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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** as to any aspect of this circular, or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Shandong Molong Petroleum Machinery Company Limited\*, you should at once hand this circular together with the enclosed form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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### **山東墨龍石油機械股份有限公司**

Shandong Molong Petroleum Machinery Company Limited\*

*(A Sino-foreign joint venture limited by shares incorporated in the People's Republic of China)*

**(Stock Code: 568)**

**(1) DISPOSAL OF EQUITY INTEREST IN TWO SUBSIDIARIES**  
**(2) PROVISION OF FINANCIAL ASSISTANCE**  
**TO DISPOSED SUBSIDIARIES**  
**(3) AMENDMENTS TO SYSTEM FOR INDEPENDENT DIRECTORS**  
**(4) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**  
**AND**  
**(5) NOTICE OF THE EGM**

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Unless the context otherwise requires, capitalized terms used in this cover page have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 4 to 19 of this circular.

The notice of the EGM of the Company to be convened and held on Thursday, 25 January 2024 at 2:00 p.m. at the Conference Room, 9/F, Building 19, Enterprise Headquarters Group, Shengcheng Street, Shouguang City, Shandong Province, the People's Republic of China is set out on pages EGM-1 to EGM-2 of this circular.

Shareholders who are entitled to attend and vote at the EGM can appoint one or more proxies to attend and vote on their behalf. Whether or not you are able to attend the EGM, please complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as practicable and in any event by not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). In order to be valid, the proxy form for the EGM must be deposited by hand or post, for holders of H Shares of the Company, to the H Share registrar of the Company, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, and, for holders of A Shares of the Company, to the Company's registered address at No. 99 Xingshang Road, Gucheng Street, Shouguang City, Shandong Province for taking the poll. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM should you so wish.

\* *For identification purposes only*

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following words have the following meanings:*

“Articles of Association”	the articles of association of the Company
“A Share(s)”	ordinary domestic share(s) listed on the Shenzhen Stock Exchange with a par value of RMB1.00 per share in the Company’s share capital and traded in RMB.
“Board”	the board of Directors
“Company”	Shandong Molong Petroleum Machinery Company Limited* (山東墨龍石油機械股份有限公司)
“Director(s)”	director(s) of the Company
“Disposals”	collectively, the disposals of (i) 70% of the equity interest in Shouguang Baolong by the Company to the Purchaser pursuant to the terms and conditions of the Shouguang Baolong S&P; and (ii) 98.0769% of the equity interest in Weihai Baolong by the Company and Shouguang Maolong to the Purchaser pursuant to the terms and conditions of the Weihai Baolong S&P
“EGM”	the extraordinary general meeting of the Company to be convened and held at Conference Room, 9/F, Building 19, Enterprise Headquarters Group, Shengcheng Street, Shouguang City, Shandong Province, the People’s Republic of China at 2:00 p.m. on Thursday, 25 January 2024, or any adjournment thereof, for the Shareholders to consider, and if thought fit, approve (1) the Disposals; (2) the Repayment Arrangements, (3) the amendments to the System for Independent Directors and (4) the proposed amendments to the Articles of Association
“H Share(s)”	ordinary overseas listed foreign share(s) listed on the Hong Kong Stock Exchange with a par value of RMB1.00 per share in the Company’s share capital and traded in HKD
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Listing Rules”	Rules governing the listing of securities on the Hong Kong Stock Exchange

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## DEFINITIONS

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“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Indebtedness”	(i) the sum of RMB461,709,466.37 owing to the Company and payable by Shouguang Baolong; and (ii) the sum of RMB14,345,726.40 owing to the Company and payable by Weihai Baolong, as the case may be
“Latest Practicable Date”	4 January 2024, that is, the latest practicable date of certain materials contained in this circular determined before its publication
“PRC”	the People’s Republic of China, excluding Hong Kong, Macao Special Administrative Region of the PRC and Taiwan region
“Purchaser”	Wuhu Zhiying Project Investment Partnership (Limited Partnership)* (蕪湖智贏專案投資合夥企業(有限合夥)), a limited partnership established in the PRC
“Repayment Agreements”	collectively, the Shouguang Baolong Repayment Agreement and the Weihai Baolong Repayment Agreement
“Repayment Arrangements”	collectively, (i) the repayment arrangements in respect of the Indebtedness of RMB461,709,466.37 payable by Shouguang Baolong to the Company under the Shouguang Baolong Repayment Agreement; and (ii) the repayment arrangements in respect of the Indebtedness of RMB14,345,726.40 payable by Weihai Baolong to the Company under the Weihai Baolong Repayment Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	A Share(s) and H Share(s)
“Shareholder(s)”	shareholder(s) of the Company
“Shouguang Baolong”	Shouguang Baolong Petroleum Equipment Co., Ltd.* (壽光寶隆石油器材有限公司), a company established in the PRC with limited liability and a direct non-wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Shouguang Baolong Repayment Agreement”	the repayment agreement dated 9 January 2024 entered into by the Company and Shouguang Baolong in relation to the repayment of the Indebtedness in the sum of RMB461,709,466.37 by Shouguang Baolong to the Company

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## DEFINITIONS

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“Shouguang Baolong S&P”	the sale and purchase agreement dated 9 January 2024 entered into by the Company and the Purchaser in relation to the disposal of 70% of the equity interest in Shouguang Baolong by the Company to the Purchaser
“Shouguang Maolong”	Shouguang Maolong New Materials Technology Development Co., Ltd.* (壽光懋隆新材料技術開發有限公司), a company established in the PRC with limited liability and a subsidiary of the Company as at the Latest Practicable Date
“SZSE”	Shenzhen Stock Exchange
“SZSE Listing Rules”	Rules Governing the Listing of Shares on Shenzhen Stock Exchange
“Valuer”	Kunxin International Assets Appraisal Group Co., Ltd.* (坤信國際資產評估集團有限公司), an independent PRC qualified valuer
“Weihai Baolong”	Weihai City Baolong Petroleum Equipment Co., Ltd.* (威海市寶隆石油專材有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Weihai Baolong Repayment Agreement”	the repayment agreement dated 9 January 2024 entered into by the Company and Weihai Baolong in relation to the repayment of the Indebtedness in the sum of RMB14,345,726.40 by Weihai Baolong to the Company
“Weihai Baolong S&P”	the sale and purchase agreement dated 9 January 2024 entered into by the Company, Shouguang Maolong and the Purchaser in relation to the disposal of 98.08% of the equity interest in Weihai Baolong by the Company and Shouguang Maolong to the Purchaser
“%”	percentage

*For ease of reference, the names of the PRC incorporated companies and entities have been included in this circular in both Chinese and English language. In the event of any inconsistency, the Chinese name shall prevail.*

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## LETTER FROM THE BOARD

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# 山東墨龍石油機械股份有限公司

Shandong Molong Petroleum Machinery Company Limited\*

(A Sino-foreign joint venture limited by shares incorporated in the People's Republic of China)

(Stock Code: 568)

*Executive Directors:*

Mr. Yuan Rui (*Chairman*)  
Mr. Yao You Ling  
Mr. Li Zhi Xin  
Mr. Zhao Xiao Tong

*Registered Office:*

No. 99 Xingshang Road  
Gucheng Street  
Shouguang City  
Shandong Province  
PRC

*Non-Executive Directors:*

Mr. Ding Yi  
Ms. Zhang Min

*Principal place of business in Hong Kong:*

5/F, Kam Sang Building  
257 Des Voeux Road Central  
Sheung Wan  
Hong Kong

*Independent Non-Executive Directors:*

Mr. Tang Qing Bin  
Mr. Song Zhi Wang  
Mr. Cai Zhong Jie

*To the Shareholders*

Dear Sir/Madam,

- (1) DISPOSAL OF EQUITY INTEREST IN TWO SUBSIDIARIES**  
**(2) PROVISION OF FINANCIAL ASSISTANCE**  
**TO DISPOSED SUBSIDIARIES**  
**(3) AMENDMENTS TO SYSTEM FOR INDEPENDENT DIRECTORS**  
**(4) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**  
**AND**  
**(5) NOTICE OF THE EGM**

### 1. INTRODUCTION

The purpose of this circular is to give you notice of the EGM and to provide you with information regarding the resolution on (1) the Disposals; (2) the Repayment Arrangements, (3) the amendments to the System for Independent Directors and (4) the proposed amendments to the Articles of Association to be proposed at the EGM so that you can vote for or against the resolution at the EGM. This circular gives all the information reasonably necessary to enable the Shareholders to make an informed decision on whether to vote for or against the resolution to be proposed at the EGM.

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## LETTER FROM THE BOARD

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### 2. DISPOSAL OF EQUITY INTEREST IN TWO SUBSIDIARIES

Reference is made to the announcement of the Company dated 9 January 2024 in relation to, amongst others, the Disposal.

On 9 January 2024 (after trading hours):

- (i) the Company (as vendor) and the Purchaser have entered into the Shouguang Baolong S&P, pursuant to which, amongst others, the Company has agreed to sell and the Purchaser has agreed to purchase 70% of the equity interest in Shouguang Baolong at the consideration of RMB1; and
- (ii) the Company (as vendor), Shouguang Maolong (as vendor) and the Purchaser have entered into the Weihai Baolong S&P, pursuant to which, amongst others, the Company and Shouguang Maolong have agreed to sell and the Purchaser has agreed to purchase an aggregate of 98.0769% of the equity interest in Weihai Baolong at the consideration of RMB141,606,708.94.

#### **Shouguang Baolong S&P**

The principal terms of the Shouguang Baolong S&P are set out as follows:

#### ***Date***

9 January 2024

#### ***Parties***

- (1) Purchaser: Wuhu Zhiying Project Investment Partnership (Limited Partnership)\* (蕪湖智贏項目投資合夥企業有限合夥); and
- (2) Vendor: the Company

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons.

#### ***Subject matter***

Pursuant to the Shouguang Baolong S&P, amongst others, the Company has agreed to sell, and the Purchaser has agreed to purchase, 70% of the equity interest in Shouguang Baolong, free from all encumbrances.

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## LETTER FROM THE BOARD

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The table below sets out the registered capital and shareholding of the Shouguang Baolong (i) as at the Latest Practicable Date; and (ii) immediately upon completion:

	<b>As at the Latest Practicable Date</b>		<b>Immediately upon completion</b>	
	<b>Registered Capital RMB (million)</b>	<b>Shareholding %</b>	<b>Registered Capital RMB (million)</b>	<b>Shareholding %</b>
The Company Weifang Shengcheng Investment Management Co., Ltd.* (濰坊聖城 投資有限公司)	105	70	–	–
The Purchaser	45	30	45	30
	–	–	105	70
<b>Total</b>	<b>150</b>	<b>100</b>	<b>150</b>	<b>100</b>

### *Consideration*

The consideration for the disposal of 70% of the equity interest in Shouguang Baolong is RMB1.

The consideration was determined after arm length negotiations between the Company and the Purchaser with reference to (i) the negative appraised value of 70% of the equity interest in Shouguang Baolong in the total amount of RMB-26,557,621.35 as at 30 September 2023 based on a valuation report prepared by the Valuer, an independent PRC qualified valuer, using asset-based approach; (ii) the prevailing market conditions; (iii) the operational and financial performance of the Shouguang Baolong, in particular, Shouguang Baolong has been loss-making in the recent two financial years and has recorded net liabilities of RMB283,758,300 as at 30 September 2023; and (iv) the reasons as more particularly described in the section headed “2. Disposal of Equity Interests in Two Subsidiaries - Reasons for and Benefit of the Disposals” in this announcement.

### Valuation method

The valuation of the 70% equity interest in Shouguang Baolong was arrived at using the asset-based approach.

The Valuer advised the Company that it has considered all basic valuation methods, including the market approach, income approach and asset-based approach, and has analyzed the applicability of various valuation methods and selected valuation method based on the valuation purpose, valuation object, value type, and data collection.



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## LETTER FROM THE BOARD

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Due to the small number of local or overseas transactions for companies similar to Shouguang Baolong and the difficulty in obtaining information of relevant transactions, a comparable and effective market transaction reference object is unavailable. At the same time, given that Shouguang Baolong is in a state of suspension of production and is unable to operate normally, the Company's relevant parameters are of little reference value. Therefore, the market approach was not considered in conducting the appraisal.

In addition, as Shouguang Baolong is currently in a state of suspension of production, there is significant uncertainty in its future operations. It is difficult to reasonably predict and quantify the expected returns and the risks. Hence, the income method was unavailable for appraisal.

The Company understands that the assets and liabilities in the balance sheet on the reference date of valuation can be identified and can be assessed individually using appropriate methods, the asset-based method was adopted for the relevant valuation.

### Assumptions

The Valuer has made general and basic assumptions regarding the valuation and has made the following special assumptions:

1. Shouguang Baolong's management will be responsible, stable and capable of fulfilling their duties after the valuation reference date;
2. After the appraisal reference date, based on the existing management methods and management standards, Shouguang Baolong's business scope and methods will remain consistent with the current direction;
3. The accounting policies adopted by Shouguang Baolong after the valuation reference date are consistent with the accounting policies adopted during the preparation of the valuation report in all respects;
4. Shouguang Baolong complies with all relevant laws and regulations;
5. There will be no new changes in the macro environment faced by Shouguang Baolong, including the fact that the various national policies enjoyed by Shouguang Baolong remain unchanged at the current level;
6. Asset valuation professionals did not perform technical testing on the technical parameters and performance of various equipment on the valuation reference date. They made the judgment through on-site investigation on the premise that the relevant technical information and operation records provided by Shouguang Baolong are true and valid; and
7. The on-site inspection of the appraisal object by asset appraisal professionals is limited to the appearance and usage conditions of the appraisal object. The intrinsic quality such as the structure has not been tested, and there is no

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## LETTER FROM THE BOARD

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assurance as to whether it has inherent defects. The valuation report is based on the assumption that the inherent quality of the appraisal object complies with relevant national standards and is sufficient to sustain its normal use.

The Valuer advised that the bases and assumptions of the valuation are those commonly used in equity valuation in sale transactions.

The Board considers that based on the above bases and assumptions, the valuation performed by the Valuer is fair, reasonable and appropriate.

### *Payment*

The consideration of RMB1 shall be settled by the Purchaser by way of wiring transfer within 20 working days from the date of the Shouguang Baolong S&P.

### *Completion*

Completion shall take place, and the Company shall provide assistance to the Purchaser for the change in equity registration at Administration for Market Regulation, within 20 working days from the date of payment of the consideration.

### **Weihai Baolong S&P**

The principal terms of the Weihai Baolong S&P are set out as follows:

### *Date*

9 January 2024

### *Parties*

- |                |  |
|----------------|--|
| (1) Purchaser: | Wuhu Zhiying Project Investment Partnership (Limited Partnership)* (蕪湖智贏項目投資合夥企業(有限合夥)); and |
| (2) Vendors:   | (a) the Company  |
|                | (b) Shouguang Maolong  |

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons.

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## LETTER FROM THE BOARD

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### *Subject matter*

Pursuant to the Weihai Baolong S&P, amongst others, the Company and Shouguang Maolong have agreed to sell 61.5385% and 36.5385%, respectively, and the Purchaser has agreed to purchase a total of 98.0769% of the equity interest in Weihai Baolong, free from all encumbrances.

The table below sets out the registered capital and shareholding of the Weihai Baolong (i) as at the Latest Practicable Date; and (ii) immediately upon completion:

	<b>As at the Latest Practicable Date</b>		<b>Immediately upon completion</b>	
	<b>Registered Capital RMB (million)</b>	<b>Shareholding %</b>	<b>Registered Capital RMB (million)</b>	<b>Shareholding %</b>
The Company	16.0	61.5385	–	–
Shouguang Maolong	9.5	36.5385	–	–
Shouguang Molong Electro-mechanical Equipment Co., Ltd.* (壽光墨龍 機電設備有限 公司)	0.5	1.9231	0.5	1.9231
The Purchaser	–	–	25.5	98.0769
<b>Total</b>	<b>26.0</b>	<b>100.0</b>	<b>26.0</b>	<b>100.0</b>

### *Consideration*

The consideration for the disposal of 98.0769% of the equity interest in Weihai Baolong is RMB141,606,708.94. As the Purchaser has agreed to purchase the equity interests in both Shouguang Baolong and Weihai Baolong, the consideration has also taken into account the negative evaluation of 70% of the equity interest in Shouguang Baolong of RMB-26,557,621.35 and the consideration for the disposal thereof in the amount of RMB1 (i.e. RMB168,164,331.29 – RMB26,557,621.35 – RMB1 = RMB141,606,708.94).

The consideration was determined after arm length negotiations between the Company and the Purchaser with reference to (i) the appraised value of 98.0769% of the equity interest in Weihai Baolong in the total amount of RMB168,164,331.29 as at 30 September 2023 based on a valuation report prepared by the Valuer, an independent PRC qualified valuer, using asset-based approach; (ii) the negative evaluation of 70% of the equity interest in Shouguang Baolong of RMB-26,557,621.35; (iii) the prevailing market conditions; (iv) the operational and financial performance of the Weihai Baolong, in particular, Weihai Baolong has been loss-making in the recent two

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## LETTER FROM THE BOARD

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financial years; and (v) the reasons as more particularly described in the section headed “2. Disposal of Equity Interests in Two Subsidiaries - Reasons for and Benefit of Disposals” in this announcement.

### Valuation method

The Valuer advised the Company that it has considered all basic valuation methods, including the market approach, income approach and asset-based approach, and has analyzed the applicability of various valuation methods and selected valuation method based on the valuation purpose, valuation object, value type, and data collection.

Due to the small number of local or overseas transactions for companies similar to Weihai Baolong and the difficulty in obtaining information of relevant transactions, a comparable and effective market transaction reference object is unavailable. At the same time, given that Weihai Baolong is in a state of suspension of production and is unable to operate normally, the Company’s relevant parameters are of little reference value. Therefore, the market approach was not considered in conducting the appraisal.

In addition, as Weihai Baolong is currently in a state of suspension of production, there is significant uncertainty in its future operations. It is difficult to reasonably predict and quantify the expected returns and the risks. Hence, the income method was unavailable for appraisal.

The Company understands that the assets and liabilities in the balance sheet on the reference date of valuation can be identified and can be assessed individually using appropriate methods, the asset-based method was adopted for the relevant valuation.

### Assumptions

The Valuer has made general and basic assumptions regarding the valuation and has made the following special assumptions:

1. Weihai Baolong’s management will be responsible, stable and capable of fulfilling their duties after the valuation reference date;
2. After the appraisal reference date, based on the existing management methods and management standards, Weihai Baolong’s business scope and methods will remain consistent with the current direction;
3. The accounting policies adopted by Weihai Baolong after the valuation reference date are consistent with the accounting policies adopted during the preparation of the valuation report in all respects;
4. Weihai Baolong complies with all relevant laws and regulations;

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## LETTER FROM THE BOARD

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5. There will be no new changes in the macro environment faced by Weihai Baolong, including the fact that the various national policies enjoyed by Weihai Baolong remain unchanged at the current level;
6. Asset valuation professionals did not perform technical testing on the technical parameters and performance of various equipment on the valuation reference date. They made the judgment through on-site investigation on the premise that the relevant technical information and operation records provided by Weihai Baolong are true and valid; and
7. The on-site inspection of the appraisal object by asset appraisal professionals is limited to the appearance and usage conditions of the appraisal object. The intrinsic quality such as the structure has not been tested, and there is no assurance as to whether it has inherent defects. The valuation report is based on the assumption that the inherent quality of the appraisal object complies with relevant national standards and is sufficient to sustain its normal use.

The Valuer advised that the bases and assumptions of the valuation are those commonly used in equity valuation in sale transactions.

The Board considers that based on the above bases and assumptions, the valuation performed by the Valuer is fair, reasonable and appropriate.

### ***Payment***

The consideration of RMB141,606,708.94 shall be settled by the Purchaser by way of wiring transfer within 20 working days from the date of the Weihai Baolong S&P.

### ***Completion***

Completion shall take place, and the Company and Shouguang Maolong shall provide assistance to the Purchaser for the change in equity registration at Administration for Market Regulation, within 20 days working days from the date of payment of the consideration.

### **Information of Shouguang Baolong**

Shouguang Baolong is a company established in the PRC with limited liability. It is principally engaged in the production and sale of petroleum equipment and castings and forgings.

As at the Latest Practicable Date, the equity interest in Shouguang Baolong is held as to 70% by the Company and 30% by Weifang Shengcheng Investment Management Co., Ltd.\* (濰坊聖城投資有限公司), an independent third party.

Set out below is the financial information of Shouguang Baolong for the year ended 31 December 2022 and for the nine months ended 30 September 2023:

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**LETTER FROM THE BOARD**

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	<b>For the nine months ended 30 September 2023 (audited) (RMB)</b>	<b>For the year ended 31 December 2022 (audited) (RMB)</b>
Revenue	21,950,218.94	473,692,199.72
Operating Profit / (Loss)	(31,683,497.88)	(89,492,309.21)
Net Profit / (Loss) before tax	(30,978,334.99)	(95,157,997.10)
Net Profit / (Loss) after tax	(30,978,334.99)	(95,157,997.10)
	<b>As at 30 September 2023 (audited) (RMB)</b>	<b>As at 31 December 2022 (audited) (RMB)</b>
Total Assets	286,862,626.08	323,392,296.78
Net Assets / (Liabilities)	(283,758,287.36)	(252,779,952.37)

**Information of Weihai Baolong**

Weihai Baolong is a company established in the PRC with limited liability. It is principally engaged in the manufacturing of special equipment.

As at the Latest Practicable Date, the equity interest in Weihai Baolong is held as to 61.5385% by the Company, 36.5385% by Shouguang Maolong and 1.9231% by Shouguang Molong Electro-mechanical Equipment Co., Ltd.\* (壽光墨龍機電設備有限公司) (a subsidiary of the Company).

Set out below is the financial information of Weihai Baolong for the year ended 31 December 2022 and for the nine months ended 30 September 2023:

	<b>For the nine months ended 30 September 2023 (audited) (RMB)</b>	<b>For the year ended 31 December 2022 (audited) (RMB)</b>
Revenue	21,565,002.47	64,254,219.03
Operating Profit / (Loss)	(15,703,708.09)	(21,980,312.26)
Net Profit / (Loss) before tax	(16,155,601.63)	(22,579,863.27)
Net Profit / (Loss) after tax	(16,155,601.63)	(22,579,863.27)

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## LETTER FROM THE BOARD

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	<b>As at 30 September 2023 (audited) (RMB)</b>	<b>As at 31 December 2022 (audited) (RMB)</b>
Total Assets	99,585,330.32	109,954,408.95
Net Assets	58,969,767.56	75,125,369.19

### **Reasons for and Benefits of the Disposals**

In order to optimize the structure of assets and liabilities, to achieve inefficient assets stripping, the Company intends to conduct the Disposals. It is expected that the Disposals will enable the Company to optimize its assets allocation, retrieve funds, enhance liquidity of assets and improve its profitability, which will benefit the Group's future financial condition and operational results and hence is consistent with the Company's long-term development plan.

In light of the above, the Directors consider that the terms of the Sale and Purchase Agreements were negotiated on an arm's length basis, on normal commercial terms, and the Disposals are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Financial Effect and Use of Proceeds**

It is expected that the Group will record a net gain of approximately RMB270,000,000.00 as a result of the Disposals, which is arrived at after taking into account the difference between the total consideration for the Disposals and the carrying value of 70% of the equity interest in Shouguang Baolong and 98.0769% of the equity interest in Weihai Baolong, and other costs incurred in connection with the Disposals estimated to be in the amount of approximately RMB-130,000,000.00.

The actual gain will be determined based on the actual consideration received by the Group and may be different from the above estimation; and such gain is subject to final audit to be performed by the Company's auditor.

Upon completion of the Disposals, both Shouguang Baolong and Weihai Baolong will cease to be a subsidiary of the Company and their financial results will no longer be consolidated into the financial statements of the Group.

The Group intends to utilize the net proceeds from the Disposals for general working capital.

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## LETTER FROM THE BOARD

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### **Information of the Parties**

#### ***Information of the Company and the Group***

The Company is a company established in the PRC with limited liability. The Group is principally engaged in the design, production and sale of pumping units, sucker rods, oil pumps, tubing and casing, and the related machinery and accessories for oil drilling.

#### ***Information on the Purchaser***

The Purchaser is a limited partnership established in the PRC and it principally engaged in vestment activities. Beijing Rongkaide Investment Management Co., Ltd\* (北京融凱德投資管理有限公司) (as the executive managing partner), China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司) and Shouguang City Investment Holding Group Co., Ltd.\* (壽光市城投控股集團有限公司) hold 0.07%, 50% and 27.97% of the partnership interest in the Purchaser, respectively. China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司) is a joint stock limited liability company incorporated in the PRC, the H shares of which are listed on the Stock Exchange (Stock Code: 2799). Shouguang City Investment Holding Group Co., Ltd.\* (壽光市城投控股集團有限公司) is a company established in the PRC with limited liability, and is supervised by the State-owned Assets Supervision and Administration Bureau (壽光市國有資產監督管理局).

#### ***Information on Shouguang Maolong***

Shouguang Maolong is a company established in the PRC with limited liability and a subsidiary of the Company as at the Latest Practicable Date. It is principally engaged in the research and development and technical promotion of energy equipment new materials, technical services; manufacturing, sales: petroleum drilling equipment, tools and parts; metal forging parts, sea water purification processing and thermal and gas electricity power production.

### **Hong Kong Listing Rules Implications**

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposals exceed 5% but all are less than 25%, the Sale and Purchase Agreements and the transactions contemplated thereunder constitute a discloseable transaction of the Company and are subject to the notification and announcement requirements but are exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

### **SZSE Listing Rules Implications**

Pursuant to the requirements under the SZSE Listing Rules and the Articles of Association of the Company, the Disposals are subject to the consideration and approval of the Shareholders at the EGM.



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## LETTER FROM THE BOARD

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### 3. PROVISION OF FINANCIAL ASSISTANCE TO DISPOSED SUBSIDIARIES

Reference is made to the announcement of the Company dated 9 January 2024 in relation to, amongst others, the Repayment Arrangements.

As at 31 December 2023, (i) Shouguang Baolong is indebted to the Company in the amount of RMB461,709,466.37; and (ii) Weihai Baolong is indebted to the Company in the amount of RMB14,345,726.40; both recorded as account receivables of the Company.

In view of the operating conditions of Shouguang Baolong and Weihai Baolong, it is expected that they will not be able to repay the Indebtedness to the Company upon completion of the Disposals. Therefore, on 9 January 2024 (after trading hours):

- (i) the Company (as creditor) and Shouguang Baolong (as debtor) have entered into the Shouguang Baolong Repayment Agreement, pursuant to which, amongst others, Shouguang Baolong has agreed to repay the Indebtedness in the sum of RMB461,709,466.37 to the Company; and
- (ii) the Company (as creditor) and Weihai Baolong (as debtor) have entered into the Weihai Baolong Repayment Agreement, pursuant to which, amongst others, Weihai Baolong has agreed to repay the Indebtedness in the sum of RMB14,345,726.40 to the Company.

#### **Shouguang Baolong Repayment Agreement**

The principal terms of the Shouguang Baolong Repayment Agreement are set out as follows:

- |                  |   |  |
|------------------|---|--|
| Date             | : | 9 January 2024   |
| Parties          | : | (1) Debtor: Shouguang Baolong<br>(2) Creditor: the Company   |
| Principal Amount | : | RMB461,709,466.37  |
| Term             | : | The Indebtedness shall be repayable by Shouguang Baolong in the manner set out below: <ul style="list-style-type: none"><li>(1) 40% of the Indebtedness, i.e. RMB184,683,786.55, shall be repayable within the first year from the date of completion under the Shouguang Baolong S&amp;P;</li><li>(2) 30% of the Indebtedness, i.e. RMB138,512,839.91, shall be repayable within the second year from the date of completion under the Shouguang Baolong S&amp;P; and</li></ul> |

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## LETTER FROM THE BOARD

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- (3) 30% of the Indebtedness, i.e. RMB138,512,839.91, shall be repayable within the third year from the date of completion under the Shouguang Baolong S&P.

Interest : The Indebtedness shall not bear any interest.

### **Weihai Baolong Repayment Agreement**

The principal terms of the Weihai Baolong Repayment Agreement are set out as follows:

- Date : 9 January 2024
- Parties : (1) Debtor: Weihai Baolong  
(2) Creditor: the Company
- Principal Amount : RMB14,345,726.40
- Term : The Indebtedness shall be repayable by Weihai Baolong in the manner set out below:
- (1) 50% of the Indebtedness, i.e. RMB7,172,863.20, shall be repayable within the first year from the date of completion under the Weihai Baolong S&P; and
- (2) 50% of the Indebtedness, i.e. RMB7,172,863.20, shall be repayable within the second year from the date of completion under the Weihai Baolong S&P.
- Interest : The Indebtedness shall not bear any interest.

### **Reasons for and Benefits of the Repayment Arrangements**

In view of the operating conditions of Shouguang Baolong and Weihai Baolong, it is expected that they will not be able to repay the Indebtedness to the Company upon completion of the Disposals.

As the Indebtedness are mainly account receivables arising in the course of the operations of the Company and are not interest bearing; and in order to ensure the timely repayment of the Indebtedness, the Company will not charge interest for the Indebtedness during the term of repayment. The Repayment Arrangements would facilitate the repayment of the Indebtedness over an agreed term of repayment, while at the same time enabling the smooth consummation of the Disposals. The Company would be able to enjoy the benefit of a guarantee provided by the Purchaser in respect of the obligations of Shouguang Baolong and Weihai Baolong to repay the Indebtedness.

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## LETTER FROM THE BOARD

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In light of the above, the Directors consider that the terms of the Repayment Agreements were negotiated on an arm's length basis, on normal commercial terms, and the Repayment Arrangements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Hong Kong Listing Rules Implications**

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Hong Kong Listing Rules) in respect of the Repayment Arrangements exceed 5% but all are less than 25%, the Repayment Agreements and the transactions contemplated thereunder constitute a discloseable transaction of the Company and are subject to the notification and announcement requirements but are exempt from the circular and shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

Pursuant to Rule 13.13 of the Hong Kong Listing Rules, a general disclosure obligation arises where the relevant advances to an entity by the Group exceeds 8% under the assets ratio as defined under Rule 14.07(1) of the Hong Kong Listing Rules. As the Repayment Arrangements will constitute advances to an entity which exceed 8% of the Group's total assets as at 30 June 2023 recorded in the interim financial statements of the Group for the six months ended 30 June 2023, the Company is also under a general disclosure obligation under Rules 13.13 and 13.15 of the Hong Kong Listing Rules.

### **SZSE Listing Rules Implications**

Pursuant to the requirements under the SZSE Listing Rules and the Articles of Association of the Company, the Repayment Arrangements are subject to the consideration and approval of the Shareholders at the EGM.

## **4. AMENDMENTS TO SYSTEM FOR INDEPENDENT DIRECTORS**

In order to further enhance and regulate operation standards, optimize the corporate governance structure, in accordance with the latest requirements under relevant laws and regulations, administrative documents in the PRC, including the Company Law, the Securities Law and the Administrative Measures for Independent Directors of Listed Companies, and taking into account the actual circumstances of the Company, the Board has proposed to amend the System for Independent Directors.

An ordinary resolution will be proposed at the EGM for the Shareholders to consider, and if thought fit, approve the proposed amendments to the System for Independent Directors, details of which are set out in Appendix I to this circular.

## **5. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

In view of amendments to laws and regulations including the Rules for Repurchase of Shares by Listed Companies\* and the Administrative Measures for Independent Directors of Listed Companies\* etc. made by the China Securities Regulatory Commission and the

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## LETTER FROM THE BOARD

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amendments to the Listing Rules made by the Stock Exchange, the Board proposes to amend the Articles of Association. Details of the proposed amendments are set out in Appendix II to this circular.

The legal advisers to the Company as to Hong Kong laws have confirmed that the proposed amendments to the Articles of Association comply with the requirements of the Hong Kong Listing Rules and the legal advisers to the Company as to the PRC laws have confirmed that the proposed amendments to the Articles of Association are not inconsistent with the laws of the PRC. The Company confirms that there is nothing unusual about the proposed amendments to the Articles of Association for a company listed in Hong Kong.

The proposed amendments to the Articles of Association is subject to Shareholders' approval at a general meeting of the Company. A special resolution will be proposed at the EGM for Shareholders to consider and, if thought fit, approve the proposed amendments to the Articles of Association.

### **6. EGM**

A notice on the EGM is set out on pages EGM-1 to EGM-2 of this circular. The Company will hold the EGM on Thursday, 25 January 2024 at Conference Room, 9/F, Building 19, Enterprise Headquarters Group, Shengcheng Street, Shouguang City, Shandong Province, the People's Republic of China for the purpose of seeking Shareholders' approval for the relevant resolutions on (1) the Disposals; (2) the Repayment Arrangements, (3) the amendments to the System for Independent Directors and (4) the proposed amendments to the Articles of Association.

If you wish to appoint a proxy to attend the EGM, you must complete and return the accompanying proxy form in accordance with the instructions printed thereon. The proxy form should be returned to the registrar for H Shares of the Company, Tricor Investor Services Limited at the 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong; (for holders of H Shares), and to the Company's registered address at No. 99 Xingshang Road, Gucheng Street, Shouguang City, Shandong Province (for holders of A Shares) no later than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM should you so wish.

In accordance with Rule 13.39 of the Hong Kong Listing Rules, except where the chairman of the EGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the proposed resolution(s) will be put to vote by way of poll at the EGM. An announcement on the poll results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD

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### 7. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 23 January 2024 to Thursday, 25 January 2024 (both days inclusive), during which period no share transfers will be effected. In order to qualify for attending and voting at the EGM, all instruments of transfer must be lodged with the registrar for H Shares, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on Monday, 22 January 2024. The Company will publish specific announcement(s) on the Shenzhen Stock Exchange setting out details of the eligibility of holders of A Shares to attend the EGM.

### 8. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive and there are no other facts the omission of which would make any statement herein misleading.

### 9. RECOMMENDATION

The Directors are of the view that all resolution(s) proposed for consideration and approval by the Shareholders at the EGM are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the resolutions to be proposed at the EGM.

Yours faithfully,  
**Shandong Molong Petroleum Machinery Company Ltd.\***  
**Yuan Rui**  
*Chairman*

Shandong, the PRC, 9 January 2024

\* *For identification purposes only*

## SYSTEM FOR INDEPENDENT DIRECTORS

## Chapter I General Provisions

**Article 1** In order to ensure the standardized operation of Shandong Molong Petroleum Machinery Co., Ltd (hereinafter referred to as the “Company”), improve the corporate governance structure, regulate the conduct of independent directors, enhance the sense of responsibility of independent directors, leverage the role of independent directors in corporate governance, and safeguard the interests of the Company and all shareholders, this System is formulated in accordance with relevant laws, regulations, normative documents such as the *Company Law of the People’s Republic of China*, the *Securities Law of the People’s Republic of China*, the *Measures for the Administration of Independent Directors of Listed Companies*, and the *Self-regulatory Guidelines for the Listed Companies on the Shenzhen Stock Exchange No. 1 – Standardized Operation of the Companies Listed on the Main Board*, etc., as well as the relevant provisions of the *Articles of Association*, and in combination with the actual situation of the Company.

**Article 2** An independent director refers to a director who does not hold any other post in the Company except as a director, and has no direct or indirect interest in the listed company he/she is employed by, its major shareholders and actual controllers, or any other relationship that may affect his/her independent and objective judgment.

Independent directors shall perform their duties independently and be free from the influence of the Company, its major shareholders, actual controllers and other units or individuals.

**Article 3** Independent directors have the obligation of loyalty and diligence towards the Company and all shareholders, and shall perform their duties in strict accordance with laws, administrative regulations, the provisions of the China Securities Regulatory Commission, the business rules of the Shenzhen Stock Exchange, and the provisions of the *Articles of Association*. They play a role in participating in decision-making, supervising and balancing, and providing professional consultation in the Board of Directors, safeguard the overall interests of the Company, and protect the legitimate rights and interests of minority shareholders.

**Article 4** The Company’s Board of Directors shall consist of more than one-third of independent directors and at least one accounting professional among them.

The Company’s Board of Directors has dedicated committees such as the Strategy Committee, Audit Committee, Remuneration and Appraisal Committee, and Nomination Committee, etc. The members of the Audit Committee shall be directors who are not senior executives of the Company, and a majority of them shall be independent directors, and the accounting professionals among the independent directors shall serve as conveners.

More than half of the independent directors in the Nomination Committee and Remuneration and Appraisal Committee shall serve as conveners.

**Chapter II Qualifications and Independence Requirements for Independent Directors**

**Article 5** Independent directors must maintain independence. The following personnel shall not act as independent directors:

(I) Persons working in the Company or its affiliated enterprises, and their spouses, parents, children and main social relations;

(II) Natural person shareholders directly or indirectly holding more than 1% of the issued shares of the Company or among the top ten shareholders of the Company, and their spouses, parents and children;

(III) Shareholders directly or indirectly holding more than five percent of the issued shares of the Company or persons among the top five shareholders of the Company, and their spouses, parents and children;

(IV) Persons working in the affiliated enterprises of the controlling shareholders or actual controllers of the Company, and their spouses, parents and children;

(V) Persons who have major business dealings with the Company and its controlling shareholders or actual controllers or their respective affiliated enterprises, or who work in units with major business dealings and their controlling shareholders or actual controllers;

(VI) Persons who provide financial, legal, consulting and sponsorship services for the Company, its controlling shareholders, actual controllers or their respective affiliated enterprises, including but not limited to, all project team members, review persons at all levels, report signing persons, partners, directors, senior executives and principal persons in charge of the intermediary agency providing services;

(VII) Persons who have experienced any of the conditions listed in Items I to VI within the last twelve months;

(VIII) Other persons who do not possess independence as stipulated by laws, administrative regulations, the provisions of the China Securities Regulatory Commission, the business rules of Stock Exchanges, and the provisions of *Articles of Association*.

Independent directors shall conduct an annual self-examination for their independence and submit the self-examination information to the Board of Directors. The Board of Directors shall annually evaluate the independence of the incumbent independent directors and issue special opinions, which shall be disclosed together with the annual report.

**Article 6** Independent directors should have the qualifications for their positions that are suitable for their exercise of powers and functions. A person to serve as an independent director shall meet the following conditions:

(I) Being qualified to serve as the director of listed companies in accordance with laws, administrative regulations and other relevant provisions;

(II) Meeting the independence requirements stipulated in Article 5 of this System;

(III) Having basic knowledge of the operation of listed companies and being familiar with relevant laws, regulations and rules;

(IV) Having at least five years of legal, accounting or economic work experience necessary to perform the duties of an independent director;

(V) Having good personal morality, with no bad record such as major breach of trust, etc.;

(VI) Other conditions as stipulated by laws, administrative regulations, the provisions of the China Securities Regulatory Commission, the business rules of Stock Exchanges, and the provisions of Articles of Association.

**Article 7** In principle, an independent director can concurrently serve as an independent director in at most three domestic listed companies, and shall ensure that he/she has enough time and energy to effectively perform the duties as an independent director.

### **Chapter III Nomination, Election, and Change of Independent Directors**

**Article 8** The Board of Directors, the Board of Supervisors and shareholders separately or jointly holding more than 1% of Company's issued stocks have the right to nominate independent director candidates, which will be confirmed through election at the Shareholders' Meeting.

**Article 9** The nominator of the independent director shall obtain the consent of the nominee before nomination. The nominator shall fully understand the nominee's occupation, education background, title, detailed work experience, all part-time jobs and bad records such as major breach of trust, etc., and express opinions on his/her independence and other requirements for serving as an independent director. The nominee shall make a public declaration that he/she meets the independence and other requirements for serving as an independent director.

The nominator shall not nominate any person who has an interest in him/her or any other person who has a close relationship with him/her that may affect the independent performance of his/her duties as an independent director candidate.

**Article 10** The Company's Nomination Committee shall review the qualifications of the nominees and form clear review opinions. Before the Shareholders' Meeting for electing independent directors is held, the Company shall disclose relevant content in accordance with relevant regulations and submit relevant materials of all independent director candidates to the Shenzhen Stock Exchange. The relevant submission materials shall be true, accurate, and complete.

If the Shenzhen Stock Exchange raises objections to independent director candidates, the Company shall not submit them for election at the Shareholders' Meeting. If the proposal has been submitted to the Shareholders' Meeting for review, it should be cancelled.



**Article 11** The independent director is elected and alternated by the Shareholders' Meeting.

When two or more independent directors are elected, a cumulative voting system should be implemented, and the Company can elect independent directors through multi-candidate election. The voting information of the minority shareholders shall be counted separately and disclosed.

**Article 12** The term of office of an independent director is the same as that of other directors of the Company. Upon the expiration of the term of office, the independent director may be re-elected, provided that the consecutive term of office shall not exceed six years. Those who have served as independent directors in the Company continuously for at least six years shall not be nominated as independent director candidates for the Company within 36 months from the date of this fact.

**Article 13** Before the expiration of the term of office of an independent director, the Company may dismiss him/her in accordance with legal procedures. In the event that an independent director is removed in advance, the Company shall timely disclose the specific reasons and basis. The Company shall timely disclose any objection of the independent director, if any.

The independent director who fails to comply with the provisions of Item I or Item II of Article 6 of this System shall immediately stop performing his/her duties and resign from his/her post. If the independent director fails to resign from his/her post, the Board of Directors shall immediately remove him/her from/her his post according to the provisions when it becomes aware or shall become aware of the occurrence of such fact.

**Article 14** The independent director can put forward the resignation before the expiration of his/her term. The independent director shall submit a written resignation report to the Board of Directors for resignation and state all status that are related to the resignation and are necessary to draw attentions of the Company's shareholders and creditors. The Company shall disclose the reasons for the resignation of the independent director and matters of concern.

If an independent director is dismissed or resigns due to the circumstances specified in the preceding paragraph, resulting in a proportion of independent directors in the Board of Directors or its specialized committees that does not comply with the provisions of this System or the *Articles of Association*, or if there is a lack of accounting professionals among the independent directors, the independent director who intends to resign shall continue to perform his/her duties until the new independent director is appointed. The Company shall complete the by election within 60 days from the date of occurrence of the aforementioned facts.

**Chapter IV Rights and Obligations of Independent Directors**

**Article 15** Independent directors shall fulfill the following duties:

(I) Participating in the decisions of the Board of Directors and expressing clear opinions on the matters discussed;

(II) Supervising the potential major interest conflicts between the listed companies and their controlling shareholders, actual controllers, directors and senior executives listed in Articles 23, 26, 27 and 28 of the *Measures for the Administration of Independent Directors of Listed Companies*, in order to promote the decision of the Board of Directors to conform to the overall interests of the Company, and protecting the legitimate rights and interests of the minority shareholders;

(III) Providing professional and objective suggestions on the operation and development of the Companies, and promoting the improvement of the decision-making level of the Board of Directors;

(IV) Other duties as stipulated by laws, administrative regulations, the provisions of the China Securities Regulatory Commission, and the provisions of *Articles of Association*.

**Article 16** Independent directors can exercise the following special powers and functions:

(I) Independently hiring an intermediary to audit, consult or verify specific matters of the Company;

(II) Proposing to hold the Board Meeting;

(III) Proposing to convene the Interim Shareholders' Meeting to the Board of Directors;

(IV) Publicly soliciting the rights of shareholders from shareholders in accordance with relevant laws;

(V) Giving independent opinions on matters that may harm the rights and interests of the Company or the minority shareholders;

(VI) Other powers and functions as stipulated by laws, administrative regulations, the provisions of the China Securities Regulatory Commission, and the provisions of *Articles of Association*.

An independent director shall obtain the consent of more than half of all the independent directors if he/she exercises the powers and functions listed in Items (I) to (III) of the preceding paragraph.

If an independent director exercises the powers and functions listed in Item I, the Company shall timely disclose it.

In case the above powers and functions cannot be exercised normally, the Company shall disclose the specific circumstances and reasons.

**Article 17** Before the Board Meeting, the independent directors may communicate with the Secretary of the Board of Directors to inquire about the matters to be considered, request supplementary materials, and put forward opinions and suggestions. The Board of Directors and relevant personnel shall carefully study the questions, requirements and opinions given by the independent directors, and timely make feedback to the independent directors on the implementation of the amendment of the proposal.

**Article 18** Independent directors shall attend the Board Meeting in person. In case that an independent director cannot attend the meeting in person for certain reasons, he/she shall read the meeting materials in advance, form clear opinions and entrust other independent director to attend the meeting on his/her behalf in writing.

If an independent director fails to attend the Board Meeting in person for two consecutive times and does not entrust other independent director to attend on his/her behalf, the Board of Directors shall propose to convene a Shareholders' Meeting to dismiss the independent director within thirty days after the occurrence of such facts.

**Article 19** If an independent director votes against or abstains from voting on a proposal of the Board of Directors, he/she shall state the specific reasons and basis, the legal compliance of the matters involved in the proposal, possible risks, and the impact on the rights and interests of the Company and the minority shareholders. While disclosing the resolutions of the Board of Directors, the Company shall also disclose the dissenting opinions of the independent directors, and set them out in the resolutions of the Board of Directors and the meeting minutes.

**Article 20** Independent directors shall continue to pay attention to the implementation of the resolutions of the Board of Directors related to the matters listed in Articles 23, 26, 27 and 28 of the *Measures for the Administration of Independent Directors of Listed Companies*. If there are violations of laws, administrative regulations, the provisions of the China Securities Regulatory Commission, the business rules of Stock Exchanges, and the provisions of *Articles of Association*, or of resolutions of the Shareholders' Meeting and the Board of Directors, the independent directors shall timely report to the Board of Directors, and may require the Company to make a written explanation. In the event that disclosure is involved, the Company shall make timely disclosure.

If the Company fails to make an explanation or timely disclosure in accordance with the preceding paragraph, the independent directors may report to China Securities Regulatory Commission and Shenzhen Stock Exchange.

**Article 21** The following matters shall be submitted to the Board of Directors for review after being approved by more than half of all independent directors of the Company:

- (I) Related transactions that should be disclosed;
- (II) Plans of the Company and related parties to change or waive commitments;

(III) Decisions and measures taken by the Board of Directors regarding the acquisition of the Company;

(IV) Other matters as stipulated by laws, administrative regulations, the provisions of the China Securities Regulatory Commission, and the provisions of *Articles of Association*.

**Article 22** The Company shall regularly or irregularly hold meetings attended by all independent directors (hereinafter referred to as “special meetings of independent directors”). The matters listed in Items I to III of Paragraph 1 of Article 18, and Article 23 of the *Measures for the Administration of Independent Directors of Listed Companies* shall be deliberated at the special meetings of independent directors. Other matters of the Company may be studied and discussed at the special meetings of independent directors as needed.

The special meetings of independent directors shall be convened and presided over by an independent director jointly recommended by more than half of the independent directors; if the convener fails or is unable to perform his/her duties, two or more independent directors may convene the meeting themselves and recommend a representative to preside over the meeting.

The Company shall provide convenience and support for the convening of special meetings of independent directors.

**Article 23** Independent directors shall attend the meetings of the special committees in person. If an independent director cannot attend the meeting in person for certain reasons, he/she shall read the meeting materials in advance, form clear opinions and entrust other independent director to attend the meeting on his/her behalf in writing. The independent directors may timely submit the major matters of the Company within the scope of the duties of the special committees noted in performing their duties to the special committees in accordance with relevant procedures for discussion and deliberation.

**Article 24** The Audit Committee of the Board of Directors of the Company is responsible for reviewing and disclosing the Company’s financial information, and supervising and evaluating internal and external audit work and internal control. The following matters shall be submitted to the Board of Directors for deliberation after obtaining the consent of more than half of all members of the Audit Committee:

(I) Disclosure of financial information in financial accounting reports and periodic reports, as well as internal control evaluation reports;

(II) Determination to employ or dismiss the accounting firms undertaking audit services of the Company;

(III) Proposal to appoint or dismiss the Finance Officer of the Company;

(IV) Changes in accounting policies, accounting estimates or corrections of major accounting errors for reasons other than changes in accounting standards;

(V) Other matters as stipulated by laws, administrative regulations, the provisions of the China Securities Regulatory Commission, and the provisions of *Articles of Association*.

The Audit Committee meeting shall be held at least once a quarter and a temporary meeting may be held when two or more members propose or when the convener deems it necessary. An Audit Committee meeting may be held only if more than two-thirds of the members are present.

**Article 25** The Nomination Committee of the Board of Directors of the Company is responsible for formulating the criteria and procedures for selection of directors and senior executives, selecting and reviewing the candidates for directors and senior executives and their qualifications, and making recommendations to the Board of Directors on the following matters:

(I) Nomination, appointment or removal of directors;

(II) Appointment or removal of senior executives;

(III) Other matters as stipulated by laws, administrative regulations, the provisions of the China Securities Regulatory Commission, and the provisions of *Articles of Association*.

The Board of Directors shall record the opinions of the Nomination Committee and the specific reasons for no adoption in the board resolutions, and disclose them if it does not adopt or fully adopt the opinions of the Nomination Committee.

**Article 26** The Remuneration and Appraisal Committee of the Board of Directors of the Company is responsible for formulating and evaluating the assessment standards of directors and senior executives, formulating and reviewing the remuneration policies and plans of directors and senior executives, and making recommendations to the Board of Directors on the following matters:

(I) Remuneration of the directors and senior executives.

(II) Formulation or changes of stock incentive plans and employee stock ownership plans, and encouragement of objects to achieve the conditions for granting and exercising rights and interests;

(III) Arrangement of shareholding plans of directors and senior executives in subsidiaries to be split;

(IV) Other matters as stipulated by laws, administrative regulations, the provisions of the China Securities Regulatory Commission, and the provisions of *Articles of Association*.

The Board of Directors shall record the opinions of the Remuneration and Appraisal Committee and the specific reasons for no adoption in the board resolutions, and disclose them if it does not adopt or fully adopt the opinions of the Remuneration and Appraisal Committee.

**Article 27** Independent directors shall work on-site in the Company for no less than fifteen days per year.

In addition to attending the Shareholders' Meeting, the Board Meeting and its special committee meetings, and special meetings of independent directors as required, independent directors can perform their duties by regularly obtaining information about the operation of the Company, listening to reports from the management, communicating with the person in charge of the internal audit institution, the accounting firm undertaking the audit business of the Company and other intermediaries, conducting field visits, and communicating with the minority shareholders.

**Article 28** For the Board Meeting and its special committee meetings, and specific meetings of independent directors of the Company, meeting minutes shall be prepared in accordance with regulations, and the opinions of independent directors shall be set out in the meeting minutes. Independent directors shall sign on the meeting minutes for confirmation.

Independent directors shall prepare work records to record in detail the performance of their duties. Information obtained by independent directors during performance of their duties, relevant meeting minutes and communication records with the staff of the Company and intermediaries shall form an integral part of work records. For the important contents in work records, independent directors may require the Secretary of the Board of Directors and other relevant personnel to sign for confirmation, and the Company and relevant personnel shall provide cooperation.

The work records of the independent directors and the information provided by the Company for the independent directors shall be kept for at least ten years.

**Article 29** The Company shall improve the communication mechanism between independent directors and minority shareholders, and independent directors may timely verify the issues raised by investors to the Company.

**Article 30** Independent directors shall submit the annual report on work to the Annual Shareholders' Meeting, and make explanations on their performance of duties. The annual report on work shall include the following contents:

(I) The number, manner and voting of the Board Meetings attended, and the number of Shareholders' Meetings attended;

(II) Participation in meetings of special committees of the Board of Directors and special meetings of independent directors;

(III) Deliberation of the matters listed in Articles 23, 26, 27, and Article 28 of the *Measures for the Administration of Independent Directors of Listed Companies*, and exercise of the special powers and functions of independent directors listed in Paragraph 1 of Article 16 of this System;

(IV) Major matters, methods and results of communication with internal audit institutions and accounting firms undertaking audit services of the Company on the Company's financial and business conditions;

(V) Communication with the minority shareholders;

(VI) Time and content of on-site work in the Company;

(VII) Others in performance of duties.

The annual reports on work of the independent directors shall be disclosed no later than the Company gives the notice of the Annual Shareholders' Meeting.

**Article 31** If an independent director expresses an independent opinion, the opinion expressed should be clear and explicit, and at least include the following content:

(I) Basic conditions of major matters;

(II) Basis for issuing opinions, including the performed procedures, the verified documents, the contents of on-site inspection, etc.;

(III) Legality of the major matters;

(IV) Influence on the interest of the Company and the minority shareholders, possible risks and effectiveness of the Company's measures;

(V) Concluding opinions expressed, including agreement, reservation and its reasons, opposition and its reasons, inability to express opinions and its obstacles.

Independent directors shall sign on the issued independent opinions and report the aforesaid opinions to the Board of the Directors, and to be disclosed with the relative announcements at the same time.

**Article 32** Independent directors shall report to the Shenzhen Stock Exchange in time if one of the following circumstances occurs:

(I) The independent director holds that reasons for his/her removal from the post are not justifiable;

(II) There are circumstances under which the independent director is obstructed to exercise his/her powers and functions in accordance with law, which results in his/her resignation;

(III) The materials for the Board Meeting are incomplete or the arguments are insufficient, and the proposal of two or more independent directors in writing to postpone the convening of the Board Meeting or to postpone the review of related matters has not been adopted;

(IV) The Board of Directors does not take effective measures after the Company or its directors, supervisors or senior executives are reported to the Board of Directors for suspected violations of law;

(V) Other circumstances under which the independent director is seriously obstructed to perform his/her duties.

### **Chapter V Performance Guarantee for Independent Directors**

**Article 33** The Company shall provide necessary working conditions and personnel support for the independent directors to perform their duties, and designate the office of the Board of Directors, the Secretary of the Board of Directors and other specialized departments and personnel to assist the independent directors in performing their duties.

The Secretary of the Board of Directors shall ensure the smooth information exchanges between independent directors and other directors, senior executives and other relevant personnel, and ensure that independent directors have access to adequate resources and necessary professional opinions when performing their duties.

**Article 34** The Company shall guarantee the right of being informed as the independent directors are entitled to as much as that other directors are entitled to. To ensure the effective exercise of the powers and functions of the independent directors, the Company shall regularly inform the independent directors of the operation of the Company, provide materials, organize or cooperate with the independent directors in field visits and other work.

Before the Board of Directors deliberates major and complex matters, the Company may organize independent directors to participate in the research and demonstration, listen to the opinions of independent directors, and make feedback to the independent directors on the adoption of opinions.

**Article 35** The Company shall promptly give notice of the Board Meeting to the independent directors, provide relevant meeting materials no later than the notice period of the Board Meeting stipulated by laws, administrative regulations, the provisions of the China Securities Regulatory Commission or the provisions of *Articles of Association*, and offer effective communication channels for the independent directors. When the special committees of the Board of directors hold a meeting, the Company shall, in principle, provide relevant materials and information no later than three days before the meeting of the special committees. The Company shall keep the meeting materials above for at least ten years. If two or more independent directors believe that the meeting materials are incomplete, or the argument is not sufficient or the provision is not timely, they may propose in writing to the Board of Directors to postpone the meeting or the deliberation of the matter, and the Board of Directors shall adopt the opinion.

Meetings of the Board of Directors and special committees shall be held on the spot, in principle. Under the premise of ensuring that all the participating directors can fully communicate and express their opinions, the meetings can be held by video, telephone or other means in accordance with the procedure when necessary.



**Article 36** If the independent directors exercise their powers and functions, the directors, senior executives and other relevant personnel of the Company shall provide cooperation and shall neither refuse, obstruct or conceal relevant information nor interfere with their independent exercise of their powers and functions.

If the independent directors encounter obstacles in exercising their powers and functions according to laws, they may explain the situation to the Board of Directors, request the directors, senior executives and other relevant personnel to cooperate, and record the specific circumstances and solutions of the obstacles in their work records; if the obstacles still cannot be removed, they may report to China Securities Regulatory Commission and Shenzhen Stock Exchange.

If the performance of the duties by the independent directors involves the information that shall be disclosed, the Company shall promptly handle the disclosure matters; if the Company does not disclose the information, the independent directors may directly apply for disclosure, or report to China Securities Regulatory Commission and Shenzhen Stock Exchange.

**Article 37** The Company shall bear the expenses required for independent directors to hire professional institutions and exercise other powers and functions.

**Article 38** The Company shall provide independent directors with allowances that are appropriate to their duties. The standard of allowance shall be formulated by the Board of Directors, approved at the Shareholders' Meeting, and disclosed in the Company's annual report. In addition to the allowance above, the independent directors shall not obtain other benefits from the Company and its major shareholders, actual controllers or interested units and personnel.

**Article 39** The Company can establish necessary independent director liability insurance system to reduce the risk of the independent director performing his/her duties.

#### Chapter VI Supplementary Provisions

**Article 40** Any matters not covered in this System shall be implemented in accordance with relevant national laws, regulations, normative documents, and the provisions of the *Articles of Association*.

**Article 41** This System is interpreted and revised by the Company's Board of Directors.

**Article 42** This System is formulated by the Board of Directors and shall come into effect on the date of approval by the Shareholders' Meeting. The same applies when making modifications.

COMPARISON TABLE FOR AMENDMENTS TO  
ARTICLES OF ASSOCIATION.

Before Amendment	After Amendment
<p><b>Article 35</b></p> <p>In the following circumstances, the Company may repurchase its issued shares in accordance with the procedures provided by these Articles of Association of Association after approval has been obtained from the securities supervisory authorities of the State Council:</p> <p>(1) To cancel shares for reducing its registered share capital;</p> <p>(2) To merge with other companies which hold the Company's shares;</p> <p>(3) Using the shares for employee shareholding schemes or as share incentives;</p> <p>(4) For shareholders who object to the merger or division of the Company as approved in the general meeting of shareholders and request the Company to repurchase their shares;</p> <p>(5) Using the shares for convertible bonds issued by the Company to convert them to stocks;</p> <p>(6) Necessary acts by the Company to protect its value while safeguarding the interests of shareholders.</p> <p>(7) Other circumstances permitted by laws and administrative regulations.</p> <p>In addition to the above situations, the Company shall not purchase its own shares.</p>	<p><b>Article 35</b></p> <p>In the following circumstances, the Company may repurchase its issued shares in accordance with the procedures provided by these Articles of Association of Association after approval has been obtained from the securities supervisory authorities of the State Council:</p> <p>(1) To cancel shares for reducing its registered share capital;</p> <p>(2) To merge with other companies which hold the Company's shares;</p> <p>(3) Using the shares for employee shareholding schemes or as share incentives;</p> <p>(4) For shareholders who object to the merger or division of the Company as approved in the general meeting of shareholders and request the Company to repurchase their shares;</p> <p>(5) Using the shares for convertible bonds issued by the Company to convert them to stocks;</p> <p>(6) Necessary acts by the Company to protect its value while safeguarding the interests of shareholders.</p> <p>(7) Other circumstances permitted by laws and administrative regulations.</p>

	<p>The situation referred to in the previous paragraph (6) shall meet one of the following conditions:</p> <p>(I) The closing price of the Company’s stock is lower than the net asset value per share for the recent period;</p> <p>(II) The closing price of the Company’s stock has fallen by an aggregate of 20% within 20 consecutive trading days;</p> <p>(III) The closing price of the Company’s stock is lower than 50% of the highest closing price of the stock in the recent year;</p> <p>(IV) Other conditions stipulated by CSRC.</p> <p>In addition to the above situations, the Company shall not purchase its own shares.</p> <p>If the Company reaches the conditions stipulated in paragraph 2 of this Article, the Board of Directors shall promptly find out whether there are significant events and other factors that may have a significant impact on the share price, proactively communicate and exchange with shareholders, especially small and medium-sized shareholders, through a variety of channels, and fully listen to shareholders’ opinions and demands on whether or not the Company should implement share repurchase.</p>
<p><b>Article 38</b> .....</p> <p>The Company shall obtain the approval in a general meeting of shareholders for repurchase of its shares for the purposes set out in clauses (1) to (3) of Article 35.</p> <p>.....</p>	<p><b>Article 38</b> .....</p> <p>The Company shall obtain the approval in a general meeting of shareholders for repurchase of its shares for the purposes set out in clauses (1) to (23) of the first kind Article 35.</p> <p>.....</p>

<p><b>Article 46</b></p> <p>The Company may keep the register of shareholders of overseas listed foreign invested shares outside the PRC in accordance with the understanding and agreements reached between the supervisory authorities of the securities committee of the State Council and overseas securities regulatory authorities, and appoint an overseas agent to administer the same. The original of the register of H shareholders shall be kept in Hong Kong.</p> <p>.....</p>	<p><b>Article 46</b></p> <p>The Company may keep the register of shareholders of overseas listed foreign invested shares outside the PRC in accordance with the understanding and agreements reached between the supervisory authorities of the securities committee of the State Council and overseas securities regulatory authorities, and appoint an overseas agent to administer the same, <b>and the register of shareholders of overseas foreign shares can be inspected by shareholders.</b> The original of the register of H shareholders shall be kept in Hong Kong, <b>and is available for inspection by shareholders.</b></p> <p>.....</p>
<p><b>Article 57</b></p> <p>A holder of ordinary shares of the Company shall enjoy the following rights:</p> <p>(I) To receive dividends and other forms of profit distribution in accordance with the number of shares he holds;</p> <p>(II) To request, to call, to preside over, to attend and to vote at shareholders' general meetings personally or by proxy;</p> <p>.....</p>	<p><b>Article 57</b></p> <p>A holder of ordinary shares of the Company shall enjoy the following rights:</p> <p>(I) To receive dividends and other forms of profit distribution in accordance with the number of shares he holds;</p> <p>(II) To request, to call, to preside over, to attend and to <b>the right speak and</b> vote at shareholders' general meetings personally or by proxy <b>(unless an individual shareholder is required to abstain from voting on a particular matter as required by the listing rules of the company's stock listing location);</b></p> <p>.....</p>
<p><b>Article 70</b></p> <p>Shareholders' general meetings shall be divided into annual general meetings and extraordinary general meetings. Annual general meetings shall be convened once every year and shall be held within six months after the end of the preceding accounting year.</p>	<p><b>Article 70</b></p> <p>Shareholders' general meetings shall be divided into annual general meetings and extraordinary general meetings. Annual general meetings shall be convened once every <b>accounting</b> year and shall be held within six months after the end of the preceding accounting year.</p>

<p><b>Article 91</b> .....</p> <p>If the shareholder is a recognized clearing house (or their agent) as defined in the relevant laws and regulations of Hong Kong (“Recognized Clearing House”), he/she may authorize one or more proxy (ies) as he/she thinks fit to act as his/her proxy (ies) at any shareholders’ general meeting or class meeting. However, if more than one proxy is appointed, the proxy form shall specify the number and class of shares represented by each of such proxies under the authorization. Such authorized proxies are entitled to attend meetings and exercise the rights on behalf of the Recognized Clearing House, as if they were the individual shareholders of the Company.</p>	<p><b>Article 91</b> .....</p> <p>If the shareholder is a recognized clearing house (or their agent) as defined in the relevant laws and regulations of Hong Kong (“Recognized Clearing House”), he/she may authorize one or more proxy (ies) as he/she thinks fit to act as his/her proxy (ies) at any shareholders’ general meeting or class meeting. However, if more than one proxy is appointed, the proxy form shall specify the number and class of shares represented by each of such proxies under the authorization. Such authorized proxies are entitled to attend meetings and exercise the rights on behalf of the Recognized Clearing House, <b>(Including the right of speak and vote)</b>, as if they were the individual shareholders of the Company.</p>
<p><b>Article 93</b> .....</p> <p>Where the principal is a legal person, its legal representative or the person authorized by resolution of its board of directors or other decision-making body shall be entitled to attend the Company’s general meetings as the representative of such legal person.</p>	<p><b>Article 93</b> .....</p> <p>Where the principal is a legal person, its legal representative or the person authorized by resolution of its board of directors or other decision-making body shall be entitled to attend the Company’s general meetings as the representative of such legal person <b>and vote on the meeting. A legal person may execute a power of attorney by its duly authorized personnel.</b></p>
<p><b>Article 105</b></p> <p>Resolutions of shareholders’ general meetings shall be divided into ordinary resolutions and special resolutions.</p> <p>An ordinary resolution of a shareholders’ general meeting shall be passed by more than one half of the votes cast by the shareholders present in person or by proxy at the shareholders’ general meeting.</p> <p>.....</p>	<p><b>Article 105</b></p> <p>Resolutions of shareholders’ general meetings shall be divided into ordinary resolutions and special resolutions.</p> <p>An ordinary resolution of a shareholders’ general meeting shall be passed by more than one half of the votes cast by the shareholders present in person or by proxy at the shareholders’ general meeting.</p> <p>.....</p>

<p><b>Article 114</b> The list of candidates for director and supervisor shall be proposed to the general meeting for voting.</p> <p>When voting on the election of two or more directors or supervisors, the general meeting may implement accumulative voting system according to the provisions of these Articles of Association or resolution of the general meeting.</p> <p>.....</p>	<p><b>Article 114</b> The list of candidates for director and supervisor shall be proposed to the general meeting for voting.</p> <p><b>When electing more than two independent directors at the general meeting of shareholders of the company, it shall implement the cumulative voting system. When a single shareholder and its concerted actors hold an interest of 30% or more,</b> when voting on the election of two or more directors or supervisors, the general meeting may implement accumulative voting system <del>according to the provisions of these Articles of Association or resolution of the general meeting.</del></p> <p>.....</p>
<p><b>Article 136</b> If the Company proposes to vary or revoke the rights of the class shareholders, the same can only be implemented after it has been passed by a special resolution at a shareholders’ general meeting and also by the class shareholders so affected at the shareholders’ meetings respectively convened in accordance with Articles 137 to 141 of these Articles of Association of Association.</p>	<p><b>Article 136</b> If the Company proposes to vary or revoke the rights of the class shareholders, the same can only be implemented after it has been passed by a special resolution at a shareholders’ general meeting and also by the class shareholders so affected at the shareholders’ meetings <b>by a special resolution</b> respectively convened in accordance with Articles 137 to 141 of these Articles of Association of Association.</p>
<p><b>Article 143</b> ..... The board of directors shall have at least half of external directors (which refers hereinafter to directors not working in the Company), and independent directors shall comprise at least one-third of all directors (which refers hereinafter to directors independent of the Company’s shareholders and not working in the Company).At least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise.</p>	<p><b>Article 143</b> ..... The board of directors shall have at least half of external directors (which refers hereinafter to directors not working in the Company), and independent directors shall comprise at least one-third of all directors (which refers hereinafter to directors independent of the Company’s shareholders and not working in the Company).At least one of the independent non-executive directors must have <del>appropriate professional qualifications or accounting or related financial</del> management expertise.</p>

<p><b>Article 144</b></p> <p>Directors shall be elected or replaced at shareholders’ general meeting, and could be dismissed by general meetings before the expiry of his or her term of office. The term of office for directors shall be three years. Upon the expiry of the term of office, a director shall be eligible for re-election and re-appointment. However, independent directors may only remain in offer for a maximum of six consecutive years.</p> <p>.....</p> <p>Directors shall be elected by the shareholders’ general meeting from the candidates nominated by the board or shareholder (please refer to “Procedures for candidates for director election as nominated by shareholders”).</p> <p>.....</p> <p>Subject to relevant laws and administrative regulations, the Company in shareholders’ meeting shall have the power by ordinary resolution to remove any director (including the managing director or other executive directors) before the expiration of his term of office (but without prejudice to any claim for damages under any contract).</p> <p>Any person appointed by the board of directors to fill up any temporary vacancy or as an additional director shall hold his position up to the date of next shareholders’ general meeting, and shall be eligible for re-election and re-appointment.</p> <p>.....</p>	<p><b>Article 144</b></p> <p>Directors shall be elected or replaced at shareholders’ general meeting, and could be dismissed by general meetings before the expiry of his or her term of office. The term of office for directors shall be three years. Upon the expiry of the term of office, a director shall be eligible for re-election and re-appointment. However, independent directors may only remain in offer for a maximum of six consecutive years.</p> <p><b>The independent director who has consecutively served for at least 6 years shall not be nominated as a candidate for independent director of the company within 36 months from the date of this fact.</b></p> <p>.....</p> <p><b>The Board of Directors, Board of Supervisors or shareholders individually or jointly holding more than 3% of the company’s shares shall be entitled to nominate candidates for non-independent directors. The Board of Directors, Board of Supervisors or shareholders individually or jointly holding more than 1% of the company’s shares shall be entitled to nominate candidates for independent directors. An investor protection agency established by laws may publicly request shareholders to entrust it with the exercise of the right to nominate independent directors on their behalf.</b></p> <p><del>Directors shall be elected by the shareholders’ general meeting from the candidates nominated by the board or shareholder (please refer to “Procedures for candidates for director election as nominated by shareholders”).</del></p> <p>.....</p>
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	<p>.....</p> <p>Subject to relevant laws and administrative regulations, the Company in shareholders’ meeting shall have the power by ordinary resolution to remove any director (including the managing director or other executive directors) before the expiration of his term of office (but without prejudice to any claim for damages under any contract).</p> <p><del>Any person appointed by the board of directors to fill up any temporary vacancy or as an additional director shall hold his position up to the date of next shareholders’ general meeting, and shall be eligible for re-election and re-appointment.</del></p> <p>.....</p>
<p><b>Article 151</b> Special committees shall be set for the board of directors. Special committees, including the Audit Committee, the Nomination Committee, the Remuneration and Evaluation Committee and the Strategy Committee, shall be set for the board of directors.</p> <p>Such special committees shall be accountable to the Board and perform duties in accordance with the Articles and the authorization of the board of directors. The proposal shall be proposed and reviewed by the board. Such special committees comprise only directors. The independent directors in each of the Audit Committee, Nomination Committee and Remuneration and Assessment Committee shall form the majority in such committees and the convener of such committees shall be an independent director. The convener of the Audit Committee shall be an accounting professional.</p>	<p><b>Article 151</b> Special committees shall be set for the board of directors. Special committees, including the Audit Committee, the Nomination Committee, the Remuneration and Evaluation Committee and the Strategy Committee, shall be set for the board of directors.</p> <p>Such special committees shall be accountable to the Board and perform duties in accordance with the Articles and the authorization of the board of directors. The proposal shall be proposed and reviewed by the board. Such special committees comprise only directors. The independent directors in each of the Audit Committee, Nomination Committee and Remuneration and Assessment Committee shall form the majority in such committees and the convener of such committees shall be an independent director. The convener of the Audit Committee shall be an accounting professional<del>;</del>, <b>and the members of the Audit Committee shall not be the directors of the senior managers of the Company.</b></p>



<p>The Board is responsible for making the work rules of such special committees, and the regulation of such special committees' operations.</p> <p>The duties of these special committees shall be determined as per the relevant State provisions and resolutions of the board of directors, and exercised after the approval of shareholders' general meeting resolutions.</p> <p>(I) Main duties of audit committee</p> <ol style="list-style-type: none"> <li>1. To check the Company's accounting policies, financial conditions and financial report procedures;</li> <li>2. To recommend any accounting firm to communicate with external auditing organizations and over auditing procedures;</li> <li>3. To check the internal control structure and internal audit functions;</li> <li>4. To examine the Company's internal control;</li> <li>5. To check or supervise the existing or potential risks (including the risks of logistics, funding, guarantees, investments, default of senior managerial officers and safety of computer system);</li> <li>6. To check the conditions of Company in compliance with the laws and other legal obligations;</li> <li>7. To check and supervise the Company's rules of behaviors;</li> <li>8. Other functions as designated by the board of directors.</li> </ol>	<p>The Board is responsible for making the work rules of such special committees, and the regulation of such special committees' operations.</p> <p>The duties of these special committees shall be determined as per the relevant State provisions and resolutions of the board of directors, and exercised after the approval of shareholders' general meeting resolutions.</p> <p>(I) Main duties of audit committee</p> <ol style="list-style-type: none"> <li><del>1. To check the Company's accounting policies, financial conditions and financial report procedures;</del></li> <li><del>2. To recommend any accounting firm to communicate with external auditing organizations and over auditing procedures;</del></li> <li><del>3. To check the internal control structure and internal audit functions;</del></li> <li><del>4. To examine the Company's internal control;</del></li> <li><del>5. To check or supervise the existing or potential risks (including the risks of logistics, funding, guarantees, investments, default of senior managerial officers and safety of computer system);</del></li> <li><del>6. To check the conditions of Company in compliance with the laws and other legal obligations;</del></li> <li><del>7. To check and supervise the Company's rules of behaviors;</del></li> <li><del>8. Other functions as designated by the board of directors.</del></li> </ol>
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<p>(II) Main duties of the nomination committee</p> <ol style="list-style-type: none"><li>1. To analyze the structure of the board of directors, clearly define the requirements on directors, and make proposal on the scale and structure of the board of directors;</li><li>2. To formulate the standards and procedures for directors' election;</li><li>3. To search for any eligible candidates of directors or senior managers extensively, and nominate such candidates for the board of directors and senior management;</li><li>4. To examine the candidates for directors nominated by the shareholders or supervisory committee;</li><li>5. To determine the candidates for directors for voting of shareholders' general meeting.</li></ol>	<ol style="list-style-type: none"><li><b>1. Recommend the employment or replacement of the external audit institutions;</b></li><li><b>2. Monitor and evaluate the work of external audit institutions and internal auditing work;</b></li><li><b>3. Coordinate the communication of management level, internal audit department and the relevant departments with the external audit institution;</b></li><li><b>4. Review the financial report of company and comment on it;</b></li><li><b>5. Monitor and evaluate the company's internal controls, review the company's internal systems, and conduct audits of significant connected transactions;</b></li><li><b>6. Other matters granted by the Board of Directors of the Company and other matters related to the relevant provisions of laws and regulations and the Shenzhen Stock Exchange.</b></li></ol>
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<p>(III) Main duties of the remuneration and assessment committee</p> <ol style="list-style-type: none"> <li>1. To be responsible for formulating the examining and appraisal standards of directors, supervisors and senior management, and perform such examination;</li> <li>2. To be responsible for formulating and checking the remuneration policies and plans of directors, supervisors and senior management.</li> </ol>	<p><b>The following matters shall be submitted to the Board of Directors for deliberation after the approval of a majority of all members of the Audit Committee:</b></p> <ol style="list-style-type: none"> <li><b>1. To disclose the financial information and internal control evaluation reports in the financial accounting reports and periodic reports;</b></li> <li><b>2. To hire or dismiss the account firm that undertake the Company's auditing business.</b></li> <li><b>3. To hire or dismiss the Company's financial officers;</b></li> <li><b>4. To change the accounting policies and estimates due to reasons other than change in accounting standards or to correct the significant accounting mistakes.</b></li> <li><b>5. Other matters stipulated in laws, administrative regulations, regulation of the CSRC, and the articles of association of the Company.</b></li> </ol> <p>(II) Main duties of the nomination committee</p> <ol style="list-style-type: none"> <li><del>1. To analyze the structure of the board of directors, clearly define the requirements on directors, and make proposal on the scale and structure of the board of directors;</del></li> <li><del>2. To formulate the standards and procedures for directors' election;</del></li> <li><del>3. To search for any eligible candidates of directors or senior managers extensively, and nominate such candidates for the board of directors and senior management;</del></li> <li><del>4. To examine the candidates for directors nominated by the shareholders or supervisory committee;</del></li> <li><del>5. To determine the candidates for directors for voting of shareholders' general meeting.</del></li> </ol>
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	<p>The Nomination Committee of the Board of Directors of a listed company is responsible for formulating the criteria and procedures for selection of directors and senior managers, selecting and reviewing the candidates for directors and senior managers and their qualifications, and making recommendations to the Board of Directors on the following matters:</p> <ol style="list-style-type: none"> <li>1. Nomination or appointment and removal of directors;</li> <li>2. Appointment or dismissal of senior managers;</li> <li>3. Laws and regulations, relevant provisions of the Shenzhen Stock Exchange and other matters stipulated in the Articles of Association of the Company.</li> </ol> <p>The Board of Directors shall record the opinions of the Nomination Committee and the specific reasons for no adoption in the board resolutions, and disclose them if it does not adopt or fully adopt the opinions of the Nomination Committee.</p> <p>(III) Main duties of the remuneration and assessment committee</p> <ol style="list-style-type: none"> <li>1. <del>To be responsible for formulating the examining and appraisal standards of directors, supervisors and senior management, and perform such examination;</del></li> <li>2. <del>To be responsible for formulating and checking the remuneration policies and plans of directors, supervisors and senior management.</del></li> </ol>
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	<p><b>The Remuneration and Evaluation Committee of the Board of Directors of the listed company is responsible for formulating and evaluating the assessment standards of directors and senior managers, formulating and reviewing the remuneration policies and plans of directors and senior managers, and making recommendations to the Board of Directors on the following matters:</b></p> <ol style="list-style-type: none"><li><b>1. The remuneration of directors and senior managers of the Company;</b></li><li><b>2. Formulation or changes of stock incentive plans and employee stock ownership plans, and encouragement of objects to achieve the conditions for granting and exercising rights and interests;</b></li><li><b>3. Arrangement of shareholding plans of directors and senior managers in subsidiaries to be split;</b></li><li><b>4. Other matters as stipulated by laws, administrative regulations, Provisions of the China Securities Regulatory Commission and Articles of Association.</b></li></ol> <p><b>The Board of Directors shall record the opinions of the Remuneration and Evaluation Committee and the specific reasons for no adoption in the board resolutions, and disclose them if it does not adopt or fully adopt the opinions of the Remuneration and Evaluation Committee.</b></p>
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<p><b>Article 158</b> .....</p> <p>If the director is unable to attend the board meeting, he shall not transfer his voting rights, and he can authorize any other director to attend on behalf of him in writing, but he shall undertake the legal responsibilities independently.</p> <p>.....</p>	<p><b>Article 158</b> .....</p> <p>If the director is unable to attend the board meeting, he shall not transfer his voting rights, and he can authorize any other director to attend on behalf of him in writing, but he shall undertake the legal responsibilities independently.</p> <p><b>The independent directors shall attend the meetings of the Board of Directors in person. If an independent director cannot attend the meeting in person for certain reasons, he/she shall read the meeting materials in advance, form clear opinions and entrust other independent director to attend the meeting on his/her behalf in writing.</b></p> <p>.....</p>
<p><b>Article 159</b></p> <p>If a director fails to attend meeting in person nor authorize another director to attend on his behalf for two consecutive times, he shall be deemed as not performing his duties, and the board of directors shall propose to the general meeting for replacement.</p>	<p><b>Article 159</b></p> <p>If a director fails to attend meeting in person nor authorize another director to attend on his behalf for two consecutive times, he shall be deemed as not performing his duties, and the board of directors shall propose to the general meeting for replacement.</p> <p><b>If an independent director fails to attend the Board Meeting in person for two consecutive times and does not entrust other independent director to attend on his/her behalf, the Board of Directors shall propose to convene a Shareholders' Meeting to dismiss the independent director within thirty days after the occurrence of such facts.</b></p>

<p><b>Article 160</b></p> <p>A director may resign before expiry of his/her term of service. When a director resigns, he shall submit a written resignation notice to the Board. The board shall make relevant disclosure within 2 days.</p> <p>If the member of directors falls below the minimum statutory requirement due to a director's resignation, the former directors shall still perform their duties as directors in accordance with the requirements of laws, administrative regulations, departmental rules and the Articles of Association before the appointment of the re-elected directors.</p> <p>Save for the circumstances referred to in the preceding paragraph, the director's resignation takes effect upon delivery of his/her resignation report to the board.</p>	<p><b>Article 160</b></p> <p>A director may resign before expiry of his/her term of service. When a director resigns, he shall submit a written resignation notice to the Board. <del>The board shall make relevant disclosure within 2 days.</del></p> <p><b>The director shall submit a written resignation report to the board of directors for resignation and independent director state all status that are related to the resignation and are necessary to draw attentions of company shareholders and creditors. The Company shall disclose the reasons for the resignation of the independent director and matters of concern.</b></p> <p><b>Before the expiration of the term of office of an independent director, the Company may remove him from office in accordance with legal procedures. In the event that an independent director is removed in advance, the Company shall timely disclose the specific reasons and basis. The Company shall timely disclose any objection of the independent director, if any.</b></p> <p><b>Independent directors who do not meet the qualifications or independence requirements for being a director of a listed company as stipulated in laws and regulations shall immediately cease to perform their duties and resign from their positions. If the independent director fails to resign from his/her post, the Board of Directors shall immediately remove him/her from/her his post according to the provisions when it becomes aware or shall become aware of the occurrence of such fact.</b></p>
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	<p>If the independent director resigns or is removed from his post due to the circumstances specified in the preceding paragraph, resulting in the proportion of independent directors in the Board of Directors or its special committees inconsistent with the provisions of these laws and regulations or the Articles of Association, or the absence of accounting professionals among the independent directors, the company shall complete the by-election within sixty days from the occurrence of the aforesaid facts.</p> <p>If the member of directors falls below the minimum statutory requirement due to a director's resignation, or in the event that the proportion of independent directors on the Board of Directors of the Company or its specialized committees does not comply with the laws and regulations or the provisions of the Articles of Association due to the resignation of an independent director, or in the event that there is no accounting professional among the independent directors, the former directors shall still perform their duties as directors in accordance with the requirements of laws, administrative regulations, departmental rules and the Articles of Association before the appointment of the re-elected directors.</p> <p>Save for the circumstances referred to in the preceding paragraph, the director's resignation takes effect upon delivery of his/her resignation report to the board.</p>
<p><b>Article 163</b> Independent directors shall be appointed in accordance with the relevant provisions of law, administrative regulations and departmental rules.</p>	<p><b>Article 163</b> Independent directors shall be appointed in accordance with the relevant provisions of law, administrative regulations and departmental rules; <b>the business rules of the CSRC and the stock exchanges and the relevant provisions of the Articles of Association, play the roles of participating in the decision-making, supervising, checking, balancing, and professional consulting in the Board of Directors, safeguard the overall interests of the listed company, and protect the lawful rights and interests of the small and medium-sized shareholders.</b></p>



**Article 165**

The board of directors shall cause the matters resolved at the meeting to be recorded in the minutes of the meeting. The directors present at the meeting and the person recording the minutes shall sign on such minutes. The opinions of independent directors shall be specified in the board resolution. The directors are liable for the resolutions passed at the meeting of the board of directors. If a resolution of the board of directors contravenes the laws, administrative regulations or these Articles of Association as a result of which the Company sustains substantial losses, the directors participating in the passing of such resolutions shall be liable to compensate the Company provided that if it can be proved that a director expressly objected to the resolution when the resolution was put to vote and that such objection was recorded in the minutes of the meeting, such director may be exempted from such liability. If the board resolution is in breach of laws, administrative regulations or the Articles of Association, the director giving an affirmative vote shall bear the direct responsibilities; the director who gives an objection and a negative vote in the meeting minutes can be exempt from the responsibilities; the director who has abstained voting or has not attended the meeting nor authorized another person to attend the meeting shall not be exempt from the responsibilities; the director who gives a definite objection during the discussion but no negative votes shall not be exempt from the responsibilities.

The board minutes shall be maintained in the filing of the Company for at least 10 years.

**Article 165**

The board of directors shall cause the matters resolved at the meeting to be recorded in the minutes of the meeting. The directors present at the meeting and the person recording the minutes shall sign on such minutes. The opinions of independent directors shall be specified in the board resolution. **If an independent director votes against or abstains from voting on a proposal of the Board of Directors, he shall state the specific reasons and basis, the legal compliance of the matters involved in the proposal, possible risks, and the impact on the rights and interests of the listed company and minority shareholders. While disclosing the resolutions of the Board of Directors, the Company shall also disclose the dissenting opinions of the independent directors, and set them out in the resolutions of the Board of Directors and the meeting minutes.** The directors are liable for the resolutions passed at the meeting of the board of directors. If a resolution of the board of directors contravenes the laws, administrative regulations or these Articles of Association as a result of which the Company sustains substantial losses, the directors participating in the passing of such resolutions shall be liable to compensate the Company provided that if it can be proved that a director expressly objected to the resolution when the resolution was put to vote and that such objection was recorded in the minutes of the meeting, such director may be exempted from such liability. If the board resolution is in breach of laws, administrative regulations or the Articles of Association, the director giving an affirmative vote shall bear the direct responsibilities; the director who gives an objection and a negative vote in the meeting minutes can be exempt from the responsibilities; the director who has abstained voting or has not attended the meeting nor authorized another person to attend the meeting shall not be exempt from the responsibilities; the director who gives a definite objection during the discussion but no negative votes shall not be exempt from the responsibilities.

The board minutes shall be maintained in the filing of the Company for at least 10 years.

<p><b>Article 201</b> .....</p> <p>Unless under the exceptional circumstances specified in the articles of association as approved by the Hong Kong Stock Exchange, directors shall not vote on any resolutions of the board of directors in respect of any contract or arrangement or any other proposal in which he or his associates have a material interest, and such directors shall not be counted in the quorum; provided that the following circumstances are not subject to the above:</p> <p>1. the provision of any security or indemnity to the director or his associates in respect of money lent or obligations incurred or undertaken by him or his associates for the benefit of the issuer or any of its subsidiaries; or</p> <p>2. the giving of any security or indemnity to a third party in respect of a debt or obligation of the issuer or any of its subsidiaries for which the director or his associate(s) has himself/themselves provided in whole or in part and whether alone or jointly a guarantee or indemnity or the giving of security;</p> <p>Any proposal concerning an offer of shares or debentures or other securities of or by the issuer or any other company, which the issuer may promote or be interested in, for subscription or purchase where the director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;</p>	<p><b>Article 201</b> .....</p> <p>Unless under the exceptional circumstances specified in the articles of association as approved by the Hong Kong Stock Exchange, directors shall not vote on any resolutions of the board of directors in respect of any contract or arrangement or any other proposal in which he or his associates have a material interest, and such directors shall not be counted in the quorum; provided that the following circumstances are not subject to the above:</p> <p>1. the provision of any security or indemnity to the director or his associates in respect of money lent or obligations incurred or undertaken by him or his associates for the benefit of the issuer or any of its subsidiaries; or</p> <p>2. the giving of any security or indemnity to a third party in respect of a debt or obligation of the issuer or any of its subsidiaries for which the director or his associate(s) has himself/themselves provided in whole or in part and whether alone or jointly a guarantee or indemnity or the giving of security;</p> <p>Any proposal concerning an offer of shares or debentures or other securities of or by the issuer or any other company, which the issuer may promote or be interested in, for subscription or purchase where the director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;</p>
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<p>Any proposal made by any other company in which the director or his associate(s) is/are interested, whether directly or indirectly (as an officer or executive or shareholder); or in which the director or his associate(s) is/are beneficially interested in shares of that company, provided that such Director and any of his associates are not beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights;</p> <p>Any proposal or arrangement concerning the benefit of the employees of the issuer or its subsidiaries including:</p> <p>The adoption, modification or operation of any employees’ share scheme or any share incentive or share option scheme under which any director may benefit; or</p> <p>The adoption, modification or operation of a provident fund or pension fund, death or disability benefits scheme in relation to the directors, his associates and employees of the issuer or any of its subsidiaries, which does not provide in respect of any director or his associates, with such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and</p> <p>Any contract or arrangement in which the director or his associate(s) is/ are interested in the same manner as other holders of shares or debentures or other securities of the issuer by virtue only of his/ their interest in shares or debentures or other securities of the issuer.</p> <p>.....</p>	<p>Any proposal made by any other company in which the director or his associate(s) is/are interested, whether directly or indirectly (as an officer or executive or shareholder); or in which the director or his associate(s) is/are beneficially interested in shares of that company, provided that such Director and any of his associates are not beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights;</p> <p>Any proposal or arrangement concerning the benefit of the employees of the issuer or its subsidiaries including:</p> <p>The adoption, modification or operation of any employees’ share scheme or any share incentive or share option scheme under which any director may benefit; or</p> <p>The adoption, modification or operation of a provident fund or pension fund, death or disability benefits scheme in relation to the directors, his associates and employees of the issuer or any of its subsidiaries, which does not provide in respect of any director or his associates, with such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and</p> <p>Any contract or arrangement in which the director or his associate(s) is/ are interested in the same manner as other holders of shares or debentures or other securities of the issuer by virtue only of his/ their interest in shares or debentures or other securities of the issuer.</p> <p>.....</p>
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<p><b>Article 215</b> The financial report of the Company shall be made available at the Company for inspection by shareholders 20 days prior to the holding of the annual general meeting. Each shareholder of the Company shall be entitled to obtain the financial report mentioned in these Articles of Association of Association.</p> <p>Copies of aforesaid report, together with the director's report, shall be sent by prepaid post to each holder of overseas listed foreign invested shares at least 21 days prior to the annual general meeting. The address of the recipient shall be the address recorded in the register of shareholders.</p>	<p><b>Article 215</b> The financial report of the Company shall be made available at the Company for inspection by shareholders 20 days prior to the holding of the annual general meeting. Each shareholder of the Company shall be entitled to obtain the financial report mentioned in these Articles of Association of Association.</p> <p>Copies of aforesaid report, together with the director's report, shall be sent by prepaid post to each holder of overseas listed foreign invested shares at least 21 days prior to the annual general meeting. The address of the recipient shall be the address recorded in the register of shareholders. <b>It can also be sent by publishing it through the website of Company and HKEX while following the relevant procedures of the laws and regulations of the overseas listing location.</b></p>
<p><b>Article 229</b> ..... (II) Form of profit distribution</p> <p>The Company may distribute profit by way of cash, shares or a combination of cash and shares. When the conditions of cash dividend are met, priority shall be given to profit distribution by way of cash dividend.</p> <p>Annual profit distribution shall be made if the Company records a profit for the year and has distributable profits. Should conditions permit, the Company may distribute interim profits.</p>	<p><b>Article 229</b> ..... (II) Form of profit distribution</p> <p>The Company may distribute profit by way of cash, shares or a combination of cash and shares. When the conditions of cash dividend are met, priority shall be given to profit distribution by way of cash dividend. <b>The objective of the cash dividend policy is residual dividend. When the Company's audit report in the most recent years shows an modified opinion or unqualified opinions with significant uncertainty of going concern or the asset-liability ratio is higher than a certain proportion or operating cash flow is lower than a certain level, it is possible not to make a profit distribution.</b></p> <p>Annual profit distribution shall be made if the Company records a profit for the year and has distributable profits. Should conditions permit, the Company may distribute interim profits. <b>Under the conditions of profit distribution, the Company is encouraged to increase the frequency of cash dividends to stabilize the investors' dividend distribution expectation.</b></p>

<p>(III) Decision-making mechanism and procedure</p> <p>Procedure and requirement for the Board in considering profit distribution: During the Company’s profit distribution, the Board shall first prepare a distribution proposal which shall be approved by independent directors before its submission to the Board for consideration. In considering the specific cash dividend scheme, the Board shall carefully study and discuss the timing, conditions and minimum ratio for the Company’s cash dividends, while independent directors shall present their opinions.</p> <p>(IV) Specific conditions, proportions and intervals for cash dividends</p> <p>.....</p> <p>(V) Proportion of cash dividends: The accumulated profit distribution made in cash by the Company in the last three years shall be no less than 30% of the annual average distributable profits realized in the last three years.</p> <p>The Board of the Company shall take into account, amongst other things, the characteristics of the industry where the Company operates, stage of development, the Company’s own operating model, profitability and any significant capital expenditure arrangement in identifying the following situations, and shall make differentiated cash dividend policies in accordance with the provisions of the Articles of Association of the Company:</p> <p>.....</p>	<p>(III) Decision-making mechanism and procedure</p> <p><b>1. Procedure and requirement for the Board in considering profit distribution: During the Company’s profit distribution, the Board shall first prepare a distribution proposal <del>which shall be approved by independent directors before its submission to the Board for consideration.</del> In considering the specific cash dividend scheme, the Board shall carefully study and discuss the timing, conditions and minimum ratio for the Company’s cash dividends, while independent directors shall present their opinions. In considering the specific cash dividend scheme, the Board shall carefully study and discuss the timing, conditions and minimum ratio for the Company’s cash dividends, <del>while independent directors shall present their opinions.</del> <b>When the independent directors consider that the specific plan of cash dividends might be detrimental to the interests of the Company or small and medium-sized shareholders, they shall have the right to express independent opinions. The Board of Directors does not adopt or does not fully adopt the opinions of the independent directors, the opinions of the independent directors and the specific reasons for the non-acceptance shall be recorded in the board resolution and be disclosed.</b></b></p> <p>.....</p>
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<p>Should it be difficult to identify the Company’s stage of development, and there is a significant capital expenditure arrangement, such situations can be addressed pursuant to the previous provision.</p> <p>.....</p> <p>(VII) Supervision and binding mechanisms on profit distribution</p> <p>The independent directors shall express independent opinions on the dividend distribution proposal of the Company; in the event that the Company records a profit for the year but fails to propose a cash dividend distribution proposal, the independent directors shall express independent opinions and make public disclosure in this regard; the supervisory committee shall supervise the implementation of dividend distribution policies, shareholders’ return plans and decision-making procedures of the Company by the Board and the management.</p> <p>(VIII) Adjustment mechanism for profit distribution policies</p> <p>.....</p> <p>2. Resolutions on adjusting the profit distribution policy shall be formulated by the Board and approved by independent directors before submission to the Board for consideration. Independent directors shall express independent opinions on the adjustments on the profit distribution policy.</p> <p>.....</p>	<p><b>3. When the Company convenes an annual general meeting to review the annual profit distribution plan, it may deliberate and approve the conditions, and the upper limit of the proportion and the amount of cash dividends in the next year. The upper limit of the interim dividends for the next year as deliberated at the annual general meeting of shareholders shall not exceed the net profit attributable to shareholders of the Company during the corresponding period. According to the resolution of the general meeting of shareholders, the Board of Directors shall formulate a specific interim dividend plan under the condition of profit distribution. The Company shall strictly implement the cash dividend policy stipulated in the articles of association and the cash dividend plan approved by the general meeting of shareholders. When it is necessary to adjust or change the cash dividend policy stipulated in the articles of association, the conditions stipulated in the articles of association of the company shall be satisfied, and the corresponding decision-making procedures shall be carried out after detailed discussion and verification, and shall be approved by more than two-thirds of the voting rights held by shareholders attending the shareholders’ meeting.</b></p> <p>(IV) Specific conditions, and proportions<del>and intervals</del> for cash dividends</p> <p>(V) Proportion of cash dividends: The accumulated profit distribution made in cash by the Company in the last three years shall be no less than 30% of the annual average distributable profits realized in the last three years.</p>
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(X) If the Board fails to make a cash profit distribution proposal, the Company shall disclose in its periodic report the reasons for no dividend distribution, and the uses and plans for such undistributed capital retained by the Company. The independent directors shall express independent opinions in this regard, and the Company shall also disclose the implementation of its cash dividend distribution policy during the reporting period.

**The Board of Directors shall comprehensively consider the characteristics of the industry, the stage of development, the business model, the level of profitability, the ability to repay debts, and whether there is a major capital expenditure arrangement, investor returns, etc., distinguish the following situations, and propose a differentiated cash dividend policy in accordance with the procedures stipulated in the articles of association of the company:**

.....

Should it be difficult to identify the Company's stage of development, and there is a significant capital expenditure arrangement, such situations can be addressed pursuant to the **item (3) of the preceding paragraph**~~previous provision~~.

(VII) Supervision and binding mechanisms on profit distribution

**When the independent directors consider that the specific plan of cash dividends might be detrimental to the interests of the Company or small and medium-sized shareholders, they shall have the right to express independent opinions.** ~~The independent directors shall express independent opinions on the dividend distribution proposal of the Company; in the event that the Company records a profit for the year but fails to propose a cash dividend distribution proposal, the independent directors shall express independent opinions and make public disclosure in this regard; tThe supervisory committee shall supervise the implementation of dividend distribution policies, shareholders' return plans and decision-making procedures of the Company by the Board and the management.~~

	<p>(VIII) Adjustment mechanism for profit distribution policies</p> <p>.....</p> <p>2. Resolutions on adjusting the profit distribution policy shall be formulated by the Board and approved by independent directors before submission to the Board for consideration. Independent directors shall express independent opinions on the adjustments on the profit distribution policy.</p> <p>.....</p> <p>(X) If the Board fails to make a cash profit distribution proposal, the Company shall disclose in its periodic report the reasons for no dividend distribution, and the uses and plans for such undistributed capital retained by the Company, <b>and the next step taken to increase the level of investors' returns</b>, <del>The independent directors shall express independent opinions in this regard,</del> and the Company shall also disclose the implementation of its cash dividend distribution policy during the reporting period.</p>
<p><b>Article 230</b></p> <p>After the shareholders make a decision for distribution of profits in general meeting, the board of directors must finish distributing the dividends (or shares) within two months after the shareholders' general meeting is held.</p>	<p><b>Article 230</b></p> <p>After the shareholders make a decision for distribution of profits in general meeting, <b>or after the Board of Directors formulates a specific plan in accordance with the conditions and upper limit of the interim dividend for the next year that approved by the annual general meeting of shareholders</b>, the board of directors must finish distributing the dividends (or shares) within two months <del>after the shareholders' general meeting is held.</del></p>



**Article 271**

Save as provided otherwise in these Articles, notices, documents, information or written declaration by the Company to shareholders can be delivered by hand (including courier) or by post to each of the shareholders according to their respective addresses appearing on the register of members or by public notice on newspapers. If it is sent by post, the address shall be written clearly on the envelope carrying the notice and sent in the form of prepaid mail. Unless otherwise specified in these Articles, the letter of the notice shall be deemed as being received by the shareholders five days after the sending. Notices, documents, information or written declarations delivered by way of public notice should be published in newspapers in public circulation in Hong Kong (or the location of other shareholders) and/or stipulated by securities regulatory authorities of the State or on the designated websites of the stock exchanges, and shall be sufficient to enable shareholders whose registered addresses are in Hong Kong to exercise their rights or comply with the terms of the notice. Upon publication of such notice, all relevant shareholders shall be deemed to have received such notices, documents, information or written declarations.

**Article 271**

Save as provided otherwise in these Articles, notices, documents, information or written declaration by the Company to shareholders can be (1) delivered by hand (including courier), (2) by post to each of the shareholders according to their respective addresses appearing on the register of members, (3) by public notice on newspapers, (4) **on the premise of complying with laws, administrative regulations and relevant regulations of the security regulatory authority of the listing location, by e-mail or on the website of the Company and the designate website of the stock exchange of the listing location,** or (5) **by other forms specified by the articles of association.**

If it is sent by post, the address shall be written clearly on the envelope carrying the notice and sent in the form of prepaid mail. Unless otherwise specified in these Articles, the letter of the notice shall be deemed as being received by the shareholders five days after the sending. Notices, documents, information or written declarations delivered by way of public notice should be published in newspapers in public circulation in Hong Kong (or the location of other shareholders) and/or stipulated by securities regulatory authorities of the State or on the designated websites of the stock exchanges, and shall be sufficient to enable shareholders whose registered addresses are in Hong Kong to exercise their rights or comply with the terms of the notice. Upon publication of such notice, all relevant shareholders shall be deemed to have received such notices, documents, information or written declarations.

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## NOTICE OF THE EGM

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# 山東墨龍石油機械股份有限公司

Shandong Molong Petroleum Machinery Company Limited\*

(A Sino-foreign joint venture limited by shares incorporated in the People's Republic of China)

(Stock Code: 568)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of Shandong Molong Petroleum Machinery Company Limited (the “Company”) will be convened and held at 2:00 p.m. on Thursday, 25 January 2024 at Conference Room, 9/F, Building 19, Enterprise Headquarters Group, Shengcheng Street, Shouguang City, Shandong Province, the People's Republic of China (the “PRC”), to consider and, if thought fit, approve the following resolution:

#### ORDINARY RESOLUTIONS

1. To consider and approve the resolution on the disposal of equity interests in subsidiaries.
2. To consider and approve the resolution on the financial assistance passively formed following the disposal of equity interest in subsidiaries.
3. To consider and approve the resolution on the amendments to the System for Independent Directors.

#### SPECIAL RESOLUTION

4. To consider and approve the resolution on the amendments to the Articles of Association.

By order of the Board

**Shandong Molong Petroleum Machinery Company Limited\***

**Yuan Rui**

*Chairman*

Shandong, the PRC

9 January 2024

*Notes:*

- (A) The register of members of the Company for H Shares will be closed from Tuesday, 23 January 2024 to Thursday, 25 January 2024 (both days inclusive), during which period no H Share transfer will be effected. In order to qualify for attending the EGM and voting, all instruments of transfer of H shares, accompanied by the relevant share certificates, must be lodged with the registrar for H Shares of the Company no later than 4:30 p.m. on Monday, 22 January 2023.

The address of the registrar for H Shares of the Company is as follows:

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## NOTICE OF THE EGM

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**Tricor Investor Services Limited**

17/F, Far East Finance Centre  
16 Harcourt Road, Hong Kong

The Company will publish specific announcement on the Shenzhen Stock Exchange setting out details of the eligibility of holders of A Shares to attend the EGM.

- (B) The holders of H Shares whose names appear on the register of members of the Company at 4:30 pm on Monday, 22 January 2023 will be eligible to attend and vote at the EGM.
- (C) A proxy form for the EGM is enclosed and such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited and the Company. Whether or not you intend to attend the EGM, you are required to complete and return the enclosed proxy form in accordance with the instructions printed thereon to the H Share registrar of the Company, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for holders of H Shares of the Company) not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the Proxy Form will not preclude you from attending the EGM and voting in person if you so wish.
- (D) If a proxy attends the EGM on behalf of a Shareholder, he/she should produce his proof of identity and the instrument signed by the proxy or his legal representative, which specifies the date of its issuance. If the legal representative of a legal person Shareholder attends the EGM, such legal representative should produce his/her proof of identity and valid documents evidencing his capacity as such legal representative. If a legal person Shareholder appoints a representative of a company other than its legal representative to attend the EGM, such representative should produce his proof of identity and an authorization instrument affixed with the seal of the legal person Shareholder and duly signed by its legal representative.
- (E) The EGM is expected to last for about one hour. Shareholders attending the EGM are responsible for their own transportation and accommodation expenses.

\* *For identification purposes only*