the external suppliers. Meanwhile, the Group also implements different warehouse storage managements according to the production materials provided by suppliers. As of the date of this report, the Group has been exposed to no significant risks related to the supply chain at environment and society levels.



# XI. Environmental, Social and Governance Report

## B Product Responsibility

Product safety and quality is the first priority of the Group. All products must be tested for quality. Its design, manufacturing, installation and test must comply with the requirements of relevant standards and specifications and also technical requirements, meanwhile also must meet the requirements of relevant design parameters. In addition, all products must accept and pass strict quality and safety verification:

1. Material inspection: all raw materials must be inspected in accordance with the drawings, standards, specifications, technical agreements. Only qualified materials can be stored in the warehouses;
2. Production process: the Group implements process verification and testing. Only qualified semi-finished products can flow into the next process;
3. Finished product inspection: the Group implements finished product inspection, and provides qualified product report before delivery;
4. Control of unqualified products: when any unqualified product is found in the inspection process, the unqualified products will be analyzed and processed. The Group strictly prohibits any unqualified products from continuing to flow in the manufacturing process.

The Group has developed specific measures covering the quality of products and services and safety, to ensure a compliance with the legislation and regulations. Upon receiving any complaints, the Company will immediately assess such complaints and conduct an investigation on that matter, in order to identify the problem, and make a correction in the practical situation as soon as possible. As of the date of this report, the Group has faced no disputes or any related actions as to product responsibility.

## C Anti-corruption

The Group insists on implementing a high standard of business ethics throughout the entire operation process. In its daily operations, the Group does not tolerate any form of corruption or bribery based on a fair and equitable principle. At the same time, such principle also is the code of conduct of the Group as to its internal management. The Group's employees must comply with the code of ethics and laws and regulations and fulfill their duties in their daily work. The Group also, through conference presentations, employee communication and other activities, conveys the rules and regulations of the Company and external laws and regulations to its employees, to constantly put emphasis on that all employees should comply with relevant laws and regulations, adhere to the moral bottom line, reject temptation, and prevent corruption and fraud and money laundering. The Group strictly abides by relevant anti-corruption laws and regulations of the state and regions, including "Chapter 8: the Crime of Corruption and Bribery" of China's Criminal Law, "the Prevention of Bribery Ordinance" of Hong Kong Special Administrative Region and etc.

The Group, in processing product trading, exporting and reselling, insists on complying with related compliance policies, and relevant laws and regulations, including being reasonably prudent to ensure it does not violate any trade regulation laws. All employees shall be subject to necessary internal guidelines in product sales and customer contact. In addition, the Group has also clearly defined the responsibilities of different departments in anti-corruption work, such as, records of financial transactions, the audit of business partners, regular internal audit, to ensure the effective implementation of the policy. Moreover, the Group provides new employees with anti-corruption training to cultivate a company culture of honesty and integrity. The Group also complies with regulatory standards as to health and safety and applicable laws as to advertising and labeling. The primary goal of this Group is to provide customers with confidence in its services, and to provide sufficient information for customers to make informed choices. As of the date of this report, the Group has not been aware of any corruption matters and related complaints.





## III. Community

With the market's concerns on the behavior of corporates, the pursuit of maximum short-term financial performance to return to shareholders is no longer the only goal of corporate management. As a responsible corporate, the Group is dedicated to extending its concerns from its own operation to the public. The Group believes that employees are the core strength to create value for the society. The Group will continue to gather power of all to increase community participation, and to balance the interests between shareholders and other stakeholders to bring more positive impact to the society. Meanwhile, the Group has, through various channels, irregularly communicated with all stakeholders, including customers, employees, community organizations and government agencies etc., to achieve open and transparent operation and to understand each other's expectations of corporate social responsibility, so that the Group can achieve the goal of sustainable business development maintain a good relationship with the communities which it operates in.

### A. Community Investment

The managements of the Group have been adhering to the concept of establishing a harmonious society and a harmonious community, leading all employees to actively participate in organizing and strengthening a good community environment, and actively organizing and participating in various communicative activities in the community, so as to promote humanities construction of the harmonious community. The Group has developed relevant policies and measures, in order to understand the needs of the community. Making contributions to the community and maintaining a harmonious relationship with the stakeholders in the business areas is essential for the Group's sustainable development. The Company has also underwritten all kinds of social insurances for the employees and established support funds to care for and subsidize employees who have financial difficulties, so as to create a harmonious working atmosphere. As of the date of this report, the Group has been actively participating in various community activities, which are shown below:

1. The Company has been actively participating in social charitable donation activities and activities of supporting the Company's employees who have financial difficulties. The Company's cumulative expenditure as to such activities has been more than RMB100,000 this year;
2. The Company has been actively participating in public charity activities organized by local government organisations to support the development of public charity.



## XII. Corporate Bonds

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The Company did not have issued debts which are publicly issued and listed on a stock exchange, and which have not reached maturity, or have matured but the Company is not able to fully repay, at the time that this annual report was approved for issue.



Type of audit opinion	qualified opinion with emphatic paragraph
The audit report signed	30 May 2017
Auditor	Shinewing Certified Public Accountants Ltd., (Special General Partner)
Audit report number	XYZH/2017JNA30130
Name of registered accountant	Wang Gong Yong, Zhang Xiu Qin



## I. 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 2016, 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.

## II. Form the basis of audit opinion

We carry out the audit work in accordance with the provisions of China's auditing standards for certified public accountants. The responsibility of the auditor's report on the audit of financial statements is further elaborated on our responsibilities under these guidelines. According to the China CPA occupation moral code we are independent with Shandong Molong, and to fulfill the responsibility of other occupation morality. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## III. Significant uncertainties associated with continuing operations

We remind the users of financial statements, as stated in Note 11(2) to the consolidated financial statements, Shandong Molong's 2016 losses reached RMB650,705,700, and on December 31, 2016, Shandong Molong's current liabilities exceeded its current total assets by RMB1,583,486,500. These issues indicate that there are significant uncertainties may lead to significant doubts about the continued viability of Shandong Molong. This matter does not affect the published audit opinion.



## IV. Emphasis

We remind the users of financial statements, as stated in Note XIV(2) to the financial statements, the Chinese Securities Regulatory Commission has initiated an investigation on the general manager of Shandong Molong, the controlling shareholder and the company, and till the date of this report, the investigation is not over yet, which result has uncertainty. This paragraph does not affect the published audit opinion.

## V. Key audit items

The key audit items are the most important things that we consider in the audit of the financial statements of the current period based on professional judgment. The response to these matters in the overall audit of the financial statements forms part of the background of the audit opinion and we do not have separate opinions on these matters. In addition to what is described in the section concerning the major uncertainties associated with continuing operations, we identify the following key audit items that need to be communicated in this audit report.

### 1. Inventory impairment

#### Key audit items

As of December 31, 2016, Shandong Molong's inventory balance was RMB855,156,700, provision of inventory balance was RMB86,422,500, provision for representing high a book value; and the 2016 inventory price decline was RMB 60,417,200. The increase in the impact on the financial statements is significant. To this end, we listed the provision for inventories as a key audit items.

#### Method of audit

Our main audit procedures:

- We carry out the supervision procedure of inventory, check the quantity and condition of the stock;
- We have Shandong Molong inventory at the end of the old library list, library age longer inventory analysis review;
- We examine the changes in inventories for the previous year;
- We query the annual changes in the prices of raw materials, about 2016 annual raw material price trend, we examine and analyze the risk management to consider these factors may produce inventories in Shandong Molong inventory;
- We made provision for Shandong Molong inventory calculation table, perform inventory impairment procedures, check the rationality analysis of the net realizable value, accuracy assessment inventory impairment provision.

## 2. Impairment of receivables

### Key audit items

As at December 31, 2016, Shandong Molong's accounts receivable balance was RMB381,456,800, with bad debts balance of RMB77,308,100, a high book value; and the 2016 receivables provision for bad debts of RMB55,098,900, represents an impairment of increasing impact on the financial statements, which is significant. Accounts receivable which cannot be recovered on time or cannot be recovered and the occurrence of bad debts have significant impact on the financial statements, for which we included the accounts receivable impairment as a key audit matter.

### Method of audit

Our main audit procedures:

- We review the Shandong Molong provision for bad debts of accounts receivable in the approval process, check the rationality of provision for bad debts accounting policy;
- We analyze the rationality and consistency for bad debts this year and previous years of Shandong molong;
- Our analysis of Shandong Molong's main customers this year transactions, and should perform test procedures with the management of accounts receivable impairment of receivables and the payment period after the evaluation, understand the recovery of possible risks, analyze the rationality of examination management of receivables provision for bad debts;
- We obtain the Shandong Molong provision for bad debts, check the rationality analysis of key assumptions and data accuracy, and the management of bad debt provision amount.



### 3. Impairment of fixed assets

#### Key audit items

As at December 31, 2016, Shandong Molong's consolidated financial statements show a fixed asset book value of RMB3.067 billion. Shandong Molong suffered two consecutive years of losses, and in view of the product market competition and product prices decrease, Shandong Molong's management at the end of the year might based on any sign of possible impairment of assets determine an impairment by test. The impairment test of fixed assets depends largely on judgments and estimates made by management. The estimates of the future market have effect on determining the economic environment, and different estimates and assumptions will have a great influence on the evaluation of fixed assets impairment. The 2016 annual impairment by the management according to the evaluation results produced by external valuation expert represents an impairment of RMB60,810,000 of fixed assets, and for this we included impairment of fixed assets as a key audit item.

#### Method of audit

Our main audit procedures:

- We are on smoke fixed assets, check the status of fixed assets and the annual usage;
- We analyze the management at the end of the year to determine the existence of signs of possible impairment of fixed assets of the judgment, determination of the asset belongs to the asset group and the rationality of this key assumption by testing the impairment of fixed assets;
- We examine whether the recoverable amount of fixed assets assessed by the management is consistent with the management's budget and the company's long-term strategic development plan, and is consistent with the development of the industry and the economic environment;
- We discuss with the company's external assessment experts to analyze the appropriateness of the methodology used by management.
- We examine management's disclosure of fixed assets and impairment of fixed assets.

## 4. Goodwill impairment

### Key audit items

As at December 31, 2016, Shandong Molong's consolidated financial statements show a goodwill net book value of RMB26,683,400. According to the China accounting standards, Shandong Molong annually need to conduct impairment testing of goodwill. The 2016 annual goodwill impairment determined by the Company's management according to the evaluation results of external valuation expert was an impairment of RMB41,800,000, a significant impact on the financial statements. The management goodwill impairment testing process is complex and requires a high degree of judgment, which is based on assumptions, and the expected future market and economic environment, especially at home and abroad in the future market and economic environment and may suffer changes; so we will list this as a key audit item.

### Method of audit

Our main audit procedures:

- We identified — Analysis of management of Shandong Molong owned assets and goodwill group with goodwill impairment test when the key assumptions and methods, reasonable assumptions and methods related to the examination;
- we discuss with the company's management and external assessment experts to understand the most sensitive test results of the assumptions and analysis, analysis of the appropriateness of the assumptions adopted by the management and related disclosure is appropriate.

## VI. Other information

The management of Shandong Molong (hereinafter referred to as management) shall be responsible for other information. Other information includes the information in Shandong Molong's 2016 annual report, but does not include the financial statements and the audit report.

Our audit opinion on financial statements does not cover other information, and we do not publish any kind of conclusions on the other information.

According to our audited financial statements, it is our responsibility to read other information, in this process, consider whether the financial statements and other information show, we understand in the process of auditing, the presence of any significant inconsistencies or there seems to be any material misstatement.

Based on the work we have done, we should report the matter if we find that the other information has a material misstatement. In this regard, we do not have anything to report.



## VII . Responsibility of management for financial statements

The management is responsible for the preparation of financial statements in accordance with the provisions of the accounting standards for enterprises, to achieve fair reflection, and designing, implementing and maintaining internal control, so that the financial statements are free from material misstatements due to fraud or error.

In the preparation of the financial statements, the management is responsible for the assessment of Shandong Molong's ability to continue operating, disclosure and sustainable management related matters (if applicable), and the use of the continuity assumption, unless the management plan of liquidation, Shandong Molong stopped operation or no other choice.

Management is responsible for oversight of the financial reporting process of Shandong molong.

## VIII. The responsibility of certified public accountants to audit financial statements

Our objective is to obtain a reasonable assurance that the financial statements do not exist any material misstatement as a result of fraud or error, and issue an audit report containing the audit opinion. Reasonable assurance is a high level of assurance, but there is no guarantee that the audit in accordance with the implementation of the audit standards can identify a major misstatement. A misstatement may be caused by fraud or error, and if a reasonable expectation is that the errors considered separately or in aggregate may affect the financial decisions made from the financial statements of the user in accordance with the financial statements, it is generally considered that such misstatement is significant.

In the process of carrying out audit work in accordance with the auditing standards, we use professional judgment and maintain professional skepticism. At the same time, we also perform the following tasks:

1. To identify and assess the risk of material misstatement due to fraud or error; the design and implementation of audit procedures to deal with these risks; and to obtain sufficient and appropriate audit evidence, as the basis of audit opinion. As fraud may involve collusion, forgery, omissions, and false statements or override the internal control, failure to find material misstatement due to fraud is more likely than failure to find material misstatement due to errors.
2. To understand the internal audit and control, in order to design appropriate audit procedures.
3. To evaluate the appropriateness of accounting policies used by the management and make the accounting estimates and the reasonableness of the relevant disclosure.
4. Draw conclusions on the appropriateness of the use of a continuing operating hypothesis. At the same time, according to the audit evidence obtained, it may lead to events or circumstances have significant doubts about the continued viability of Shandong Molong whether there are significant uncertainties concluded. If we come to the conclusion that there are significant uncertainties, audit standards require that we brought to the users of financial statements in the audit report noted that the relevant disclosures in the financial statements; if the disclosure is not sufficient, we should issue an unqualified opinion. Our conclusions are based on information available as of the date of audit report. However, future events or conditions may lead to unsustainable management of Shandong molong.
5. To evaluate the overall presentation of financial statements, structure and content (including disclosure), and to assess whether the financial statements reflect the fair transaction and related matters.





6. By obtaining sufficient and appropriate audit evidence regarding entity or business activities' financial information, we formed the audit opinion on the financial statements. We are responsible for directing, supervising and executing group audit, and take full responsibility for the audit opinion.

We communicate with management on the scope of the audit plan, audit schedule, and major audit findings, including the communication of the internal control deficiencies identified in the audit.

We also have to comply with the requirements of professional ethics regarding our independence and provide a corresponding statement to the management, and communicate with the management on matters that may be reasonably expected to affect our independence and other matters, and relevant preventive measures (if applicable).

From communication with the management, we determine what matters are most important to the current financial statements audit, which constitutes key audit matters. We describe these matters in the audit report, unless the laws and regulations prohibit disclosure of these matters, or in rare cases, if reasonably expected negative consequences of disclosure in the audit report override the benefits of disclosure in the public interest, we would not communicate such issues in the audit report.

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

Chinese certified public accountant:  
(project partner)

Chinese certified public accountant:

Beijing China

30 March 2017



# Consolidated Balance Sheet

As at 31 December 2016

Items	Unit: RMB	
	Balance at the end of the year	Balance at the beginning of the year
<b>Current assets:</b>		
Cash and bank balances	<b>679,448,755.91</b>	349,815,773.50
Settlement reserve	—	—
Lending to banks and other financial institutions	—	—
Financial assets at fair value through profit or loss	—	—
Bills receivable	<b>23,403,982.45</b>	46,101,762.76
Accounts receivable	<b>304,148,614.98</b>	497,239,999.28
Loans and advances	<b>142,887,708.94</b>	136,329,884.59
Prepayments	<b>37,042,473.89</b>	12,063,262.16
Insurance receivables	—	—
Reinsurance receivables	—	—
Reinsurance contract reserve receivables	—	—
Interest receivables	<b>8,196,910.73</b>	4,594,396.68
Dividend receivables	—	—
Other receivables	<b>55,703,355.24</b>	87,823,154.76
Financial assets purchased under resales agreement	—	—
Inventories	<b>768,734,172.36</b>	903,784,288.00
Assets classified as held for sale	<b>10,765,552.13</b>	—
Non-current assets due within one year	—	—
Other current assets	<b>112,973,607.82</b>	79,270,918.94
<b>Total current assets</b>	<b>2,143,305,134.45</b>	2,117,023,440.67

# Consolidated Balance Sheet



As at 31 December 2016

Items	Unit: RMB	
	Balance at the end of the year	Balance at the beginning of the year
<b>Non-current assets:</b>		
Loan and advances from other parties	—	—
Available-for-sales financial assets	50,000.00	10,030,000.00
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	2,707,572.57	2,783,902.87
Investment properties	—	—
Fixed assets	3,066,573,497.65	1,291,476,197.17
Construction-in-progress	31,579,353.99	1,710,795,797.18
Construction materials	—	—
Disposal of fixed assets	—	—
Biological asset	—	—
Oil and nature gas	—	—
Intangible assets	449,212,108.76	468,806,719.84
Development expenditure	—	—
Goodwill	26,683,383.21	68,483,383.21
Long-term deferred expenses	—	—
Deferred income tax assets	3,465,431.48	60,918,666.99
Other non-current assets	48,466,358.95	120,862,615.68
<b>Total non-current assets</b>	<b>3,628,737,706.61</b>	<b>3,734,157,282.94</b>
<b>Total assets</b>	<b>5,772,042,841.06</b>	<b>5,851,180,723.61</b>



# Consolidated Balance Sheet

As at 31 December 2016

Items	Unit: RMB	
	Balance at the end of the year	Balance at the beginning of the year
<b>Current liabilities:</b>		
Short-term borrowings	<b>2,436,842,117.30</b>	1,469,055,063.41
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	<b>241,427,907.86</b>	304,242,384.43
Accounts payable	<b>901,601,597.75</b>	904,789,898.53
Receipts in advance	<b>73,674,754.30</b>	43,005,331.88
Financial assets sold under repurchase agreements	—	—
Bank charges and commission payable	—	—
Salaries payable	<b>30,194,232.47</b>	26,953,318.48
Taxes payable	<b>9,905,721.00</b>	7,387,844.14
Interests payable	<b>3,716,115.91</b>	17,853,069.32
Dividends payable	—	—
Other payables	<b>29,429,211.29</b>	23,979,858.24
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	—	499,444,444.41
Other current liabilities	—	1,808,000.00
<b>Total current liabilities</b>	<b>3,726,791,657.88</b>	3,298,519,212.84

# Consolidated Balance Sheet



As at 31 December 2016

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
<b>Non-current liabilities</b>		
Long-term borrowings	145,000,000.00	—
Bonds payable	—	—
including: Preferred stock	—	—
Perpetual capital securities	—	—
Long-term payables	—	—
Long-term salaries payable	—	—
Specific payable	—	—
Provision	—	—
Deferred income	6,954,855.00	—
Deferred income tax liabilities	7,629,102.79	14,576,914.87
Other non-current liabilities	—	—
<b>Total non-current liabilities</b>	<b>159,583,957.79</b>	<b>14,576,914.87</b>
<b>Total liabilities</b>	<b>3,886,375,615.67</b>	<b>3,313,096,127.71</b>
<b>Shareholders' equity:</b>		
Share capital	797,848,400.00	797,848,400.00
Other equity instruments	—	—
including: Preferred stock	—	—
Perpetual capital securities	—	—
Capital reserve	849,718,158.42	849,500,658.42
Less: Treasury stock	—	—
Other comprehensive income	(3,092,433.84)	(1,262,175.75)
Special reserve	—	—
Surplus reserve	176,686,903.51	176,686,903.51
General risk reserve	11,236.91	11,236.91
Undistributed profits	(2,104,173.06)	610,372,203.12
<b>Total equity attributable to shareholders of Company</b>	<b>1,819,068,091.94</b>	<b>2,433,157,226.21</b>
Minority interests	66,599,133.45	104,927,369.69
<b>Total shareholders' equity</b>	<b>1,885,667,225.39</b>	<b>2,538,084,595.90</b>
<b>Total liabilities and shareholders' equity</b>	<b>5,772,042,841.06</b>	<b>5,851,180,723.61</b>

Legal representative:

Comptroller principal:

Leading member of the accounting  
body:



# Company's Balance Sheet

As at 31 December 2016

Items	Unit: RMB	
	Balance at the end of the year	Balance at the beginning of the year
<b>Current assets:</b>		
Cash and bank balances	599,097,430.73	326,916,816.32
Financial assets at fair value through profit or loss	—	—
Bills receivable	20,668,982.45	42,709,812.76
Accounts receivable	576,856,586.89	729,394,966.45
Prepayments	428,363,237.40	256,081,439.26
Interest receivables	5,984,073.95	1,367,703.59
Dividend receivables	—	—
Other receivables	338,646,279.63	577,291,445.12
Inventories	600,619,996.95	664,063,395.95
Assets classified as held for sale	10,765,552.13	—
Non-current assets due within one year	—	—
Other current assets	2,453,338.22	5,892.62
<b>Total current assets</b>	<b>2,583,455,478.35</b>	<b>2,597,831,472.07</b>
<b>Non-current assets:</b>		
Available-for-sales investments	20,000.00	10,000,000.00
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	1,144,069,921.73	1,052,069,921.73
Investment properties	—	—
Fixed assets	1,311,349,758.67	724,838,147.91
Construction in progress	9,148,911.28	685,877,023.21
Construction materials	—	—
Disposal of fixed assets	—	—
Biological asset	—	—
Oil and nature gas	—	—
Intangible assets	150,781,549.00	204,967,332.34
Development expenditure	—	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	—	55,795,860.96
Other non-current assets	—	—
<b>Total non-current assets</b>	<b>2,615,370,140.68</b>	<b>2,733,548,286.15</b>
<b>Total assets</b>	<b>5,198,825,619.03</b>	<b>5,331,379,758.22</b>

# Company's Balance Sheet



As at 31 December 2016

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
<b>Current liabilities:</b>		
Short-term borrowings	1,572,921,489.30	1,354,119,063.41
Financial liabilities at fair value through profit or loss	—	—
Bills payable	925,978,535.86	379,257,384.43
Accounts payable	354,013,293.48	374,304,512.49
Receipts in advance	46,083,166.73	59,256,216.50
Salaries payable	21,715,692.23	19,647,436.97
Taxes payable	3,645,957.07	3,062,167.56
Interests payable	3,375,485.69	17,491,882.76
Dividends payable	—	—
Other payables	121,252,406.87	8,682,202.90
Liabilities classified as held for sale	—	—
Non-current liabilities due within one year	—	499,444,444.41
Other current liabilities	—	1,808,000.00
<b>Total current liabilities</b>	<b>3,048,986,027.23</b>	<b>2,717,073,311.43</b>
<b>Non-current liabilities</b>		
Long-term borrowings	145,000,000.00	—
Bonds payable	—	—
including: Preferred stock	—	—
Perpetual capital securities	—	—
Long-term payables	—	—
Long-term salaries payable	—	—
Specific payable	—	—
Provision	—	—
Deferred income	—	—
Deferred income tax liabilities	—	205,155.54
Other non-current liabilities	—	—
<b>Total non-current liabilities</b>	<b>145,000,000.00</b>	<b>205,155.54</b>
<b>Total liabilities</b>	<b>3,193,986,027.23</b>	<b>2,717,278,466.97</b>



# Company's Balance Sheet

As at 31 December 2016

Items	Unit: RMB	
	Balance at the end of the year	Balance at the beginning of the year
<b>Shareholders' equity:</b>		
Share capital	<b>797,848,400.00</b>	797,848,400.00
Other equity instruments	—	—
including: Preferred stock	—	—
Perpetual capital securities	—	—
Capital reserve	<b>849,699,490.92</b>	849,481,990.92
Less: Treasury stock	—	—
Other comprehensive income	—	—
Special reserve	—	—
Surplus reserve	<b>176,686,903.51</b>	176,686,903.51
Undistributed profits	<b>180,604,797.37</b>	790,083,996.82
<b>Total equity attributable to shareholders of Company</b>	<b>2,004,839,591.80</b>	2,614,101,291.25
<b>Total liabilities and shareholders' equity</b>	<b>5,198,825,619.03</b>	5,331,379,758.22



# Consolidated Income Statements



For the year ended 31 December 2016

Items	Unit: RMB	
	Amount of this year	Amount of previous year
<b>I. Total revenue from operations</b>	<b>1,531,118,375.18</b>	1,613,917,735.08
Including: Operating revenue	<b>1,531,118,375.18</b>	1,613,917,735.08
Interest income	—	—
Earned insurance premium	—	—
Brokerage and commission income	—	—
<b>II. Total costs of operations</b>	<b>2,136,977,077.37</b>	1,936,568,687.67
Including: Operating cost	<b>1,641,800,821.53</b>	1,495,373,781.61
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	<b>17,949,257.54</b>	11,261,460.10
Selling expenses	<b>50,980,617.53</b>	124,886,386.85
Administrative expenses	<b>157,120,673.19</b>	175,105,370.71
Finance costs	<b>52,507,807.22</b>	49,163,255.55
Asset impairment losses	<b>216,617,900.36</b>	80,778,432.85
Add: Gains from changes in fair value	—	—
Investment income	<b>50,624.92</b>	(1,127,461.14)
Including: Gains from investment in associates and joint ventures	<b>(76,330.30)</b>	(1,127,461.14)
Exchange gain	—	—
<b>III. Operating (loss) profit</b>	<b>(605,808,077.27)</b>	(323,778,413.73)
Add: Non-operating income	<b>7,342,777.08</b>	26,700,315.46
Including: Gain from disposal of non-current assets	<b>270,348.71</b>	—
Less: Non-operating expenses	<b>1,020,719.53</b>	1,394,815.53
Including: Loss from disposal of non-current assets	<b>88,185.70</b>	86,303.29
<b>IV. Total (loss) profit</b>	<b>(599,486,019.72)</b>	(298,472,913.80)
Less: Income tax (credit) expenses	<b>51,219,680.01</b>	(11,973,966.90)
<b>V. Net (loss) profit</b>	<b>(650,705,699.73)</b>	(286,498,946.90)
Net (loss) profit attributable to the owners of the Company	<b>(612,476,376.18)</b>	(259,565,004.32)
Net (loss) profit attributable to non-controlling interests	<b>(38,229,323.55)</b>	(26,933,942.58)



# Consolidated Income Statements

For the year ended 31 December 2016

Items	Unit: RMB	
	Amount of this year	Amount of previous year
<b>VI. Other comprehensive income, net of tax</b>	<b>(1,929,170.78)</b>	(1,660,759.37)
Other comprehensive income net of tax attributable to the owners of the Company	<b>(1,830,258.09)</b>	(1,574,337.55)
(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 may be reclassified subsequently to profit or loss	<b>(1,830,258.09)</b>	(1,574,337.55)
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>(1,830,258.09)</b>	(1,574,337.55)
6. Others	—	—
Other comprehensive expense attributable to the non-controlling interests (net of tax)	<b>(98,912.69)</b>	(86,421.82)
<b>VII. Total comprehensive (expense) income</b>	<b>(652,634,870.51)</b>	(288,159,706.27)
Total comprehensive (expense) income attributable to shareholders of Company	<b>(614,306,634.27)</b>	(261,139,341.87)
Total comprehensive (expense) income attributable to non-controlling interest	<b>(38,328,236.24)</b>	(27,020,364.40)
<b>VIII. (Loss) earnings per share:</b>		
(i) (Loss) earnings per share — basic	<b>(0.77)</b>	(0.33)
(ii) (Loss) earnings per share — Diluted	<b>(0.77)</b>	(0.33)

Legal representative:

Comptroller principal:

Leading member of  
the accounting body:

# Company Income Statements



For the year ended 31 December 2016

Items	Unit: RMB	
	Amount of this year	Amount of previous year
<b>I. Total revenue from operations</b>	<b>1,403,540,540.00</b>	1,677,713,196.84
Less: Operating cost	<b>1,403,244,504.99</b>	1,479,088,909.85
Business tax and surcharges	<b>12,621,880.88</b>	10,276,740.18
Selling expenses	<b>48,289,921.64</b>	124,217,789.53
Administrative expenses	<b>126,530,848.82</b>	131,198,297.53
Finance costs	<b>51,420,439.38</b>	61,194,580.94
Asset impairment losses	<b>318,580,522.60</b>	55,084,817.00
Add: Gains from changes in fair value	—	—
Investment income	<b>259.63</b>	—
Including: Gains from investment in associates and joint ventures	—	—
<b>II. Operating (loss) profit</b>	<b>(557,147,318.68)</b>	(183,347,938.19)
Add: Non-operating income	<b>4,117,280.63</b>	24,309,247.70
Including: Gain from disposal of non-current assets	<b>270,348.71</b>	—
Less: Non-operating expenses	<b>858,455.98</b>	437,484.97
Including: Loss from disposal of non-current assets	<b>29,742.03</b>	72,653.34
<b>III. Total profit (loss)</b>	<b>(553,888,494.03)</b>	(159,476,175.46)
Less: Income tax (credit) expenses	<b>55,590,705.42</b>	(25,399,406.51)
<b>IV. Net (loss) profit</b>	<b>(609,479,199.45)</b>	(134,076,768.95)
<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>(609,479,199.45)</b>	(134,076,768.95)
<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:



# Consolidated Statement of Cash Flow

For the year ended 31 December 2016

Items	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>1,405,063,772.88</b>	1,549,661,942.67
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>8,185,886.76</b>	2,914,033.63
Net increase in placements from banks and other financial institutions	—	—
Net increase in repurchase business capital	—	—
Receipts of tax refunds	<b>10,652,636.64</b>	75,182,097.54
Other cash receipts relating to operating activities	<b>163,415,724.85</b>	87,833,928.84
<b>Sub-total of cash inflows from operating activities</b>	<b>1,587,318,021.13</b>	1,715,592,002.68
Cash payments for goods purchased and services rendered	<b>1,148,147,984.69</b>	1,210,602,062.04
Net increase in loans and advances to customers	<b>10,711,260.71</b>	24,659,618.00
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>102,580,015.99</b>	122,767,445.69
Payments of all types of taxes	<b>29,163,081.98</b>	50,520,226.81
Other cash payments relating to operating activities	<b>192,298,545.04</b>	286,409,861.67
<b>Sub-total of cash outflows from operating activities</b>	<b>1,482,900,888.41</b>	1,694,959,214.21
<b>Net cash flows from operating activities</b>	<b>104,417,132.72</b>	20,632,788.47

# Consolidated Statement of Cash Flow



For the year ended 31 December 2016

Items	Unit: RMB	
	Amount of this year	Amount of previous year
<b>II. Cash flows from investing activities:</b>		
Cash receipts from disposals of investments	10,000,000.00	—
Cash receipts from gain of investments	126,955.22	4,846,561.76
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets	84,356.21	779.56
Net cash receipts from disposals of subsidiaries and other business units	—	—
Other cash receipts relating to investing activities	—	—
<b>Sub-total of cash inflows from investing activities</b>	<b>10,211,311.43</b>	<b>4,847,341.32</b>
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets	309,810,900.37	250,632,305.34
Cash payments to acquire investments	20,000.00	—
Net increase in pledged loans	—	—
Net cash payments for acquisition of subsidiaries and other business units	—	5,144,195.00
Other cash payments relating to investing activities	—	—
<b>Sub-total of cash outflows from investing activities</b>	<b>309,830,900.37</b>	<b>255,776,500.34</b>
<b>Net cash flows from investing activities</b>	<b>(299,619,588.94)</b>	<b>(250,929,159.02)</b>
<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	3,093,252,422.24	2,414,448,251.09
Cash receipts from issuance of bonds	—	—
Other cash receipts relating to financing activities	106,954,855.00	3,050,000.00
<b>Sub-total of cash inflows from financing activities</b>	<b>3,200,207,277.24</b>	<b>2,417,498,251.09</b>
Cash repayments for borrowings	2,616,321,277.40	2,389,376,692.87
Cash payments for distribution of dividends or profits and interest expenses	106,168,568.85	89,237,158.93
Including: Cash payments for the minority interests in subsidiaries	—	—
Other cash payments relating to financing activities	10,050,000.00	—
<b>Sub-total of cash outflows from financing activities</b>	<b>2,732,539,846.25</b>	<b>2,478,613,851.80</b>
<b>Net cash flows from financing activities</b>	<b>467,667,430.99</b>	<b>(61,115,600.71)</b>



# Consolidated Statement of Cash Flow

For the year ended 31 December 2016

Items	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>17,724,755.63</b>	12,878,107.09
<b>V. Net increase in cash and cash equivalents</b>	<b>290,189,730.40</b>	(278,533,864.17)
Add: Beginning balance of cash and cash equivalents	<b>218,309,025.51</b>	496,842,889.68
<b>VI. Ending balance of cash and cash equivalents</b>	<b>508,498,755.91</b>	218,309,025.51

\_\_\_\_\_  
Legal representative:

\_\_\_\_\_  
Comptroller principal:

\_\_\_\_\_  
Leading member of  
the accounting body:

# Company's Statement of Cash Flow



For the year ended 31 December 2016

Unit: RMB

Items	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	1,296,786,996.54	1,716,867,317.18
Receipts of tax refunds	10,265,423.37	74,602,097.54
Other cash receipts relating to operating activities	378,660,734.43	75,456,611.74
<b>Sub-total of cash inflows from operating activities</b>	<b>1,685,713,154.34</b>	1,866,926,026.46
Cash payments for goods purchased and services rendered	1,172,472,523.22	1,331,967,807.08
Cash paid to and on behalf of employees	74,918,627.52	94,605,632.06
Payments of all types of taxes	18,777,499.65	33,228,679.76
Other cash payments relating to operating activities	231,395,422.38	520,181,523.16
<b>Sub-total of cash outflows from operating activities</b>	<b>1,497,564,072.77</b>	1,979,983,642.06
<b>Net cash flows from operating activities</b>	<b>188,149,081.57</b>	(113,057,615.60)
<b>II. Cash flows from investing activities:</b>		
Cash receipts from disposals of investments	10,000,000.00	—
Cash receipts from gain of investments	259.63	—
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets	13,796.31	—
Net cash receipts from disposals of subsidiaries and other business units	—	—
Other cash receipts relating to investing activities	—	—
<b>Sub-total of cash inflows from investing activities</b>	<b>10,014,055.94</b>	—
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets	17,561,512.10	72,380,218.28
Cash payments to acquire investments	300,020,000.00	10,000,000.00
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>317,581,512.10</b>	82,380,218.28
<b>Net cash flows from investing activities</b>	<b>(307,567,456.16)</b>	(82,380,218.28)



# Company's Statement of Cash Flow

For the year ended 31 December 2016

Items	Unit: RMB	
	Amount of this year	Amount of previous year
<b>III. Cash flows from financing activities:</b>		
Cash receipts from investors	—	—
Cash receipts from borrowings	<b>2,233,064,794.24</b>	2,303,084,251.09
Cash receipts from issuance of bonds	—	—
Other cash receipts relating to financing activities	<b>693,055,031.30</b>	3,050,000.00
<b>Sub-total of cash inflows from financing activities</b>	<b>2,926,119,825.54</b>	2,306,134,251.09
Cash repayments for borrowings	<b>2,500,684,277.40</b>	2,328,115,692.87
Cash payments for distribution of dividends or profits and interest expenses	<b>78,013,164.77</b>	85,429,284.37
Other cash payments relating to financing activities	<b>10,050,000.00</b>	—
<b>Sub-total of cash outflows from financing activities</b>	<b>2,588,747,442.17</b>	2,413,544,977.24
<b>Net cash flows from financing activities</b>	<b>337,372,383.37</b>	(107,410,726.15)
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>	<b>14,783,353.62</b>	12,886,397.56
<b>V. Net increase in cash and cash equivalents</b>	<b>232,737,362.40</b>	(289,962,162.47)
Add: Beginning balance of cash and cash equivalents	<b>195,410,068.33</b>	485,372,230.80
<b>VI. Ending balance of cash and cash equivalents</b>	<b>428,147,430.73</b>	195,410,068.33

Legal representative:

Comptroller principal:

Leading member of  
the accounting body:



# Consolidated Statements of Changes in Equity



For the year ended 31 December 2016

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	—	(1,262,175.75)	—	176,686,903.51	11,236.91	610,372,203.12	104,927,369.69	2,538,084,595.90
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	—	(1,262,175.75)	—	176,686,903.51	11,236.91	610,372,203.12	104,927,369.69	2,538,084,595.90
<b>III. Changes in the current year</b>	—	—	—	—	217,500.00	—	(1,830,258.09)	—	—	—	(612,476,376.18)	(38,328,236.24)	(652,417,370.51)
(i) Total comprehensive expense for the year	—	—	—	—	217,500.00	—	(1,830,258.09)	—	—	—	(612,476,376.18)	(38,328,236.24)	(652,417,370.51)
(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	—	—	—	—	217,500.00	—	—	—	—	—	—	—	217,500.00
(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	—	—	—	—	—	—	—	—	—	—	—	806,668.37	7,589,150.09
2. Utilized	—	—	—	—	—	—	—	—	—	—	—	806,668.37	7,589,150.09
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>IV. Balance at the end of the current year</b>	797,848,400.00	—	—	—	849,718,158.42	—	(3,092,433.84)	—	176,686,903.51	11,236.91	(2,104,173.06)	66,599,133.45	1,885,667,225.39



# Consolidated Statements of Changes in Equity

For the year ended 31 December 2016

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	—	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>	—	—	—	—	—	—	(1,574,337.55)	—	—	11,236.91	(259,565,004.32)	48,965,225.26	(212,162,879.70)
(i) Total comprehensive expense for the year	—	—	—	—	—	—	(1,574,337.55)	—	—	—	(259,565,004.32)	(27,020,364.40)	(288,159,706.27)
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—	—	75,964,721.12	75,964,721.12
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. 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	—	—	—	—	—	—	—	—	—	11,236.91	—	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	104,927,369.69	2,638,084,696.90

Legal representative:

Comptroller principal:

Leading member of the accounting body:

# Company's Statements of Changes in Equity



For the year ended 31 December 2016

Unit: RMB

Items	Current year						Total equity				
	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	—	—	—	176,686,903.51	790,083,996.82	2,614,101,291.25
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	790,083,996.82	2,614,101,291.25
<b>III. Changes in the current year</b>	—	—	—	—	217,500.00	—	—	—	—	(609,479,199.45)	(609,261,699.45)
(i) Total comprehensive expenses for the year	—	—	—	—	—	—	—	—	—	(609,479,199.45)	(609,479,199.45)
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	217,500.00	—	—	—	—	—	217,500.00
1. Capital injection shareholders	—	—	—	—	—	—	—	—	—	—	—
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses changes to equity	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	217,500.00	—	—	—	—	—	217,500.00
(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	—	—	—	—	—	—	—	4,107,947.74	—	—	4,107,947.74
2. Utilized	—	—	—	—	—	—	—	4,107,947.74	—	—	4,107,947.74
(vi) Others	—	—	—	—	—	—	—	—	—	—	—
<b>IV. Balance at the end of the current year</b>	797,848,400.00	—	—	—	849,699,490.92	—	—	—	176,686,903.51	180,604,797.37	2,004,839,591.80



# Company's Statements of Changes in Equity

For the year ended 31 December 2016

Unit: RMB

Items	Other equity instruments					Previous year					Total equity
	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	—	—	—	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>											
(i) Total comprehensive expenses for the year	—	—	—	—	—	—	—	—	—	(134,076,768.95)	(134,076,768.95)
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	(134,076,768.95)	(134,076,768.95)
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

Legal representative:

Comptroller principal:

Leading member of  
the accounting body:

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

(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 2016 to 31 December 2016

(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 398,924,200 shares.

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

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.

The consolidated financial statements of the Group include ten companies consisting of Shouguang Baolong Petroleum Material Company LTD, Shouguang Maolong Technical Development of New Material Company LTD, Weihai Baolong Petroleum Material Company LTD etc. Compared with last year, there is no change in the scope of the consolidated financial statements.

For the Group subsidiaries please refer to note VI "Changes in Scope of Consolidation" and Note VII "Interests in other Entity".



1 January 2016 to 31 December 2016

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

## II. Preparation of foundation of the financial statements

### 1. compiling foundation

The financial statements make continued to operate as the foundation, according to the actual transactions and events, according to the Ministry of Finance issued Chinese “enterprise accounting standards” and related regulations (hereinafter referred to as the “enterprise accounting standards”), and the Chinese Securities Regulatory Commission “public offering of securities of the company information disclosure of Financial Report No. fifteenth of the rules general provisions” (revised in 2014), the Hongkong Companies Ordinance “,” Hongkong Stock Exchange Listing Rules “disclosure rules, and the” five note, the important accounting policies and accounting estimates based on the accounting policies and accounting estimates.

### 2. Going concern

The losses of the group as shown in the consolidated financial statements of the group for the year were RMB650,705,700, and on December 31, 2016 the Company's current liabilities exceeded its current total assets by RMB1,583,486,500. This situation indicates that the company may have significant uncertainties that lead to significant doubts about continuing operations.

In view of the above, the company has taken into account the company's future liquidity and its available sources of funds in assessing whether the group has sufficient financial resources to continue operating as a basis.

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

- (1) Mr. Zhang Enrong (the controlling shareholder of the company) in March 30, 2017 to hold the company issued A shares 235,617,000 shares (representing the company has issued 29.53% of the total share capital), make a irrevocable letter of commitment (hereinafter referred to as the financial support, and support undertaking) :
  - (a) as of March 30, 2017, the group borrowed from Mr. Zhang Enrong RMB150,000,000 (hereinafter referred to as shareholder loans). Mr. Zhang Enrong undertook not to require the group to pay the sum of shareholder loans, until the financial position of the group had significantly improved enough to repay;
  - (b) Mr. Zhang Enrong signed a financial support undertaking that when Shandong Molong requires financing, the controlling shareholder of Shandong Molong will raise funds by share pledge or any reasonable way for Shandong Molong to meet its working capital for operation, loan repayment and loan renewal as needed;
  - (c) In addition to the above (a) and (b), Mr. Zhang Enrong will not sell or pledge his shares in Shandong Molong to any other party. At the same time, the controlling shareholder using his own financial capacity or other potential financial ability will provide financial support to Shandong Molong, till Shandong Molong has enough funds to meet its operation needs and is able to pay its due debts.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

## II. Preparation of foundation of the financial statements (continued)

### 2. Going concern (continued)

- (2) The group is taking measures to actively seek new investment and business opportunities to achieve profitable and abundant working capital.
- (3) the group is currently taking a variety of measures to reduce production costs, increase market development efforts to broaden the channels of financing channels to enhance the market position of the group and to achieve diversification of income sources.

Taking into account the above measures, the company believes that there will be sufficient funds to maintain normal production and operation, so it is reasonable to prepare financial statements on the basis of continuing operating position.

## III. 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 2016 and the results of their operations and their cash flows for the year ended 31 December 2016 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.





1 January 2016 to 31 December 2016

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

## III. 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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

## III. 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.



1 January 2016 to 31 December 2016

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

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

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

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.

### 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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 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) 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.

1 January 2016 to 31 December 2016

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

## III. 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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 10. Financial assets and financial liabilities (continued)

#### (1) Financial assets

##### (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.

1 January 2016 to 31 December 2016

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

## III. 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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

#### (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.

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.

#### (2) Accounts receivable provided for bad debts by portfolio of credit risks.

Provided for bad debts by aging analyses of accounts of portfolio,

Applicable      ✓ Not applicable

Provided for bad debts by balance fraction of portfolio,

Applicable      ✓ Not applicable

Provided for bad debts by other methods of portfolio,

Applicable      ✓ Not applicable

#### (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.

Provision method for bad debts provision      Individual determination method



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## III. 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.



# Notes to the Financial Statements

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## III. 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.



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

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

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

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.

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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

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

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.

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.

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 16. Investment Properties

Measurement model of investment properties

Not applicable.

### 17. Fixed assets

#### (1) Confirmation conditions

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, renting 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.

#### (2) Depreciation method

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

#### (3) Depreciation method Straight-line depreciation

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 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.

### 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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 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.

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.



1 January 2016 to 31 December 2016

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

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

### 20. Intangible Assets (continued)

#### (1) Intangible assets (continued)

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.

#### (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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 20. Intangible Assets (continued)

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

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.

### 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.



1 January 2016 to 31 December 2016

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

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

### 21. Impairment loss on long term assets (continued)

When the goodwill on the financial statement is tested for impairment, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash generating units, that is expected to benefit from the synergies of the combination. An impairment loss shall be recognized for a cash-generating unit if, and only if, the recoverable amount of unit is less than the book value of the unit. The impairment loss shall be allocated to reduce the book value of any goodwill allocated to the cash-generating unit first. Next, it shall be allocated to the other assets of the unit pro rata on the basis of the book value of each asset in the unit.

If the book value of the assets exceed its recoverable amount after the impairment test, the impairment loss is 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.

### 23. Employee Benefits

#### (1) Accounting Treatment of short-term salaries

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.

#### (2) Accounting Treatment of post-employment benefits

The Group does not have post-employment benefits.

#### (3) Accounting Treatment of dismissal benefits

The Group does not have dismissal benefits.

#### (4) Accounting Treatment of other long-term benefits

The Group does not have other long-term benefits.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 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.

### 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.



1 January 2016 to 31 December 2016

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

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

### 25. Production Safety Fee (continued)

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.

### 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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 26. Revenue recognition (continued)

#### (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.

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 2016 to 31 December 2016

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

## III. 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

#### (1) Accounting treatment of operating leases

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.

(i) *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.

(ii) *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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 29. Leasing (continued)

#### (2) Accounting treatment of finance leases

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.

(i) *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.

(ii) *The Group as finance lessee*

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.

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.



1 January 2016 to 31 December 2016

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

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

### 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.

### 31. 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.

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

The Group makes its estimates in line with current markets conditions, ages of accounts receivable and financial status of the customers and guarantee provided by customers (in case). The Group reviews whether impairment loss provided for accounts receivable is evident periodically. If all the used assumptions and estimates for reviewing are changed, the estimates of impairment loss provided for accounts receivable during the period will be affected.

#### (2) Provision for inventories

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 of raw material, products and stock material 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 2016 to 31 December 2016

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

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

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

#### (3) Impairment loss of long-term assets

The group performs test for impairment of goodwill, fixed assets and intangible assets and the like. Determining whether it is impaired requires an estimation of the value in use of the cash-generating units.

The value in use calculation requires the Group to estimate the future cash flows expected to arise from basic assumptions and accounting estimates. On estimating the value of future cash flow, estimates of assets, future cash flow and life of assets and discount rate.

Estimates on experiences may differs with the future actual estimates and will affect the profits and losses of the period.

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

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

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

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

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

#### (1) 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

### 33. Other

#### Segment information

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

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



# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

## IV. Taxation

### 1. Main tax types and tax rates

Tax Type	Basis of taxing	Tax rate
Value-added tax	Note 1	17%
Business income tax	Taxable income	15%–25%
Business tax	Operation Revenue	5%
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%

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”.

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 Micro-Credit”)	25%
Shandong Molong Import & Export Company Limited (“Molong Import & Export”)	25%

### 2. Tax Incentives and Approvals

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



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

## V. Notes to the Consolidated Financial Statements

### 1. Cash and cash equivalents

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Cash	52,907.41	82,768.08
Bank balance	142,997,137.90	151,614,579.43
Other monetary assets	536,398,710.60	198,118,425.99
<b>Total</b>	<b>679,448,755.91</b>	<b>349,815,773.50</b>
Include: Fund deposited in overseas	70,961,819.80	1,266,927.95

- (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 RMB503,098,710.60 (at the beginning of the year: RMB84,128,661.69), borrowings and deposit for letter of credit of RMB12,000,000.00 (at the beginning of the year: RMBnil), deposit for letter of guarantee of RMB21,300,000.00 (at the beginning of the year: RMB22,050,000.00) and fixed deposit of RMBnil (at the beginning of the year: RMB91,939,764.30)
- (3) At the end of the year, the Group had bank acceptance bills deposit with maturity date over 3 months of RMB157,500,000.00 (at the beginning of the year: RMB37,616,983.69), borrowings and deposit for letter of credit with maturity date over 3 months of RMB12,000,000.00 (at the beginning of the year: RMB nil); and deposit for letter of guarantee with maturity date over 3 months of RMB nil (at the beginning of the year: RMB1,950,000.00); fixed deposits with maturity date over 3 months of RMB nil (at the beginning of the year: RMB91,939,764.30).
- (4) The company is located in the Bank of China Construction Bank Shouguang branch 1450000 Yuan due to judicial proceedings frozen.

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 2. Bills Receivable

#### (1) Classification of bills receivable

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance notes	15,353,982.45	27,629,547.57
Commercial acceptance notes	8,050,000.00	18,472,215.19
Total	23,403,982.45	46,101,762.76

#### (2) Pledged bills receivable

Unit: RMB

Items	Pledged amount at the end of the year
Bank acceptance notes	200,000.00
Commercial acceptance notes	6,000,000.00
Total	6,200,000.00

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

Unit: RMB

Items	Amount derecognized at the end of the year	Amount not derecognized at the end of the year
Bank acceptance notes	465,957,020.83	—
Commercial acceptance notes	3,073,245.18	—
Total	469,030,266.01	—

#### (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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 3. Accounts Receivable

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

Unit: RMB

Items	Balance at the end of the year					Balance at the beginning of the year				
	Book amount		Provision for bad debts		Carrying value	Book amount		Provision for bad debts		Carrying value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Single item with significant accounts receivable and provided for bad debts in individual assessment for impairment loss	112,268,032.58	29.43%	67,648,771.75	60.26%	44,619,260.83	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	257,244,161.81	67.44%	—	—	257,244,161.81	473,469,333.00	90.58%	—	—	473,469,333.00
Single item with insignificant accounts receivable but provided for bad debts individually	11,944,569.01	3.13%	9,659,376.67	80.87%	2,285,192.34	5,656,080.05	1.08%	3,280,616.62	58.00%	2,375,463.43
<b>Total</b>	<b>381,456,763.40</b>	<b>100.00%</b>	<b>77,308,148.42</b>	<b>—</b>	<b>304,148,614.98</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>

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 3. Accounts Receivable (continued)

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

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

Unit: RMB

Companies	Balance at the end of the year			
	Carrying amount	Provision for bad debt	Ratio (%)	Reason for provision
Peak Pipe and Supply, LLC	48,563,298.72	25,757,036.85	53.00%	Recovery at risk
Shandong Coal Machinery Equipment Co., Ltd.	25,411,133.71	17,924,339.57	70.00%	Aging over two years with low possibility of recovery
Fairmont international oil companies	16,637,878.32	4,991,363.50	30.00%	Aging over three years with low possibility of recovery
Dong 'e luen hing metal products co., LTD	13,398,450.00	10,718,760.00	80.00%	Aging over three years with low possibility of recovery
Wenlai Jinlong Investment Company Limited, Beijing Office	8,257,271.83	8,257,271.83	100.00%	Aging over three years with low possibility of recovery
Total	112,268,032.58	67,648,771.75	—	—

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

Companies	Carrying amount	Provision for bad debt	Ratio (%)	Reason for provision
SBI Company (USA)	4,316,839.40	4,316,839.40	100.00	Recovery at risk
Samasu International Oil Corporation	3,356,866.05	2,014,119.63	60.00	Recovery at risk
Metal One Corporation	1,204,607.48	722,764.49	60.00	Aging over three years with low possibility of recovery
South China Petrochemical Group	1,109,486.42	1,109,486.42	100.00	Recovery at risk
DIS of Indonesia	835,873.82	501,524.29	60.00	Aging over three years with low possibility of recovery
China Petroleum Technology Development Corporation	594,152.90	594,152.90	100.00	Recovery at risk
Zibo QiLin Electrical and Logistics Company Limited	244,795.51	244,795.51	100.00	Recovery at risk
Amy, Canadian companies	180,362.00	54,108.60	30.00	Aging over three years with low possibility of recovery
Hanting Energy Resource Private Service Company Limited	101,585.43	101,585.43	100.00	Recovery at risk
Total	11,944,569.01	9,659,376.67	—	—



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 3. Accounts Receivable (continued)

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

The impairment loss on accounts receivables amounted to RMB55,098,901.78. There is RMB3,284,636.96 reversal of provision for bad debt or recovery of impaired accounts receivable during this year.

Unit: RMB

Company	Reversal amount	Reversal Method
Shengli Oilfield Highland Petroleum Equipment Co., Ltd	3,284,636.96	Payment for goods
Total	3,284,636.96	—

#### (3) Accounts receivable written off as uncollectible during the period

Accounts receivable written off as uncollectible during this year.

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

Entities	Amount	Aging	Percentage of the total accounts receivable (%)	Impairment loss at the end of the year
Petroamazonas EP	4,428,164.24	Within one year	1.16%	—
	70,385,708.80	One to two years	18.45%	—
Peak Pipe and Supply, LLC	11,269,807.92	One to two years	2.95%	3,380,942.37
	37,293,490.80	Two to Three years	9.78%	22,376,094.48
HeBei ZhongTai Steel Pipe Manufacture Co., Limited	5,019,089.40	Within one year	1.32%	—
	31,096,907.33	One to two years	8.15%	—
Shandong Coal Machinery Equipment Co., Ltd.	18,716,985.36	Two to Three years	4.91%	11,230,191.22
	6,694,148.35	Three to Four years	1.75%	6,694,148.35
Ferrer Chemical Co., Ltd	16,637,878.32	One to two years	4.36%	4,991,363.50
Total	201,542,180.52	—	52.83%	48,672,739.92

(5) At 31 December 2016, the Group had no pledged accounts receivable.

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

## V. 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	159,655,065.71	148,943,805.00
Less: Provision for impairment losses	16,767,356.77	12,613,920.41
Net amount	142,887,708.94	136,329,884.59

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

Items	Balance at the end of the year	Balance at the beginning of the year
Pledged loans	65,380,575.56	85,781,269.46
Mortgage loans	3,314,000.00	7,414,200.00
Guaranteed loans	74,193,133.38	43,134,415.13
Total	142,887,708.94	136,329,884.59



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 4. Loans and Advances (continued)

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

Types	Balance at the end of the year						
	Book amount		General provision for impairment loss		Specific provision for impairment loss		Provision for impairment loss
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	
Pass	75,921,160.71	47.55	759,211.61	1.00	—	0.00	759,211.61
Special mention	31,794,218.00	19.92	317,942.18	1.00	635,884.36	2.00	953,826.54
Sub standard	45,739,687.00	28.65	457,396.87	1.00	11,434,921.75	25.00	11,892,318.62
Doubtful	6,200,000.00	3.88	62,000.00	1.00	3,100,000.00	50.00	3,162,000.00
Loss	—	—	—	—	—	—	—
<b>Total</b>	<b>159,655,065.71</b>	<b>100.00</b>	<b>1,596,550.66</b>	<b>—</b>	<b>15,170,806.11</b>	<b>—</b>	<b>16,767,356.77</b>

Types	Balance at the end of the year						
	Book amount		General provision for impairment loss		Specific provision for impairment loss		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	—	—	—	—	—	—	—
<b>Total</b>	<b>148,943,805.00</b>	<b>100.00</b>	<b>1,489,438.05</b>	<b>—</b>	<b>11,124,482.36</b>	<b>—</b>	<b>12,613,920.41</b>



# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 4. Loans and Advances (continued)

#### (4) Classification by lender

Types	Balance at the end of the year				
	Book amount		Provision for impairment loss		Net amount
	Amount	Proportion (%)	Amount	Proportion (%)	
	Amount	(%)	Amount	(%)	
Business	90,555,947.71	56.72	15,383,523.23	16.99	75,172,424.48
Personal	69,099,118.00	43.28	1,383,833.54	2.00	67,715,284.46
Total	159,655,065.71	100.00	16,767,356.77	—	142,887,708.94

Types	Balance at the Beginning of the year				
	Book amount		Provision for impairment loss		Net amount
	Amount	Proportion (%)	Amount	Proportion (%)	
	Amount	(%)	Amount	(%)	
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) As at the end of the year, the Group's total overdue loans amounted to RMB83,733,905.00, 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
>360 days	48,614,805.00	30.45	13,574,572.16
180–360 days	12,150,000.00	7.61	1,744,500.00
90–180 days	3,545,000.00	2.22	106,350.00
<90 days	19,424,100.00	12.17	582,723.00
Total	83,733,905.00	52.45	16,008,145.16



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

## V. 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	37,002,644.98	99.89%	11,359,384.66	94.16%
One to two years	29,145.30	0.08%	693,193.89	5.75%
Two to three years	10,683.61	0.03%	10,683.61	0.09%
More than three years	37,042,473.89	—	12,063,262.16	—

(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 Luli Forging Machinery Co. Ltd.	21,735,968.54	Within one year	58.68
Shandong Yongtong Industrial Co. Ltd.	9,800,000.00	Within one year	26.46
Wuxi Golden Steel Pipe Manufacturing Co., Ltd.	1,701,872.13	Within one year	4.59
Shandong Shouguang Juneng Special Steel Co., Ltd.	1,059,118.49	Within one year	2.86
Shouguang Susheng Baoying Trading Company Ltd	734,468.78	Within one year	1.98
Total	35,031,427.94	—	94.57

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 6. Interests Receivable

#### (1) Classification of interest receivable

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Interest on fixed deposits	929,487.40	554,753.38
Interest on pledged deposits	5,054,586.55	812,950.21
Interest on loans and advances	2,212,836.78	3,226,693.09
<b>Total</b>	<b>8,196,910.73</b>	<b>4,594,396.68</b>

- (2) The above interest includes overdue loan interest within 90 days amounted RMB17,845.00 There is no other overdue interest.

### 7. Other Receivables

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

Unit: RMB

Items	Balance at the end of the year					Balance at the Beginning of the year				
	Book amount		Provision for bad debts		Carrying value	Book amount		Provision for bad debts		Carrying value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Single item with significant other receivables and provided for bad debts in individual assessment for impairment loss	35,391,821.96	53.27%	10,617,546.59	30.00%	24,774,275.37	—	—	—	—	—
Single item with insignificant other receivables and single item with significant other receivable but not impaired under individual assessment for impairment loss	30,929,079.87	46.55%	—	—	30,929,079.87	87,823,154.76	99.86%	—	—	87,823,154.76
Single item with insignificant other receivables but provided for bad debts individually	122,119.25	0.18%	122,119.25	100.00%	—	119,119.25	0.14%	119,119.25	100%	—
<b>Total</b>	<b>66,443,021.08</b>	<b>100.00%</b>	<b>10,739,665.84</b>	<b>—</b>	<b>55,703,355.24</b>	<b>87,942,274.01</b>	<b>100.00%</b>	<b>119,119.25</b>	<b>—</b>	<b>87,823,154.76</b>



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 7. Other Receivables (continued)

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

Unit: RMB

Other receivables	Balance at the end of the year			reason
	Other receivables	Reserve for bad-debt	Proportion (%)	
JESORO OIL LTD	35,391,821.96	10,617,546.59	30.00%	Have receivable risk
Total	35,391,821.96	10,617,546.59	—	

At the end of year, a single amount is not big but separate provision for bad debts for other receivables

Name	Balance	Bad-Debt	Proportion (%)	reason
Wang Li Xue	40,000.00	40,000.00	100.00	Aging is too long
Other Company	14,220.00	14,220.00	100.00	Aging is too long
Other Person	67,899.25	67,899.25	100.00	Aging is too long
Total	122,119.25	122,119.25	—	

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

The impairment loss on accounts receivables amounted to RMB10,620,546.59. There is RMB nil reversal of provision for bad debt or recovery of impaired accounts receivable during this year.

#### (3) Accounts receivable written off as uncollectible during the period

Accounts receivable written off as uncollectible during this year.

#### (4) Character Classification of Other Receivables

Unit: RMB

Character	Balance at the end of the year	Balance at the Beginning of the year
Business unit	47,183,150.33	60,027,534.95
Personal unit	1,374,430.50	1,340,579.25
Cash deposit	17,498,540.25	24,693,948.31
Other unit	386,900.00	1,880,211.50
total	66,443,021.08	87,942,274.01

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 7. Other Receivables (continued)

#### (5) Other receivables in the top five of the closing balance

Unit: RMB

Name	Nature	Balance at the end of the year	Aging	Ratio (%)	Bad debt reserve
JESORO OIL LTD	Current account	35,391,821.96	One to two years	53.27%	10,617,546.59
Shouguang City, Yang Kou Town Finance	Project construction deposit	14,530,000.00	Three to four years	21.87%	—
Shouguang City Center Yang Kou Zhen financial management statistics	Current account	8,250,941.48	Within three years	12.42%	—
Wendeng High Town People's Government	Borrowing	1,500,000.00	Above three years	2.26%	—
Beijing International Tendering Co., Ltd.	Tender bond	710,000.00	Within one year	1.07%	—
Total		60,382,763.44		90.89%	10,617,546.59

#### (6) Accounts receivable of allowance from government

The Group does not have other accounts receivable of allowance from government during this year.

### 8. Inventories

#### (1) Classification

Unit: RMB

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	255,741,463.70	15,920,971.26	239,820,492.44	219,715,781.95	8,186,591.20	211,529,190.75
Work-in-progress	260,656,333.12	36,995,653.94	223,660,679.18	321,920,163.35	21,377,704.74	300,542,458.61
Entrusted processing materials	332,603,185.00	32,187,279.31	300,415,905.69	431,434,494.81	47,181,129.41	384,253,365.40
Finished goods	6,155,672.39	1,318,577.34	4,837,095.05	7,620,583.03	161,309.79	7,459,273.24
Total	855,156,654.21	86,422,481.85	768,734,172.36	980,691,023.14	76,906,735.14	903,784,288.00



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 8. Inventories (continued)

#### (2) Allowance for inventories

Unit: RMB

Items	Balance at the beginning of the year	Allowance made during this year		Reduction during this year		Balance at the end of the year
				Reversal of allowance	Written-off	
Raw material	8,186,591.20	11,269,744.06	—	3,535,364.00	—	15,920,971.26
Work-in-progress	21,377,704.74	28,814,941.19	—	13,196,991.99	—	36,995,653.94
Entrusted processing materials	47,181,129.41	19,156,655.61	—	34,150,505.71	—	32,187,279.31
Finished goods	161,309.79	1,175,848.41	—	18,580.86	—	1,318,577.34
<b>Total</b>	<b>76,906,735.14</b>	<b>60,417,189.27</b>	<b>—</b>	<b>50,901,442.56</b>	<b>—</b>	<b>86,422,481.85</b>

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

#### (3) Notes for the inventory of the period whether having capitalization of loans

The Group does not have capitalization of loans in inventory.

#### (4) Unsettled completed assets of construction contracts during the period

Not applicable.

### 9. Available-for-sale assets

Unit: RMB

Items	Balance at the end of the year	Carrying value	Notes	Disposition time
Available-for-sale fixed assets	7,692,604.35	27,202,032.00	—	30 March 2017
Available-for-sale intangible assets	3,072,947.78	37,841,847.00	—	30 March 2017
<b>Total</b>	<b>10,765,552.13</b>	<b>65,043,879.00</b>	<b>—</b>	<b>—</b>

Shouguang Land Reserve Center and the Group signed Compensation Agreement of Recovery of National Lands on December 14 of 2016 for the resumption of certain lands and related properties under Land Certificate of Shou Guo Yong (2002) No 03013. The disposal of such non-current assets is expected to be completed in the first quarter of 2017.

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 10. Other current assets

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Prepaid value-added tax	109,948,611.66	76,941,169.12
Prepaid income tax	2,178,186.55	2,178,186.58
Prepaid other taxes	846,809.61	151,563.24
Total	112,973,607.82	79,270,918.94

### 11. Available-for-sale financial assets

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

Unit: RMB

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	50,000.00	—	50,000.00	10,030,000.00	—	10,030,000.00
At cost	50,000.00	—	50,000.00	10,030,000.00	—	10,030,000.00
Total	50,000.00	—	50,000.00	10,030,000.00	—	10,030,000.00



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 11. Available-for-sale financial assets

#### (2) Analysis of available-for-sale financial assets under cost method

Unit: RMB

Items	Carrying value			Impairment loss			Shareholding (%)	Cash dividend
	Beginning of the year	Additions	Disposals	At the end of the year	Disposals	At the end of the year		
Shouguang Mihe Water Company Limited	10,000,000.00	—	10,000,000.00	—	—	—	9.73%	—
Shouguang Hand-in-hand Private Lending Service Center	30,000.00	—	—	30,000.00	—	—	10.00%	—
Shouguang association of environmental protection	—	20,000.00	—	20,000.00	—	—	5.88%	—
合計	10,030,000.00	20,000.00	10,000,000.00	50,000.00	—	—	—	—

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

### 12. Long-term Equity Investment

Unit: RMB

Investee companies	Movement of the year					Balance at the end of the year	Impairment at the end of the year
	Beginning of the year	Increase in investment	Decrease in investment	Investment gains and losses recognized under the equity method	Adjustment on other comprehensive income		
Associate	—	—	—	—	—	—	—
Yalong Oil Pump Company Limited ("Yalong Oil Pump")	2,783,902.87	—	—	(76,330.30)	—	2,707,572.57	—
Total	2,783,902.87	—	—	(76,330.30)	—	2,707,572.57	—



# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

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

- (1) There is no impairment indicators and the Group does not provide impairment loss for long-term equity investment.
- (2) At 31 December 2016, there is no restriction on the Group of transferring capital from investee companies which the Group had long-term equity investment.

### 13. Fixed Assets

#### (1) Details of fixed assets

Unit: RMB

Items	Buildings	Machinery and equipment	Electronic and other equipments	Vehicles	Total
<b>A. Costs</b>					
1. Balance at the beginning 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
2. Additions for the year	478,209,559.74	1,527,129,845.37	17,941,921.20	1,654,266.88	2,024,935,593.19
(1) Additions	172,159.46	4,797,782.05	732,928.78	730,480.58	6,433,350.87
(2) Transferred from construction-in-progress	478,037,400.28	1,522,332,063.32	17,208,992.42	923,786.30	2,018,502,242.32
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the year	19,748,955.31	684,517.04	424,285.02	633,121.00	21,490,878.37
(1) Disposal or retirement	—	684,517.04	424,285.02	633,121.00	1,741,923.06
(2) Other reductions	19,748,955.31	—	—	—	19,748,955.31
4. Balance at the end of the year	1,091,091,207.13	3,120,695,863.93	118,800,790.72	16,951,090.85	4,347,538,952.63
<b>B. Accumulated depreciation</b>					
1. Balance at the beginning of the year	154,530,710.62	791,528,064.81	77,843,727.35	12,673,140.55	1,036,575,643.33
2. Additions for the year	29,849,529.01	143,863,183.49	6,388,436.87	1,093,971.70	181,195,121.07
(1) Provision	29,849,529.01	143,863,183.49	6,388,436.87	1,093,971.70	181,195,121.07
(2) Others	—	—	—	—	—
3. Reductions for the year	12,056,350.96	612,228.24	391,212.58	597,914.95	13,657,706.73
(1) Disposal or retirement	—	472,420.96	164,774.71	516,594.95	1,153,790.62
(2) Others	12,056,350.96	139,807.28	226,437.87	81,320.00	12,503,916.11
4. Balance at the end of the year	172,323,888.67	934,779,020.06	83,840,951.64	13,169,197.30	1,204,113,057.67
<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	—	60,810,000.00	—	—	60,810,000.00
(1) Provision	—	60,810,000.00	—	—	60,810,000.00
3. Reductions for the year	—	—	—	—	—
(1) Disposal or retirement	—	—	—	—	—
4. Balance at the end of the year	4,986,478.28	71,865,919.03	—	—	76,852,397.31
<b>D. Carrying values</b>					
1. At the beginning of the year	913,780,840.18	2,114,050,924.84	34,959,839.08	3,781,893.55	3,066,573,497.65
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



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 13. Fixed Assets (continued)

#### (2) Temporary idle fixed assets

Unit: RMB

Items	The original book value	Accumulated depreciation	Provision for impairment	book value	Notes
Building	10,718,562.62	2,550,065.60	—	8,168,497.02	—
Machinery equipment	176,681,737.63	57,414,395.31	60,810,000.00	58,457,342.32	—
Electronic equipment and others	2,547,646.16	2,028,549.58	—	519,096.58	—

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

Unit: RMB

Items	Carring value	Reasons without certificate of ownership
140 Plant	4,948,222.27	Application in process
Wei Hai new dormitory and staff canteen	4,598,462.34	Application in process
Molong Garden 7th floor	8,145,000.00	Application in process
Logistics Park Plant	8,967,034.22	Application in process
Molong Garden Room, Block 4 on the 12th street	3,552,500.04	Application in process
Beiluo Electric Furnace Plant	63,126,747.78	Application in process
Beiluo Scrap steel plant	6,967,860.81	Application in process
Yang Kou Office building	8,500,000.00	Not starting application
Yang Kou staff restaurant	3,850,000.00	Not starting application
Yang Kou material depot 1	112,551,566.41	Not starting application
Yang Kou material depot 2	109,287,086.73	Not starting application
Yang Kou power plant	77,013,827.72	Not starting application
Yang Kou SRV plant	61,486,667.99	Not starting application
Yang Kou air separation station	4,791,247.33	Not starting application
Yang Kou Desalination plant	3,259,812.22	Not starting application
Yang Kou Circulating water pump house	3,067,539.27	Not starting application
Yang Kou Sludge treatment plant	3,019,200.00	Not starting application
Yang Kou circulating water pump-house	1,252,427.00	Not starting application

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 13. Fixed Assets (continued)

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

- 1) The amount of depreciation of fixed assets recognised as profit and loss for the year was RMB190,934,675.90 (RMB198,428,371.16 of previous year).
- 2) In this year's increase in fixed assets, the amount transferred from under construction is RMB2,018,502,242.32.
- 3) The group's revenue from the sale of fixed assets for the year was RMB182,163.01.
- 4) Other fixed assets for the year are listed in the form of the disposal of fixed assets in the near future.

### 14. Construction-in-progress

#### (1) Details of Construction-in-progress

Unit: RMB

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
Seawater Desalination Project	—	—	—	43,655,564.46	—	43,655,564.46
Heat and Gas Utilisation Project	—	—	—	73,882,929.92	—	73,882,929.92
Oxygen Station Project	—	—	—	98,222,793.86	—	98,222,793.86
Employee Technical Development Training Centre	21,366,340.14	—	21,366,340.14	13,126,858.52	—	13,126,858.52
Φ180 Petroleum Special Pipe Mill Shutdown Transformation	—	—	—	390,866,271.60	—	390,866,271.60
Others	10,213,013.85	—	10,213,013.85	3,598,931.12	—	3,598,931.12
<b>Total</b>	<b>31,579,353.99</b>	<b>—</b>	<b>31,579,353.99</b>	<b>1,710,795,797.18</b>	<b>—</b>	<b>1,710,795,797.18</b>



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

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

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

Unit: RMB

Items	budget	Balance at	Additions	Transferred to fixed assets	Other reduction	Balance at the end of the year	Investment		capitalization of interest	Including:	Current	Sources
		the beginning of the year					to budgeted progress	capitalized interest amount		interest capitalization	rate	
Casting Plant Relocation And Technological Improvement												
Project	800,000,000.00	1,087,442,447.70	276,879,068.66	1,364,321,516.36	—	—	170.54%	100.00	112,680,169.47	40,669,560.42	4.18%	Other
Seawater Desalination Project	150,000,000.00	43,655,564.46	12,766,929.92	56,422,494.38	—	—	37.61%	100.00	3,139,167.29	1,444,417.45	4.18%	Other
Heat and Gas Utilisation												
Project	120,000,000.00	73,882,929.92	26,914,087.09	100,797,017.01	—	—	84.00%	100.00	5,196,246.58	2,585,295.28	4.18%	Other
Oxygen Station Project	100,000,000.00	98,222,793.86	3,790,597.59	102,013,391.45	—	—	102.01%	100.00	4,829,584.20	2,631,069.02	4.18%	Other
Employee Technical Development Training Centre	26,000,000.00	13,126,858.52	8,239,481.62	—	—	21,366,340.14	82.18%	55.00	—	—	—	Other
Φ 180 Petroleum Special Pipe Mill Shutdown Transformation	10,000,000.00	390,866,271.60	3,504,776.69	394,371,048.29	—	—	98.78%	100.00	—	—	—	Other
<b>Total</b>	<b>1,206,000,000.00</b>	<b>1,707,196,866.06</b>	<b>332,094,941.57</b>	<b>2,017,925,467.49</b>	<b>—</b>	<b>21,366,340.14</b>	<b>—</b>	<b>—</b>	<b>125,845,167.54</b>	<b>47,330,342.17</b>	<b>—</b>	<b>—</b>

#### (3) Impairment loss provided for ongoing projects under construction during this period

The Group does not have depreciation of ongoing projects under construction during this year, impairment loss was not provided for the same.

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 15. Intangible Assets

#### (1) Details of intangible assets

Unit: RMB

Items	Land use rights/ Maritime use rights	Patent technology	Non-patent technology	Software	Total
<b>A. Costs</b>					
1. Balance at the beginning of the year	423,300,278.49	2,541,868.11	354,072,766.18	770,036.72	780,684,949.50
2. Additions for the year	42,748,398.00	—	10,393,822.25	—	53,142,220.25
(1) Acquisition	42,748,398.00	—	—	—	42,748,398.00
(2) Internally generated	—	—	10,393,822.25	—	10,393,822.25
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the year	4,421,500.00	—	—	—	4,421,500.00
(1) Disposal	—	—	—	—	—
(2) Others	4,421,500.00	—	—	—	4,421,500.00
4. Balance at the end of the year	461,627,176.49	2,541,868.11	364,466,588.43	770,036.72	829,405,669.75
<b>B. Accumulated amortization</b>					
1. Balance at the beginning of the year	40,006,568.55	1,783,444.73	235,355,060.57	764,780.36	277,909,854.21
2. Additions for the year	9,006,361.66	445,119.93	60,207,145.60	5,256.36	69,663,883.55
(1) Amortization	9,006,361.66	445,119.93	60,207,145.60	5,256.36	69,663,883.55
3. Reductions for the year	1,348,552.22	—	—	—	1,348,552.22
(1) Disposals	—	—	—	—	—
(2) Others	1,348,552.22	—	—	—	1,348,552.22
4. Balance at the end of the year	47,664,377.99	2,228,564.66	295,562,206.17	770,036.72	346,225,185.54
<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	413,962,798.50	313,303.45	34,936,006.81	—	449,212,108.76
2. At the end of the year	383,293,709.94	758,423.38	84,749,330.16	5,256.36	468,806,719.84

The internally generated intangible assets are 7.78% of the total intangible assets.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 16. Research and Development Expenditure

Unit: RMB

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 current gain/loss		
Various type of sleeves	—	40,456,085.80	10,393,822.25	30,062,263.55		—
Total	—	40,456,085.80	10,393,822.25	30,062,263.55		—

The internally generated intangible assets are 7.78% 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 III.20.

At 31 December 2016, all new product research and development work has been completed.

### 17. Goodwill

#### (1) Goodwill at cost

Unit: RMB

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

Unit: RMB

Goodwill	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Business combination not under common control	74,490,000.00	41,800,000.00	—	116,290,000.00
Total	74,490,000.00	41,800,000.00	—	116,290,000.00

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 17. Goodwill (continued)

- (1) The Group's goodwill was generated by business consolidation not under common control of Maolong New Materials in 2007.
- (2) The Group performs the impairment review on goodwill as stated in Note III.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 2016 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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

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

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

Unit: RMB

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
Unrealized profits arisen from intra-group transactions	11,553,616.05	2,888,404.01	12,476,820.98	3,019,318.17
Deductible losses	2,308,109.89	577,027.47	100,902,983.99	15,424,728.75
accounts receivable	—	—	25,493,883.60	3,848,562.09
other receivables	—	—	119,119.25	17,867.89
Depreciation and impairment of fixed assets	—	—	63,499,548.87	9,624,453.93
Impairment of intangible assets	—	—	123,596,678.83	27,545,929.55
Deferred income	—	—	1,808,000.00	271,200.00
Amortization of intangible assets	—	—	7,777,377.38	1,166,606.61
<b>Total</b>	<b>13,861,725.94</b>	<b>3,465,431.48</b>	<b>335,674,412.90</b>	<b>60,918,666.99</b>

#### (2) Recognized deferred tax liabilities

Unit: RMB

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
Long-term investments	15,237.51	3,809.38	15,237.51	3,809.38
Fixed assets	2,248,390.84	562,097.71	2,386,740.22	596,685.06
Intangible assets	28,252,782.84	7,063,195.70	29,368,429.00	7,342,107.25
Interests receivable	—	—	1,367,703.59	205,155.54
Unrealized losses arisen from intra-group transactions	—	—	42,861,050.97	6,429,157.64
<b>Total</b>	<b>30,516,411.19</b>	<b>7,629,102.79</b>	<b>75,999,161.29</b>	<b>14,576,914.87</b>



# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

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

#### (3) Other fixed assets for the year are listed in the form of the disposal of fixed assets in the near future

Unit: RMB

Items	The balance of deferred income tax assets or liabilities after	The balance of deferred income tax assets or liabilities
deferred tax assets	3,465,431.48	60,918,666.99
Deferred Tax Liability	7,629,102.79	14,576,914.87

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

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Deductible temporary differences	574,553,587.03	33,443,153.93
Deductible losses	774,977,903.44	258,026,813.62
Total	1,349,531,490.47	291,469,967.55

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

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year	Note
2017	3,514,811.37	3,514,811.37	—
2018	44,289,763.04	42,072,215.21	—
2019	72,276,795.51	72,439,584.00	—
2020	261,203,047.19	140,000,203.04	—
2021	397,208,297.70	—	—
Total	778,492,714.81	258,026,813.62	—



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 19. Other non-current assets

Unit: RMB

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)	45,485,934.15	87,757,302.15
Prepayments for acquisition of fixed assets	1,322,250.00	24,161,389.80
Prepayments for acquisition of construction projects	1,658,174.80	8,943,923.73
<b>Total</b>	<b>48,466,358.95</b>	<b>120,862,615.68</b>

Note 1: The Group had prepayments for acquisition for land use rights of RMB45,485,934.15 included in other non-current assets.

### 20. Short term borrowings

#### (1) Classification of short term borrowing

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
hypothecated loan	28,000,000.00	—
Guaranteed loans	149,370,000.00	64,936,000.00
Credit loans	1,364,921,489.30	1,404,119,063.41
Notes discounted	794,550,628.00	—
Others	100,000,000.00	—
<b>Total</b>	<b>2,436,842,117.30</b>	<b>1,469,055,063.41</b>

During this year, the weighted average interest rate for the Group is 3.615% (Previous years: 4.05%).

The guaranteed loans are provided to its subsidiary, MPM Limited.(RMB69,370,000.00) and MaoLong Material(RMB80,000,000.00).

The hypothecated loan are provided to its subsidiary MaoLong Material, using the YangKou Certificates of right to use sea areas(carrying value RMB75,848,686.65, No. 2014B37078305659)

At the end of period, The company have repay short-term loan RMB366,325,100.00.

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### (2) Outstanding overdue short term borrowings

The outstanding overdue short term during the year is RMB0.00.

Up to the publishing date of financial report, 366,325,100.00 for short term borrows were paid back.

### 21. Bills payable

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Bank acceptance notes	241,427,907.86	304,242,384.43
Total	241,427,907.86	304,242,384.43

At the end of the reporting period the Group had no overdue bills payable.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 22. Accounts payable

#### (1) Details of accounts payable

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Material	572,669,029.83	567,358,760.06
Project equipment	328,932,567.92	337,431,138.47
Total	901,601,597.75	904,789,898.53

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

Unit: RMB

Items	Balance at the end of the year	Reason for unsettled
Shandong Shouguang First Construction Co., Ltd.	15,456,336.96	project funds
Shandong Days Space Steel Structure Engineering Co., Ltd	14,112,855.17	project funds
South China Metallurgical Design and Research Institute of Wuhan Iron and Steel	13,582,051.27	project funds
Shandong Tiantai Construction Co., Ltd.	9,678,982.32	project funds
Qingzhou TongBao Supplies co., Ltd	9,010,078.53	payment for material
Zhejiang Changxing Strong Refractory Material Co., Ltd	7,283,118.18	payment for material
Shouguang Friendship Transportation Co., Ltd	6,246,903.14	transportation
Shouguang Room Building Installation Co., Ltd	6,209,642.28	project funds
Shandong Chi Da Machinery Co., Ltd	5,755,989.57	Equipment funds
Wuxi Yunus, Oil Drilling Tools Co., Ltd	5,311,520.51	payment for material
Total	92,647,477.93	—

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 23. Receipts in advance

#### (1) Receipts in advance

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Sales of goods	73,674,754.30	43,005,331.88
Total	73,674,754.30	43,005,331.88

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

Unit: RMB

Items	Balance at the end of the year	Reason for unsettled
Curzon Consultants Corp.	1,379,170.64	According to the contract, items as not been shipped
UMW Oilfield International (L) Ltd	1,086,808.62	According to the contract, items as not been shipped
Total	2,465,979.26	—



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 24. Salaries Payable

#### (1) Classification of salaries payable

Unit: RMB

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Short-term employee benefits	26,858,082.97	103,602,728.83	100,266,579.33	30,194,232.47
Post-employment benefits defined contribution plans	95,235.51	10,570,907.79	10,666,143.30	—
<b>Total</b>	<b>26,953,318.48</b>	<b>114,173,636.62</b>	<b>110,932,722.63</b>	<b>30,194,232.47</b>

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

Unit: RMB

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Salaries, bonuses, allowance and subsidies	20,692,939.94	82,710,342.98	81,650,761.72	21,752,521.20
Staff welfare	—	12,659,663.72	12,659,663.72	—
Social insurance	31,113.30	5,521,100.73	5,552,214.03	—
Including: Medical insurance	24,047.23	4,218,437.89	4,242,485.12	—
Injury insurance	3,432.43	745,572.68	749,005.11	—
Birth insurance	3,633.64	557,090.16	560,723.80	—
Union fund and staff education fund	6,134,029.73	2,711,621.40	403,939.86	8,441,711.27
<b>Total</b>	<b>26,858,082.97</b>	<b>103,602,728.83</b>	<b>100,266,579.33</b>	<b>30,194,232.47</b>

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 24. Salaries Payable (continued)

#### (3) Defined contribution plan

Unit: RMB

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Retirement insurance	91,627.96	9,995,427.17	10,087,055.13	—
Unemployment insurance	3,607.55	575,480.62	579,088.17	—
Total	95,235.51	10,570,907.79	10,666,143.30	—

Other notes:

Employee benefits during this year of the Group include unpaid salaries, bonuses and allowance of 21752521.20 which are paid in the first half year of 2017 as expected.

#### (4) Benefits of Directors and five highest-salary people

The details of benefits of Directors and five highest-salary people are written in Director's Report of this report.

### 25. Taxes Payable

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Value added tax	<b>782,369.90</b>	517,268.91
Enterprise income tax	<b>1,702,488.31</b>	540,564.30
Individual income tax	<b>1,878,228.74</b>	1,580,077.95
Urban maintenances and construction tax	<b>464,919.37</b>	256,784.87
Property tax	<b>1,505,878.61</b>	1,348,371.23
Land use tax	<b>2,435,727.49</b>	2,435,816.30
Educational surcharges	<b>332,085.26</b>	183,417.77
Local water conservancy construction funds	<b>66,417.05</b>	36,683.55
Stamp duty	<b>610,280.50</b>	365,514.26
Other	<b>127,325.77</b>	123,345.00
Total	<b>9,905,721.00</b>	7,387,844.14

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 2016 to 31 December 2016

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

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

### 26. Interests Payable

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
long-term bank loan interests	220,973.96	—
Corporate bond interest	—	14,745,205.48
Short-term bank loan interests	3,495,141.95	3,107,863.84
Total	3,716,115.91	17,853,069.32

As of 31 December 2016, the Group has no overdue unsettled interest.

### 27. Other payables

#### (1) Details of other payables

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Accrued energy charges	21,423,905.52	11,915,078.93
Deposits	7,869,545.87	9,377,921.34
Others	135,759.90	2,686,857.97
Total	29,429,211.29	23,979,858.24

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



# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

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

Unit: RMB

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

Note: The group released on June 7, 2013, a three-year total face value of 500 million yuan of bonds, the interest rate of 5.20%, annual pay debt. The group's net to raise money for actually received RMB496,000,000.00, the real interest rate is 5.50%. The bonds to expire on 7 June 2016, the group has finished to repay.

### 29. Other current liabilities

Unit: RMB

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
Total	—	1,808,000.00

Note: According to the Shandong province development and reform commission LuFa investment [2011] no. 2011, the company receives the central budget amount RMB9,040,000.00, specially used for project construction high-end new oil equipment, the company receive the government subsidy shall be recognized as deferred income, and in 2015 will be held to share accounted as non-operating income included in the other current liabilities shown, amortization amount is RMB1,808,000.00 this year.

### 30. Long-term loan

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Credit Loan	145,000,000.00	—
Total	145,000,000.00	—

Note: The group's annual interest rate for the 2016 long-term borrowing is LPR rate plus 68.75 basis points, the execution rate of 4.988% this year.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 31. Bonds payable

Unit: RMB

Nature of the bond	Nominal value	Date of issue	Period	Issued amount	Balance at the beginning of the year	Issue during the year	Accrued interest on par value	Premium Discount	Other decrease	Balance at the end of the year
Bonds with installment interest payments and principal payment at maturity	500,000,000.00	2013-6-7	3 years	496,000,000.00	—	—	11,254,794.52	555,555.59	500,000,000.00	—
Total	—	—	—	496,000,000.00	—	—	11,254,794.52	555,555.59	500,000,000.00	—

### 32. Deferred income

Unit: RMB

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year	Reasons
Government grants	—	6,954,855.00	—	6,954,855.00	Assets related government grants
Total	—	6,954,855.00	—	6,954,855.00	—

#### Government grant

Unit: RMB

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	—	6,954,855.00	—	—	6,954,855.00	Capital nature
Total	—	6,954,855.00	—	—	6,954,855.00	—

Note: According to the ShangKou people's government issued by the appropriate Shouguang ink on the dragon logistics co., LTD., infrastructure supporting subsidy funds notice (ZhengFa on [2016] no. 3), the group on February 24, 2016, received RMB6,954,855.00 , infrastructure and the government subsidy shall be recognized as the government subsidies pertinent to assets. Because the related infrastructure has not yet been completed, this year has not yet been amortized.

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 33. Share Capital

Unit: RMB

	Movement for the year (increase/decrease) (+, -)						Balance at the end of the year
	Balance at the beginning of the year	New shares issued	Bonus issue	Shares transferred from reserve	Others	Sub-total	
Total shares	797,848,400.00	—	—	—	—	—	797,848,400.00

### 34. Capital Reserves

Unit: RMB

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	217,500.00	—	236,167.50
Total	849,500,658.42	217,500.00	—	849,718,158.42

Note: MR. Zhang Yun San provide interest-free loans of 60 million yuan, according to the provisions of the relevant accounting standards will the loan interest identified as capital reserve.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 35. Other comprehensive income

Unit: RMB

Items	Balance at the beginning of the year	Movement for the year (increase/decrease) (+, -)					Balance at the end 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	
Reclassified into other comprehensive income or loss in the subsequent period	(1,262,175.75)	(1,929,170.78)	—	—	(1,830,258.09)	(98,912.69)	(3,092,433.84)
Include: difference from the translation of foreign currency financial statements	(1,262,175.75)	(1,929,170.78)	—	—	(1,830,258.09)	(98,912.69)	(3,092,433.84)
<b>Total</b>	<b>(1,262,175.75)</b>	<b>(1,929,170.78)</b>	<b>—</b>	<b>—</b>	<b>(1,830,258.09)</b>	<b>(98,912.69)</b>	<b>(3,092,433.84)</b>

### 36. Special Reserve

Unit: RMB

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Production safety fee	—	6,782,481.72	6,782,481.72	—
<b>Total</b>	<b>—</b>	<b>6,782,481.72</b>	<b>6,782,481.72</b>	<b>—</b>

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.

### 37. Surplus Reserve

Unit: RMB

Items	Balance at the beginning of the year	Additions	Reductions	Balance at the end of the year
Statutory surplus reserve	176,686,903.51	—	—	176,686,903.51
<b>Total</b>	<b>176,686,903.51</b>	<b>—</b>	<b>—</b>	<b>176,686,903.51</b>

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 38. General risk reserve

Items	Balance at the end of the year	Balance at the beginning of the year	proportion
General risk reserve	11,236.91	11,236.91	—
Total	11,236.91	11,236.91	—

Note: As Shouguang Mao Tong Micro-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.

### 39. Retained Profits

Unit: RMB

Items	Current	Former
Last year closing balance	610,372,203.12	—
Balance at the beginning of the year	610,372,203.12	—
Add: Net profit attributable to the owners of the Company	(612,476,376.18)	—
Balance at the end of the year	(2,104,173.06)	—

### 40. 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	(10,460,069.53)	27,955,476.78
Maolong Micro-Credit	50.00	77,254,114.25	77,037,210.55
Others	—	(194,911.27)	(65,317.64)
Total	—	66,599,133.45	104,927,369.69



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 41. Operating revenue and operating costs

Unit: RMB

Items	Incurred during this year		Incurred during previous year	
	Revenue	Cost	Revenue	Cost
Main operation	1,519,203,811.97	1,636,758,798.09	1,597,599,619.85	1,468,064,928.79
Other operation	11,914,563.21	5,042,023.44	16,318,115.23	27,308,852.82
Total	1,531,118,375.18	1,641,800,821.53	1,613,917,735.08	1,495,373,781.61

### 42. Tax and levies on operations

Unit: RMB

Items	Incurred during this year	Incurred during the previous year
Urban maintenances and construction tax	3,568,696.82	5,956,468.42
Educational surcharges	2,549,069.19	4,254,620.26
Real estate tax	3,406,760.83	—
Land use tax	6,582,253.70	—
Business tax	230,608.44	199,447.38
Local water conservancy construction funds	509,813.85	850,924.04
Others	1,102,054.71	—
Total	17,949,257.54	11,261,460.10

Note: According to the ministry of finance, the VAT accounting regulations (finance and accounting), 22 (2016), as well as on the prescribed "VAT accounting issues of interpretation", the group will be December 5, 2016 — the property tax, land use tax, stamp duty, and presentation for the amount in taxes and additional projects, in May 2016, before the amount still presented in "management cost" project.

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 43. Selling expenses

Unit: RMB

Items	Incurred during this year	Incurred during the previous year
Delivery expenses	24,389,442.75	83,406,761.87
Salary	3,440,218.42	3,069,735.09
Agency fees	13,492,743.03	30,269,600.07
Depreciation charges	1,296,715.50	1,294,136.07
Travelling expenses	521,017.93	1,494,381.44
Entertainment	1,988,394.62	2,354,772.78
Transportation fees	274,368.81	254,467.92
Office expenses	232,066.61	348,210.38
Other	5,345,649.86	2,394,321.23
<b>Total</b>	<b>50,980,617.53</b>	<b>124,886,386.85</b>

Other notes :

1. The reason having significant decrease of transportation fees is the change of sales structure. The sales of national flowline pipes and structural pipes are increased during this year. Most of the flowline pipes and structural pipes are transported by customers rather than companies.
2. The reason having significant decrease of commissions is the big drop of exports which did not incur many commissions.

### 44. Administrative expenses

Unit: RMB

Items	Incurred during this year	Incurred during the previous year
Amortization of intangible assets	69,663,883.55	77,127,440.52
Research and development fees of new products	32,698,570.14	26,802,633.94
Depreciation charges	20,138,286.66	27,232,138.25
Salary and Staff welfare expenses	15,356,850.99	14,196,371.57
Taxes	5,063,509.20	15,925,332.87
Machinery material consumption	2,553,614.85	870,373.00
Entertainment	1,119,309.66	1,179,888.92
Directors' fees	1,425,468.70	2,011,091.25
Water and electricity fees	1,168,557.68	1,359,051.27
Agent fee	1,861,231.41	2,110,900.57
Repairment fee	978,396.57	1,063,205.60
Others	5,092,993.78	5,226,942.95
<b>Total</b>	<b>157,120,673.19</b>	<b>175,105,370.71</b>



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 45. Finance Costs

Unit: RMB

Items	Incurred during this year	Incurred during the previous year
Interest expenses	56,337,667.95	51,551,240.71
Less: Interest income	10,996,409.07	13,376,172.52
Add: Foreign exchange gain	3,036,452.49	9,059,331.49
Add: Other expenses	4,130,095.85	1,928,855.87
Total	52,507,807.22	49,163,255.55

### 46. Impairment loss on of assets

Unit: RMB

Items	Incurred during this year	Incurred during the previous year
Impairment loss on accounts receivable	62,434,811.41	12,799,423.35
Impairment loss on inventories	47,419,652.59	52,575,410.96
Impairment loss on fixed assets	60,810,000.00	—
Impairment loss on goodwill	41,800,000.00	15,000,000.00
others	4,153,436.36	403,598.54
Total	216,617,900.36	80,778,432.85

### 47. Investment income

Unit: RMB

Items	Incurred during this year	Incurred during the previous year
Gain from long-term equity investments accounted for using the cost method	(76,330.30)	(1,127,461.14)
Gain from long-term equity investments accounted for using the equity method	259.63	—
others	126,695.59	—
Total	50,624.92	(1,127,461.14)

Note 1: Investment income sourced from unlisted equity investment during the year is -RMB76,330.30.



# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 48. Non-operating income

Unit: RMB

Items	Incurred during this year	Incurred during the previous year	Included in this year non-recurring income
Total income on disposal of non-current assets	270,348.71	—	270,348.71
Included: Income on disposal of fixed assets	270,348.71	—	270,348.71
Government grants	4,188,016.16	24,592,306.17	4,188,016.16
Others	2,884,412.21	2,108,009.29	2,884,412.21
<b>Total</b>	<b>7,342,777.08</b>	<b>26,700,315.46</b>	<b>7,342,777.08</b>

#### Government grants:

Unit: RMB

Items	Distribution main body	Distribution reason	properties and types	Affect the profit and loss	Whether special subsidies	Incurred during this year	Incurred during the previous year	Related to assets/ Related to income
Government subsidies	Shou Guang bureau of finance	subsidy	Because of local government investment promotion and capital introduction and other local support policy for assistance	Yes	No	2,380,016.16	22,784,306.17	Related to income
Deferred income amortized	Shou Guang bureau of finance	subsidy	Because of the state shall encourage and support a particular profession, industry and get subsidies (legally obtained by regulation of national policy)	Yes	No	1,808,000.00	1,808,000.00	Related to assets
<b>Total</b>	—	—	—	—	—	<b>4,188,016.16</b>	<b>24,592,306.17</b>	—



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

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

#### Government grants: (continued)

- Note 1:* 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).
- Note 2:* According to the Wendeng District Finance Bureau issued the notice on the allocation of funds for technical transformation of enterprises (Wen Qian refers to the [2016]2), the group received a subsidy of 300 thousand yuan in January 2016.
- Note 3:* 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 RMB479,700.00 in March 2016.
- Note 4:* According to the notice issued by the Weifang Municipal Finance Bureau, Weifang Municipal Bureau of Commerce "to support the 2015 annual Weifang City Economic and trade development policy" (the financial enterprises [2015]68), in May 2016 the group received a subsidy of 50 thousand yuan.
- Note 5:* According to the Shandong Provincial Quality Evaluation Association published the "Shandong province famous brand strategy and the quality of the province to promote the work of the office of the leading group on the 2015 annual results announcement that Shandong famous brand products" ([2015]1), in May 2016 the group received a subsidy of 300 thousand yuan.
- Note 6:* According to the Weifang Municipal Finance Bureau, Weifang economic and Information Technology Commission issued "issued in 2015 on the Weifang city of circular economy special fund budget indicators notice" (Cai Qi Wei refers to the [2015]188), in July 2016 the group received a subsidy of 200 thousand yuan.
- Note 7:* According to the Bureau of human resources and Social Council issued on the introduction and training of skilled personnel to speed up the implementation of the rules (Shou Ren [2013]64.), the group received a subsidy of 28000 yuan in September 2016.
- Note 8:* According to the Wendeng District Finance Bureau issued the notice on the allocation of funds for technical transformation (Wen Qian refers to [2016]155), the group received a subsidy of 67,400 yuan in September 2016.
- Note 9:* According to the notice of the Communist Party of China Shouguang municipal Party committee, Shouguang Municipal People's government issued "on the implementation of high-level innovative and entrepreneurial talents" double hundred plans "opinions", in November 2016 the group received a subsidy of 50 thousand yuan
- Note 10:* According to the issuance of the Shandong Provincial Finance Bureau, Shandong Provincial Intellectual Property Office of the "Shandong Provincial Intellectual Property (patent) Notice" Interim Measures for the administration of special funds (Lu Choi taught No. [2013]45), in December 2016 the group received a subsidy of 50 thousand yuan.
- Note 11:* According to the issuance of the Weifang Municipal Finance Bureau, Weifang Municipal Bureau of Commerce "on 2015 in Weifang to support the development of foreign trade policy, promote the steady growth of foreign trade and the transformation and upgrading of supplementary notice" rules for the implementation of the policy, in December 2016 the group received a subsidy of 143,800 yuan.

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

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

#### Government grants: (continued)

Note 12: According to the notice issued by the Bureau of Intellectual Property Bureau of finance, Weifang City, Weifang city on the revision of the "Weifang patent special fund management approach" (the Weihe financial enterprises [2012]81), in 2016 the group received a total of 7,500 yuan grants.

Note 13: According to the human resources and Social Council issued on the declaration of social insurance subsidies and (public welfare) post subsidies notice, the group received a total of 220,295.16 yuan in 2016 related subsidies

Note 14: According to the Weifang municipal human resources and Social Security Bureau, Weifang Municipal Bureau of Finance issued "on the new situation of unemployment insurance companies support a stable job work notice" (the social [2015]115), in 2016 the group received a total of 234,600 yuan.

Note 15: According to the human resources management service center issued on the application of unemployment insurance to support the enterprise stable post subsidies notice, the group received a total of 248,721 yuan in 2016.

### 49. Non-operating expenses

Unit: RMB

Items	Incurring during this year	Incurring during the previous year	Included in this year non-recurring expenses
Loss on disposal of non-current assets	88,185.70	86,303.29	88,185.70
Included: Loss on disposal of fixed assets	88,185.70	86,303.29	88,185.70
Donations	66,000.00	104,000.00	66,000.00
Others	866,533.83	1,204,512.24	866,533.83
Total	1,020,719.53	1,394,815.53	1,020,719.53

The amount included in non-recurring loss is RMB1,020,719.53 (during previous year: RMB1,394,815.53).



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 50. Income tax expenses

#### (1) Income tax expenses

Unit: RMB

Items	Incurred during this year	Incurred during the previous year
Current tax	714,256.58	105,575.91
Underprovision deferred tax	50,505,423.43	(12,079,542.81)
Total	51,219,680.01	(11,973,966.90)

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

Unit: RMB

Items	Incurred during this year
Profit before tax	(599,486,019.72)
Income tax calculated at tax rate of 15% on the Company	(89,922,902.96)
Tax effect of non-taxable income	(22,131,810.34)
Tax effect of non-deductible expenses	56,970,990.40
Tax adjustment on research and development expenses	(702,929.98)
Tax effect of tax loss not recognized	444,940.96
Tax effect of inconsistent tax rates among subsidiaries	109,297,389.80
Adjustments on deferred tax recognized in previous year	(2,711,050.17)
Others	(24,947.71)
Income tax expenses	51,219,680.01

### 51. Other comprehensive income

Item	Amount of this year	Amount of last year
Conversion difference of foreign currency	(1,929,170.78)	(1,660,759.37)
Total	(1,929,170.78)	(1,660,759.37)

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 52. Notes to cash flow statements

#### (1) Other receipts/payments relating to cash of operating/investing activities

Unit: RMB

Items	Incurred during this year	Incurred during the previous year
Government grants	2,153,072.32	22,273,738.68
Interest income	11,277,985.90	14,679,172.26
Reduce in bank acceptance note	—	30,774,693.01
Limited time deposits increased	91,939,764.30	—
Other	58,044,902.33	20,106,324.89
Total	163,415,724.85	87,833,928.84

#### (2) Other cash payment relating to operating activities

Unit: RMB

Items	Incurred during this year	Incurred during the previous year
Delivery expenses	24,416,635.23	83,390,672.95
Development fees for new products	511,880.46	4,408,898.74
Consumables	420,596.06	937,458.42
Agency fees	17,107,794.71	32,253,333.10
Travelling fees	755,316.39	1,795,310.29
Repair expenses	993,180.25	1,014,156.77
Water and electricity expenses	1,168,557.68	1,359,051.27
Entertainment	3,107,704.28	3,534,661.70
Limited time deposits increased	—	46,965,114.30
Paper margin increases	119,883,016.31	—
Increased in restricted bank deposit	1,450,000.00	—
Others	22,483,863.67	110,751,204.13
Total	192,298,545.04	286,409,861.67



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

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

#### (3) Other cash receipts relating to investing activities

Unit: RMB

Items	Incurred during this year	Incurred during the previous year
Increased in security deposit for letter of guarantee	—	3,050,000.00
Loan from Shareholders and other units	100,000,000.00	—
The government grant	6,954,855.00	—
Total	106,954,855.00	3,050,000.00

#### (4) Other cash receipts relating to financing activities

Unit: RMB

Items	Incurred during this year	Incurred during the previous year
Letter of guarantee and the l/c deposit increased	10,050,000.00	—
Total	10,050,000.00	—

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 53. Supplementary materials of cash flow statement

#### (1) the supplementary materials of cash flow statement

Unit: RMB

Further information	Incurred during this year	Incurred during the previous year
Reconciliation of net income to cash flow:	—	—
Net (loss) profit	(650,705,699.73)	(286,498,946.90)
Add: Provision for impairment loss of asset	216,617,900.36	80,778,432.85
Depreciation of fixed asset	181,195,121.07	195,814,670.32
Amortization of intangible asset	69,663,883.55	77,127,440.52
Amortization of long-term deferred expense	—	76,389.00
Loss on disposal of fixed asset, intangible asset and other long-term asset	(270,005.71)	(398,730.63)
Fixed asset written off	87,842.70	86,303.29
Finance costs	69,932,129.64	58,060,956.96
Investment income	(50,624.92)	1,127,461.14
(Decrease) increase in deferred tax assets	57,453,235.51	(15,739,189.60)
Increase in deferred tax liabilities	(6,947,812.08)	3,659,646.79
Decrease in inventories	87,630,463.05	66,862,638.28
Decrease in operating receivables	117,481,710.62	63,488,389.59
Increase in operating payables	(34,413,011.34)	(222,004,673.14)
Others	(3,258,000.00)	(1,808,000.00)
Net cash flows from operating activities	104,417,132.72	20,632,788.47
<b>Significant investing and financing activities not involving cash receipt or payment:</b>	—	—
<b>Changes in cash and cash equivalents:</b>	—	—
Balance of cash at the end of the year	508,498,755.91	218,309,025.51
Less: Balance of cash at the beginning of the year	218,309,025.51	496,842,889.68
Add: Balance of cash equivalents at the end of the year	290,189,730.40	(278,533,864.17)



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 53. Supplementary materials of cash flow statement (continued)

#### (2) Cash and cash equivalents

Unit: RMB

Further information	Incurred during this year	Incurred during the previous year
Cash	508,498,755.91	218,309,025.51
Including: Cash on hand	52,907.41	82,768.08
Bank deposit available for payments on demand	141,547,137.90	151,614,579.43
Other funds available for payments on demand	366,898,710.60	66,611,678.00
Cash and cash equivalents at the end of the year	508,498,755.91	218,309,025.51
Include: Restricted other monetary fund	170,950,000.00	131,506,747.99

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 RMB157,500,000.00, RMB12,000,000.00 and RMB1,450,000.00 respectively, which totally equal to RMB170,950,000.00.

#### 54. Restricted assets of the ownership or the right

Unit: RMB

Items	Balance at the end of the year	Reasons for restriction
Cash and cash equivalents	170,950,000.00	Pledged deposits and fixed deposits
Bills receivable	6,200,000.00	Pledged bills receivable
intangible assets	75,848,686.65	Secured borrowings
Total	252,998,686.65	—



# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 55. Foreign currency monetary items

#### (1) Foreign currency monetary items

Unit: RMB

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	25,758,516.40	6.9370	178,686,828.26
Euro ("EUR")	1,775.15	7.3068	12,970.66
HKD	9,043.83	0.89451	8,089.80
YEN	1,777,461,784.00	0.059591	105,920,725.17
Accounts receivable			
Include: USD	27,309,590.84	6.9370	189,446,631.66
EUR	228,263.45	7.3068	1,667,875.38
Prepayments			
Include: USD	5,101,891.59	6.9370	35,391,821.96
Short term borrowings			
Include: USD	66,790,000.00	6.9370	463,322,230.00
Accounts payable			
Include: USD	649,846.59	6.9370	4,507,985.79
Receipts in advance			
Include: USD	3,788,744.91	6.9370	26,282,523.44
Other payables			
Include: USD	25,230.08	6.9370	175,021.06
Interests payable			
Include: USD	298,205.45	6.9370	2,068,651.21

#### (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 2016 to 31 December 2016

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

## VI. Change in scope of consolidation

There is no change associate with scope of consolidation this year.

## VII. 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 2016 to 31 December 2016

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

## VII. Interests in other entity (continued)

### 1. Interests in subsidiaries (continued)

#### (2) Significant non-wholly owned subsidiary

Unit: RMB

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%	(38,415,546.31)	—	(10,460,069.53)
Maolong Micro-Credit	50.00%	216,903.70	—	77,254,114.25

#### (3) The main financial information of important non-wholly owned subsidiaries

Unit: RMB

Name of subsidiaries	Balance at the beginning of the year						Balance at the end of the year					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Shouguang Baolong	1,102,559,128.93	440,668,048.66	1,543,227,177.59	1,529,107,933.59	—	1,529,107,933.59	360,893,408.00	522,440,733.86	883,334,141.86	747,861,955.71	—	747,861,955.71
Maolong Micro-Credit	150,013,433.80	11,502,326.12	161,515,759.92	7,007,531.41	—	7,007,531.41	144,080,813.49	11,884,427.31	155,965,240.80	1,890,819.69	—	1,890,819.69

Unit: RMB

Name of subsidiaries	During this year						During pervious year							
	Turnover	Profit for the year			Net cash flow (used in) from operating activities			Turnover	Profit for the year			Net cash flow (used in) from operating activities		
		comprehensive income	operating	Total	comprehensive income	operating	Total		comprehensive income	operating	Total			
												comprehensive income	operating	Total
Shouguang Baolong	726,791,301.10	(121,352,942.15)	(121,352,942.15)	69,325,405.81	889,165,366.72	(126,011,230.65)	(126,011,230.65)	(31,788,434.10)						
Maolong Micro-Credit	7,015,146.88	433,807.40	433,807.40	(3,224,234.80)	3,464,024.40	2,080,767.97	2,080,767.97	(22,857,880.77)						

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 2016 to 31 December 2016

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

## VII. 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%	Equity method

#### (2) Financial information of significant associates

Unit: RMB

Items	Balance at the	
	end of previous year/Incurred during this year	beginning of the current year/Incurred during pervious year
Current assets:	12,422,030.48	16,735,778.25
Non-current assets	8,811,820.26	3,864,777.53
Total assets	21,233,850.74	20,600,555.78
Current liabilities:	5,620,784.34	4,691,408.83
Non-current liabilities	6,716,731.88	6,716,731.88
Total liabilities	12,337,516.22	11,408,140.71
Equity attributable to shareholders of the Company	8,896,334.52	9,192,415.07
Proportionate share of net assets	2,668,900.36	2,757,724.52
The nominal value of investment in associates equity	2,707,572.57	2,783,902.87
Total revenue from operations	10,446,491.74	17,163,486.12
Net profit	(254,434.34)	327,204.00
Total comprehensive income	(254,434.34)	327,204.00
Dividend received from the associates	—	150,000.00



1 January 2016 to 31 December 2016

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

## VII. Interests in other entity (continued)

### 3. Interests in associates (continued)

- (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.

### 4. Interests of structured entities not included in unconsolidated financial statement

The Group does not have unconsolidated structured entities.

## VIII. 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 4.10. 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 2016, 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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

## VIII. Risks associated with financial instruments (continued)

### 1. Objective and policies of risk management (continued)

#### (1) Market risks (continued)

##### (1) Foreign exchange risks (continued)

Items	31 December 2016	31 December 2015
Cash and cash equivalents — (USD)	178,686,828.26	4,300,221.19
Cash and cash equivalents — (EUR)	12,970.66	8,845,007.71
Cash and cash equivalents — (HKD)	8,089.80	4,374.13
Cash and cash equivalents — (YEN)	105,920,725.17	—
Accounts receivable — (USD)	189,446,631.66	29,440,564.02
Accounts receivable — (EUR)	1,667,875.38	228,263.45
Other receivables — (USD)	35,391,821.96	7,355,473.80
Short-term borrowings — (USD)	463,322,230.00	80,241,324.29
Accounts payable — (USD)	4,507,985.79	1,434,644.38
Other payables — (USD)	175,021.06	25,230.08
Receipts in advance — (USD)	26,282,523.44	3,563,704.80
Interest payable — (USD)	2,068,651.21	224,995.71

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.

##### (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 2016, the Group's interest-bearing debts are mainly represented by floating rate loan denominated RMB and USD, amounted to RMB765,026,880.00 (At 31 December 2015: RMB767,872,000.00), and the fixed rate contracts denominated in USD and RMB amounted to RMB1,716,815,237.28 (At 31 December 2015: RMB1,200,627,507.82).

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.



1 January 2016 to 31 December 2016

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

## VIII. Risks associated with financial instruments (continued)

### 1. Objective and policies of risk management (continued)

#### (1) Market risks (continued)

##### (3) Price risk

The Group sells metal products at market price so sales are influenced by fluctuation in selling price.

#### (2) Credit risk

At 31 December 2016, 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 RMB201,542,180.52.

#### (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 2016, the Group had outstanding bank facilities of RMB987,220,000 (At 31 December 2015: RMB3,096,716,300.15), including outstanding short-term bank facilities of RMB987,220,000 (At 31 December 2015: RMB3,096,716,300.15).



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

## VIII. Risks associated with financial instruments (continued)

### 1. Objective and policies of risk management (continued)

#### (3) Liquidity risk (continued)

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:

Items	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
<b>Financial assets</b>					
Cash and cash equivalents	679,448,755.91	—	—	—	679,448,755.91
Bills receivable	23,403,982.45	—	—	—	23,403,982.45
Accounts receivable	304,148,614.98	—	—	—	304,148,614.98
Loans and advances	142,887,708.94	—	—	—	142,887,708.94
Interest receivables	8,196,910.73	—	—	—	8,196,910.73
Other receivables	55,703,355.24	—	—	—	55,703,355.24
<b>Financial liabilities</b>					
Short-term borrowings	2,436,842,117.30	—	—	—	2,436,842,117.30
Bills payable	241,427,907.86	—	—	—	241,427,907.86
Accounts payable	901,601,597.75	—	—	—	901,601,597.75
Other payables	29,429,211.29	—	—	—	29,429,211.29
Interest payables	3,716,115.91	—	—	—	3,716,115.91
Bonds payable	—	145,000,000.00	—	—	145,000,000.00

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	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



# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

## VIII. 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	2016		2015	
		Impact on net profit	Impact on shareholders' equity	Impact on net profit	Impact on shareholders' equity
All foreign currencies	Appreciate 5% against RMB	628,087.58	628,087.58	(9,512,833.26)	(9,512,833.26)
All foreign currencies	Depreciate 5% against RMB	(628,087.58)	(628,087.58)	9,512,833.26	9,512,833.26

#### (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.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

## VIII. Risks associated with financial instruments (continued)

### 2. Sensitivity analysis (continued)

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

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	Exchange rate change	2016		2015	
		Impact on net profit	Impact on shareholders' equity	Impact on net profit	Impact on shareholders' equity
Floating rate borrowings	Increase by 1%	(3,122,953.80)	(3,122,953.80)	(2,272,579.62)	(2,272,579.62)
Floating rate borrowings	Decrease by 1%	3,122,953.80	3,122,953.80	2,272,579.62	2,272,579.62

## IX. 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

## X. Related Party Relationships and Transactions

### 1. Related Party Relationships

At 31 December 2016, Mr. Zhang Enrong, who owns 33.29% of voting shares in the Company, is the controlling shareholder of the Company.

### 2. Subsidiaries

The details of the subsidiaries are disclosed on Note VII.1.

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

## X. Related Party Relationships and Transactions (continued)

### 3. Joint Venture and Associate

The details of the joint venture and associate are disclosed on Note VII.3.

### 4. Related Party Transactions

#### (1) Consolidated related party transactions

(1) Goods purchased and service accepted

Unit: RMB

Related party	Related party transactions	Incurred during this year	Incurred during previous year
Yalong Oil Pump	Oil well pumping and accessories	0.00	1,831,778.75

(2) Sale of goods and service rendered

Unit: RMB

Related party	Related party transactions	Incurred during this year	Incurred during previous year
Yalong Oil Pump	Oil well pumping and accessories	272,124.97	6,859,000.16
Shouguang Molong Culture Communication Co., Ltd.	Conduit and fittings	815,025.11	481,659.07

#### (2) Related party lending funds

Unit: RMB

Related party	Loan amount	Start date	End date	Notes Borrowing
Zhang Yun San	60,000,000.00	1 December 2016	20 December 2017	Interest Free



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

## X. Related Party Relationships and Transactions (continued)

### 4. Related Party Transactions (continued)

#### (3) The Group and the Company

Remuneration of the key management

Unit: RMB

Name	Incurred in current period	Incurred in last period
Zhang En Rong	701,945.00	701,945.00
Zhang Yun San	603,302.55	607,651.98
Guo Huan Ran	413,202.77	415,505.96
Yang Jin	351,616.05	—
Lin Fu Long	165,004.32	285,843.04
Guo Hong Li	34,986.67	34,986.67
Wang Chun Hua	34,986.67	34,986.67
Qin Xue Chang	74,986.67	74,986.67
Ji Yan Song	37,493.33	—
Quan Yu Hua	37,493.33	—
John Paul Cameron	49,605.71	90,880.00
Hao Liang	55,421.35	44,570.49
Zheng Jian Guo	5,050.00	—
Fan Ren Yi	5,050.00	10,100.00
Zhang Jiu Li	10,100.00	10,100.00
Xiao Qing Zhou	—	29,258.33

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

## X. Related Party Relationships and Transactions (continued)

### 5. Balances of related parties

#### (1) The Group

##### (1) Receivables with related party

Unit: RMB

Items	Joint venture	Balance at the end of the year		Balance at the beginning of the year	
		Carrying amount	Impairment	Carrying amount	Impairment
Accounts receivable	Ya'long Karamay Petroleum Machinery Co., Ltd.	1,836,430.15	—	3,221,441.98	—
Other receivables	Ya'long Karamay Petroleum Machinery Co., Ltd.	—	—	480,000.00	—

##### (2) Payable with related party:

Unit: RMB

Items	Joint venture	Balance at the end of the year	Balance at the beginning of the year
Accounts payable	Ya'long Karamay Petroleum Machinery Co., Ltd.	17,044.57	2,143,181.14
Short-term borrowing	Zhang Yun San	60,000,000.00	—

## XI. Contingent event

At 31 December 2016, the Group and the Company has no material contingent event.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

## XII. 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
Total	—	87,943,027.50

- (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 2016.

### 2. The Company

#### (1) Material Commitments

- (1) *Capital Commitments of the Company at the end of the year*  
Contracted for but not provided

- Ji'nan City Water Treatment Equipment Factory Co. Ltd. (hereinafter referred to as the "Ji'nan Water Treatment Company") and Mao Long New Materials Company signed a desalination equipment supply contract. Subsequently, the Company failed to fulfill delivery and installation obligation under the contract. Because of different understanding of the parties as to the termination of the contract and the liability for breach of contract dispute, Ji'nan Water Treatment Company sued Mao long New Material Company and the Company for the purchase price, and Maolong New Materials Company and the Company counterclaimed Ji'nan Water Treatment Company to repay overpaid purchase price and damages. Ji'nan Water Treatment Company applied for property preservation to the court, the Company provided RMB6 million yuan of commercial acceptance bill as security to the court, and the court did not freeze the Company's other property. The case is currently in the course of dispute resolution at the first instance. The Company determines the possibility of success of Ji'nan Water Treatment Company is unlikely, so this will not likely cause losses to the Company.

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

## XII. Commitment (continued)

### 2. The Company (continued)

#### (1) Material Commitments (continued)

(1) Capital Commitments of the Company at the end of the year (continued)

Contracted for but not provided (continued)

2. Deere Group Limited (hereinafter referred to as Deere Company) signed a contract for construction waste heat power generation installation engineering with Maolong New Material Company. Deere Company failed to perform the contract, and Mao Long New Materials Company had blasting accident in the ignition commissioning organization of the waste heat power generation gas boiler, resulting in the loss and leading to overall project delays and losses to the Maolong New Material Company's equipment and construction, Mao Long New Materials Company brought a lawsuit to the court. Deere Company filed a counterclaim to the Weifang Intermediate People's Court. At present, with the case at the trial stage of the first instance, the Company considered Maolong New Material is more likely to win and Deere Company is less likely to win the counterclaim.
3. Yixing City Xuanli Metallurgical Tools Manufacturing Co. Ltd. (hereinafter referred to as the "Yixing Force") and Yixing City Peace Drawing Mould Co. Ltd. (hereinafter referred to as the "Yixing Peace") sold to the Company products with quality problems in the process of use, and the parties have not yet reached a settlement agreement. The Company has not yet paid to Yixing Force and has suspended payment to Yixing Peace. Yixing Force and Yixing Peace sued the Company and applied for property preservation measures, and the court froze the Company's deposit with Construction Bank Shouguang branch in the sum of RMB1.45 million. The case is still in the process of resolution.

Other than commitments stated above, there is no other material commitment at 31 December 2016.

## XIII. Events Subsequent to Balance Sheet Date

### 1. Subsequent Profit Distribution Plan

No final dividend is distributed for this year. The profit distribution plan is subject to approval in the shareholder meeting.

### 2. Sales return

As of the date of the report, the company did not return sales.

### 3. Other events Subsequent to Balance Sheet Date

(1) The Group had borrowed RMB232,100,000.00 and USD4,000,000.00 up to the date of this report.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

## XIII. Events Subsequent to Balance Sheet Date (continued)

### 3. Other events Subsequent to Balance Sheet Date (continued)

#### (2) Disposal of non current assets

On December 14, 2016, the Company and the Shouguang City Land Reserve Center signed a "state-owned land resumption compensation agreement", Shouguang City Land Reserve Center, based on the spirit of relevant meeting with Shouguang Municipal Government resumed part of the Company's land under the land use right certificate (2002) No. 03013, and agreed to give the company RMB65, 043,879 compensation.

#### (3) Controlling shareholder to sell shares and to provide loans to the Company

The Group Chairman Mr. Zhang Enrong on January 13, 2017 sold on the Shenzhen Stock Exchange trading system as large trading holdings of unrestricted tradable 30,000,000 shares, such holdings of shares representing the Company's 3.76% of the total share capital. After such reduction, Zhang Enrong holds 235,617,000 shares, representing 29.53% of total share capital, including unrestricted tradable shares in the amount of 36,404,250 shares, and is still the controlling shareholder of the Company.

On January 18, 2017, after the fifth session of the second board resolution by the Company, the Company borrowed from its controlling shareholder, Chairman Zhang Enrong RMB150,000,000 for the operation and development of the Company, the loan period not to exceed 36 months, with interest in accordance with the loan interest rate benchmark bank lending rates over the same period.

Mr. Zhang Enrong (the controlling shareholder of the Company), on March 30, 2017, using his holdings of 235,617,700 A shares (representing 29.53% of the total share capital), made an irrevocable letter of commitment (hereinafter referred to as the support undertaking) :

- (a) As of March 30, 2017, the group owned Mr. Zhang Enrong RMB150,000,000 (hereinafter referred to as shareholder loans). Mr. Zhang Enrong undertook not to require the group to pay the shareholder loans, until the financial position of the group had significantly improved enough to repay;
- (b) Mr. Zhang Enrong signed the support undertaking such that when the Company demands, the controlling shareholder will use stock pledge or other reasonable way to obtain funds for the Company to meet its working capital operation, loan repayment and loan renewal needs;
- (c) In addition to the above (a) and (b), Mr. Zhang Enrong will not sell or pledge to any other party his shares in the Company. At the same time, the controlling shareholder using its own financial capacity or other potential financial ability will provide financial support to the Company, till the Company has enough funds to meet its operation needs and is able to pay its due debts.

- (4) Apart from matters described above, the Company has no significant subsequent events to be disclosed at December 31, 2016.



# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

## XIV. Other significant items

### 1. Segment Reporting

#### (1) Basis and accounting policies of segment reporting

##### (i) 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.

##### (ii) 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.

#### (2) Segment Reporting Information

Unit: RMB

Items	Casing and tubing	Three kinds of pumping units	Petroleum machinery plant	Other	Unallocated Items	Inter-segment elimination	Total
Operation revenue							
External income	1,376,899,726.43	27,228,938.56	20,432,578.68	106,557,131.51	—	—	1,531,118,375.18
Inter-segment income	—	—	—	—	—	—	—
Total segment income	1,376,899,726.43	27,228,938.56	20,432,578.68	106,557,131.51	—	—	1,531,118,375.18
Total operating income	1,376,899,726.43	27,228,938.56	20,432,578.68	106,557,131.51	—	—	1,531,118,375.18
Segment costs	1,771,179,665.16	31,762,897.83	20,304,745.69	104,101,288.28	—	—	1,927,348,596.96
Segment (loss) profit	(394,279,938.73)	(4,533,959.27)	127,832.99	2,455,843.23	—	—	(396,230,221.78)
Adjusting items:							
Administrative expenses	—	—	—	—	157,120,673.19	—	157,120,673.19
Finance costs	—	—	—	—	52,507,807.22	—	52,507,807.22
Investment income	—	—	—	—	50,624.92	—	50,624.92
Operating (loss) profit	(394,279,938.73)	(4,533,959.27)	127,832.99	2,455,843.23	(209,577,855.49)	—	(605,808,077.27)
Non-operating income	—	—	—	—	7,342,777.08	—	7,342,777.08
Non-operating expenses	—	—	—	—	1,020,719.53	—	1,020,719.53
Total (loss) profit	(394,279,938.73)	(4,533,959.27)	127,832.99	2,455,843.23	(203,255,797.94)	—	(599,486,019.72)
Income tax credit	—	—	—	—	51,219,680.01	—	51,219,680.01
Net (loss) profit	(394,279,938.73)	(4,533,959.27)	127,832.99	2,455,843.23	(254,475,477.95)	—	(650,705,699.73)
Total segment assets	4,929,252,796.06	95,988,897.79	218,942,207.53	177,898,542.26	349,960,397.42	—	5,772,042,841.06
Total segment liabilities	1,401,705,015.87	27,306,766.13	19,612,567.50	93,280,046.07	2,344,471,220.10	—	3,886,375,615.67
Supplementary Information:							
Depreciation	170,157,746.66	6,001,889.84	5,594,379.52	646,116.88	8,534,543.00	—	190,934,675.90
Amortization	66,594,131.74	478,178.08	2,586,317.37	5,256.36	—	—	69,663,883.55
Interest income	—	—	—	—	(10,996,409.07)	—	(10,996,409.07)
Finance costs	—	—	—	—	63,504,216.29	—	63,504,216.29
Impairment losses recognized in this year	216,617,900.36	—	—	—	—	—	216,617,900.36
Non-current assets other than long-term equity investment	3,269,055,595.43	63,646,417.62	45,712,833.80	217,416,472.49	30,198,814.70	—	3,626,030,134.04
Capital expenditures	304,064,778.46	—	8,547.01	7,929,369.77	20,000.00	—	312,022,695.24
Including: Construction in progress	288,965,471.51	—	—	1,452,339.77	—	—	290,417,811.28
Purchase of fixed assets	4,705,484.70	—	8,547.01	—	—	—	4,714,031.71
Purchase of intangible assets	10,393,822.25	—	—	6,477,030.00	—	—	16,870,852.25
Purchase of equity investments	—	—	—	—	20,000.00	—	20,000.00



# Notes to the Financial Statements

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1 January 2016 to 31 December 2016

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

## XIV. Other significant items (continued)

### 2. Other important transactions and events that have an impact on investor decision making

(1) 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 Section IV (II) "Principal Operations of the Company and Analysis of Their Operations", part (8) "Overview of the Company's major trade debtor and suppliers".

### (2) China Securities Regulatory Commission investigation of controlling shareholder, general manager and company

On February 8, 2017, Chinese Securities Regulatory Commission (hereinafter referred to as the China Commission) issued to the controlling shareholder of the company Zhang En Rong and general manager Zhang Yun San the "investigation notice" (number: LUZHENG investigation [2017] No. 001 and LUZHENG investigation [2017] No. 002). As Mr. En Rong and Mr. Zhang Yunsan were suspected of violating securities laws according to regulations, the relevant provisions in the "People's Republic of China Securities Law", the China Commission decided to conduct a criminal investigation.

On March 21, 2017, the China Commission issued a "investigation notice" (number: LUZHENG investigation [2017] No. 003) to the Company. As the Company was suspected of violating securities laws and regulations, according to the relevant provisions of the "People's Republic of China Securities Law", the China Commission decided to initiate an investigation against the Company.

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

## XV. Notes to statement of financial position of the Company

### 1. Accounts Receivable

#### (1) Classification of accounts receivable

Unit: RMB

Category	Balance at the end of the year					Balance at the end of the year				
	Carrying amount		Provision of bad debts		Carrying amount	Carrying amount		Provision of bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Single item with significant accounts receivable and provided for bad debts in individual assessment for impairment	112,268,032.58	17.17%	67,648,771.75	60.26%	44,619,260.83	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	529,952,133.72	81.04%	—	—	529,952,133.72	705,624,300.17	93.50%	—	—	705,624,300.17
Single item with insignificant accounts receivable but provided for bad debts individually	11,699,773.50	1.79%	9,414,581.16	80.47%	2,285,192.34	5,411,284.54	0.72%	3,035,821.11	56.10%	2,375,463.43
<b>Total</b>	<b>653,919,939.80</b>	<b>100.00%</b>	<b>77,063,352.91</b>	<b>—</b>	<b>576,856,586.89</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>



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 1. Accounts Receivable (continued)

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

Unit: RMB

Companies	Balance at the end of the year			Reason for provision
	Carrying value	Provision for bad debt	Ratio (%)	
Peak Pipe and Supply, LLC	48,563,298.72	25,757,036.85	53.00%	Aging over two years with uncertain recoverability
Shandong Xinmei Machinery Equipment (Group) Co., Ltd	25,411,133.71	17,924,339.57	70.00%	Aging over two years with uncertain recoverability
Samasu International Oil Corporation	16,637,878.32	4,991,363.50	30.00%	Recovery at risk Wenlai Jinlong Investment Company Limited,
Beijing Office	13,398,450.00	10,718,760.00	80.00%	Aging over two years with uncertain recoverability
Brunei Jinlong Investment Co., Ltd. Beijing Office	8,257,271.83	8,257,271.83	100.00%	Aging over two years with uncertain recoverability
Total	112,268,032.58	67,648,771.75	—	—

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 1. Accounts Receivable (continued)

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

Companies	Carrying value	Provision for bad debt	Ratio (%)	Reason for provision
SBI	4,316,839.40	4,316,839.40	100.00	Aging over three years with low possibility of recovery
Sultan international oil company	3,356,866.05	2,014,119.63	60.00	Recovery at risk
Metal One Corporation	1,204,607.48	722,764.49	60.00	Recovery at risk
South China Petrochemical Group	1,109,486.42	1,109,486.42	100.00	Aging over three years with low possibility of recovery
PT. Dhiva Inter Sarana	835,873.82	501,524.29	60.00	Recovery at risk
China Petroleum Technology & Development Company	594,152.90	594,152.90	100.00	Aging over three years with low possibility of recovery
The Amy Canada Company	180,362.00	54,108.60	30.00	Recovery at risk
Hanting Energy Resource Private Service Company Limited	101,585.43	101,585.43	100.00	Aging over three years with low possibility of recovery
<b>Total</b>	<b>11,699,773.50</b>	<b>9,414,581.16</b>	<b>—</b>	<b>—</b>

The impairment loss on accounts receivables amounted to RMB55,098,901.78, bad debt recovered or reversed is RMB3,284,636.96 for this year.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 1. Accounts Receivable (continued)

#### (4) 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	19,435,411.26	Within one year	2.97	—
	246,876,094.93	One to two years	37.75	—
Petroamazonas EP	4,428,164.24	Within one year	0.68	—
	70,385,708.80	One to two years	10.76	—
Peak Pipe and Supply, LLC	11,269,807.92	One to two years	1.72	3,380,942.37
	37,293,490.80	Two to three years	5.70	22,376,094.48
Hebei Zhongtai steel pipe manufacturing Co., Ltd.	5,019,089.40	Within one year	0.77	—
	31,096,907.33	One to two years	4.76	—
Shandong Xinmei Machinery Equipment (Group) Co., Ltd	18,716,985.36	Two to three years	2.86	11,230,191.22
	6,694,148.35	Three to four years	1.02	6,694,148.35
Total	451,215,808.39	—	68.99	43,681,376.42

# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 2. Other Receivables

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

Unit: RMB

Category	Balance at the end of the year				Carrying balance	Balance at the beginning of the year			
	Book balance		Impairment loss			Book balance		Impairment loss	
	Amount	Ratio (%)	Amount	Ratio (%)		Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant other receivables and provided for bad debts in individual assessment for impairment	35,391,821.96	10.13%	10,617,546.59	30.00%	24,774,275.37	—	—	—	—
Single item with insignificant other receivable and single item with significant other receivable but not impaired under individual assessment for impairment	313,872,004.26	89.84%	—	—	313,872,004.26	577,291,445.12	99.98%	—	—
Single item with insignificant other receivables but provided for bad debts individually	122,119.25	0.03%	122,119.25	100.00%	—	119,119.25	0.02%	119,119.25	100.00%
<b>Total</b>	<b>349,385,945.47</b>	<b>100.00%</b>	<b>10,739,665.84</b>	<b>—</b>	<b>338,646,279.63</b>	<b>577,410,564.37</b>	<b>100.00%</b>	<b>119,119.25</b>	<b>—</b>

The final amount of single major and other receivables of single provision provision for bad debts:

Unit: RMB

Other receivables	Balance at the end of the year			Reason
	Amount	Bad-debt provision	Ratio (%)	
JESORO OIL LTD	35,391,821.96	10,617,546.59	30.00%	No recovery with long aging
<b>Total</b>	<b>35,391,821.96</b>	<b>10,617,546.59</b>	<b>—</b>	<b>—</b>

#### (2) 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	67,899.25	67,899.25	100.00	No recovery with long aging
<b>Total</b>	<b>122,119.25</b>	<b>122,119.25</b>	<b>—</b>	<b>—</b>



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 2. Other Receivables (continued)

#### (3) 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. And the provision for bad debts is RMB10,620,546.59 during this year.

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

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

Unit: RMB

Nature	Balance at the end of the year	Balance at the beginning of the year
Current account with entities	331,259,856.83	559,379,895.12
Deposits	17,000,290.14	16,942,090.00
Current account with individuals	1,125,798.50	1,088,579.25
Total	349,385,945.47	577,410,564.37

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

Unit: RMB

Companies	Nature	Amount	Aging	Proportion (%)	The balance of provision for bad debts as at the end of year
Maolong New Materials	Current account	204,530,323.38	Within one year	58.54%	—
Maolong New Materials	Current account	12,854,183.68	One to Two years	3.68%	—
JESORO OIL LTD	Current account	35,391,821.96	One to Two years	10.13%	10,617,546.59
Molong Logistic Company	Current account	1,692,830.89	Within one year	0.48%	—
Molong Logistic Company	Current account	33,473,333.58	Three to four years	9.58%	—
Shouguang Baolong Petroleum Material Company Limited	Current account	34,097,512.00	Three to four years	9.76%	—
Yang Kou town's finances	cash pledge	14,530,000.00	Three to four years	4.16%	—
Total	—	336,570,005.49	—	96.33%	10,617,546.59



# Notes to the Financial Statements



1 January 2016 to 31 December 2016

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

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

### 3. Long-term equity investment

Unit: RMB

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	1,352,069,921.73	208,000,000.00	1,144,069,921.73	1,052,069,921.73	—	1,052,069,921.73
Total	1,352,069,921.73	208,000,000.00	1,144,069,921.73	1,052,069,921.73	—	1,052,069,921.73

#### (1) Investment in subsidiaries

Unit: RMB

Investee Companies	Balance at the beginning of the year			Additions	Reductions	Provision of impairment at the end of the year	
	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	
Maolong New Materials	706,743,691.73	1,006,743,691.73	300,000,000.00	—	—	—	
Weihai Baolong	220,000,000.00	220,000,000.00	—	—	103,000,000.00	103,000,000.00	
MPM Limited	7,276,230.00	7,276,230.00	—	—	—	—	
Shouguang Baolong	105,000,000.00	105,000,000.00	—	—	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	1,052,069,921.73	1,352,069,921.73	300,000,000.00	—	208,000,000.00	208,000,000.00	

#### (2) Other description

Because of the long-term equity investment of Shouguang company and Weihai Baolong Baolong company impairment, the provision for impairment of long-term investment were RMB105,000,000 and RMB103,000,000.

The company's ability to transfer funds from a long-term equity investment to an investment company in December 31, 2016 was not restricted.



# Notes to the Financial Statements

1 January 2016 to 31 December 2016

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

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

### 4. Operating revenue and operating costs

Unit: RMB

Items	Incurred during this year		Incurred during previous year	
	Revenue	Cost	Revenue	Cost
Main operation	1,326,547,290.27	1,330,168,724.49	1,580,995,699.42	1,370,888,814.07
Other operation	76,993,249.73	73,075,780.50	96,717,497.42	108,200,095.78
Total	1,403,540,540.00	1,403,244,504.99	1,677,713,196.84	1,479,088,909.85

### 5. Investment Income

Unit: RMB

Items	Incurred during this year	Incurred during previous year
Available for sale financial assets during the period of holding the investment returns	259.63	—
Total	259.63	—

# Supplementary Information on the Financial Statements



1 January 2016 to 31 December 2016

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

## 1 Statement of non-recurring profit and loss

Unit: RMB

Items	During this year	Note
Loss on disposal of non-current assets	182,163.01	—
Government subsidies recognize in profit and loss of the year	4,188,016.16	—
Reversal of impairment of receivables under individual assessment	3,284,636.96	—
The non-operating income and expenses	1,951,878.38	—
Other gains and losses comply with the definition of non-recurring gains and losses	126,955.22	—
Less: Income tax effect	30,984.97	—
Effect of minority interests (after tax)	636,873.65	—
Total	9,065,791.11	—

## 2. Return on net assets and (loss) earnings per share

Profit during the reporting period	Weighted average return on assets (%)	Earnings per share	
		Basic	Diluted
Net profit (loss) attributable to holders of ordinary shares of the company	(28.80%)	(0.77)	(0.77)
Net profit (loss) attributable to holders of ordinary shares of the company after deducting the non-recurring gain and loss	(29.22%)	(0.78)	(0.78)



## XIV. 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, 2017

