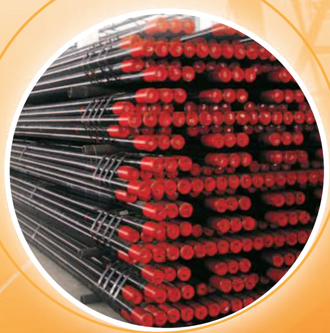
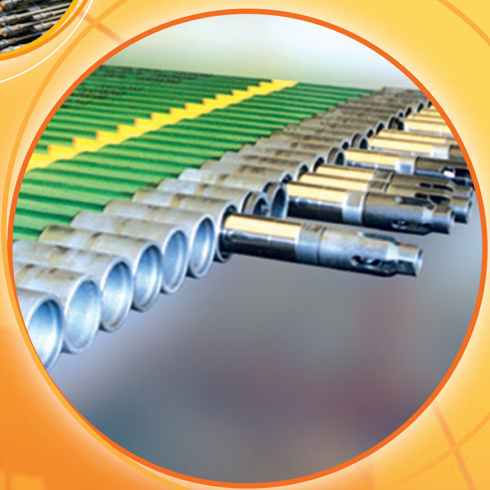
山東墨龍石油機械股份有限公司

Shandong Molong Petroleum Machinery Company Limited*

(a Sino-foreign joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 568)





2011 Interim Report

*For identification purpose only

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IMPORTANT

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

None of the Directors, Supervisors and the Senior Management are unable to guarantee the truthfulness, accuracy and completeness of the Report or disagree with the content of the Report.

Mr. Zhang En Rong, the chairman of the Company, Mr. Cui Huan You, the financial controller of the Company and Mr. Liu Xiang Hua, the head of the financial department of the Company, declare that they guarantee the truthfulness and completeness of the financial statements of the Report.

This Report was considered and approved by the ninth meeting of the third session of the Board of the Company with all directors present.

The interim financial statements for the six months ended 30 June 2011 (the “Reporting Period”) of the Company and its subsidiaries are prepared in accordance with Accounting Standards for Business Enterprises have not been audited by the Company's external auditors.

Definitions: In this Report, the terms “Company”, “the Company”, and “Shandong Molong” mean Shandong Molong Petroleum Machinery Company Limited, and the Company and its subsidiaries are collectively referred to as “the Group”; “SZSE” means Shenzhen Stock Exchange, “SEHK” means The Stock Exchange of Hong Kong Limited, “Listing Rules of Shenzhen Stock Exchange” means the Rules governing the listing of securities on the Shenzhen Stock Exchange, “Listing Rules of SEHK” means the Rules governing the listing of securities on the SEHK, unless otherwise specified.

I. COMPANY INFORMATION

1. Legal Chinese name of the Company: 山東墨龍石油機械股份有限公司
   Legal English name of the Company: Shandong Molong Petroleum Machinery Company Limited
   Abbreviation of the English name: Shandong Molong

2. Legal Representative of the Company: Mr. Zhang En Rong

3. Directors
   Executive Directors: Mr. Zhang En Rong (Chairman), Mr. Zhang Yun San (Vice Chairman), Mr. Lin Fu Long, Mr. Xie Xin Cang
   Non-executive Directors: Mr. Wang Ping, Mr. Xiao Qing Zhou
   Independent Non-executive Directors: Mr. John Paul Cameron, Mr. Chau Shing Yim, David, Ms. Wang Chun Hua

4. Committees of the Board
   Members of Nomination Committee:
   Ms. Wang Chun Hua (Chairman), Mr. Zhang Yun San, Mr. John Paul Cameron, Mr. Chau Shing Yim, David
   Members of Remuneration and Evaluation Committee:
   Mr. John Paul Cameron (Chairman), Mr. Chau Shing Yim, David, Mr. Zhang Yun San, Ms. Wang Chun Hua
   Members of Audit Committee:
   Mr. Chau Shing Yim, David (Chairman), Mr. John Paul Cameron, Ms. Wang Chun Hua

5. Members of the Supervisory Committee (the Supervisors):
   Mr. Liu Huai Duo (Chairman), Mr. Liu Wan Fu, Mr. Fan Ren Yi

6. Secretary to the Board of the Company: Mr. Xie Xin Cang
   Company Secretary: Mr. Chan Wing Nang, Billy
   Securities Affairs Representatives: Mr. Zhao Hong Feng
   Correspondence Address: No. 99 Beihuan Road, Shouguang City, Shandong Province, PRC
   Telephone: (86)-0536–5100890
   Facsimile: (86)-0536–5100888
   Email address: dsh@molonggroup.com

7. Authorised Representatives: Mr. Xie Xin Cang, Mr. Chan Wing Nang, Billy

8. Authorised Person to Accept Service of Process and Notices
   Mr. Chan Wing Nang, Billy

9. Registered Address and Office address of the Company: No. 99 Beihuan Road, Shouguang City, Shandong Province, PRC
   Postal Code: 262700
   Website of the Company: http://www.molonggroup.com
   Email address: sdml@molonggroup.com

10. Principal Place of Business in Hong Kong: Suite A, 11th Floor, Ho Lee Commercial Building, 38–44 D'Aguilar Street, Central, Hong Kong

11. Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News
    Designated Domestic Website for the Publication of the Annual Report as approved by China Securities Regulatory Commission: http://www.cninfo.com.cn
    Designated Overseas Website for the Publication of the Annual Report: http://www.hkex.com.hk
    Places for Inspection of the Company's Annual Report: Board of Directors Office of the Company

12. Stock Information
A shares Stock Abbreviation: 山東墨龍 Stock Code: 002490
H shares Stock Short Name: Shandong Molong; Stock Code: 00568

13. Share Registrar
A Share Registrar:
China Securities Depository and Clearing Corporation Limited Shenzhen Branch
18th Floor, CITIC Plaza, 1093 Shennan Zhong Road, Shenzhen, PRC
H Share Registrar:
Tricor Investor Services Limited
26/F, Tesbury Centre, No. 28 Queen's Road East, Wanchai, Hong Kong

14. Other Relevant Information of the Company:
Date of First Registration: 30 December 2001
Date of the Latest Change in Registration: 3 December 2010
Registered Address: No. 99 Beihuan Road, Shouguang City, Shandong Province, PRC
Legal Person Business License: 370000400000030
Registration Number: 370783734705456
Organization No.: 73470545-6

15. External Auditors Retained by the Company
Auditors: Deloitte Touche Tohmatsu Certified Public Accountants Ltd. ,Certified Public Accountants, PRC
Office Address: 30th Floor, Bund Center, No. 222 Yanan Road, Huangpu District, Shanghai, PRC

16. PRC and Hong Kong Legal Advisers Retained by the Company
PRC Legal Advisers: Beijing Dacheng Law Offices
5th,12th, and 15th Floor, Guohua Investment Building, 3 South Avenue, DongZhimen, Dongcheng District, Beijing, PRC
Hong Kong Legal Advisers: DLA Piper Hong Kong
17th Floor, Edinburgh Tower, The Landmark, 15 Queen's Road, Central, Hong Kong

17. Principal Bankers
Agricultural Bank of China Co., Ltd, Shouguang Branch
No. 118 Guangchang Street, Shouguang City, Shandong Province, PRC
Bank of China Limited, Shouguang Branch
No. 193 Yinhai Street, Shouguang City, Shandong Province, PRC
China Bank of Communications Co., Ltd
Transportation Bureau, Development Zone, Shouguang City, Shandong Province, PRC
China Construction Bank Co., Ltd
No. 283 Eastern Shengcheng Street, Shouguang City, Shandong Province, PRC

II. SUMMARY OF FINANCIAL AND OPERATING RESULTS

I. Financial highlights prepared in accordance with Accounting Standards for Business Enterprises

	30 June 2011 (unaudited)	31 December 2010 (audited)	**Increase/ decrease (%)**
Total Assets (RMB)	**4,513,827,340.97**	4,586,410,815.18	–1.58%
Equity attributable to equity holders of the Company (RMB)	**2,700,441,762.21**	2,685,990,386.13	0.54%
Share capital (shares)	**398,924,200.00**	398,924,200.00	—
Net assets per share attributable to equity holders of the Company (RMB per share)	**6.77**	6.73	0.59%

	30 June 2011 (unaudited)	30 June 2010 (unaudited)	**Increase/ decrease (%)**
Operating profit (RMB)	**73,722,915.25**	117,182,356.92	–37.09%
Total profit (RMB)	**88,585,043.12**	146,621,590.55	–39.58%
Net profit attributable to the equity holders of the Company (RMB)	**75,447,529.37**	120,899,320.10	–37.59%
Net profit after extraordinary gains or losses attributable to the equity holders of the Company (RMB)	**63,329,681.59**	106,572,296.45	–40.58%
Net cash flow generated from operating activities (RMB)	**16,901,576.66**	(168,312,067.72)	—
Net cash flow per share generated from operating activities	**0.04**	(0.51)	—
Basic earnings per share (RMB per share)	**0.19**	0.37	–48.65%
Diluted earnings per share (RMB per share)	**N/A**	N/A	N/A
Return on net assets on weighted average basis (%)	**2.78%**	9.35%	Decrease by 6.57 percent

Extraordinary items

Unit: RMB

Extraordinary items	**Amount**
Gains or losses arising from the disposal of non-current profit and loss	(122,685.18)
Government grant recognised in current profit and loss, excluding that closely relating to the normal business operations of the Company and subject to specified quota or quantitative requirements consecutively entitled in compliance with the State policies	14,060,000.00
Non-operating gain or loss other than the above	434,686.17
Effect of extraordinary gains or losses on income tax	(2,254,153.21)
Total	12,117,847.78

III. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. Changes in share capital

Unit: shares

	Class of Shares	Prior to the change: Number of shares	Prior to the change: Percentage	Increase/decrease as a result of the change (+, –): New issue	Bonus issue	Transfer from capital reserve	Others	Sub-total	After the change: Number of shares	After the change: Percentage
I. Shares subject to lock-up	A Shares	200,861,000	50.35%						200,861,000	50.35%
1. State-owned shares										
2. State-owned corporate shares										
3. Other domestic shares	A Shares	6,031,500	1.51%						6,031,500	1.51%
Comprising:										
Domestic non-state-owned corporate shares	A Shares	2,622,000	0.66%						2,622,000	0.66%
Domestic natural person shares	A Shares	3,409,500	0.85%						3,409,500	0.85%
4. Foreign shares										
Comprising:										
Foreign corporate shares										
Foreign natural person shares										
5. Senior management shares	A Shares	194,829,500	48.84%						194,829,500	48.84%
II. Shares not subject to lock-up	A Shares	198,063,200	49.65%						198,063,200	49.65%
1. RMB ordinary shares	A Shares	70,000,000	17.55%						70,000,000	17.55%
2. Domestic-listed foreign shares										
3. Overseas-listed foreign shares	H Shares	128,063,200	32.10%						128,063,200	32.10%
4. Others										
III. Total number of shares	A Shares and H Shares	398,924,200	100%						398,924,200	100%

II. Shareholders' profiles

1. *Top ten shareholders and the top ten shareholders of non-restricted shares*

Unit: shares

The total number of shareholders was 28,249, of which 28,199 were holders of A Shares, 50 were holders of H Shares

Shareholdings of the top ten shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding	Total number of shares held	Number of Restricted shares held	Number of shares pledged or locked-up	Class of shares
Zhang En Rong	Domestic natural person	35.03%	139,758,500	139,758,500	0	A Shares
HKSCC Nominees Limited	Overseas non-state-owned legal person	32.03%	127,777,545	0	0	H Shares
Lin Fu Long	Domestic natural person	4.29%	17,108,000	17,108,000	0	A Shares
Zhang Yun San	Domestic natural person	3.84%	15,304,000	15,304,000	0	A Shares
Xie Xin Cang	Domestic natural person	2.68%	10,705,000	10,705,000	0	A Shares
Liu Yun Long	Domestic natural person	1.84%	7,335,000	7,335,000	0	A Shares
Cui Huan You	Domestic natural person	1.16%	4,619,000	4,619,000	0	A Shares
Liang Yong Qiang	Domestic natural person	0.85%	3,409,500	3,409,500	0	A Shares
Shengli Oil Field Kaiyuan Petroleum Development Company	Domestic non-state-owned legal person	0.66%	2,622,000	2,622,000	0	A Shares
China Everbright Bank Co. Ltd. —Everbright Pramerica Quantified Core Securities Investment Fund (光大保德信量化核心證券投資基金)	Domestic non-state-owned legal person	0.31%	1,249,044	0	0	A Shares

Shareholdings of the top ten shareholders of non-restricted shares

Name of shareholders	Number of non-restricted shares held	Class of shares
HKSCC Nominees Limited	127,777,545	H Shares
China Everbright Bank Co. Ltd. — Everbright Pramerica Quantified Core Securities Investment Fund (光大保德信量化核心證券投資基金)	1,249,044	A Shares
China Merchants Bank—華夏經典配置混合型證券投資基金	1,099,907	A Shares
China of Bank—First-Trust High Quality Life Equity Fund (泰信優質生活股票型證券投資基金)	846,000	A Shares
Xu Lan Zhi	572,298	A Shares
Nanjing Maotian Material Industry Limited Company	555,758	A Shares
Feng Jing Juan	418,000	A Shares
Zhao Fu Xian	320,000	A Shares
Industrial Bank Co., Ltd.–Minsheng Royal Domestic Demand Growth Equity Fund (民生加銀內需增長股票型證券投資基金)	299,996	A Shares
Gao Ming Zhen	287,750	A Shares

Connected relationship or concerted-party relationship among the above shareholders	Zhang En Rong is the controlling shareholder of the Company and the father of Zhang Yun San. The Company has no information and does not know whether the other shareholders have connected relationships or are acting in concert.

2. *Changes in the Company's controlling shareholders and beneficial controllers during the Reporting Period*

The Company's controlling shareholders and beneficial controllers remained unchanged during the Reporting Period.

3. *Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures*

As at 30 June 2011, so far as known to the Directors, Supervisors or chief executive of the Company, the following persons (other than a Director, Supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares and underlying shares and debentures of the Company which would fall to be disclosed to the Company and SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO") and required to be recorded in the register to be kept under section 336 of the SFO:

Long positions in the Shares of the Company

Name	Type of interest	Number of H Shares	Percentage of H Shares	Percentage of total registered capital
Paul G. Desmarais (Note 1)	Interest of controlled corporation	30,750,000 (Note 1)	24.01%	7.71%
Nordex Inc. (Note 1)	Interest of controlled corporation	30,750,000 (Note 1)	24.01%	7.71%
Gelco Enterprises Ltd. (Note 1)	Interest of controlled corporation	30,750,000 (Note 1)	24.01%	7.71%
Power Corporation of Canada (Note 1)	Interest of controlled corporation	30,750,000 (Note 1)	24.01%	7.71%
Power Financial Corporation (Note 1)	Interest of controlled corporation	30,750,000 (Note 1)	24.01%	7.71%
IGM Financial Incorporation (Note 1)	Interest of controlled corporation	30,750,000 (Note 1)	24.01%	7.71%
Cheah Capital Management Limited (Note 2)	Interest of controlled corporation	11,895,200 (Note 2)	9.28%	2.98%
Cheah Company Limited (Note 2)	Interest of controlled corporation	11,895,200 (Note 2)	9.28%	2.98%
Hang Seng Bank Trustee International Limited (Note 2)	Trustee	11,895,200 (Note 2)	9.28%	2.98%
Value Partners Group Limited (Note 2)	Interest of controlled corporation	11,895,200 (Note 2)	9.28%	2.98%
Value Partners Limited (Note 2)	Investment Manager	11,895,200 (Note 2)	9.28%	2.98%
Cheah Cheng Hye (謝清海) (Note 2)	Interest of founder of Discretionary trust	11,895,200 (Note 2)	9.28%	2.98%
To Hau Yin (杜巧賢) (Note 2)	Interest of spouse	11,895,200 (Note 2)	9.28%	2.98%

Note 1: According to the best knowledge of the Directors and the disclosure of interest notices filed by Paul G Desmarais, Gelco Enterprises Ltd., IGM Financial Inc., Nordex Inc., Power Corporation of Canada and Power Financial Corporation, each of these companies was interested in 30,750,000 H Shares as at 30 June 2011. Among these 30,750,000 H Shares in which these companies were deemed to have interest, 29,500,000 H Shares were directly held by Mackenzie Cundill Investment Management Ltd. and 1,250,000 H Shares were directly held by Mackenzie Cundill Investment MGMT (Bermuda) Ltd.

Mackenzie Cundill Investment Management Ltd. is a wholly-owned subsidiary of Mackenzie Financial Corporation, which in turn is a wholly-owned subsidiary of Mackenzie Inc. Mackenzie Inc. is a wholly-owned subsidiary of IGM Financial Inc., which in turn is owned as to 55.99% by Power Financial Corporation, Power Financial Corporation is owned as to 66.40% by 171263 Canada Inc, which in turn is a wholly-owned subsidiary of 795957 Canada Inc. 2795957 Canada Inc is a wholly-owned subsidiary of Power Corporation of Canada, which in turn is owned as to 53.83% by Gelco Enterprise Ltd., Gelco Enterprise Ltd. is owned as to 94.95% by Nordex Inc., which in turn is owned as to 68% by Paul G. Desmarais.

Makenzie Cundill Investment Mgmt (Bermuda) Ltd, is a wholly-owned subsidiary of Mackenzie (Rockies) Corp. which in turn is a wholly-owned subsidiary of Mackenzie Financial Corporation.

Note 2: According to the best knowledge of the Directors, Supervisor or chief executive of the Company and the disclosure of interest notices filed by Cheah Capital Management Limited, Cheah Company Limited, Hang Seng Bank Trustee International Limited, Value Partners Group Limited, Value Partners Limited, Ms. To Hau Yin and Mr. Cheah Cheng Hye, each of these companies and individuals was interested in 11,895,200 H Shares as at 30 June 2011.

Value Partners Limited was interested in H Shares as investment manager. Value Partners Limited is a wholly-owned subsidiary of Value Partners Group Limited, which in turn is owned as to 31.23% by Cheah Capital Management Limited, which in turn is a wholly-owned subsidiary of Cheah Company Limited. Hang Seng Bank Trustee International Limited wholly owned Cheah Company Limited as trustee of The C H Cheah Family Trust. Mr. Cheah Cheng Hye is the founder of the above-mentioned trust. Ms. To Hau Yin is the spouse of Mr. Cheah Cheng Hye.

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

IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THE STAFF

I. Changes in shareholdings of the directors, supervisors and senior management

During the Reporting Period, the shareholdings of the Directors, Supervisors and Senior Management of the Company remain unchanged.

II. Changes in Directors, Supervisors and Senior Management

During the annual general meeting of the Company held on 20 May 2011, an ordinary resolution has been passed in which Mr. Xiao Qing Zhou was appointed to replace Mr. Chen Jian Xiong who had his term of office expired as the non-executive Director. The term of office of Mr. Xiao Qing Zhau will expired on the date of expiry of the third session of the Board.

For more details, please refer to the related resolution announcement which was published on China Securities Journal, Securities Daily, Securities Times, Shanghai Securities News and the website of CHINF (http://www.cninfo.com.cn) on 21 May 2011 and the website of SEHK (www.hkex.com) on 20 May 2011.

III. Personnel of the Company

At the end of the Reporting Period, the Group had a total number of 2,795 employees, including 2,631 production staff, 54 sales staff, 41 technical staff, 33 financial staff, 36 administrative staff. By level of education, there were 366 employees with bachelor's degree or above, 415 employees with college degree, 1,173 employees with technical secondary school education and 841 employees with high school, technical school education and levels below technical secondary school education.

V. DIRECTORS' REPORT

I. Management Discussion and Analysis

1. Overall operations during the Reporting Period

In 2011, the first year of the "Twelfth-Five Year Plan", the government has placed great emphasis on the development of advanced manufacturing and marine chemical industry, along with the growth of Shandong Peninsula Blue Economic Zone and Yellow River Delta Economic Zone, thereby contributing a huge momentum for the development of the Company. During the Reporting Period, the Company recorded sound production and operation, with an output of 232,000 million tonnes and a sales volume of 210,300 million tonnes of oil casing, the key product.

2. Business Review

The Company reported an unaudited operating revenue of RMB1,519.5 million for the six months ended 30 June 2011, representing a 13.94% growth compared with the same period of previous year. Unaudited total profit of RMB88.59 million, representing a decrease of 39.58% as compared with the same period last year; the unaudited net profit attributable to shareholders of the Company decreased by 37.59% as compared with the same period of previous year to RMB75.45 million. The unaudited net profit of the Company after non-recurring profit and loss was RMB63.33 million, increased by 40.59% compared with the same period of last year.

The decrease of net profit attributable to shareholders of the Company was mainly due to the fact that the 180mm Project was in the early stage of production, therefore cost of manufacture is high, and the price of major raw materials has increased largely.

1. In terms of capacity promotion, 180 mm special petroleum pipes technical reconstruction project (the "180mm Project") has commenced operation with a production capacity of 101,400 tonnes for the first half of the year which has met the expected targets of quality and production capacity of the products. The successful operation of the 180 mm Project has not only increased the production capacity of the Group's Oil Country Tubular Goods ("OCTG") but also enhanced research and development ability of new products and production capacity of high-end products, which will be beneficial on the improvement of the Group's profitability and competitiveness.

2. In terms of domestic market expansion, the Group's main customers are major oil fields in the PRC including Daqing Oil Field (大慶油田), Changqing Oil Field (長慶油田), Xinjiang Oil Field (新疆油田), Liaohe Oil Field (遼河油田), Qinghai Oil Field (青海油田), Talimu Oil Field (塔里木油田), Huabei Oil Field (華北油田), Jidong Oil Field (冀東油田) and Jilin Oil Field (吉林油田), all of which are oil fields of PetroChina Company Limited and its subsidiaries (collectively, "PetroChina Group"), as well as Shengli Oil Field (勝利油田), Zhongyuan Oil Field (中原油田), Jiangsu Oil Field (江蘇油田) and Jianghan Oil Field (江漢油田), all of which are oil fields of China Petroleum & Chemical Corporation and its subsidiaries (collectively, "Sinopec Group"). During the Reporting Period, the Group increased its efforts to cooperate with existing oil field customers and gained wide market evaluation. Sales to the above oil fields under the PetroChina Group and the Sinopec Group accounted for approximately 25.32% of the Group's sales revenue.

   During the Reporting Period, according to bidding Contract, the Company had began to supply the first lot to China National Offshore Oil Corporation ("CNOOC Group"). By virtue of its excellent product quality and good reputation, the Company has achieved breakthrough in its development in the offshore oil market.

During the Reporting Period, the Group has made great progresses on the business cooperation with four major domestic oil groups and further implemented full cooperative strategies with four major domestic oil groups.

During the Reporting Period, the Group became one of the fourteen qualified suppliers of fluid seamless pipes of China National Petroleum Corporation. The products were supplied to Daqing Oil Field, Changqing Oil Field and Liaohe Oil Field, and the oil pipes of the Company have also been supplied to Tuha Oil Field. In addition, the Company has gained various customers such as Zhong Kuang Machinery Manufacturing Company Limited (中礦機械製造有限公司), which further enlarged its market share in the non-oil well pipes segment.

3. In terms of overseas market, during the Reporting Period, the Group further strengthened the existing markets including Southeast Asia, Middle East and South America, while continuing to step up its efforts in developing its business to regions such as South America, North Africa and Australia. The Group newly developed the Mexican market and secured new customers such as Offshore Engineering & Marketing Ltd., Petrogas Piping Middle East FZCO in Middle East, Rezayat Trading Company Limited (瑞策), PT. Global Pacific Energy in Indonesia and Group Vordcab, Sa de Cv in Mexico, which further expanded the overseas market and its market share. The Group has established and maintained good and long-term cooperative relationships with many overseas stock companies and oil field service companies, which in turn boosted the sales of its products in the overseas markets. As at 30 June 2011, the Group's revenue generated from exports accounted for approximately 35.35% of the Group's total sales revenue. Such increase formed a solid foundation for the Group to further expand its overseas market in the future.

4. In terms of the development of new products, the Group continued increasing its efforts to develop high-end products and strengthening technological cooperation with research institutes such as China University of Petroleum and Xi'an Pipe Material Research Institute of PetroChina Group. The establishment of the provincial level Technical Center and post-doctoral research station has also improved the Company's research strength to a new level. With the advantages, the Company put its great efforts to develop new products, expand product mix and enrich product categories, and has successively developed products including petroleum cracking pipes, floating single-cylindrical pipes, thin layer high pressure boiler pipes, seamless steel pipes for half-axle casing of vehicles, all of which have completed trial production and were sold to domestic and oversea markets. The seamless steel pipes for half-axle casing of vehicles have been supplied to Changchun First Automobile Works Group (長春一汽集團). The research and development of the ML110SS anti-H2S corrosion casing and the highly abrasion-resistance and anti-corrosion cast iron sleeves were included in the provincial level technology innovation projects of Shandong province. In addition, the Company achieved a breakthrough in the development of new products and the patent applications for five new practical patents, namely "Steel diameter rod auto-lifting device (鋼管通徑棒自動舉升裝置)", "Non-standard oil pipes for high inner polymer tubing (用於內襯高分子材料襯管的非標準油管)", "Seamless steel pipes post guiding device (無縫鋼管軋機後導向裝置)", "Adjustable clamps for three-connection processing valves (用於三通閥體加工的可調式夾具)" and "Bearing lubricating device for input shaft of decelerator (減速器輸入軸軸承潤滑裝置)", were officially accepted.

3. *Principal operations of the Company and analysis on their operations*

(1) Business scopes of the Company

Business scopes of the Company include: production and sales of suker rod pumps, sucker rods, pumping units, casing and tubing, petroleum machinery parts and textile machinery; development of petroleum machinery and relevant products; products information service (excluding intermediary).

(2) Principal operations by industry and by product

Six months ended 30 June 2011 — Unit: RMB in ten thousand

	Revenue from operations by product					
By product	**Revenue from operations (unaudited)**	**Cost of sales (unaudited)**	**Gross profit margin** (%)	**Year-on-year increase/decrease in revenue from Operations** (%)	**Year-on-year Increase/decrease in cost of sales** (%)	**Year-on-year increase/decrease in gross profit margin**
Tubings & Casings	128,656.56	118,145.07	8.17%	29.13%	43.04%	–8.93
Three kinds of pumping units	4,543.58	3,645.46	19.77%	–2.63%	1.34%	–3.14
Petroleum machinery	9,651.42	7,507.33	22.22%	68.37%	80.15%	–5.08
Others	5,426.30	5,537.16	–2.04%	–75.17%	–74.45%	–2.85
Total	148,277.86	134,835.02	9.07%	12.43%	20.17%	–5.98

(3) Breakdown of revenue from principal operations by geographical segment

Six months ended 30 June 2011 — Unit: RMB in ten thousand

Geographical segment	**Revenue from operations (unaudited)**	**Year-on-year increase/ decrease in revenue from operations** (%)
PRC	95,431.79	3.80%
Abroad	52,846.06	32.30%
Total	148,277.86	12.43%

(4) Problems and resolutions from operations

Increased price of raw materials reduced the gross profit margin. The Company has effectively minimized the influence of the price of raw materials through internal and external channels. Taking advantage of the long industrial chain, the Company has been capable of self-producing its major raw materials; rational deployment of the production to reduce and rationalize inventories, by which capital used was efficiently reduced; rapid enhancement in output and reasonable allocation of costs; expansion of the customer base and timely adjustment of prices, laying a solid foundation for the long-term and stable development of the Company.

(5) Consolidated Gross Profit Margin

The consolidated gross profit margin of the Group is approximately 9.07% for the six months ended 30 June 2011, decreased by 5.98 percent as compared with that of 15.05% for the same period last year. Such decrease was attributable to, firstly, the increase in price of materials was higher than that of product and, secondly, the higher production costs as the operation of the new 180 mm production lines has just been commenced.

(6) Selling Expenses

The unaudited selling expenses of the Group increased from approximately RMB23.10 million for the six months ended 30 June 2010 to approximately RMB24.26 million for the six months ended 30 June 2011. Such increase was mainly due to the increase in delivery expenses and agency fees with the increasingly warmer environment. Selling expenses was approximately 1.73% of the Group's total revenue for the six months ended 30 June 2010 and decreased to approximately 1.59% for the six months ended 30 June 2011.

(7) Administrative Expense

The unaudited administrative expenses of the Group decreased from approximately RMB37.13 million for the six months ended 30 June 2010 to approximately RMB36.54 million for the six months ended 30 June 2011, representing a decrease of approximately 1.59%. Administrative expenses was approximately 2.78% of the Group's revenue for the six months ended 30 June 2010 and decreased to approximately 2.40% for the six months ended 30 June 2011, representing a decrease of approximately 0.38%. The decrease of proportion was mainly due to the decrease in repair fees for the period.

(8) Financing Cost

The unaudited financing cost of the Group for the six months ended 30 June 2011 was approximately RMB9.22 million, representing approximately 0.60% of the Group's total revenue and a decrease of approximately RMB12.00 million as compared to the financing cost of RMB21.22 million for the six months ended 30 June 2010. Such decrease was mainly due to interest expense decrease as a result of decrease in bank loans in the first half of 2011.

(9) Cash and cash equivalents

As at 30 June 2011, the unaudited cash and cash equivalents of the Group increased by approximately RMB337.99 million as compared with that of 31 December 2010. The net cash inflow from operations for the six months ended 30 June 2011 amounted to approximately RMB16.90 million (same period last year: approximately RMB168.31 million). Such increase was attributable to the increase in taxes refunds of RMB16.30 million, the increase in cash of RMB398.68 million received from product sales and labor service provision of RMB333.71 million, and the increase in cash paid for product purchases and labor services taken. Other cash flow items included approximately RMB267.18 million as the additional pledged fixed deposits, approximately RMB148.58 million as capital expenditures for the purchase of fixed assets, approximately RMB38.66 million for distribution of dividends for 2010, and approximately RMB194.58 million as the decrease in bank loans.

(10) bank financing and mortgage assets

In the Reporting Period, the Company has owned loans on credit of RMB331.97 million.

(11) Significant Investments

As at 30 June 2011, investment in the new development of high-end petroleum equipment of the Company of RMB92.8359 million was completed.

(12) Acquisitions and Disposals during the Year and Future Investment Plans

In the Reporting Period, the Group did not have other relevant acquisitions, disposals or significant investment plans.

II. Prospect of the Future Developments of the Company

With the Benefit from energy reliance by economic growth, the petroleum machinery and services industry will maintain a steady growth.

The 180mm Project, which is an A Share proceeds-funded investment project, has successfully commenced operation and reached its designed capacity and quality, ensuring the Company's capacity in maintaining growth in the production and sales of the products.

The Group has expanded applicable areas of its products by means of developing the market of non-oil well pipes products. Accordingly, there will be a speedy development in markets of products, such as line pipes, CBM pipes, high pressure boiler pipes, tube for conveyance of fluid and pipes for vehicle use.

III. Investments During the Reporting Period

1. Use of proceeds during the Reporting Period (unaudited)

Unit: RMB in ten thousands

Total proceeds	119,673.83		
Total proceeds with uses changed during the Reporting Period	0.00	Use of total proceeds during the Reporting Period	46,494.95
Accumulated total proceeds with uses changed	0.00	Accumulated use of total proceeds	118,494.95
Ratio of accumulated total proceeds with uses changed	0.00%		

Investment project undertaken and utilization of surplus net proceeds	Project Change (partly changed project included)	Total investment undertaken out of proceeds	Adjusted total investment (1)	Investment during the Reporting Period	Accumulated investment as at the end of the Reporting Period (2)	Investment progress as at the end of the Reporting Period (%) (3)=(2)/(1)	Scheduled date at which the project is ready for operation	Benefits realized during the Reporting Period	Progressing as scheduled with estimated benefits	Significant change in the feasibility of the project
Investment project undertaken										
180 mm Project	No	72,000.00	72,000.00	0.00	72,000.00	100.00%			Yes	No
Sub-total - Investment project undertaken	—	72,000.00	72,000.00	0.00	72,000.00	—	—		—	—
Utilization of surplus net proceeds										
Petroleum pipes processing project	No	22,000.00	22,000.00	20,821.12	20,821.12	94.64%	30 December 2011		N/A	No
Repayment of bank loans (if any)	—						—	—		
Satisfying liquidity (if any)	—	25,673.83	25,673.83	25,673.83	25,673.83	100.00%	—	—	—	—
Sub-total — Utilization of surplus net proceeds	—	47,673.83	47,673.83	46,494.95	46,494.95	—	—		—	—
Total	—	119,673.83	119,673.83	46,494.95	118,494.95	—	—		—	—

Situation and reason of failure to progress as scheduled and estimated benefits (by project)	N/A
Explanation on significant change in the feasibility of the project	N/A
Amount, use and status of utilization of surplus net proceeds	The Company has used RMB256,738,300 for liquidity. In March 2011, the Company has paid RMB220,000,000 of investment of equity to Weihai Baolong for the petroleum pipes processing project. As at the end of the Reporting Period, total proceeds used amounted to RMB208,211,200 and the balance is RMB11,788,800.
Change of place of implementation of the proceeds-funded project	N/A
Change of way of implementation of the proceeds-funded project	N/A
Investment in advance and replacement of the proceeds-funded project	N/A
Provisional use of unutilized proceeds to satisfy liquidity	As at the end of the Reporting Period, RMB256,738,300 of proceeds was used to satisfy liquidity of the Company.
Amount and reason of unutilized proceeds in the implementation of project	N/A
Use of unutilized proceeds and their status	N/A
Issues or other situations in respect of utilization and disclosure of proceeds	N/A

2. *Other investments during the Reporting Period*

The total investment of the Group's high-end petroleum equipment specialized project will be RMB92.8359 million, of which an accumulated amount of RMB179.97 million has been invested into the project as at 30 June 2011. Such project is conducted in accordance with the local government's policy of "relocation to industrial zone" (退城進園). Under such project, production lines such as original oil pipe processing, oil well sucker, oil well machinery will be removed to other place and some of equipments will be upgraded via technical modification.

IV. *(1) Analysis and explanation on major changes in composition of assets of the Company during the Reporting Period*

Unit: RMB in ten thousands

Item	**30 June 2011 (unaudited)**	31 December 2010 (audited)	Increase/ decrease (%)	Reasons
Monetary capital	**52,794**	89,229	–40.83%	(1)
Bills receivable	**4,060**	1,912	112.34%	(2)
Other receivable	**6,282**	3,028	107.46%	(3)
Prepayments	**5,487**	15,860	–65.40%	(4)
Other current assets	**6,000**	4,105	46.16%	(5)
Construction in progress	**22,158**	13,145	68.57%	(6)
Research and development	**3,511**	0.00	—	(7)
Advance receipts expenses	**5,017**	3,472	44.50%	(8)
Dividends payable	**4,497**	2,379	89.03%	(9)

(1) Monetary capital decreased by 40.83% as compared with that at the beginning of the year, which was mainly because part of the loans was paid back during the current period;

(2) Bills receivable increased by 112.34% as compared with that at the beginning of the year, which was mainly because bills haven't been endorsed after received during the current period;

(3) Other receivable increased by 107.46% as compared with that at the beginning of the year, which was mainly because part of accounts for certain land use rights was paid in advance during the current period;

(4) Prepayments decreased by 65.40% as compared with that at the beginning of the year, which was mainly due to the surge in price level of raw materials, and the fact that the Company paid the payments of goods to suppliers to lock the maximum purchase price of major raw materials in order to reduce the soaring price risk which had been finished during the Reporting Period.

(5) Other current assets increased by 46.16% as compared with that at the beginning of the year, which was mainly due to the increase of the pending deduct VAT on purchase during the Reporting Period;

(6) Construction in progress increased by 68.57% as compared with that at the beginning of the year, which was mainly due to the investment in high-end petroleum equipment project and 140mm oil steel tubes processing project during the current period;

(7) Research and Development expenses was mainly because the developed products have not been finished during the current period;

(8) Advance receipts increased by 44.50% as compared with that at the beginning of the year, which was mainly due to the increase in advance receipts of goods from customers during the current period;

(9) Dividends payable increased by 89.03% as compared with that at the beginning of the year, which was mainly because part of the dividends have not been paid at the end of the current period.

(2) *Analysis and explanation on major changes in profit and loss indicators during the Reporting Period*

Unit: RMB in ten thousands

Item	30 June 2011 (unaudited)	30 June 2010 (unaudited)	Increase/ decrease (%)	Reasons
Financing Costs	**922**	2,122	–56.55	(1)
Non-operating income	**1,502**	2,992	–49.80	(2)
Total profit	**8,858**	14,662	–39.58	(3)
Income tax	**1,293**	2,467	–47.59	(4)
Net profit	**7,565**	12,195	–37.97	(5)
Net profit attributable to the parents	**7,545**	12,090	–37.59	(6)

(1) Financing costs decreased by 56.55% as compared with that of the same period last year, which was mainly due to bank deposits decreased and interest expense decreased in the first half of 2011;

(2) Non-operating income decreased by 49.80% as compared with that of the same period last year, which was mainly due to removal of the obsoleted policy of value-added tax for material by the government on 1 January 2011;

(3) Total profit decreased by 39.58% as compared with that of the same period last year, which was mainly due to the fact that the 180mm project was in the early stage of production, therefore cost of manufacture is high, and the price of major raw materials has increased largely;

(4) Income tax decreased by 47.59% as compared with that of the same period last year, which was mainly due to the fact that total profit decreased in the first half of 2011;

(5) Net profit decreased by 37.97% as compared with that of the same period of last year, which was mainly due to the fact that the 180mm Project was in the early stage of production, therefore cost of manufacture is high, and the price of major raw materials has increased;

(6) Net profit attributable to owners of the parent decreased by 37.59% as compared with the same period of last year, which was mainly due to the fact that the 180mm Project was in the early stage of production, therefore cost of manufacture is high, and the price of major raw materials has increased.

(3) *Cash flow generated from operating activities of the Company during the Reporting Period*

Unit: RMB in ten thousands

Item	**30 June 2011 (unaudited)**	30 June 2010 (unaudited)	Increase/ decrease (%)	Reasons
Net cash flow from operating activities	**1,690**	(16,831)	—	(1)
Net cash flow from investment activities	**(11,991)**	(26,820)	55.29	(2)
Net cash flow from financing activities	**(24,253)**	28,127	—	(3)

(1) Net cash flow from operating activities increased by RMB185.21 million, compared with the same period last year, which was mainly due to cash paid for commodities sale and services received increased by RMB398.68 million and the cash paid for commodities purchased and services increased by RMB333.71 million, as compared with the same period last year, and other cash paid for relating to operating activities decreased of RMB102.88 million.

(2) Net cash flow from investment activities increased by 55.29%, compared with the same period last year, which was mainly because the investment in the high-end petroleum equipment project and 140mm oil steel tubes processing project decreased, compared with which in the 180mm Project of the same period last year.

(3) Net cash flow from financing activities decreased by RMB523.80 million, compared with the same period last year, which was mainly because the cash from bank loans decreased of RMB456.49 million, the cash from payment of borrowings increased RMB129.14 million, the cash for dividend on shares and profit and payment of interest decreased RMB33.09 million, respectively compared with the same period last year.

V. Warnings forecast with explanation on the significant changes in accumulated net profit for the period the beginning of the year to the end of the next Reporting Period compared with the corresponding period of last year

China pays particular attention to the development of energy industry such as advanced manufacturing industry and marine chemical industry in 2011. As a result of above and the successful commencement and production of the new project of the Company, the sales volume will largely increase from January to September 2011. Affected by the price of raw materials and the fact that the new project is still in the early stage of production, the net profit of the Company will decrease. It is predictable that the net profit attributable to shareholders of the Company will decrease by 20%–35% from January to September in 2011 as compared with the same period last year.

VI. Focus of work for the second half of 2011

In the second half of 2011, the Company will continue to focus on the release of production capacity and improvement in efficiency of the 180 mm Project. The Company will lay a solid foundation expanding its market shares by committing more efforts to the development of new and customized products as well as to the expansion of new markets and identification of customers in order to gain a foothold in the domestic and overseas markets.

VII. Disclosures in Accordance with the Listing Rules of SEHK

1. *Results*

The Group's profit for the six months ended 30 June 2011 and the state of financial affairs of the Group and the Company at that date are set out in the consolidated financial statements on pages 30 to 35 of the Report.

2. *Directors', Supervisors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures*

As at 30 June 2011, interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Group and to the Stock Exchange, were as follows:

Long positions in the A shares of the Company

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total registered share capital
Zhang En Rong	Beneficial	139,758,500	51.60%	35.03%
Lin Fu Long	Beneficial	17,108,000	6.32%	4.29%
Zhang Yun San	Beneficial	15,304,000	5.65%	3.84%
Xie Xin Cang	Beneficial	10,705,000	3.95%	2.68%

Save as disclosed above, as at 30 June 2011, to the best knowledge of the Directors, Supervisors and chief executive, none of the Directors, the Supervisors or chief executive had any interests or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Group and to the Stock Exchange.

3. *Share Option Scheme*

The Company does not have any share option scheme.

4. *Competing Interests*

None of the Directors or the management shareholders of the Company and their respective associates (as defined in the Listing Rules) has any interest in a business which competes or may compete with the business of the Group.

5. *Purchase, Sale or Redemption of Securities*

None of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2011.

6. *Sufficiency of Public Float*

According to information of the Company available to the public and to the knowledge of the Board of directors, the Board confirms that the Company has maintained a sufficient public as at the date of this report.

7. *Directors*

As at 30 June 2011, the executive Directors are Mr. Zhang En Rong, Mr. Lin Fu Long, Mr. Zhang Yun San and Mr. Xie Xin Cang, the non-executive Directors are Mr. Xiao Qing Zhou and Mr. Wang Ping, and the independent non-executive Directors are Mr. John Paul Cameron, Ms. Wang Chun Hua and Mr. Chau Shing Yim, David.

VI. MATERIAL MATTERS

I. Corporate governance structure of the Company, Directors' securities transactions and purchase, sale or redemption of securities during the Reporting Period

1. The Company's corporate governance is in compliance with the relevant requirements of China Securities Regulatory Commission (CSRC)

Strictly in compliance with the requirements of the relevant laws and regulations of Company Law (《公司法》), Securities Law (《證券法》), Code of Corporate Governance for Listed Companies (《上市公司治理準則》), listing rules of Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》) and the Articles of Association, the Company continued to optimise its legal person governance structure, and established an modern enterprise policy to regulate the operations of the Company. The state of governance of the Company is currently in compliance with the requirements under the relevant documents of CSRC.

2. Code on Corporate Governance

The Company is committed to the establishment of a good corporate governance standard. The principles of corporate governance adopted by the Company emphasize a quality Board, sound internal control, and transparency and accountability to all shareholders. During the Reporting Period, the Company has complied with all the code provisions, and where applicable the recommended best practices of the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Listing Rules of SEHK.

3. Audit Committee

The Audit Committee is mainly responsible for monitoring the completeness of the Company's financial statements, reviewing the Company's internal control system and its execution, through review of work undertaken by the internal and external auditors, evaluating financial information and related disclosures.

The Audit Committee consists of three independent non-executive Directors, namely Mr. Chau Shing Yim David, Mr. John Paul Cameron and Ms. Wang Chun Hua. Mr. Chau Shing Yim David is the chairman of the Audit Committee. The Audit Committee held one meeting during the Reporting Period with an attendance rate of 100%.

The Audit Committee has reviewed the Group's unaudited financial statements for the six months ended 30 June 2011, and submitted to the Board for approval.

4. Nomination Committee

The nomination committee of the Company (the "Nomination Committee") consists of three independent non-executive Directors, namely Mr. Chau Shing Yim David, Mr. John Paul Cameron and Ms. Wang Chun Hua, and one executive Director, Mr. Zhang Yun San. Ms. Wang Chun Hua is the chairman of the Nomination Committee. The Nomination Committee held one meeting during the Reporting Period with an attendance rate of 100%.

5. Remuneration and Evaluation Committee

The primary duty of the Remuneration and Evaluation Committee is to submit proposals to the Board on the overall remuneration policy and structure in respect of the Directors and members of the senior management of the Company and to determine the specific remuneration for all executive Directors and members of the senior management.

The Remuneration and Evaluation Committee consists of three independent non-executive Directors, namely Mr. Chau Shing Yim David, Mr. John Paul Cameron and Ms. Wang Chun Hua, and one executive Director, Mr. Zhang Yun San. Mr. John Paul Cameron is the Chairman of the Remuneration and Evaluation Committee.

The Remuneration and Evaluation Committee held one meeting during the Reporting Period with an attendance rate of 100%.

6. *Director's Securities Transactions*

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules of SEHK and requires the Directors to follow the Model Code while conducting securities transactions. Such requirements also apply to the Company's management. The Company has made specific enquiries to all Directors and has confirmed that all of the Directors have complied with the required standard of securities transactions by the Directors set out in the Model Code for the Reporting Period.

7. *Purchase, Sale or Redemption of Securities*

Neither the Company nor its subsidiary has purchased, sold or redeemed any listed securities of the Company during the Reporting Period.

II. 2010 Profit Distribution Plan and 2011 Interim Profit Distribution

1. The 2010 profit distribution plan of the Company has been considered and approved by the annual general meeting of the Company held on 20 May 2011. Based on the total share capital of the Company of 398,924,200 shares, cash bonus of RMB1.50 was declared to be paid to all shareholders for every 10 shares held (tax included), RMB1.35 for every 10 shares held to be actually paid to individual shareholders, investment funds and Qualified Foreign Institutional Investors holding A shares after tax deduction. Distribution of cash bonuses under such distribution amounted to RMB59,838,630.00 (tax included).

   For A Shares, the record date was 10 June 2011. and the ex-rights date was 13 June 2011.

2. No interim profit distribution was proposed to be implemented for the Reporting Period, also, no share capital increase by way of transfer from capital reserves will be carried out.

III. Material Litigation or Arbitration of the Company

There was no material litigation or arbitration of the Company during the Reporting Period.

IV. Significant Purchase or Sales of Assets and Merger and Acquisition by the Company

There was no significant purchase or sales of assets during the Reporting Period. No merger or acquisition has been carried out during the Reporting Period.

V. Major Connected Transactions

No connected transaction has been carried out by the Company which is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules of SEHK.

VI. Significant Contracts and their Performance

1. External guarantees during the Reporting Period

During the Reporting Period, the Company did not provide any external guarantees except that the Company provided guarantees for its controlling subsidiaries, Shouguang Baolong Petroleum Material Company Limited and Weihai Baolong Special Petroleum Materials Co., Ltd, of RMB200.00 million and RMB100.00 million respectively for banking credit facilities.

2. Entrusted loans

There was no entrusted loans during the Reporting Period.

3. Material contracts and their performance

There was no material contract which did not perform or did not perform in time.

VII. Commitments by Holders of Non-Tradable Shares During the A Shares IPO Process

Mr. Zhang En Rong and Mr. Zhang Yun San, the controlling shareholders of the Company, committed that shares held by Mr. Zhang En Rong and Mr. Zhang Yun San shall not be transferred or entrusted to others to manage, and not be purchased by the Company within 36 months from the date of listing of the A shares.

Mr. Lin Fu Long, Mr. Xie Xin Cang, Mr. Liu Yun Long, Mr. Cui Huan You, Mr. Liang Yong Qiang, and Mr. Kaiyuan Oil, the shareholders of the Company, committed that shares held by them shall not be transferred or entrusted to others to manage, and not be purchased by the Company within 36 months from the date of listing of A Shares.

In addition, as the Directors, Supervisors and senior management of the Company, Mr. Zhang En Rong, Mr. Lin Fu Long, Mr. Zhang Yun San, Mr. Xie Xin Cang, Mr. Cui Huan You and Mr. Liu Yun Long committed that the shares transferred by them shall not exceed 25% of the total shares of the Company held by them during their terms of office after the above period expires, and they shall not transfer the shares held by them within half a year after leaving the Company.

During the Reporting Period, each of the above people (or legal person) strictly performed its commitments.

VIII. Details of reception for research, communication and interview

Date of reception	Place of reception	Manner of reception	Parties accommodated	Main topics of discussion and information provided
January 2011	Shouguang, Shandong	On-site research and investigation	Northeast Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as the condition of A Shares proceeds-funded projects
February 2011	Shouguang, Shandong	On-site research and investigation	TX Investment Consulting Co.,Ltd; Galaxy Asset Management Co.,Ltd.; GLA Assets Management Limited; Sinolink Securities; AXA SPDB Investment Management Limited; Shanghai Zexi Investment; Shanghai Elegant Investment Limited; Fortune Securities; National Trust; Capital Synergy Invest Management Limited; China Merchants Securities; Donghai Securities; China International Fund Management Limited; Aegon Industrial Fund Management Limited; Essence Securities; Xiangcai Securities; SWS Research	
April 2011	Shouguang, Shandong	On-site research and investigation	Taiping Pension Limited; UBS AG; CITIC Securities; Changjiang Securities; Orient Securities Asset Management Co.,Ltd; Huatai Asset Management; KGI;	
May 2011	Shouguang, Shandong	On-site research and investigation	Gaohua Securities;YinHua Fund Management Co., Ltd; Neuberger Berman Assets Management; Invesco Hong Kong Limited; HSBC Jintrust Fund Management Company Limited; HuaShang Fund Management Co., Ltd; China Asset Management Co., Ltd; China International Fund Management Co., Ltd; ChangSheng Fund Management Co., Ltd; E Fund Management Co., Ltd; GF Securities Co., Ltd; Cape Asset Management Limited;	
June 2011	Shouguang, Shandong	On-site research and investigation	China International Capital Corporation Limited; BOC International (China) Limited; CITIC-Prudential Fund Management Company Ltd.; Primasia Securities Company Limited; Shin Kong Life;UNI-President Assets Management Corporation; USB Securities Co. Limited; Invesco Hong Kong Limited; HuaXi Securities Co.,Ltd; Cape Asset Management Limited;	

IX. Index of Information Disclosure in the first half of 2011

Date of announcement	Subject matter	Media for publication
2011-01-04	Monthly Return of Equity Issuer on Movements in Securities	http://www.hkex.com.hk
2011-01-19	Suggestive Announcement in respect of IPO off-line allotment shares circulating in the market	http://www.cninfo.com.cn http://www.hkex.com.hk Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News
2011-02-02	Monthly Return of Equity Issuer on Movements in Securities	http://www.hkex.com.hk
2011-02-11	Announcement in respect of bidding OCTG from CNOOC Group in 2011	http://www.cninfo.com.cn http://www.hkex.com.hk Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News
2011-02-12	Announcement on resolutions of 2011 first provisional extraordinary general meeting Legal opinions as witnessed by lawyers on the announcement on resolutions of the 2011 first extraordinary general meeting	http://www.cninfo.com.cn http://www.hkex.com.hk Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News
2011-02-22	Announcement Regarding Subsidiaries Signing Proceeds of A shares Tripartite Regulation Agreement	http://www.cninfo.com.cn http://www.hkex.com.hk Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News
2011-02-23	Announcement in respect of bidding OCTG from CNOOC Group in 2011	http://www.cninfo.com.cn http://www.hkex.com.hk Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News
2011-02-26	Preliminary Financial Data for the Year 2010	http://www.cninfo.com.cn http://www.hkex.com.hk Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News

Date of announcement	Subject matter	Media for publication
2011-03-03	Monthly Return of Equity Issuer on Movements in Securities	http://www.hkex.com.hk
2011-03-10	Proposal for the Cessation of Appointment of the overseas auditor	http://www.cninfo.com.cn http://www.hkex.com.hk Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News
2011-03-30	Notice of 2010 annual general meeting Special explanation on the conditions of fund occupied by controlling shareholder and other related party Special report and audit report in respect of the conditions for depositing and using the raised money Self-evaluation report on internal control Opinion of China Merchants Securities on relevant matters of the Company in the continuing supervise period Independent opinion of independent directors on further appointing the 2011audit authority for the Company 2010 annual report 2010 annual report summary 2010 auditors' report Announcement in respect of the resolutions passed at the sixth meeting of the third session of the Board Announcement in respect of the resolutions passed at the sixth meeting of the third session of the Supervisory Committee Special report in respect of the conditions for depositing and using the raised money Independent directors' report for 2010 Independent opinion of independent directors on the self-evaluation report of internal control of the Company Independent opinion on provision of nominating non-executive director candidate by independent directors Special explanation and independent opinion on provision of the conditions of related party occupy funds and external guarantees by independent directors Independent opinion on provision of external guarantee by independent directors	http://www.cninfo.com.cn http://www.hkex.com.hk Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News
2011-03-30	Clarification Announcement	http://www.hkex.com.hk
2011-04-01	Monthly Return of Equity Issuer on Movements in Securities	http://www.hkex.com.hk
2011-04-04	2010 annual report	http://www.hkex.com.hk

Date of announcement	Subject matter	Media for publication
2011-04-05	Circular of the AGM	http://www.hkex.com.hk
	Reply Slip of AGM	
	Proxy Form of AGM	
2011-04-07	Announcement in respect of holding 2010 annual results statement	http://www.cninfo.com.cn
		http://www.hkex.com.hk
		Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News
2011-04-13	The Date of the Board	http://www.hkex.com.hk
2011-04-28	The main body of 2011 first quarterly report	http://www.cninfo.com.cn
	The full text of 2010 first quarterly report	http://www.hkex.com.hk
		Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News
2011-05-05	Monthly Return of Equity Issuer on Movements in Securities	http://www.hkex.com.hk
2011-05-20	The Voting Result of the annual general meeting held on 20 May 2011	http://www.hkex.com.hk
2011-05-21	Announcement in respect of the resolutions passed at the eighth meeting of the third session of the Board	http://www.cninfo.com.cn
	Legal opinions as witnessed by lawyers on the announcement on resolution of the 2009 annual general meeting	http://www.hkex.com.hk
	2010 annual general meeting resolutions announcement	Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News
	Derivatives investment and internal control system and information disclosure system (May 2011)	
2011-06-02	Monthly Return of Equity Issuer on Movements in Securities	http://www.hkex.com.hk
2011-06-04	Announcement of dividend payment for A shares for 2010	http://www.cninfo.com.cn
		http://www.hkex.com.hk
		Designated Newspapers for Information Disclosure: China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News
2011-06-27	Further Announcement on the Payment of Final Dividend	http://www.hkex.com.hk

X. Other Material Matters

1. During the Reporting Period, the Company did not invest in any securities, and the Company did not hold any equity interests in other listed companies, unlisted financial institutions or prospective listed companies.

2. During the Reporting Period, the Company did not appoint any person to manage the Company's funds during the Reporting Period or in the preceding Reporting Period which had been carried over to this Reporting Period. Also, there was no significant custody, subcontracting or lease of the assets between the Company and other companies during the Reporting Period or in the preceding Reporting Period which had been carried over to this Reporting Period.

Under the requirements of the Listing Rules of SZSE in relation to connected transactions, the Company had no material connected transactions during the Reporting Period; according to the requirements of the Accounting Standards for Business Enterprises, except for the ordinary connected transactions between the Company and its controlling subsidiaries and interested companies of the Company (for details, please refer to PRC Auditors' Report and Financial Statements and Note VI thereto prepared in accordance with Accounting Standards for Business Enterprises), there were no use of funds by controlling shareholders and other related parties; while the connected transaction took place were true and accurate reflection of the ordinary connected transactions of the Company that were fair and reasonable and in compliance with the relevant requirements of the PRC Company Law and the Articles of Association, the transaction price was objective and just and without prejudice to the interests of the Company and its shareholders (especially minority shareholders and non-related shareholders).

After inspection, external guarantees of RMB300 million was provided by the Company to subsidiaries during the Reporting Period. The Company strictly complied with the related requirements of "Notice on Regulating External Guarantees made by Listed Companies" (Zheng Jian Fa [2005] No. 120) and the Articles of Associations, the Company has been in strict compliance with the obligation of disclose of the information about external guarantees, and truly provide the information of all the external guarantees to the qualified accountant according to the rule. During the Reporting Period, the guarantees provided to subsidiaries by the Company conformed to the requirements of the normal production and operation and reasonable utilisation of the funds of the Company, its decision-making procedure was legitimate, and did not impair the interests of the Company and other shareholders, especially the interests of medium and minority shareholders.

VII. THE FINANCIAL STATEMENTS (UNAUDITED) AND NOTES IN ACCORDING TO ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

Consolidated Balance Sheets

Unit: RMB

Item	Note	30 June 2011	31 December 2010
Current assets:			
Cash and bank balances		**527,943,267.57**	892,286,589.93
Bills receivable		**40,603,453.31**	19,120,729.91
Accounts receivable		**590,489,202.89**	500,867,640.05
Prepayments		**54,868,697.60**	158,601,512.56
Dividends receivable			150,000.00
Other receivable		**62,821,104.65**	30,281,650.63
Inventory		**915,128,173.46**	743,553,547.47
Other current assets		**59,995,772.93**	41,054,637.00
Total current assets		**2,251,849,672.41**	2,385,916,307.55
Non-current assets:			
Long-term equity investment		**12,477,279.82**	12,477,279.82
Fixed assets		**1,595,015,852.36**	1,648,583,610.99
Construction in progress		**221,580,940.52**	131,446,242.52
Construction materials			
Intangible assets		**240,160,492.20**	249,918,129.97
Goodwill		**142,973,383.21**	142,973,383.21
Deferred income tax assets		**14,659,506.83**	15,095,861.12
Other non-current assets			
Research and development costs		**35,110,213.62**	
Total non-current assets		**2,261,977,668.56**	2,200,494,507.63
Total assets		**4,513,827,340.97**	4,586,410,815.18

Unit: RMB

Item	Note	30 June 2011	31 December 2010
Current liabilities:			
Short-term borrowings		**508,483,518.10**	712,866,417.20
Bills payable		**501,529,120.12**	482,816,088.17
Accounts payable		**574,578,123.67**	501,771,570.34
Advance receipts		**50,169,201.82**	34,721,719.22
Salaries payable		**11,533,474.91**	17,839,689.76
Taxes payable		**19,623,901.01**	29,428,377.89
Interests payable		**2,468,651.78**	955,547.63
Dividends payable		**44,967,509.98**	23,788,680.00
Other payables		**21,322,577.26**	25,991,912.66
Non-current liabilities due within 1 year			
Total current liabilities		**1,734,676,078.65**	1,830,180,002.87
Non-current liabilities:			
Long-term loans			
Deferred income tax liabilities		**18,810,230.12**	13,027,452.38
Total non-current liabilities		**18,810,230.12**	13,027,452.38
Total liabilities		**1,753,486,308.77**	1,843,207,455.25
Shareholders' equity:			
Share capital		**398,924,200.00**	398,924,200.00
Capital reserve		**1,248,406,190.92**	1,248,406,190.92
Surplus reserve		**140,393,447.06**	140,393,447.06
Undistributed profit		**913,837,709.27**	898,749,873.79
Foreign currency translation differences		**(1,119,785.05)**	(483,325.64)
Total equity attributable to shareholders of Company		**2,700,441,762.21**	2,685,990,386.13
Minority interests		**59,899,269.99**	57,212,973.80
Total shareholders' equity		**2,760,341,032.20**	2,743,203,359.93
Total liabilities and shareholders' equity		**4,513,827,340.97**	4,586,410,815.18

The notes form an integral part of the financial statements.

Balance Sheets of the Company

RMB

Item	Note	30 June 2011	31 December 2010
Current assets:			
Cash and bank balances		**449,358,697.06**	837,167,588.76
Bills receivable		**33,515,233.31**	11,570,729.91
Accounts receivable		**582,716,923.84**	495,100,949.64
Prepayments		**32,371,407.86**	101,572,609.15
Other receivable		**53,973,743.45**	18,186,384.98
Inventory		**745,269,720.32**	612,796,033.63
Other current assets		**30,181,294.36**	27,836,147.66
Total current assets		**1,927,387,020.20**	2,104,230,443.73
Non-current assets:			
Long-term equity investment		**652,069,921.73**	435,467,004.23
Investment properties			6,189,666.32
Fixed assets		**1,274,859,656.43**	1,305,073,564.42
Construction in progress		**93,066,886.89**	44,383,482.30
Construction materials			
Intangible assets		**161,562,677.05**	170,497,485.42
Research and development costs		**27,232,711.18**	
Deferred income tax assets		**6,750,521.62**	7,174,248.69
Other non-current assets			
Total non-current assets		**2,215,542,374.90**	1,968,785,451.38
Total assets		**4,142,929,395.10**	4,073,015,895.11

Item	Note	30 June 2011	RMB 31 December 2010
Current liabilities:			
Short-term borrowings		**338,321,738.10**	543,626,227.20
Bills payable		**443,672,049.57**	446,849,308.17
Accounts payable		**527,176,512.52**	324,586,612.39
Advance receipts		**132,232,578.52**	80,810,957.44
Salaries payable		**5,032,567.61**	11,150,221.53
Taxes payable		**2,144,835.12**	14,729,859.41
Interests payable		**(345,098.22)**	751,797.63
Dividends payable		**44,967,509.98**	23,788,680.00
Other payables		**11,009,895.83**	14,243,186.10
Non-current liabilities due within 1 year			
Total current liabilities		**1,504,212,589.03**	1,460,536,849.87
Non-current liabilities:			
Long-term loans			
Deferred income tax liabilities		**5,297,693.11**	522,199.20
Total non-current liabilities		**5,297,693.11**	522,199.20
Total liabilities		**1,509,510,282.14**	1,461,059,049.07
Shareholders' equity:			
share capital		**398,924,200.00**	398,924,200.00
Capital reserve		**1,248,406,190.92**	1,248,406,190.92
Surplus reserve		**140,393,447.06**	140,393,447.06
Undistributed profit		**845,695,274.98**	824,233,008.06
Total shareholders' equity		**2,633,419,112.96**	2,611,956,846.04
Total liabilities and shareholders' equity		**4,142,929,395.10**	4,073,015,895.11

Consolidated Income Statements

Item		Note	30 June 2011	RMB 30 June 2010
I.	**Total revenue from operations**		**1,519,497,001.07**	1,333,650,232.66
	Including: operating revenue		**1,482,778,565.96**	1,318,844,944.02
II.	**Total cost of operations**		**1,443,774,085.82**	1,216,467,875.74
	Including: Operating cost		**1,374,991,038.66**	1,134,117,980.13
	Business tax and surcharges		**836,125.57**	3,071,945.37
	Selling expenses		**24,256,985.24**	23,103,110.24
	Administrative expenses		**36,543,704.28**	37,129,249.26
	Finance costs		**9,223,272.07**	21,217,533.49
	Asset impairment losses		**(77,040.00)**	(2,171,942.75)
	Add: Gains from changes in fair value			—
	Investment income			—
	Including: Gains from investment in associates and joint ventures			—
III.	**Operating profit**		**73,722,915.25**	117,182,356.92
	Add: Non-operating income		**15,023,324.12**	29,917,523.90
	Less: Non-operating expenses		**161,196.25**	478,290.27
	Including: Loss from disposal of non-current assets		**125,708.49**	(343,008.04)
IV.	**Total profit**		**88,585,043.12**	146,621,590.55
	Less: Income tax expenses		**12,933,597.09**	24,671,971.72
V.	**Net profit**		**75,651,446.03**	121,949,618.83
	Net profit attributable to shareholders of the Company		**75,447,529.37**	120,899,320.10
	Minority interests		**203,916.66**	1,050,298.73
VI.	**Earnings per share:**			
	(1) Basic earnings per share		**0.19**	0.37
	(2) Diluted earnings per share		**N/A**	N/A
VII.	**Other comprehensive income**		**—**	36,891.14
VIII.	**Total comprehensive income**		**75,651,446.03**	121,986,509.97
	Total comprehensive income attributable to shareholders of Company		**75,447,529.37**	120,912,456.58
	Total comprehensive income attributable to minority interests		**203,916.66**	1,074,053.39

Income Statements of the Company

Item		Note	30 June 2011	RMB 30 June 2010
I.	**Operating revenue**		**1,493,295,091.92**	1,241,271,249.73
	Less: Operating cost		**1,375,730,367.33**	1,086,343,932.12
	Business tax and surcharges			—
	Selling expenses		**24,138,520.58**	22,615,941.84
	Administrative expenses		**28,843,335.24**	23,855,590.50
	Finance costs		**5,883,668.35**	15,064,204.63
	Asset impairment losses			(1,656,822.78)
	Add: Gains from changes in fair value			—
	Investment income		**16,959,524.67**	85,765,164.48
	Including: Gains from investment in associates and joint ventures			—
II.	**Operating profit**		**75,658,725.09**	180,813,567.90
	Add: Non-operating income		**14,371,373.14**	13,098,771.19
	Less: Non-operating expense		**47,332.73**	348,378.63
	Including: Loss from disposal of non-current assets			(640,159.82)
III.	**Total profit**		**89,982,765.50**	193,563,960.46
	Less: Income tax expenses		**9,341,710.72**	15,332,128.93
IV.	**Net profit**		**80,641,054.78**	178,231,831.53
V.	**Earnings per share:**			
	(1) Basic earnings per share		**N/A**	N/A
	(2) Diluted earnings per share		**N/A**	N/A
VI.	**Other comprehensive income**			
VII.	**Total comprehensive income**		**80,641,054.78**	178,231,831.53

Consolidated Cash Flow Statements

RMB

Item		Note	30 June 2011	31 December 2010
I.	**Cash flows from operating activities:**			
	Cash received from selling goods and rendering services		**1,578,218,182.90**	1,179,535,673.59
	Tax rebate received		**62,259,386.77**	45,959,281.86
	Other cash received relating to operating activities		**(600,868.73)**	25,561,292.66
	Sub-total of cash inflow from operating activities		**1,639,876,700.94**	1,251,056,248.11
	Cash paid for purchasing goods and receiving services		**1,476,412,819.64**	1,142,701,719.61
	Cash paid to and on behalf of employees		**61,319,499.85**	47,918,404.58
	Taxes and surcharges paid		**32,751,014.33**	73,372,897.71
	Other cash paid relating to operating activities		**52,491,790.46**	155,375,293.93
	Sub-total of cash outflow from operating activities		**1,622,975,124.28**	1,419,368,315.83
	Net cash flows from operating activities		**16,901,576.66**	(168,312,067.72)
II.	**Cash flows from investing activities:**			
	Cash received from disposal of investments			
	Cash received from return on investments		**150,000.00**	
	Net cash received from disposal of fixed assets, intangible assets and other long-term assets			2,000,000.00
	Other cash received relating to operating activities		**28,522,412.91**	
	Sub-total of cash inflow from investing activities		**28,672,412.91**	2,000,000.00
	Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		**148,582,401.91**	270,200,388.98
	Cash paid for investment			
	Net cash paid for acquisition of subsidiaries and other business entities			
	Sub-total of cash outflow from investing activities		**148,582,401.91**	270,200,388.98
	Net cash flows from investing activities		**(119,909,989.00)**	(268,200,388.98)
III.	**Cash flows from financing activities:**			
	Cash received from equity investments			
	Including: Cash received by subsidiaries from minority shareholders' investment			
	Cash received from borrowings		**329,723,181.35**	786,210,677.50
	Other cash received relating to financing activities			—
	Sub-total of cash inflow from financing activities		**329,723,181.35**	786,210,677.50
	Cash paid for repayment of liabilities		**518,070,535.45**	388,929,337.00
	Cash paid for dividends, profits distribution or interest repayment		**51,341,865.64**	84,428,869.05
	Including: Dividend and profit paid by subsidiaries to minority shareholders			
	Other cash paid relating to financing activities		**2,844,720.95**	31,581,067.45
	Sub-total of cash outflow from financing activities		**572,257,122.04**	504,939,273.50
	Net cash flows from financing activities		**(242,533,940.69)**	281,271,404.00
IV.	**Effect on cash and cash equivalents due to change in foreign currency exchange rate**		**207,540.27**	21,772.27
V.	**Net increase (decrease) in cash and cash equivalents**		**(345,334,812.76)**	(155,219,280.43)
	Add: Balance of cash and cash equivalents at the beginning of the period		**754,225,131.33**	226,121,078.70
VI.	**Balance of cash and cash equivalents at the end of the period**		**408,890,318.57**	70,901,798.27

Cash Flow Statements of the Company

Item		Note	30 June 2011	RMB 31 December 2010
I.	**Cash flows from operating activities:**			
	Cash received from selling goods and rendering services		**1,598,929,716.40**	754,007,120.66
	Tax rebate received		**62,259,386.77**	33,962,286.74
	Other cash received relating to operating activities		**(2,500,278.44)**	14,446,976.37
	Sub-total of cash inflow from operating activities		**1,658,688,824.73**	802,416,383.77
	Cash paid for purchasing goods and receiving services		**1,355,105,441.04**	815,806,690.53
	Cash paid to and on behalf of employees		**42,831,165.82**	29,377,163.42
	Taxes and surcharges paid		**18,930,482.01**	24,712,413.20
	Other cash paid relating to operating activities		**39,279,946.15**	122,841,006.38
	Sub-total of cash outflow from operating activities		**1,456,147,035.02**	992,737,273.53
	Net cash flows from operating activities		**202,541,789.71**	(190,320,889.76)
II.	**Cash flows from investing activities:**			
	Cash received from disposal of investments			—
	Cash received from return on investments			44,545,164.48
	Net cash received from disposal of fixed assets, intangible assets and other long-term assets			688,499.99
	Other cash received relating to operating activities		**31,522,412.91**	
	Sub-total of cash inflow from investing activities		**31,522,412.91**	45,233,664.47
	Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		**109,255,892.93**	260,428,407.48
	Cash paid for investment		**223,000,000.00**	—
	Net cash paid for acquisition of subsidiaries and other business entities			—
	Sub-total of cash outflow from investing activities		**332,255,892.93**	260,428,407.48
	Net cash flows from investing activities		**(300,733,480.02)**	(215,194,743.01)
III.	**Cash flows from financing activities:**			
	Cash received from equity investments			
	Cash received from borrowings		**282,766,046.35**	720,338,947.50
	Other cash received relating to financing activities			
	Sub-total of cash inflow from financing activities		**282,766,046.35**	720,338,947.50
	Cash paid for repayment of liabilities		**488,070,535.45**	382,929,337.00
	Cash paid for dividends, profits distribution or interest repayment		**50,317,839.65**	59,342,734.07
	Other cash paid relating to financing activities		**2,680,000.00**	31,581,067.45
	Sub-total of cash outflow from financing activities		**541,068,375.10**	473,853,138.52
	Net cash flows from financing activities		**(258,302,328.75)**	246,485,808.98
IV.	**Effect on cash and cash equivalents due to change in foreign currency exchange rate**		**207,540.27**	(9,215.74)
V.	**Net increase (decrease) in cash and cash equivalents**		**(356,286,478.79)**	(159,039,039.53)
	Add: Balance of cash and cash equivalents at the beginning of the period		**709,106,130.16**	205,767,350.33
VI.	**Balance of cash and cash equivalents at the end of the period**		**352,819,651.37**	46,728,310.80

Consolidated Statement of Change in Shareholders' Equity

Item	As at 30 June 2011 Attributable to the shareholders of the Company Share capital RMB	Capital reserve RMB	Surplus reserve RMB	Undistributed profit RMB	Others RMB	Minority interests RMB	Total equity RMB	As at 31 December 2010 Attributable to the shareholders of the Company Share capital RMB	Capital reserve RMB	Surplus reserve RMB	Undistributed profit RMB	Others RMB	Minority interests RMB	Total equity RMB
I. Balance at the end of last period	**398,924,200.00**	**1,248,406,190.92**	**140,393,447.06**	**898,749,873.79**	**(483,325.64)**	**57,212,973.80**	**2,743,203,359.93**	328,924,200.00	121,667,859.42	108,376,005.02	694,089,054.29	(736,933.63)	61,315,025.59	1,313,635,210.69
II. Changes in the current year														
(1) Net profit	—	—	—	**75,447,529.37**	**(636,459.41)**	**2,686,296.19**	**77,497,366.15**				276,149,165.54	—	831,143.10	276,980,308.64
(2) Other comprehensive income	—	—	—	—							—	253,607.99	16,267.83	269,875.82
Sub-total of (1) and (2)	—	—	—	**75,447,529.37**	**(636,459.41)**	**2,686,296.19**	**77,497,366.15**				276,149,165.54	253,607.99	847,410.93	277,250,184.46
(3) Shareholder's capital injection and capital reduction														
1. Capital injection from shareholders			—	—	—			70,000,000.00	1,126,738,331.50					1,196,738,331.50
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—							
3. Others	—	—	—	—	—	—	—							
(4) Profit distribution														
1. Transfer to surplus reserves	—	—								32,017,442.04	(32,017,442.04)			
2. Distribution to shareholders	—	—		**(59,838,630.00)**			**(59,838,630.00)**				(39,470,904.00)		(4,949,462.72)	(44,420,366.72)
3. Others	—	—	—	—	—	—	—							
(5) Transfer of shareholders' equity														
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—							
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—							
3. Surplus reserves making up of losses	—	—	—	—	—	—	—							
4. Others	—	—	—	**(521,063.88)**	—	—	**(521,063.88)**							
III. Balance at the end of the current period	**398,924,200.00**	**1,248,406,190.92**	**140,393,447.06**	**913,837,709.28**	**(1,119,785.05)**	**59,899,269.99**	**2,760,341,032.20**	398,924,200.00	1,248,406,190.92	140,393,447.06	898,749,873.79	(483,325.64)	57,212,973.80	2,743,203,359.93

Statement of Change in Shareholders' Equity of the Company

Item	30 June 2011 Share capital RMB	Capital reserve RMB	Surplus reserve RMB	Undistributed profit RMB	Total equity RMB	31 December 2010 Share capital RMB	Capital reserve RMB	Surplus reserve RMB	Undistributed profit RMB	Total equity RMB
I. Balance at the end of the previous period	**398,924,200.00**	**1,248,406,190.92**	**140,393,447.06**	**824,233,008.06**	**2,611,956,846.04**	328,924,200.00	121,667,859.42	108,376,005.02	575,546,933.68	1,134,514,998.12
II. Changes in the current year										
(1) Net profit	—	—	—	**80,641,054.78**	**80,641,054.78**	—	—	—	320,174,420.42	320,174,420.42
(2) Other comprehensive income	—	—	—			—	—	—	—	—
Sub-total of (1) and (2)	—	—	—	**80,641,054.78**	**80,641,054.78**	—	—	—	320,174,420.42	320,174,420.42
(3) Shareholders' contributions and decrease in capital										
1. Shareholders' contributions in capital	—	—	—	—	—	70,000,000.00	1,126,738,331.50	—	—	1,196,738,331.50
2. Others	—	—	—	—	—	—	—	—	—	—
(4) Profit distribution										
1. Transfer to surplus reserves	—	—	—	—	—	—		32,017,442.04	(32,017,442.04)	—
2. Distribution to shareholders	—	—	—	**(59,838,630.00)**	**(59,838,630.00)**	—	—	—	(39,470,904.00)	(39,470,904.00)
3. Others	—	—	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	**659,842.14**	**659,842.14**	—	—	—	—	—
III. Balance at the end of the current period	**398,924,200.00**	**1,248,406,190.92**	**140,393,447.06**	**845,695,274.98**	**2,633,419,112.96**	398,924,200.00	1,248,406,190.92	140,393,447.06	824,233,008.06	2,611,956,846.04

I. General Information

Shandong Molong Petroleum Machinery Company Limited (hereunder the "Company") is a joint stock limited company registered in the People's Republic of China, and its place of registration is No. 99 Beihuan Road, Shouguang City, Shandong Province, the PRC. The Company's predecessor company is Molong Holdings, which was established jointly by Mr. Zhang En Rong, Mr. Lin Fu Long, Mr. Zhang Yun San, Mr. Xie Xin Cang, Mr. Liu Yun Long, Mr. Cui Huan You, Mr. Liang Yong Qiang, Shengli Oil Field Kaiyuan Oil Exploitation Company Limited (勝利油田凱源石油開發有限責任公司) and Gansu Industrial University Alloy Materials Factory (甘肅工業大學合金材料總廠) on 27 December 2001 with the approval from Office for Restructuring the Economic System of Shandong Province (山東省經濟體制改革辦公室) with the letter Lu Ti Gai Han Zi [2001] No.53 (魯體改函字[2001]53號文). On 30 December 2001, the Company obtained the business license for enterprise natural person (registration number: Qi Gu Lu Zong Zi No. 004025 (企股魯總字第004025號)) with a registered capital of RMB40,500,000.00, total number of shares of 40,500,000 shares of RMB1 each.

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

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

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

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

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

Pursuant to the resolutions passed during the 2006 annual general meeting of the Company convened on 25 May 2007, on the basis of a total of 47,998,000 shares as at 31 December 2006, the Company added its share capital from unallocated profit with bonus issue of 2 shares for every 1 share and added its share capital from capital reserve with the addition of 2 shares for every 1 share, adding 2,591,992,000 shares in aggregate, and the addition date was 18 July 2007. Upon the addition, the Company's registered capital has changed to RMB323,999,000.00, and the total number of shares has changed to 3,239,990,000 shares. Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2007] No. 28 (證監國合字[2007]28號文), on 19 September 2007, the Company added 49,252,000 additional overseas listed foreign shares (H Shares) at the issuing price of HKD1.70 per share with a nominal value of RMB0.10 each. The Company's registered capital has changed to RMB328,924,200.00, and the total number of shares has changed to 3,289,242,000 shares.

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

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

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

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

II. Significant Accounting Policies, Estimates and Previous Errors of the Company

1. *Basis of preparation*

The Group had applied the "Enterprise Accounting Standards" promulgated by the Ministry of Finance in 15 February 2006. In addition, the Group disclosed the relative financial information in accordance with the "Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 15) — General Regulation of Financial Statement" (as amended in 2010).

Basis of preparation and principle of measurement

The Group's financial statements have been prepared on an accrual basis. Except for certain financial instruments which are measured at fair value, the financial statements are prepared under the historical cost convention. In the event that depreciation of assets occurs, a provision for impairment is made accordingly in accordance with the relevant regulations.

2. *Statement of compliance*

The financial statements truly and completely reflect the financial position of the Group and the Company as at 30 June 2011 and the results of their operations and their cash flows for the six months ended 30 June 2011.

3. *Financial year*

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

4. *Reporting currency*

Renminbi is the currency of the primary economic environment where the Company and domestic subsidiaries operate, and the Company's and domestic subsidiaries' reporting currencies are both Renminbi. Prior to 1 January 2009, MPM International Limited (hereunder "MPM Company"), the foreign subsidiary of the Company, used Hong Kong Dollar (HKD) as its reporting currency based on the primary economic environment where it operates. Since 1 January 2009, as the currency of the primary economic environment where MPM Company operates has changed to United State Dollar (USD), its reporting currency was changed to USD correspondingly. The Group adopts Renminbi as its currency when preparing for these financial statements.

5. *The accounting treatment of business combination under common control and not under common control*

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

5.1 Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Assets and liabilities obtained by combining party in the business combination are recognized at their carrying amounts at the combination date as recorded by the party being combined. The difference between the carrying amount of the consideration paid for the combination (or aggregate face values of the shares issued) and the carrying amount of the net assets obtained is adjusted to capital reserves. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained profits.

Any costs directly attributable to the combination are recognized as expenses when incurred by the combining party.

5.2 Business combinations and goodwill involving entities not under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination.

Combination cost represents the assets paid, liabilities incurred or assumed and fair value of issuing equity instruments for obtaining the control of acquiree by the acquirer. Intermediate fees such as audit, legal service, assessment and consultation and other relevant management expenses incurred by the acquirer for business combination are credited to profit or loss for the current period upon occurrence. For business combination not under common control realized via various transactions, the combination cost represents the sum of the consideration paid at the purchase date and the fair value of the equity in acquiree already held before the purchase date at the purchase date. For equity in acquiree already held before the purchase date, it is remeasured at the fair value at the purchase date, and the difference between fair value and its carrying value is credited to the investment gain for the current period. For equity in acquiree already held before the purchase date involving other comprehensive income, other comprehensive income related is transferred to the investment gain for the current period at the purchase date.

Identifiable assets, liabilities and contingent liabilities of acquiree qualifying for the conditions of recognization acquired by the acquirer in combination are measured at fair value on the purchase date. For the difference that the combination cost is larger than the portion of fair value of net Identifiable assets of acquiree acquired in combination, it is recognized as goodwill as an asset, and initially measured at cost. For those with combination cost lower than the portion of fair value of net identifiable assets of acquiree acquired in combination, re-verification on the measurement of the fair value of all identifiable assets, liabilities and contingent liabilities as well as the combination cost is first obtained. For those with combination cost still lower than the portion of fair value of net identifiable assets of acquiree acquired in combination after re-verification, they are credited to profit or loss for the current period.

Goodwill arising from business combination is presented in the combined financial statements separately, and measured at the amount of cost less accumulated impairment provision. Goodwill is tested for impairment at least once at the end of the year.

When conducting the impairment test for goodwill, the test is conducted combined with its related asset group or portfolio of asset group. That is, the carrying value of goodwill is allocated to the asset group or portfolio of asset group which could be benefited from the synergy of business combination since the purchase date. If the recoverable amount of asset group or portfolio of asset group containing the allocated goodwill is lower than its carrying value, relative impairment loss is recognized. The amount of impairment loss is first written-down and allocated to the carrying amount of the goodwill of that asset group or portfolio of asset group, and is then written down to the carrying value of all other types of assets proportionally according to the weighting of the carrying value of all other types of assets other than goodwill within asset group or portfolio of asset group.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but the asset is traded in an active market, fair value shall be determined based on the bid price. If there is neither sale agreement nor active market for an asset, fair value shall be based on the best available information. Costs of disposal are expenses attributable to disposal of the asset, including legal fee, relevant tax and surcharges, transportation fee and direct expenses incurred to prepare the asset for its intended sale. The present value of the future cash flows expected to be derived from the asset over the course of continued use and final disposal is determined as the amount discounted using an appropriately selected discount rate.

An impairment loss recognized on goodwill shall not be reversed in a subsequent period.

6. *Basis for preparation of consolidated financial statements*

The scope of consolidated financial statements is determined on the basis of control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating activities.

For disposal of subsidiaries, operating results and cash flows of such subsidiaries from the period beginning to the date of disposal are included into the consolidated income statement and consolidated cash flow statement.

For those subsidiaries acquired through business combination not under common control, the operating results and cash flows after the acquisition date have been properly included in the consolidated income statements and consolidated cash flow statements. No adjustments shall be made to the opening balance of the consolidated balance sheet and the comparative consolidated financial statements amount.

For those subsidiaries acquired through business combination under common control, the operating results and cash flows from the opening of the consolidation period to the consolidation date are also presented in the consolidated income statement and the consolidated cash flow statements.

Major accounting policies and accounting periods adopted by the subsidiaries are defined according to the standardized accounting policies and accounting periods stipulated by the Company. All significant intra-group accounts and transactions between the parent company and its subsidiaries or between subsidiaries are eliminated on consolidation.

The portion of a subsidiary's equity that is not attributable to the parent is treated as minority interests and presented as "minority interest" in the consolidated balance sheet within owners' equity. The portion of net profits or losses of subsidiaries for the period attributable to minority interests is presented in the consolidated income statement under the "net profit" line item as "minority interests".

If the loss of subsidiaries attributable by minority interests exceeds the portion of ownership shares in that subsidiary attributable to the minority interests, the excess is still used to write down minority shareholder's equity.

For the acquisition of minority interests in subsidiaries or transaction which involves partial disposal of equity investment but no loss in control on that subsidiary, it is computed as equity transaction, and the carrying value of ownership interests attributable to the parent and minority interests are adjusted to reflect changes in relevant equity in subsidiaries. The difference between the amount of adjustment in minority interests and the fair value of consideration paid/received is adjusted for capital reserve, and those capital reserves insufficient to be writtendown are adjusted for retained revenue.

For the loss of control on original subsidiaries due to partial disposal of equity investment or other reasons, the remaining equity interests is remeasured at its fair value at the date losing control. The sum of consideration received for the disposal of equity and the fair value of the remaining equity, less the difference in the proportion of net assets of the original subsidiary continuously calculated since the purchase date attributable to the calculation of the original shareholding proportion are credited to the investment gain for the period losing control. Other comprehensive income related to the investment in equity of the original subsidiary is transferred to the investment gain for the current period when losing control.

7. *Cash and cash equivalents*

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

8. *Foreign currency and translation of statements denominated in foreign currency*

8.1 Foreign currency

On initial recognition, foreign currency transactions are translated into the reporting currency using the spot exchange rate prevailing at the date of transaction.

As at the balance sheet date, monetary items denominated in foreign currency are exchanged to Renminbi by adopting the prevailing exchange rate on that date. Foreign exchange difference arising from the difference between the prevailing exchange rate on that date and the prevailing exchange rate on initial reorganization or on the previous balance sheet date are all credited to profit or loss for the current period, except: (1) foreign exchange differences for specific borrowings denominated in foreign currency and qualifying for conditions of capitalization are capitalized during the capitalization period and credited to the cost of relevant assets; (2) foreign exchange differences of hedging instruments for the purposes of avoiding foreign exchange risk are accounted at hedging; (3) foreign exchange differences arising from available-for-sale non-monetary items (such as stocks) denominated in foreign currency and foreign exchange differences arising from the changes in other remaining carrying amount of available-for-sale monetary items (other than amortized cost) are recognized as other comprehensive income and credited to capital reserve.

Exchange differences arising from change in exchange rate where the preparation of consolidated financial statements relates to overseas operation and foreign currency monetary items materially constitute net investment in overseas operation shall be recorded into "translation reserve" in the shareholders' equity: disposal of overseas operation shall be included into profits and losses on disposal in the current period.

Non-monetary items denominated in foreign currency that are measured at historical cost are still measured at amount denominated in reporting currency exchanged at the prevailing exchange rate at the transaction date. Non-monetary items denominated in foreign currency that are measured at fair value are exchanged at the prevailing exchange rate at the date of determining the fair value. The difference between the exchanged reporting currency amount and the original reporting currency amount is treated as changes in fair value (including change in exchange rate), and is credited to the profit or loss for that period or recognized as other comprehensive income and credited to capital reserve.

8.2 Translation of financial statements denominated in foreign currency

The financial statements denominated in foreign currency of a foreign operation are translated to RMB in comply with the following requirement: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; all equity items except for unallocated profits are translated at the spot exchange rates at the dates on which such items arose; income and expenses in the income statement are translated at the spot exchange rate at the date of transaction; the unallocated profits brought forward are reported at the prior year's closing balance; the unallocated profits carried forward are calculated, based on the translated amounts of profits and other profit appropriation items; and all exchange differences resulting from the translation are recognized separately as "translation reserve" in the shareholders' equity on the balance sheet.

Cash flow dominated in foreign currency or from foreign subsidiaries shall be translated at the spot exchange rate when it incurs. Effects arising from changes of exchange rate of cash and cash equivalents shall be presented separately as "Effect of changes in exchange rates on cash and cash equivalents" in the cash flow statement.

The opening balances and prior year's figures are presented according to the translated amounts of the prior year.

When the control on foreign operation is lost due to the disposal of ownership interests of foreign operation or partial disposal of equity investment by the Group or other reasons, exchange differences of foreign currency statements attributable to shareholder's equity of the parent related to such foreign operation presented under shareholder's equity item in balance sheet are all transferred to profit or loss for the current period.

When the control on foreign operation is not lost due to partial disposal of equity investment or other reasons, exchange differences of foreign currency statements related to that foreign operation are attributable to minority interests, and not transferred to profit or loss for current period. When disposing part of equity interests in foreign operation of associates or joint ventures, exchange differences of foreign currency statements related to that foreign operation are transferred to the profit or loss disposed for the current period in accordance with the proportion of that foreign operation disposed.

9. Financial instruments

When the Group becomes a party of financial instrument contract, a financial asset or financial liability will be recognized. Financial assets and financial liabilities are measured at fair value on initial reorganization. For financial assets and financial liabilities measured at fair value through profit or loss with changes credited to profit or loss for the current period, relevant transaction costs are directly included in profit or loss. For financial assets and financial liabilities of other categories, relevant transaction costs are included in the amount initially recognized.

9.1 Method of determination of the fair value

The fair value refers to the amount, at which both willing parties to a fair transaction who are familiar with the condition exchange their assets or clear off their debts under fair conditions. Financial instruments exist in an active market. While financial instruments do not exist in an active market, the fair value is determined using valuation techniques. Valuation technologies include reference to be familiar with situation and prices reached in recent market transactions entered into by both willing parties, reference to present fair values of similar other financial instruments, cash flow discounting method and option pricing models.

9.2 Effective interest method

Effective interest method represents the method for calculating the amortized costs and interest income or expense of each period in accordance with the effective interest rate of financial assets or financial liabilities (inclusive of a set of financial assets or financial liabilities). Effective interest rate represents the rate that discounts the future cash flow over the expected subsisting period or shorter period, if appropriate of the financial asset or financial liability to the current carrying value of such financial asset or financial liability.

When calculating the effective interest rate, the Group will consider the anticipated future cash flow (not considering the future credit loss) on the basis of all contract clauses of financial assets or financial liabilities, as well as consider all kinds of charges, transaction fees and discount or premium paid forming an integral part of the effective interest rate paid or received between both parties of financial asset or financial liability contract.

9.3 Classification, recognition and measurement of the financial assets

Financial assets are divided into financial assets at fair value through profit or loss, held-to-maturity investments, loans and the accounts receivable and available for-sale financial assets when they are initially recognized. Financial assets and financial liabilities are initially recognized at fair value. Financial assets purchased and sold in regular way are recognized and derecognized based on the accounting at transaction date. Financial assets held by the Group are mainly financial assets carried at fair value with its changes included in profit or loss for the current period as well as loans and receivables.

9.3.1 Financial assets carried at fair value through profit or loss for the current period

They include financial assets held for trading and financial assets designated as at fair value through profit or loss for the current period.

Financial assets may be classified as financial assets held for trading if one of the following conditions is met: (1) the financial assets is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (2) the financial assets is part of a portfolio of identified financial instruments that are managed together and for which there is objective evidence of a recent pattern of short-term profit-taking; or (3) the financial assets is a derivative, excluding the derivatives designated as effective hedging instruments, the derivatives classified as financial guarantee contract, and the derivatives linked to an equity instrument investment which has no quoted price in an active market nor a reliably measured fair value and are required to be settled through that equity instrument.

Financial assets which satisfy one of the following conditions could be designated as financial assets measured at fair value with its change included in profit of loss for the current period upon initial reorganization: (1) such designation could eliminate or clearly reduce the inconsistency in recognization or measurement of relevant gain or loss resulting from different measurement basis of such financial assets; (2) Duly written documents of the Group's risk management or investment strategy has stated that the financial asset portfolio or financial asset and financial liability portfolio which such financial assets are located is managed with the basis of fair value, and is assessed and reported to key management personnel.

Financial assets held for trading are subsequently measured at fair value. The gain or loss arising from changes in fair value and dividends and interest income related to such financial assets are charged to profit or loss for the current period.

9.3.2 Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets, including entrusted loans, bills receivables, accounts receivable and other receivables, are classified as loans and accounts receivable by the Group.

Trust loans and accounts receivable adopt the actual interest rate method to carry out the ongoing measure based on amortized costs. On derecognition, profit or loss arising from impairment or amortization is carried at profit or loss for the current period.

9.4 Impairment of financial assets

In addition to financial assets at fair value through profit or loss for the current period, the Group reviews the book value of other financial assets at each balance sheet date and provide for impairment where there is objective evidence that financial assets are impaired. Objective evidences indicating the impairment of financial assets represent events which actually occur after initial reorganization of financial assets and has impact on the anticipated future cash flow of such financial assets, and that the enterprise could make reliable measurement on such impact.

Objective evidence of impairment on financial asset includes those observable matters listed as follows:

(1) issuers or debtors encounter severe financial difficulties;

(2) debtors violate terms of contract, such as a breach of rules or delay during settlement of interests or principal;

(3) the Group gives way to those under financial difficulty accounting on economic or legal reasons;

(4) debtors may go into liquidation or conduct other financial reorganization;

(5) transaction of the financial assets ceases in the active market as the issuer encounters great financial difficulties;

(6) any reduction in cash flow of certain assets among a group of financial assets cannot be identified, while it is discovered that the estimated future cash flow of the financial assets has been reduced and can be measured since initial recognition after an overall evaluation based on disclosed information, including that:

— the repayment capability of the debtor of the group of financial assets gradually deteriorates;

— economy difficulties of the country or region where the debtor is staying appear a situation where this group of financial assets cannot be paid;

(7) significant and adverse changes have taken place in the technological, market, economic or legal environments in which the debtor operates, making investors of equity instruments difficult to recover the investment cost;

(8) substantial or non-temporary reduction of the fair value of investment on equity instruments; and

(9) other objective evidence showing signs of impairment on financial assets.

— Impairment on financial assets measured at amortized cost

When financial assets measured at amortized cost are impaired, their carrying amounts are written down to the present value of anticipated future cash flow (excluding future credit loss not yet incurred) discounted at the original effective interest rate of such financial assets. The written down amount is recognized as impairment loss and included in profit or loss for the current period. Upon the recognization of impairment loss of financial assets, if objective evidences indicate that the value of such financial assets has been recovered, and could be objectively related to events after the occurrence of such loss, the impairment loss originally recognized is written back, to the extent that the carrying amount of financial assets written back after impairment loss shall not exceed the amortization cost of such financial assets at the write-back date assuming that no impairment allowance has been provided.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assess the asset individually for impairment or include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that no impairment exists for an individually assessed financial asset,whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment again. Financial assets for which an impairment loss is individually recognized are not included in the collective assessment for impairment for a group of financial assets with similar credit risk characteristics.

9.5 Transfers of financial asset

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

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

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

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

9.6 Classification, affirmation and measurement of financial liabilities

Financial liabilities to be issued by the Group will be recognized as financial liabilities or equity instruments according to the actual contractual arrangement of such financial instruments and the definition of financial liabilities and equity instruments.

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

9.6.1 Financial liabilities at fair value through profit or loss for the period

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

Financial liabilities which satisfy one of the following conditions are classified as tradable financial liabilities: (1) the purposes for commitment to such financial liabilities is mainly for repurchase in short term; (2) for those belong to a part of the identifiable financial instrument portfolio managed in a centralized manner upon initial reorganization, and objective evidences show that the Group has recently adopted short-term profitability approach to manage such portfolio; (3) for those belong to derivatives, but are designated and act as derivatives of effective hedging, except for derivatives which belong to financial guarantee contract and linked with equity instrument and settled via delivery of such equity instruments without quotation in active market and no reliable measurement of fair value, subsequent measurement is made according to cost.

Financial liabilities which satisfy one of the following conditions are financial liabilities designated to be carried at fair value through profit or loss for the current period upon initial reorganization: (1) such designation could eliminate or clearly reduce the inconsistency in recognization and measurement of relevant gain or loss resulting from different measurement basis of such financial liabilities; (2) Duly written documents of the Group's risk management or investment strategy has stated that the financial liability portfolio or financial asset and financial liability portfolio which such financial liabilities are located is managed with the basis of fair value, and is assessed and reported to key management personnel.

Financial liabilities at fair value through profit or loss for the period are subsequently measured at fair value. The gain or loss arising from changes in fair value and dividends and interest income related to such financial liabilities are included into the current profit or loss.

9.6.2 Other financial liabilities

For derivative financial liability linked with equity instrument and settled via delivery of such equity instruments without quotation in active market and no reliable measurement of fair value, subsequent measurement is made according to cost. The financial liabilities of the Group are mainly other financial liabilities such as accounts payable, borrowings and bonds payables. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition or amortization is recognized in profit or loss for the current period.

9.7 Derecognition of financial liabilities

Financial liabilities are derecognized in full or in part only when the present obligation is discharged in full or in part. An agreement is entered between the Group (debtor) and a creditor to replace the original financial liabilities with new financial liabilities with substantially different terms, derecognize the original financial liabilities as well as recognize the new financial liabilities.

When financial liabilities is derecognized in full or in part, the difference between the carrying amount of the financial liabilities derecognized and the consideration paid (including transferred non-cash assets or new financial liability) is recognized in profit or loss for the current period.

9.8 Offset of financial assets and financial liabilities

If the Group owns the legitimate rights of offsetting the recognized financial assets and financial liabilities,which are enforceable currently, and the Group plans to realize the financial assets or to clear off the financial liabilities by net amount method, the amount of the offsetting financial assets and financial liabilities shall be reported in the balance sheet. Otherwise, financial assets and financial liabilities are presented separately in the balance sheet without offsetting.

9.9 Equity instruments

Equity instruments are any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. For equity instruments, the price received during the issue shall be added to shareholder's equity after reducing the transaction fees.

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

10. Accounts receivable

10.1 Single item with significant accounts receivable and provided for bad debts in single item.

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

10.2 Accounts receivable provided for bad debts by group

Basis for determining portfolio

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

10.3 Single item with insignificant accounts receivable but provided for bad debts separately

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

11. Inventory

11.1 Classification and initial measure of inventories

Inventories of the Group mainly include raw materials, products and finished products. Inventories are initially measured at cost. Cost of inventories include purchasing cost, processing cost and other expenses that help deliver the inventories to the current location and situation.

11.2 Method for calculating value of inventories delivered

When inventories are delivered, weighed average method is adopted to determine the actual cost of inventories delivered.

11.3 Recognition of net realizable value of inventory and provision for inventory impairment

At the balance sheet date, inventories are calculated at the lower of cost and net realizable value. Provision for inventory impairment is made when the net realizable value is lower than the cost. Net realizable value represents the estimated selling price of inventories minus cost estimated to incur upon completion, estimated selling costs and relevant post-tax amounts during normal course of business. When determining the net realizable value of inventory, basis is relied on the actual evidences obtained while the objectives of inventories holding and the impact of post balance sheet date event are also considered.

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

After making the provision for inventory impairment, in case the factors causing inventory impairment no longer exists, and the net realizable value of an inventory is higher than its book-value, the original provision for inventory impairment shall be transferred back and incorporated into the profit or loss for the current period.

11.4 Inventory taking system

The inventory taking system shall be on a perpetual basis.

11.5 Amortization of low-value consumable and packaging materials

Packaging materials and low-value consumable are amortized by one-time write-off.

12. Long-term equity investments

12.1 Determination of initial investment cost

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owner's equity of the party being absorbed at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment acquired shall be the cost of acquisition. The long-term equity investment acquired through means other than a business combination shall be initially measured at its cost.

12.2 Method for subsequent measurement and profit or loss recognition

12.2.1 Long-term equity investments accounted for using the cost method

For investees which the Group does not have any common control or significant influence and without quotation in an active market, and with long-term equity investment with fair value which could not be reliably measured, they are computed by adopting cost approach. In addition, the Company's financial statements adopt cost approach to compute the long-term equity investment in subsidiaries. Subsidiaries are investees for which the Group could impose control.

Under the cost method, a long-term equity investment is measured at its initial investment cost. Except receiving the actual consideration paid for the investment or the declared but not yet distributed cash dividends or profits which is included in the consideration, investment gains for the period is recognized as the cash dividends or profits declared by the investee.

12.2.2 Long-term equity investments accounted for using the equity method

The Group's investment in associates and joint ventures are computed by adopting equity approach. Associates are investees for which the Group could impose significant influence. Joint ventures are investees for which the Group and other investors could impose common control.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost. Where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to profit or loss for the current period, and the cost of the long term equity investment shall be adjusted accordingly.

Under the equity method, investment gain or loss represents the Group's share of the net profits or losses made by the investee for the current period. The Group shall recognize its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group. The unrealized gain or loss from internal transactions entered into between the Group and its associated enterprises and joint ventures is set off according to the shareholding attributable to the Group and accounted for as investment income and loss based such basis. However, the unrealized gain or loss from internal transactions entered into between the Group and its investee is not set up if belonging to impairment loss from assets transferred according to regulations such as Accounting Standards for Business Enterprises No. 8 "Assets impairment". For changes in other shareholder's equity in investee other than net profit or loss, the carrying amount of the correspondingly adjusted long-term equity investment is recognized as other comprehensive income and included in capital reserve.

The Group's share of net losses of the investee shall be recognized to the extent that the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. If the Group has to assume additional obligations, the estimated obligation assumed shall be provided for and charged to the profit or loss as investment loss for the period. Where the investee is making profits in subsequent periods, the Group shall resume recognizing its share of profits after setting off against the share of unrecognized losses.

For the Group's long-term equity investment in associates and joint ventures already held prior to the first implementation of new accounting standards on 1 January 2007, if there exists borrower's difference on equity investment related to such investment, amounts amortized over the original remaining period on straight line basis are included in profit or loss of the current period.

12.2.3 Disposal of long-term equity investments

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

12.3 Recognition of having joint control or significant influence over the investee

The term "Control" means that the Group has the power to decide an enterprise's financial and operating policy, pursuant to which, the Group can get the power to obtain benefits from its operating activities. Joint control is the contractually agreed sharing of control over an economic activity, which only exists when relevant and important financial affairs and management decisions related to such economic activity require sharing of control by investors who unanimously agree upon. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. In determining whether there is control or significance influence over the investee, potential voting right factors (such as the convertible corporate bonds for the period and the exercisable stock warrants for the period of the investee and other invested units held) were taken into account.

12.4 Impairment test method and impairment provision

The Group assesses at each balance sheet date whether there is any indication that any long-term equity investments may be impaired. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If the recoverable amount of an asset is less than its carrying amount, the reduction is recognized as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognized accordingly.

An impairment loss recognized on long-term equity investments shall not be reversed in a subsequent period.

13. Investment property

Investment property refer to real estate held to earn rentals or for capital appreciation, or both, including leased land use rights, land use rights held and provided for transfer after appreciation and leased construction, etc.

Investment property is initially measured at cost. Subsequent expenditures related to an investment property shall be included in cost of investment property only when the economic benefits associated with the asset will likely flow to the Group and its cost can be measured reliably. All other expenditures on investment property shall be included in profit or loss for the current period when incurred.

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

The Group assesses at each balance sheet date whether there is any indication that any investment properties may be impaired. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the asset group to which the asset belongs. If the recoverable amount of an asset is less than its carrying amount, the reduction is recognized as an impairment loss and charged to profit or loss for the current period.

An impairment loss recognized on investment properties shall not be reversed in a subsequent accounting period.

When an investment property is sold, transferred, retired or damaged, the amount of proceeds on disposal of the property net of the carrying amount and related tax and surcharges is recognized in profit or loss for the current period.

14. *Fixed assets*

14.1 Conditions for recognition of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year. Fixed assets are only recognized when its related economic benefits are likely to flow to the Group and its cost could be reliably measured. Fixed assets are initially measured at cost.

For subsequent expenses related to fixed assets, if the economic benefits related to such fixed assets is likely to inflow and its cost could be reliably measured, they are capitalised to fixed assets cost and the carrying amount of replacement will be derecognized. Other subsequent expenses other than the above are charged to profit or loss for the current period upon occurrence.

14.2 Method for depreciation of different fixed assets

Depreciation is provided over their estimated useful lives from the month after they have reached the working condition for their intended use using the straight-line method. The useful life, estimated residual value and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciable life (year)	Estimated residual value (%)	Annual depreciation rate (%)
Buildings and structures	20 years	5%	4.75%
Machinery and equipment	2 years–20 years	5%	47.50–4.75%
Electronic equipment	3 years–5 years	5%	31.67–19.00%
Vehicles	5 years	5%	19.00%
Other	5 years	5%	19.00%

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the stage and in the condition expected at the end of its useful life.

14.3 Impairment testing methods and provision for impairment methods on fixed assets

The Group assesses at each balance sheet date whether there is any indication that any fixed assets may be impaired. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the asset group to which the asset belongs. If the recoverable amount of an asset is less than its carrying amount, the reduction is recognized as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognized accordingly.

An impairment loss recognized on the assets mentioned above shall not be reversed in a subsequent period.

14.4 Explanation on other matters

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each financial year-end. A change in the useful life or estimated net residual value of a fixed asset or the depreciation method used shall be accounted for as a change in accounting estimate.

When fixed asset is disposed or no economic benefit is expected to incur upon usage or disposal, such fixed asset will be derecognized. When a fixed asset is sold, transferred, retired or damaged, the Group shall recognize the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profit or loss for the current period.

15. Construction in progress

Construction in progress is recognized based on the actual construction cost, including all expenditures incurred for construction projects, capitalized borrowing costs for the construction in progress before it has reached the working condition for its intended use, and other related expenses during the construction period. A construction in progress is transferred to fixed assets when it has reached the working condition for its intended use.

The Group assesses at each balance sheet date whether there is any indication that any construction in progress may be impaired. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the asset group to which the asset belongs. If the recoverable amount of an asset is less than its carrying amount, the reduction is recognized as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognized accordingly.

An impairment loss recognized on the assets mentioned above shall not be reversed in a subsequent period.

16. Borrowing costs

For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, when expenditures for the asset and borrowing costs are being incurred, activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced, such borrowing costs shall be capitalized as part of the cost of that asset; and capitalization shall discontinue when the qualifying asset is ready for its intended use or sale. Capitalization of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months, until the acquisition, construction or production of the qualifying asset is resumed. Other borrowing costs shall be recognized as expense in the period in which they are incurred.

Where funds are borrowed for a specific purpose, the amount of interest to be capitalized shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used into banks or any investment income on the temporary investment of those funds. Where funds are borrowed for general purpose, the Group shall determine the amount of interest to be capitalized on such borrowings by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. The capitalization rate shall be the weighted average of the interest rates applicable to the general-purpose borrowings.

During the capitalization period, exchange differences related to the principal and interest on a specific purpose borrowing denominated in foreign currency shall be capitalized. Exchange differences related to general-purpose borrowings denominated in foreign currency shall be included in profit or loss for the current period.

17. *Intangible assets*

17.1 Intangible assets

Intangible assets include land-use right, patent right, and so on.

An intangible asset shall be initially measured at cost. An intangible asset with an infinite useful life shall be stated at cost less estimated net residual value and any accumulated impairment loss provision and amortized using the straight-line method over its useful life when the asset is available for use. No amortization is made for intangible assets with undeterminable certain useful lives.

The Group shall review the useful life of intangible asset with an infinite useful life and the amortization method applied at least at each period end and make adjustments when necessary.

17.2 Research and development expenditure

Expenditure arising from the research phase is recognized as profit or loss in the current period.

Expenses incurred during the development stage that satisfy the following conditions are recognized as intangible assets, while those that do not satisfy the following conditions are accounted for in the profit or loss for the current period:

(1) it is technically feasible that the intangible asset can be used or sold upon completion;

(2) there is intention to complete the intangible asset for use or sale;

(3) the intangible asset can produce economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; if the intangible asset is for internal use, there is evidence that there exists usage for the intangible asset;

(4) there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;

(5) the expenses attributable to the development stage of the intangible asset can be measured reliably.

If the expenses incurred during the research stage and the development stage cannot be distinguished separately, all development expenses incurred are accounted for in the profit or loss for the current period.

17.3 Intangible assets impairment test method and their impairment provision

The Group assesses at each balance sheet date whether there is any indication that any intangible assets with a finite useful life may be impaired. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the asset group to which the asset belongs. If the recoverable amount of an asset is less than its carrying amount, the reduction is recognized as an impairment loss and charged to profit or loss for the current period.

For intangible assets with undetermined useful lives and intangible assets not ready for use, impairment test is conducted every year no matter indications for impairment exist or not.

An impairment loss recognized on the assets mentioned above shall not be reversed in a subsequent period.

18. Long-term deferred expenses

Long-term deferred expenses are expenditures and other expenses which have incurred but that shall be amortized over the current period and subsequent periods of more than one year. Long-term deferred expenses are amortized evenly over the estimated benefit period.

19. Contingent liabilities

When related obligations of contingencies are the obligations currently assumed by the Group, and that such obligation is likely to result in outflow of economic benefits and the amount of such obligations could be reliably measured, contingent liabilities will be recognized.

As at the balance sheet date, after considering factors such as the risks related to contingencies, uncertainties and time value of currency, contingent liabilities are measured at the best estimate on the expenses necessary for the performance of the related existing obligations. If the impact of the time value of currency is material, best estimate is determined by the amount after discounting the anticipated future cash outflow.

If all or part of the cost necessary for the contingent liabilities is expected to be settled by third party, the amount of settlement, when it is basically certain to be received, is recognized as an asset separately and the settlement amount recognized shall not be more than the carrying amount of contingent liabilities.

20. Revenue recognition

20.1 Revenue from sales of goods

Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, will receive the economic benefits associated with the transaction, and can reliably measure the relevant amount of revenue and costs.

20.2 Revenue from provision of services

When the amount of revenue from provision of services could be measured reliably, the related economic benefits are likely to inflow to the enterprise, the progress of completion of transaction could be reliably determined and costs incurred and to be incurred during the transaction could be reliably measured,realization of revenue from provision of services will be recognized. The Group recognizes related revenue from services in accordance with the percentage of completion as at the balance sheet date. The completion level of service transaction is recognized by the percentage of estimated total cost represented by service cost incurred.

If the result of provision of service transaction cannot be reliably estimated, revenue from provision of service is recognized at the service cost incurred and estimated to receive as compensation, and service cost incurred will be regarded as the current cost. If service cost incurred is compensated as anticipated, no revenue will be recognized.

21. Government grants

Government grants are transfer of monetary assets or non-monetary assets from the government to the Group at no consideration. Government grants shall be recognized when, and only when the related criteria are met.

If a government grant is in the form of a transfer of monetary asset, the item shall be measured at the amount received or receivable. If a government grant is in the form of a transfer of non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount and recognized immediately in profit or loss for the current period.

A government grant related to an asset shall be recognized as deferred income, and evenly amortized to profit or loss over the useful life of the asset.

For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant shall be recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized; if the grant is a compensation for related expenses or losses already incurred, the grant shall be recognized immediately in profit or loss for the current period.

For the repayment of a government grant already recognized, if there is any related deferred income, the repayment shall be off set against the carrying amount of the deferred income, and any excess shall be recognized in profit or loss for the current period; if there is no related deferred income, the repayment shall be recognized immediately in profit or loss for the current period.

22. Deferred income tax assets/deferred income tax liabilities

Income tax expense comprises current income tax expense and deferred income tax expense.

22.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods shall be measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

22.2 Deferred income tax assets and deferred income tax liabilities

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, and the difference between the tax base and the carrying amount of those items that are not recognized as assets or liabilities but have a tax base that can be determined according to tax laws, shall be recognized as deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

All temporary differences are generally recognized for relevant deferred income tax. However, for deductible temporary difference, the Group recognizes relevant deferred income tax assets to the extent of income tax payable available for deducting deductible temporary difference. In addition, for those related to the initial recognization of goodwill and does not belong to business combination, and neither affect the accounting profit nor the temporary difference related to the initial recognization of assets or liabilities incurred in transaction of income tax payable (or deductible loss), related deferred income tax assets or liabilities will not be recognized.

The Company recognizes a deferred income tax asset for the carry forward of deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilized.

The Group recognizes deferred income tax liabilities arising from the temporary difference on tax payable related to investment in subsidiaries, associates and joint ventures, unless the Group could control the timing of write back of the temporary difference, and such temporary difference is unlikely to be written back in foreseeable future. For the deductible temporary difference related to investment in subsidiaries, associates and joint ventures, the Group will only recognize deferred income tax assets when temporary difference is likely to be written back in the foreseeable future and income tax payable could be utilized to deduct the deductible temporary difference.

At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirements of tax laws.

Current income tax expense (current income tax income) and deferred income tax expense (deferred income tax income) are included in profit or loss for the current period, except for: current income tax and deferred income tax related to transactions or events that are directly recognized in owners' equity, which are recognized directly in owners' equity, and deferred income tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

At the balance sheet date, the Company shall review the carrying amount of a deferred income tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred income tax asset to be utilized, the carrying amount of the deferred income tax asset shall be reduced. Any such reduction in amount shall be reversed when it becomes probable that sufficient taxable profits will be available.

After granted the legal rights of net settlement and with the intention to use net settlement or obtain assets, repay debt, the Group, at the same time, records the net amount after offsetting its current income tax assets and current income tax liabilities.

The Group was granted the legal rights of net settlement of current income tax assets and current income tax liabilities. Deferred income tax assets and deferred income tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax collection and management authority or related to different entities liable to pay tax, but the relevant entity liable to pay tax is intended to apply net settlement of current income tax assets and liabilities or, at the same time, obtain assets, repay debt whenever every deferred income tax assets and liabilities with importance would be reversed in the future, the Group records the net amount after offsetting its current income tax assets and current income tax liabilities.

23. Lease

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

23.1 Operating lease business with the Group recorded as lessee

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

23.2 Operating lease business with the Group recorded as lessor

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

24. Other significant accounting policies and estimates of the Company and basis for Preparation of Financial Statements

24.1 Employee Benefits

Except for the compensation for terminating the relationship with employees, in the accounting period in which an employee has rendered services, the Group shall recognize the employee benefits payable as a liability.

The Group participates in social security systems operated by the government. Payments of social security contributions for employees, such as premiums or contributions on pensions, medical insurance, payments of housing funds and other social welfare contributions shall be included in the cost of related assets or profit or loss for the period in which they are incurred.

When the Group terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer, a compensation liability arising from the termination of employment relationship with employees should be charged to the profit or loss for the current period.

III. Taxation

1. Main tax types and tax rates

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

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

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

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

Names of the Company and subsidiaries		Rate of income tax
The Company	Note III. 2	15%
Weifang Molong Drilling Equipment Limited ("Molong Drilling Equipment")	Note III. 2	25%
MPM International Limited		16.50%
Shouguang Baolong Petroleum Material Company Limited ("Shouguang Baolong")		25%
Shouguang Maolong Machinery Company Limited ("Maolong Machinery")		25%
Shouguang Molong Electro-mechanical Equipment Company Limited ("Molong Electro-mechanical Equipment")		25%
Shouguang Maolong Old Metals Recycle Company Limited ("Maolong Recycle")		25%
Weihai Baolong Company Limited ("Weihai Baolong")		25%
Wendeng Baolong Recyclable Resource Company Limited ("Baolong Recyclable Resource")		25%
Shouguang Molong Logistics Company Limited ("Maolong Logistics")		25%

2. *Tax incentives and approvals*

Name	Type of tax	Basis of relevant regulations and policies	Approval authorities	Approval No.	Level of reduction and exemption	Valid period
The Company	Business income tax (Note 1)	"Enterprise Income Tax Law of the People's Republic of China"	Technology Office of Shandong Province, Finance Office of Shandong Province, State Administration of Taxation of Shandong Province, Local Taxation Bureau of Shandong Province	Lu Ke Gao Zi [2009] No.12	Implement the income tax rate of 15%	2008.01.01–2011.12.31
Molong Drilling Equipment	Business income tax (Note 2)	"Notice Regarding the Business Taxation Concessionary Policies on Disabled People"	Ministry of Finance, State Administration on Taxation	Cai Shui [2007] No. 92	When computing the enterprise income tax, the actual salary paid to the disabled would be deducted, and would be deducted additionally according to 100% of the actual salary paid to the disabled	Since 2007.01.01
	Value-added tax (Note 3)	"Notice Regarding Taxation Concessionary Policies on Fostering Employment of Disabled People"	Ministry of Finance, State Administration on Taxation	Cai Shui [2007] No. 92	Entitled to the limited real-time levy and rebate policy by taxation authorities according to the actual number of disabled people settled with the specific limit on value-added tax refund for each actually settled disabled person up to RMB 35,000 per person each year	Since 2007.07.01
Maolong Old Metals Recycle Company Limited	Value-added tax (Note 4)	"Notice Regarding the Policies on Value-added Tax for Recyclable Resources"	Ministry of Finance, State Administration on Taxation	Cai Shui [2008] No. 157	Entitled to the value-added tax policy of first levy and later refund, realizing a rebate of 70% of value-added tax in 2009 and a rebate of 50% of value-added tax in 2010. After 2010, value-added tax is no longer levied	2009.01.01–2010.12.31
Baolong Recyclable Resource Company Limited	Value-added tax (Note 4)	"Notice Regarding the Policies on Value-added Tax for Recyclable Resources"	Ministry of Finance, State Administration on Taxation	Cai Shui [2008] No. 157	Entitled to the value-added tax policy of first levy and later refund, realizing a rebate of 70% of value-added tax in 2009 and a rebate of 50% of value-added tax in 2010. After 2010, value-added tax is no longer levied	2009.01.01–2010.12.31

Note 1: On 16 January 2009, upon the approval and reply of Technology Office of Shandong Province, Finance Office of Shandong Province, State Administration of Taxation of Shandong Province and Local Taxation Bureau of Shandong Province on Lu Ke Gao Zi [2009] No. 12 (科高字[2009]12號文), the Company was awarded the Advanced Technology Enterprise Certificate (No.: GR200837000307). According to the requirements under "Enterprise Income Tax Law of People's Republic of China" (《中華人民共和國企業所得法》), the Company was subject to an enterprise income tax rate of 15% since 1 January 2008. Pursuant to the requirement of *Announcement Regarding the Issue of Prepayment of Enterprise Income Tax During the Review Period of Qualification of Advanced Technology Enterprise* (Announcement of State Administration of Taxation [2011] No. 4) published by the State Administration of Taxation, the Company has applied for review within three months prior to the expiry date of its qualification. Before approval of the review, the Company is provisionally subject to the current enterprise income tax rate of 15% until the expiry of the qualification of Advanced Technology Enterprise.

Note 2: According to the requirements under "Cai Shui [2007] No. 92 Notice Regarding Taxation Concessionary Policies on Fostering Employment of Disabled People" ([2007]92號文《於促疾人就業收優惠政策的通知》) issued by the Ministry of Finance and State Administration of Taxation, since 1 July 2007, when computing the enterprise income tax of Molong Drilling Company, the actual salary paid to the disabled would be deducted, and would be deducted additionally according to 100% of the actual salary paid to the disabled, while the resulting value-added tax rebates or the income after business tax reduction were exempted from enterprise income tax.

Note 3: Molong Drilling Company is a social welfare enterprise. According to the requirements under "Cai Shui [2007] No. 92 Notice Regarding Taxation Concessionary Policies on Fostering Employment of Disabled People" ([2007] 92號文《於促疾人就業收優惠政策的通知》) issued by the Ministry of Finance and State Administration of Taxation, since 1 July 2007, Molong Drilling Company was entitled to the limited real-time levy and rebate policy by taxation authorities according to the actual number of disabled people settled as "the income gained from production and sales of commodities or the service of processing, repair and maintenance accounted for 50% of the sum of income from value-added-tax business and business-tax business", with the specific limit on value-added tax refund for each actually settled disabled person up to RMB35,000 per person each year.

Note 4: According to the requirements under "Cai Shui [2008] No. 157 "Notice Regarding the Policies on Value-added Tax for Recyclable Resources" ([2008]157號《於再生源增值政策的通知》) issued by the Ministry of Finance and State Administration of Taxation, since 1 January 2009 to the end of 2010, Maolong Recycle Company and Baolong Resources Company were entitled to the value-added tax policy of first levy and later refund, realizing a rebate of 70% of value added tax in 2009 and a rebate of 50% of value-added tax in 2010. After 2010, value-added tax is no longer levied.

IV. Merger of Companies and Consolidated Financial Statement

1. *Subsidiaries*

(1) Subsidiaries acquired through establishment or investment

RMB

Full Name of Subsidiaries (Note 4)	Type	Registered Address	Business Nature	Registered Capital	Scope of Business	Actual capital contribution at the end of the year	Other balance items which actually constitute net investment in subsidiaries	Proportion of Shareholding (%)	Proportion of Voting Right (%)	Whether consolidated	Minority interests	Amount in minority interests used to write down the losses of minority interests
Molong Drilling Equipment (Note 1)	LLC (Legal entity wholly-owned)	Shouguang City, Shandong Province	Manufacture	6,000,000.00	Manufacture and sales of oil-well pump, petroleum extraction machinery and spare parts	6,395,000.00	—	100	100	Yes	Nil	Nil
Shouguang Baolong (Note 2)	LLC	Shouguang City, Shandong Province	Manufacture	150,000,000.00	Manufacture and sales of petroleum equipment	105,000,000.00	—	70	70	Yes	57,692,847.47	Nil
Molong Logistic (Note 3)	LLC	Shouguang City, Shandong Province	Transportation	3,000,000,000.00	Transportation	3,000,000.00	—	100	100	Yes	—	Nil

Note 1: Molong Drilling Company was established as a social welfare enterprise on 29 September 2004, of which the Company contributed a capital of RMB 5,400,000.00, accounting for 90% of its equity capital; People's Government of Shangkou Town, Shouguang City, Shandong Province contributed a capital of RMB600,000.00, accounting for 10% of its equity capital.

On 30 June 2007, according to the equity transfer agreement signed by the Company and People's Government of Shangkou Town, Shouguang City, Shandong Province, the Company acquired 10% of equity interests in Molong Drilling Company at RMB7,340,000.00. Molong Drilling Company convened a general meeting in August 2007 and resolved to allocate all accumulated and unallocated profit as at 31 December 2006 to the Company, and the Company has written down the long-term equity investment at 10% proportion. As at 31 December 2010, the Company held 100% equity interests in Molong Drilling Company.

Note 2: On 28 April 2007, the Company and Weifang Shengcheng Investment and Management Company Limited (hereunder "Shengcheng Investment Company") signed the "promoter agreement" to jointly invest and establish Shouguang Baolong, of which the Company contributed cash of RMB105,000,000.00, representing 70% of its equity capital, and Shengcheng Investment Company contributed cash of RMB12,600,000.00 and land use rights valued RMB32,400,000.00 (area of 120,105 sq. m), representing 30% of its equity capital. The land use rights contributed by Shengcheng Investment Company to Shouguang Baolong was transferred from Maolong Machinery Company (Maolong Machinery Company became the subsidiary of the Company since 31 December 2007), the related party of the Company to Shengcheng Investment Company on 5 January 2007 at RMB9,000,000.00. According to Shou Lu Hui Ping Zi [2007] No. 56 "Assets Valuation Report" (壽魯會評字[2007]第56號《資產評估報告書》), the land use rights were revalued on 15 September 2007 as RMB32,400,000.00. As at 25 September 2007, the above contributions have been imputed, and verified by 壽光魯東有限責任會計師事務所, which issued Shou Lu Hui Yan [2007] No. 105 Assets Examination Report (壽魯會驗[2007]第105號驗資報告).

Note 3: Molong Logistics (墨龍物流), a company with limited liability invested and established by the Company on 30 June 2011, has registered capital of RMB3,000,000.00 and its principal operations include warehousing of goods (excluding contrabands), cargo handling, empty cargo carriers for delivery and consultation on logistics information.

Note 4: Subsidiaries of the Company have not issued any securities during the year.

(2) Subsidiaries acquired through business consolidation not under common control

Unit: RMB

Full Name of Subsidiaries (Note 7)	Type	Registered Address	Business Nature	Registered Capital	Scope of Business	Actual capital contribution at the end of the year	Other balance items which actually constitute net investment in subsidiaries	Proportion of Shareholding (%)	Proportion of Voting Right (%)	Whether consolidated	Minority interests	Amount in minority interests used to write down the losses of minority interests
Shouguang Maolong Machinery Company Limited (Note 1)	LLC (Legal entity wholly-owned)	Shouguang, Shandong Province	Manufacture	RMB12,380,000.00	Manufacture and sales of petroleum equipment and accessories, high-voltage isolating switch, voltage electrical appliances and complete equipment; processing and sales of alloy accessories	RMB306,743,691.73	—	100	100	Yes	—	Nil
Molong Electro-mechanical Equipment Company Limited (Note 2)	LLC (Sino-foreign joint venture)	Shouguang, Shandong Province	Manufacture	USD1,000,000.00	Manufacture and sales of outer thickening oil well tubing and electrical complete equipment	RMB15,011,813.88	—	100	100	Yes	—	Nil
Shouguang Maolong Old Metals Recycle Company Limited (Note 3)	LLC	Shouguang, Shandong Province	Trade	RMB500,000.00	Trading of scrap metals	RMB500,000.00	—	100	100	Yes	—	Nil
Weihai Baolong Company Limited (Note 4)	LLC	Weihai, Shandong Province	Manufacture	RMB10,000,000.00	Manufacture and sales of special petroleum metal materials	RMB50,602,708.10	—	100	100	Yes	—	Nil
Baolong Recyclable Resource Company Limited (Note 5)	LLC	Weihai, Shandong Province	Manufacture	RMB300,000.00	Trading and sales of scrap metals	RMB271,156.08	—	100	100	Yes	—	Nil
MPM International Limited (Note 6)	LLC	Hong Kong, PRC	Trade	USD1,000,000.00	Acquisition and sales of petroleum extraction and chemical machinery electric equipment	RMB7,276,230.00	—	90	90	Yes	2,206,422.52	Nil

Note 1: Maolong Machinery Company was invested and established by Molong Holdings and 12 natural persons (including some shareholders of the Company) on 1 August 2000. On 2 March 2001, Molong Holdings signed an agreement with Mr. Zhang Yun Qi to transfer all of its equity interests in Maolong Machinery Company to Mr. Zhang Yun Qi. On 25 September 2007, according to the equity transfer agreement signed by the Company and all shareholders of Maolong Machinery Company, the Company acquired 100% equity interests in Maolong Machinery Company at a consideration of RMB305,000,000.00.

Note 2: Molong Electrico-mechanical Equipment Company is a sino-foreign equity joint venture jointly invested and established by Maolong Machinery Company and Mr. Luke Fang, an independent third party, of which Mr. Luke Fang held 45% of its equity capital and Maolong Machinery Company held 55% of its equity capital. On 2 August 2006, according to the equity transfer agreement signed by Maolong Machinery Company and Mr. Luke Fang, Maolong Machinery Company acquired 20% equity interests in Molong Electrico-mechanical Equipment Company at RMB2,225,848.00. On 30 December 2006, according to the equity transfer agreement signed by MPM Company and Mr. Luke Fang, MPM Company acquired 25% equity interests in Molong Electrico-mechanical Equipment Company at RMB8,240,711.00.

Note 3: Maolong Reyccle Company was established on 13 December 2002 with limited liability, of which Maolong Machinery Company holds 90% of its equity capital and the Company holds 10% of its equity capital.

Note 4: Weihai Baolong Company was jointly invested and established with limited liability by 4 natural person shareholders on 26 November 2003. According to the equity transfer agreement signed by Maolong Machinery Company, Molong Electrico-mechanical Equipment Company and 4 natural person shareholders of Weihai Baolong Company on 28 July 2005, Maolong Machinery Company and Molong Electrico-mechanical Equipment Company jointly acquired all equity interests in Weihai Baolong Company, of which Maolong Machinery Company holds 95% of its equity interests and Molong Electrico-mechanical Equipment Company holds 5% of its equity interests.

Note 5: Baolong Resources Company was jointly invested and established with limited liability by 2 natural person shareholders on 2 August 2004. According to the equity transfer agreement signed by Maolong Machinery Company, Weihai Baolong Company and 2 natural person shareholders of Baolong Resources Company on 4 August 2005, Maolong Machinery Company and Weihai Baolong Company jointly acquired all equity interests in Baolong Resources Company, of which Maolong Machinery Company holds 95% of its equity interests and Weihai Baolong Company holds 5% of its equity interests.

Note 6: On 24 May 2004, Jade Nominees Limited established Molong (Asia) Holding Limited in Hong Kong with an authorized capital of HKD10,000, issued capital of HKD1 and 1 share in issue.

On 28 March 2005, upon approval by Office for Foreign Trading and Economic Co-operation of Shandong Province (山東省對外貿易經濟合作廳) with Lu Wai Jing Mao Jing Wai [2005] No. 125 (魯外經貿境外[2005]125號文), it was intended to transfer the shares in Molong (Asia) Holding Limited held by Jade Nominees Limited to the Company.

On 15 May 2005, Molong (Asia) Holding Limited convened its first Board meeting and passed the following resolutions: Jade Nominees Limited would transfer its shares in Molong (Asia) Holding Limited to the Company; authorized number of shares would be increased to 7,990,000 shares of HKD1 each and the authorized capital would be increased to HKD8,000,000; number of shares in issue would be increased to 7,799,999 shares of HKD1 each and share capital in issue would be increased to HKD7,800,000. Under which, the Company subscribed for 90% of the share capital, and Maolong Machinery Company, the related party of the Company, subscribed for the remaining 10% of the share capital.

On 12 May 2006, special resolution was passed on the board meeting of Molong (Asia) Holdings Limited, in which the name of the Company was changed into MPM International Limited.

On 26 January 2007, according to the equity transfer agreement between Molong Machinery Company and Shengcheng Investment Company, Molong Machinery Company sold 10% of stock rights of MPM which was hold by it to Shengcheng Investment Limited with HKD780,000,000.

Note 7: Subsidiaries of the Company have not issued any securities during the year.

2. *Exchange Rate for Major Statement Items of Foreign Operating Entities*

When the Company prepared these combined financial statements, all assets and liabilities items within MPM Company's (operated overseas) balance sheet were exchanged at the rate of USD1: RMB6.6227; all items within income statement and items that reflect the amount incurred by profit allocation were exchanged at the rate of USD1: RMB6.7255.

V. Notes to the Financial Statements

1. *Cash & cash equivalents*

RMB

	30 June 2011			31 December 2010		
Item	**Foreign currency amount**	**Exchange Rate**	**Amount in RMB**	**Foreign currency amount**	**Exchange Rate**	**Amount in RMB**
Cash:						
RMB	**159,233.83**	**1.0000**	**159,233.83**	353,112.99	1.0000	353,112.99
Cash in Bank:						
RMB	**213,996,335.61**		**213,996,335.61**	629,524,833.01	1.0000	629,524,833.01
USD	**1,669,818.67**	**6.4685**	**10,802,297.22**	813,920.62	6.6227	5,385,617.68
HKD	**16,519.24**	**0.8310**	**13,741.40**	17,368.05	0.8509	14,788.49
EURO	**100.36**	**9.3644**	**939.81**	100.32	8.8065	883.47
Other cash and cash equivalents (note):						
RMB	**302,970,719.70**		**302,970,719.70**	257,007,354.29	1.0000	257,007,354.29
Total			**527,943,267.57**			892,286,589.93

Note: As at 30 June 2011, other monetary capital of the Group and the Company represented guarantee on bank promissory notes and guarantee on loans. As at 31 December 2010, other monetary capital of the Group and the Company represented guarantee on bank's promissory notes.

As at 30 June 2011, the Group had restricted bank promissory notes with maturity over 3 months of RMB130,716,530.71. The Group had guarantee on loans with maturity over 3 months of RMB72,047,925.00. As at 31 December 2011, the Group had restricted bank promissory notes with maturity over 3 months of RMB112,341,458.60.

2. *Bills receivable*

(1) Classification of bills receivable

RMB

Item	Consolidated 30 June 2011	31 December 2010
Bank acceptance	**40,603,453.31**	19,120,729.91

(2) As at 30 June 2011, the breakdown for bills endorsed to other parties but undue were as follows:

Consolidation and the Company

RMB

Name of Ticket Units	**Date of draft**	**Due date**	**Amount**
Shandong LuLi Steel Co.	2011-1-13	2011-07-13	3,000,000.00
Shandong LuLi Steel Co.	2011-1-13	2011-07-13	3,000,000.00
Shandong LuLi Steel Co.	2011-1-13	2011-07-13	3,000,000.00
Shandong LuLi Steel Co.	2011-1-13	2011-07-13	3,000,000.00
Shandong LuLi Steel Co.	2011-1-13	2011-07-13	2,000,000.00
Total			14,000,000.00

(3) Balance of bills payable as at 30 June 2011 does not have any amount due to bill of shareholders with over 5% (inclusive) voting rights in the Company.

(4) As at 30 June 2011, the Group hasn't discounted promissory notes to the bank (previous year: the Group has accumulatively discounted promissory notes of RMB594,463,200.83). The Group derecognized there was no discounted bills receivable (previous year: the Group has derecognized the discounted bills receivable of RMB594,463,200.83 to the bank).

3. *Accounts receivable*

(1) The breakdown of accounts receivable according to classification is as follows:

RMB

	30 June 2011				31 December 2010			
	Book balance		**Bad debt provision**		Book balance		Bad debt provision	
Category	**Amount**	**Ratio (%)**	**Amount**	**Ratio (%)**	Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant accounts receivables and provided for bad debt by single item	**8,553,843.19**	**1.43**	**6,499,598.96**		8,553,843.19	1.68	6,499,598.96	75.98
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under impairment test in single item	**561,817,194.02**	**94.07**			498,813,395.82	98.26	—	—
Single item with insignificant accounts receivables but provided for bad debt by single item	**26,830,438.36**	**4.49**	**212,673.72**	**3.17**	289,713.72	0.06	289,713.72	100.00
Total	**597,201,475.57**	**100.00**	**6,712,272.68**	**100.00**	507,656,952.73	100.00	6,789,312.68	1.34

The Group recognized the accounts receivable over RMB3,000,000.00 (including RMB3,000,000.00) as single item with significant accounts receivable.

Prior to the acceptance of new customers, the Group applies internal credit assessment policies to access the credit quality of potential customers and formulates credit limit. Apart from requiring new customers to pay in advance, the Group formulates different credit policies according to different customers. The credit period is generally three months, and can be extended to six months for major customers. Aging analysis of accounts receivable is as follows:

RMB

	Closing balance				Opening balance			
Aging	**Amount**	**Ratio (%)**	**Bad debt provision**	**Book value**	Amount	Ratio (%)	Bad debt provision	Book value
Within 1 year	**563,802,266.28**	**94.41**		**563,802,266.28**	469,500,329.21	92.48	—	469,500,329.21
1 to 2 years	**11,083,939.65**	**1.86**		**11,083,939.65**	16,100,799.42	3.17	—	16,100,799.42
2 to 3 years	**21,024,907.31**	**3.52**	**6,712,272.68**	**14,312,634.63**	20,708,830.99	4.08	6,576,638.96	14,132,192.03
Over 3 years	**1,290,362.33**	**0.21**		**1,290,362.33**	1,346,993.11	0.27	212,673.72	1,134,319.39
Total	**597,201,475.57**	**100.00**	**6,712,272.68**	**590,489,202.89**	507,656,952.73	100.00	6,789,312.68	500,867,640.05

The Group judges whether the above accounts receivable with credit term past but no impairment provision made are recoverable according to historical payment record and creditability. As at 30 June 2011, single item with insignificant accounts receivable but provided for bad debt in single item is as follows:

RMB

Accounts receivable	**Book balance**	**Bad debt balance**	**Provision ratio (%)**	**Reason**
Trade receivable	26,830,438.36	212,673.72	3.17	Aged over two years, difficult to recover

(2) Situation of write-back or recovery during the current year

RMB

Accounts receivable	**Reason for write-back or recovery**	**Basis for determination of original bad debt provision**	**Accumulated amount of bad debt provision before write-back or recovery**	**Amount written-back or recovered**
Trade receivable	Amount recovered or repayment agreement signed	Relatively long aged, difficult to recover	0	0

(3) The Group and the Company did not have other receivables from shareholder units holding 5% (including 5%) or more shares in the Company.

(4) Top 5 accounts receivable are set out as follows:

RMB

Name	Relationship with the Company	Amount	Aging	Percentage of the total balance of accounts receivable (%)
SB International Inc	customer	40,381,636.78	Within 1 year	6.76
Daqing Oil Field Petroleum Materials Group	customer	38,426,862.70	Within 1 year	6.43
Campex Inc	customer	34,036,854.96	Within 1 year	5.70
Mitsui & CO.,LTD.	customer	31,275,299.70	Within 1 year	5.24
China National Petroleum Corporation — Changqing Oil Field	customer	20,648,847.70	Within 1 year	3.46
Total		164,769,501.84		27.59

(5) Situation on accounts due from related parties:

RMB

Name	Relationship with the Company	Amount	Proportion of the total accounts receivables (%)
Kalamayi Ya Long Oil Pump Company Limited ("Ya Long Oil Pump")	Related company	1,780,838.48	0. 30

(6) Pledge on accounts receivable:

As at 30 June 2011, RMB6,354,026.00 of accounts receivable were pledged as borrowings of RMB6,354,026.00 of the Company from China Bank of Communications, Shouguang Branch (outward documentary bill). These pledges will expire on 17 September 2011.

4. *Advance payment*

(1) Advance to suppliers stated according to aging:

RMB

	30 June 2011		31 December 2010	
Aging	**Amount**	**Ratio (%)**	Amount	Ratio (%)
Within 1 year	**51,112,500.16**	**93.15**	158,298,872.41	99.81
1 to 2 years	**3,534,557.29**	**6.45**	201,885.93	0.13
2 to 3 years	**120,885.93**	**0.22**	—	—
Over 3 years	**100,754.22**	**0.18**	100,754.22	0.06
Total	**54,868,697.60**	**100.00**	158,601,512.56	100.00

(2) Top 5 advance to suppliers are set out as follows:

RMB

Name	Relationship with the Company	Amount	Aging	Reasons
Shandong LuLi Steel Co., LTD	Supplier	14,309,868.06	Within 1 year	hasn't received material
Shandong Metallugy Machinery Industry Company	Supplier	12,497,487.00	Within 1 year	hasn't received material
Liaoning Guanglian Machinery Science and Technology Limited Company	Supplier	9,650,000.00	Within 1 year	hasn't received material
Shandong Shougaung Juneng Special Steel Co.,Ltd	Supplier	7,821,631.36	Within 1 year	hasn't accepted labour
UNICORNAntomation (NDT) Ltd	Supplier	7,559,126.35	Within 1 year	hasn't received material
Total		51,838,112.77		

(3) The Group and the Company had no outstanding amount within the advance to suppliers due from shareholders holding 5% or more (including 5%) in the shares of the Company at the end of the year.

(4) The breakdown of advance to suppliers according to customer's classification is as follows:

RMB

	30 June 2011		31 December 2010	
Category	**Amount**	**Ratio (%)**	Amount	Ratio (%)
Single item with significant other Advance payment	**26,018,591.14**	**47.42**	142,156,958.18	89.63
Single item without significant Advance payment but considered to be greater risks after arrived at by credit risk characteristics	**4,435,356.07**	**8.08**	302,640.15	0.19
Other items without significant other	**24,414,750.39**	**44.50**	16,141,914.23	10.18
Total	**54,868,697.60**	**100.00**	158,601,512.56	100.00

The Group recognized the other receivables over RMB3,000,000.00 (including RMB3,000,000.00) as single item with significant other receivables. Single item with insignificant repayment but considered to have significant risk after arrived at by credit risk characteristics is single item with insignificant prepayment but aged over one year.

(5) Balance of prepayment does not have any prepayment to related parties.

5. *Other receivables*

(1) The breakdown of accounts receivable according to classification is as follows:

RMB

	30 June 2011				31 December 2010			
	Book balance		Bad debt balance		Book balance		Bad debt balance	
Category	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant other receivables and provided for bad debt by single item	57,858,451.89	91.93		—	—	—	—	—
Single item with insignificant other receivables and single item with significant other receivables but is not impaired after separate impairment test	4,962,652.76	7.88			30,281,650.63	99.61	—	—
Single item with insignificant other receivables but provided for bad debt by single item	119,119.25	0.19	119,119.25	100	119,119.25	0.39	119,119.25	100.00
Total	62,940,223.90	100.00	119,119.25	100	30,400,769.88	100.00	119,119.25	0.39

The Group recognized the other receivables over RMB2,000,000.00 (including RMB2,000,000.00) as single item with significant other receivables

Aging analysis of accounts receivable is as follows:

RMB

	30 June 2011				31 December 2010			
Aging	Amount	Ratio (%)	Bad debt balance	Book Value	Amount	Ratio (%)	Bad debt balance	Book Value
Within 1 year	58,603,085.38	93.11		58,603,085.38	23,434,196.12	77.08	—	23,434,196.12
1 to 2 years	3,247,037.37	5.16		3,247,037.37	4,322,190.74	14.22	—	4,322,190.74
2 to 3 years	325,184.63	0.52		325,184.63	2,149,853.50	7.07	—	2,149,853.50
Over 3 years	764,916.52	1.22	119,119.25	645,797.27	494,529.52	1.63	119,119.25	375,410.27
Total	62,940,223.90	100.00	119,119.25	62,821,104.65	30,400,769.88	100.00	119,119.25	30,281,650.63

As at 30 June 2011, single item with insignificant other receivables but provided for bad debt in single item is the same as follows:

RMB

Other receivables	Book balance	Bad debt balance	Provision ratio (%)	Reason
Staff's personal borrowing	119,119.25	119,119.25	100.00	Aged over three years, difficult to recover

(2) During the current Reporting Period, there is no amount due from the balance of other receivables from shareholder units holding 5% (including 5%) or more shares in the Company.

(3) Other receivable of relatively material amount of the Group mainly comprises of payment for transferring land from Shouguang National Treasury Centralized Paying Center, land removal advance due from Gucheng Street Offices, handing charge of land sell from Shouguang Territorial Resources Bureau, payment for transferring intangible assets from Kelamayi Ya Long Oil Pump Company Limited and tendering guarantee due from China Petroleum Materials Corporation.

(4) Top 5 accounts receivable are set out as follows:

RMB

Name	Relationship with the Company	Amount	Aging	Percentage of the total balance of Accounts receivable
Shouguang National Treasury Centralized Paying Center	Non-related party	28,834,410.00	within 3 year	45.90%
Gucheng Street Offices	Non-related party	6,891,320.00	within 1 year	10.97%
Shouguang Territorial Resources Bureau	Non-related party	3,586,000.00	within 1 year	5.71%
Kelamayi Ya Long Oil Pump Company Limited	Consortium	3,036,727.83	within 1 year	4.83%
China Petroleum Materials Corporation	Non-related party	3,000,000.00	within 2 year	4.78%
Total		45,348,457.83		72.19%

(5) Balance of other receivables does not include any amount due from related parties.

6. *Inventory*

(1) Inventory categories:

RMB

	30 June 2011			31 December 2010		
Item	**Book balance**	**Allowance for inventories**	**Book value**	Book balance	Allowance for inventories	Book value
Raw materials	**265,879,610.07**	**916,732.12**	**264,962,877.95**	244,146,298.70	916,732.12	243,229,566.58
Work-in-progress	**290,398,046.12**	**872,825.06**	**289,525,221.06**	265,326,710.41	872,825.06	264,453,885.35
Entrusted processing materials	**58,715,256.00**		**58,715,256.00**	15,619,636.34	—	15,619,636.34
Finished product	**303,596,176.97**	**1,671,358.52**	**301,924,818.45**	221,921,817.72	1,671,358.52	220,250,459.20
Total	**918,589,089.16**	**3,460,915.70**	**915,128,173.46**	747,014,463.17	3,460,915.70	743,553,547.47

(2) Allowance for inventories is as follows:

RMB

Inventory categories	1 January 2011	Provision for the current period	Decrease for the period Reversals	Decrease for the period Write-offs	30 June 2011
Raw materials	916,732.12				**916,732.12**
Work-in-progress	872,825.06				**872,825.06**
Finished product	1,671,358.52				**1,671,358.52**
Total	3,460,915.70				**3,460,915.70**

7. *Other current assets*

Other current assets of consolidation and the Company are as follows:

RMB

Item	Consolidated 30 June 2011	Consolidated 31 December 2010
Import tax pending deduction	**59,995,772.93**	36,978,684.73
Prepaid land usage tax		2,185,679.28
Prepaid income tax		995,000.00
Other prepaid tax		895,272.99
Total	**59,995,772.93**	41,054,637.00

8. *Investment in equity joint ventures and investment in associates*

Consolidation

RMB

Name of investee entity	Percentage of the shareholding of the investee entity (%)	Percentage of the shareholding of the investee entity (%)	Total assets as at 30 June 2011	Total liabilities as at 30 June 2011	Total net asset value as at 30 June 2011	Operating income in the Reporting Period	Net profit from the Reporting Period
Consortium							
Yalong Oil Pump	30.00	30.00	10,195,345.58	2,710,155.93	7,485,189.65	3,052,584.14	(37,087.05)

9. *Long-term equity investment*

(1) The details of long-term equity investments are as follows:

RMB

Investee entity	Accounting method	Investment	Opening balance	Changement	Closing balance	Percentage of shareholding in the investee entity (%)	Percentage of voting right in the investee entity (%)	Explanation of the inconsistent of shareholding percentage and voting right in the investee entity	Impairment provision	Provision of impairment for the current period	Cash bonuses for the current period
Yalong Oil Pump	Equity method	1,888,500.00	2,477,279.82		2,477,279.82	30.00	30.00	N/A	–	–	
Shouguang Mihe Water Company Limited ("Mihe Water")	Cost method	10,000,000.00	10,000,000.00		10,000,000.00	9.73	9.73	N/A	–	–	–
Total		11,888,500.00	12,477,279.82		12,477,279.82				–	–	

(2) There is no restriction on the ability of the investee in which the long-term equity investments are held by the Group and the Company as at 30 June 2011 to transfer capital to the Group.

10. *Fixed Assets*

(1) Overview of fixed assets

RMB

Item		1 January 2011		Additions for the current period	Deductions for the current period	30 June 2011
I.	Total original book value:	2,013,174,926.54		20,552,014.79	10,129,925.55	**2,023,597,015.78**
	Of which: Buildings	336,581,660.30		8,337,441.34	344,459.06	**335,827,719.59**
	Machinery and equipment	1,605,185,073.35		23,498,001.22	9,293,255.66	**1,609,035,250.58**
	Electronic equipment and others	60,915,096.81		4,463,501.74	492,210.83	**64,886,387.72**
	Vehicles	10,493,096.08		3,867,651.99		**14,477,274.59**
			Additions for the current period	**Provision for the current year**		
II.	Total accumulated depreciation:	345,357,993.89			4,635,737.15	**412,374,827.61**
	Of which: Buildings	43,124,491.62	—	5,983,996.95	89,002.32	**49,019,486.25**
	Machinery and equipment	271,009,846.57	—	59,149,531.13	4,084,652.18	**326,074,725.52**
	Electronic equipment and others	25,748,550.35	—	5,498,826.82	462,082.65	**30,785,294.52**
	Vehicles	5,475,105.35	—	1,020,215.97		**6,495,321.32**
III.	Total fixed assets — net book value	1,667,816,932.65				**1,611,222,188.17**
	Of which: Buildings	293,457,168.68				**286,808,233.34**
	Machinery and equipment	1,334,175,226.78				**1,282,960,525.06**
	Electronic equipment and others	35,166,546.46				**33,471,476.50**
	Vehicles	5,017,990.73				**7,981,953.27**
IV.	Accumulated value of provision of depreciation of investment properties	19,233,321.66		—	3,026,985.85	**16,206,335.81**
	Of which: Buildings	4,986,478.28		—		
	Machinery and equipment	14,246,843.38		—	3,026,985.85	**16,206,335.81**
	Electronic equipment and others	—		—		**—**
	Vehicles	—		—	—	**—**
V.	Total fixed assets — net book value	1,648,583,610.99				**1,595,015,852.36**
	Of which Buildings	288,470,690.40				**286,808,233.34**
	Machinery and equipment	1,319,928,383.40				**1,266,754,189.25**
	Electronic equipment and others	35,166,546.46				**33,471,476.50**
	Vehicles	5,017,990.73				**7,981,953.27**

Note 1: The original book value over the current year increased as acquisition increased by RMB7,882,654.60, while the transfer in of construction in progress increased by RMB12,669,360.19.

Note 2: The original book value over the current year decreased as the disposal led to a decrease of RMB10,129,925.55.

Note 3: The accumulated depreciation increased over the current year as the provision over the current year amounted to RMB71,652,570.87.

Note 4: The accumulated depreciation decreased over the current year as the disposal led to decrease of RMB4,635,737.15.

Note 5: The impairment provision decreased over the current year as the disposal led to a decrease of RMB3,026,985.85.

Note 6: The surplus amortized deadline of land-use right of the above buildings were 39.9 years to 48 years.

(2) Overview of fixed assets without duly prepared title certificates

RMB

Item	Amount	Reason for title certificate not duly prepared	Estimate time for preparing title certificates
Steel structure major hot roll plant zone	68,431,662.82	New Construction	2011
Office Building	1,231,239.29	New Construction	2011
180 electric rooms	2,345,130.32	New Construction	2011
Major electricity room	3,311,410.87	New Construction	2011
Steel pipes storage	2,982,953.13	New Construction	2011
Bathroom, Gatehouse, washroom, and so on	1,131,561.49	New Construction	2011

11. *Construction in progress*

(1) The breakdown of constructions in progress is as follows:

RMB

	30 June 2011			31 December 2010		
Items	**Book balance**	**Impairment provision**	**Net book value**	Book balance	Impairment provision	Net book value
140mm Petroleum pipes processing project	**128,514,053.63**		**128,514,053.63**	84,332,699.43	—	84,332,699.43
High-end Petroleum Equipment	**92,835,942.45**		**92,835,942.45**	34,213,238.46		34,213,238.46
Others	**230,944.44**		**230,944.44**	12,900,304.63	—	12,900,304.63
Total	**221,580,940.52**		**221,580,940.52**	131,446,242.52	—	131,446,242.52

(2) Change in material constructions in progress projects

RMB

Project name	Budget amount	1 January 2011	Additions for the current period	Transfer to fixed assets	Investment to budgeted costs (%)	Progress (%)	Accumulated capitalized interest amount	Of which: capitalized interest amount for the current period	Capitalized interest amount for the current period (%)	Sources of Fund	30 June 2011
140mm Petroleum pipes processing project	250,000,000.00	84,332,699.43	44,181,354.20		51	51	831,179.98			Surplus net proceeds from A shares offering and self -owned fund	128,514,053.63
High-end Petroleum Equipment	179,970,000.00	34,213,238,46	58,622,703.99		71	71	1,482,528.67			Loan from financial institutions and self-owned fund	92,835,942.45
Others	—	12,900,304.63		12,669,360.19	—	—	—	—	—	Self-owned fund	230,944.44
Total	418,510,000.00	131,446,242.52	102,804,058.19	12,669,360.19			2,313,708.65				221,580,940.52

12. Intangible assets

(1) Intangible assets

RMB

	Item	1 January 2011	Additions for the current period	Deductions for the current period	30 June 2011
I.	Total original book value:	276,712,246.88	616,781.12	191,535.32	**277,137,492.68**
	Land use rights	187,536,595.46	557,946.93	191,535.32	**187,903,007.07**
	Software	702,088.00	38,034.19		**740,122.19**
	non-patent technology	88,454,913.42			**88,454,913.42**
	patent technology	18,650.00	20,800.00		**39,450.00**
II.	Total accumulated amortization	26,794,116.91	10,182,883.57		**36,977,000.48**
	Land use rights	9,398,378.23	1,329,738.12		**10,728,116.35**
	Software	702,088.00			**702,088.00**
	non-patent technology	16,688,497.41	8,845,491.29		**25,533,988.70**
	patent technology	5,153.27	7,654.16		**12,807.43**
III.	Total intangible assets net book value	249,918,129.97			**240,160,492.20**
	Land use rights	178,138,217.23			**177,174,890.72**
	Software	—			**38,034.19**
	non-patent technology	71,766,416.01			**62,920,924.72**
	patent technology	13,496.73			**26,642.57**
IV.	Total impairment provision	—			
	Land use rights	—			
	Software	—			
	non-patent technology	—			
	patent technology	—			
V.	Total intangible assets book value	249,918,129.97			**240,160,492.20**
	Land use rights	178,138,217.23			**177,174,890.72**
	Software	—			**38,034.19**
	non-patent technology	71,766,416.01			**62,920,924.72**
	patent technology	13,496.73			**26,642.57**

Note 1: Of the increase of original carrying amount during the current year, the transfer from fixed assets to intangible assets led to an increase by RMB557,946.93 due to the acquisition of land use right certificates, purchasing patent technology led to an increase by RMB58,834.19.

Note 2: Accumulated amortization for the current period increased, provision for the current year amounted to RMB10,182,883.57.

13. *Goodwill*

According to an equity transfer agreement signed by the Company and all shareholders of Maolong Machinery Company on 25 September 2007, the Company acquired Maolong Machinery Company on 31 December 2007, resulting in goodwill of RMB142,973,383.21.

RMB

Matters generating goodwill	1 January 2011	Additions for the current period	Deductions for the current period	30 June 2011	Impairment provision at the end of the period
Business consolidation not under common control	142,973,383.21	—	—	**142,973,383.21**	—

The management of the Company judged, via impairment test on goodwill, that goodwill formed by investment in Maolong Machinery Company would not require any impairment provision.

14. *Deferred income tax assets and deferred income tax liabilities*

(1) Confirmed deferred income tax assets and deferred income tax liabilities

RMB

Items	Consolidation 30 June 2011	31 December 2010
Deferred income tax assets:		
Bad debt balance	**1,727,107.98**	1,727,107.98
Including: Accounts receivable	**1,697,328.17**	1,697,328.17
Other receivables	**29,779.81**	29,779.81
Allowance for inventories	**865,228.92**	865,228.92
Salaries payable	**2,885,284.04**	4,459,922.44
Intangible assets amortization	**3,191,748.59**	2,086,062.18
Fixed assets Impairment provision	**4,213,195.00**	3,240,420.59
Deductible losses	**1,776,942.29**	2,717,119.01
Unrealized profit of intragroup transaction	**—**	—
Total	**14,659,506.83**	15,095,861.12
Deferred income tax liabilities:		
Adjustment of fair value	**9,474,202.87**	9,668,877.75
Including: inventory		—
Long-term equity investments	**3,809.38**	3,809.38
Fixed assets	**1,293,508.72**	1,406,955.76
Intangible assets	**8,176,884.77**	8,258,112.61
Others		—
Others		—
Assets formed from special funds	**6,102,401.76**	
Balance of value-added tax rebates due from government	**2,359,336.73**	2,359,336.73
Interest receivable on guarantee deposits	**397,250.06**	522,199.20
Unrealized loss of intragroup transaction	**477,038.71**	477,038.70
Total	**18,810,230.12**	13,027,452.38

15. *Research and Development Expenditure*

Expenses of the development items

RMB

Items	1 January 2011	Additions for the cur rent period	30 June 2011
Research Expenditure	0	35,110,213.62	**35,110,213.62**
Total	0	35,110,213.62	**35,110,213.62**

16. *Provision for impairment of assets*

RMB

Item	1 January 2011	Additions for the current period	Deductions		30 June 2011
			Reversals	Write-offs	
I. Provisions for bad debts	6,908,431.93		77,040.00		**6,831,391.93**
Of which: accounts receivables	6,789,312.68		77,040.00		**6,712,272.68**
Other receivables	119,119.25				**119,119.25**
Provisions for inventory impairment	3,460,915.70				**3,460,915.70**
Including: Raw materials	916,732.12				**916,732.12**
Work-in-progress	872,825.06				**872,825.06**
Finished product	1,671,358.52				**1,671,358.52**
Fixed assets Impairment provision	19,233,321.66		3,026,985.85		**16,206,335.81**
Including: Building	4,986,478.28				**4,986,478.28**
Machinery and equipment	14,246,843.38		3,026,985.85		**11,219,857.53**
Total	29,602,669.29		3,104,025.85		**26,498,643.44**

17. *Short-term borrowings*

RMB

Items	Consolidation 30 June 2011	31 December 2010
Credit loans	**350,161,780.00**	559,240,190.00
Guarantee loans	**71,967,712.10**	17,455,000.00
Secured borrowings	**86,354,026.00**	136,171,227.20
Total	**508,483,518.10**	712,866,417.20

Note : The Group does not have any due but non-repaid short-term borrowings.

Secured borrowings represent the Group's borrowing of RMB6,354,026.00 and RMB80,000,000.00, which obtained from banks by pledging its accounts receivable and order contracts.

18. *Bills payable*

(1) The breakdown of bills payable is as follows:

RMB

Items	Consolidation 30 June 2011	31 December 2010
Bank acceptance	**501,529,120.12**	482,816,088.17

(2) Balance of bills payable in the current Reporting Period does not have any amount due to bill of shareholder unit with over 5% (5% inclusive) voting rights in the Company.

(3) The Group does not have bills payable to related parties.

19. *Accounts payable*

(1) Breakdown of accounts payable is set out as follows:

RMB

Items	Consolidation 30 June 2011	31 December 2010
Material fees payable	**488,905,635.92**	390,316,585.54
Project equipment fees payable	**85,672,487.75**	111,454,984.80
Total	**574,578,123.67**	501,771,570.34

(2) Aging analysis of accounts receivable is as follows:

RMB

Age	Consolidation 30 June 2011	31 December 2010
Within 1 year	**537,120,903.68**	464,598,177.18
1 to 2 year	**17,017,169.92**	16,068,602.25
2 to 3 year	**8,122,658.22**	10,926,875.98
Over 3 year	**12,317,391.85**	10,177,914.93
Total	**574,578,123.67**	501,771,570.34

(3) At the end of the current period, the balance of the accounts payable of the Group and the Company was not due to any shareholders holding over 5% (5% inclusive) of the Company's shares.

(4) The Group does not have any amount due to related parties.

20. *Advance receipts*

(1) Breakdown of advance re-accepts is set out as follows:

RMB

Item	Consolidation 30 June 2011	31 December 2010
Advance sales	**50,169,201.82**	34,721,719.22

As at 30 June 2011, the Group does not have any single material advance receipt of over RMB2,000,000.00 aged over 1 year. As sales of relevant product have not been realized, no amount has been carried forward as income at the end of the year. As at the approval date of the financial statements, the above amount has not been carried forward as income.

(2) At the end of the current period, the advance receipts of the Group and the Company were not received from any shareholders holding over 5% (5% inclusive) of the Company's shares.

(3) The Group does not have any advance receipts from related parties.

21. *Employee benefits payable*

RMB

Items	1 January 2011	Additions for the current period	Deductions for the current period	30 June 2011
Salaries, bonuses, allowance and subsidies	17,485,969.50	38,136,354.26	44,359,255.72	**11,263,068.04**
Staff welfare	101,235.82	1,719,579.79	1,719,046.29	**101,769.32**
Social insurance premiums	—	6,997,137.49	6,997,137.49	
Housing provident funds	—	925,468.32	925,468.32	
Others	252,484.44	150,081.00	233,927.89	**168,637.55**
Total	17,839,689.76	47,928,620.86	54,234,835.71	**11,533,474.91**

22. *Tax payables*

RMB

Items	Consolidation 30 June 2011	31 December 2010
Income tax	**14,182,709.78**	24,042,381.60
Value added tax	**4,493,382.30**	3,134,259.26
Business tax		413,200.00
Individual income tax	**3,136,042.95**	132,074.96
Others	**(2,188,234.02)**	1,706,462.07
Total	**19,623,901.01**	29,428,377.89

23. *Interest payables*

RMB

Item	Consolidation 30 June 2011	31 December 2010
Interest of Bank loan	**2,468,651.78**	751,797.63
Interest of loan from Finance Bureau		203,750.00
Total	**2,468,651.78**	955,547.63

24. *Dividends payable*

RMB

Name	Consolidation 30 June 2011	31 December 2010
Domestic Natural person	**44,967,509.98**	23,788,680.00

Balance of dividends payable amounted to RMB44,967,509.98, which represents the dividends not taken up by investors and will be paid before December 2011.

25. *Other payables*

(1) Breakdown of other payables is set out as follows:

RMB

Items	Consolidation 30 June 2011	31 December 2010
Advance in electricity fees and delivery expenses	**7,973,652.84**	10,640,796.42
A Shares listing expenses		2,680,000.00
Cash pledge	**6,799,693.24**	5,876,238.62
Others	**6,549,231.18**	6,794,877.62
Total	**21,322,577.26**	25,991,912.66

(2) The other payables of the Group and the Company at the end of the year were not due to any shareholders who holding over 5% (5% inclusive) of the Company's shares.

(3) The Group does not have amounts due to other related parties in its other payables.

26. *Long-term borrowings due within one year*

RMB

Items	Consolidation 30 June 2011	31 December 2010
Long-term loans due within one year	**—**	193,000,000.00

27. Share capital

RMB

	1 January	Change for the period: New issue	Bonus shares	Shares transfer from reserve	Others	Sub-total	30 June
Six months ended 30 June 2011:							
I. *Restricted shares outstanding*							
1. Other domestic shares	2,622,000.00	—	—	—	—	—	**2,622,000.00**
2. Natural person shares	198,239,000.00	—	—	—	—	—	**198,239,000.00**
3. RMB ordinary shares	14,000,000.00						
Total number of restricted shares outstanding	214,861,000.00						**200,861,000.00**
II. *Non-restricted shares*							
1. RMB ordinary shares	56,000,000.00						**70,000,000.00**
2. Overseas listed foreign shares	128,063,200.00						**128,063,200.00**
Total number of non-restricted shares	184,063,200.00						**198,063,200.00**
Total shares	398,924,200.00						**398,924,200.00**
2010:							
I. *Restricted shares*							
1. Other domestic shares	2,622,000.00	—	—	—	—	—	**2,622,000.00**
2. Natural person shares	198,239,000.00	—	—	—	—	—	**198,239,000.00**
3. RMB ordinary shares	—		—	—	—		**—**
Total number of restricted shares outstanding	200,861,000.00		—	—	—		**200,861,000.00**
II. *Non-restricted shares*							
1. RMB ordinary shares	—		—	—	—		**—**
2. Overseas listed foreign shares	128,063,200.00	—	—	—	—	—	**128,063,200.00**
Total number of non-restricted shares	128,063,200.00		—	—	—		**128,063,200.00**
Total shares	328,924,200.00		—	—	—		**328,924,200.00**

On 29 December 2009, the Board of the Company resolved to implement share consolidation, that every 10 shares in issue of RMB0.10 each would be consolidated into 1 share of RMB1.00. The share consolidation has completed on 7 January 2010. Upon such share consolidation, the total number of shares of the Company has changed to 328,924,200 shares of RMB1.00 each.

Upon the approval of CSRC with "Approval and Reply Regarding the Initial Public Offering of Shares of Shandong Molong Petroleum Machinery Company Limited" (Zheng Jian Xu Ke [2010] No. 1285) (《關於核准山東墨龍石油機械股份有限公司首次公開發行股票的批復》(證監許可[2010]1285號文)), on 11 October 2010, the Company offered 70,000,000 Renminbi shares (A Shares) of RMB1 each at an offering price of RMB18 per share. After the deduction of issuing expenses such as underwriting fees and sponsoring fees, the net proceeds raised amounted to RMB1,196,738,331.50, representing a net value of fund raised per share of RMB17.10. Of the funds raised, RMB720,000,000 was contributed to the 180mm Special Petroleum Pipes Technical Reconstruction Project, RMB220,000,000.00 was used in the implementation of oil pipes processing project by Weihai Baolong, and RMB256,738,331.50 was used to satisfy the liquidity of the Company. The registered capital has changed to RMB398,924,200.00 after the issuance. 山東正源和信有限責任會計師事務所has verified and issued the capital examination report Lu Zheng Xin Yan Zi (2010) No. 3032 (魯正信驗字(2010)第3032號).

28. *Capital reserves*

RMB

Items	1 January 2011	Increase for the period	Decrease for the period	30 June 2011
Six months ended 30 June 2011:				
Capital premium	1,248,406,190.92			**1,248,406,190.92**
Of which:				
Capital contribution from investors	1,248,406,190.92			**1,248,406,190.92**
Total	1,248,406,190.92			**1,248,406,190.92**
As at 31 December 2010:				
Capital premium	121,667,859,42	1,126,738,331.50	—	**1,248,406,190.92**
Of which:				
Capital contribution from investors	121,667,859.42	1,126,738,331.50	—	**1,248,406,190.92**
Total	121,667,859.42	1,126,738,331.50	—	**1,248,406,190.92**

29. *Surplus reserve*

Consolidation

RMB

Items	Opening balance	Increase for the period	Decrease for the period	Closing balance
Six months ended 30 June 2011:				
Statutory surplus reserve	140,393,447.06			**140,393,447.06**
As at 31 December 2010:				
Statutory surplus reserve	108,376,005.02	32,017,442.04	—	**140,393,447.06**

Statuary surplus reserve wasn't counted and drawed at the end of the reporting period.

30. *Undistributed profits*

Items	Amount	RMB **Proportion of appropriation or allocation**
Six months ended 30 June 2011		
Undistributed profits at the beginning of the period	898,749,873.79	
Add: Errors in earlier stage	(521,063.88)	
Add: Net profits attribute to the shareholders of the Company of the year	75,447,529.37	
Less: Appropriation of statutory surplus reserves		
Ordinary shares dividend payable		
Ordinary shares dividend transfer as share capital	59,838,630.00	
Undistributed profit at the end of the period		
	913,837,709.28	
As at 31 December 2010		
Undistributed profits at the beginning of the period	694,089,054.29	
Add: Net profits attribute to the shareholders of the Company of the year	276,149,165.54	
Less: Appropriation of statutory surplus reserves	32,017,442.04	
Ordinary shares dividend payable	39,470,904.00	
Ordinary shares dividend transfer as share capital	—	
Undistributed profits at the end of the period	898,749,873.79	

31. *Minority shareholders' interest*

Minority shareholders' interest are as follows:

RMB

Name	**30 June 2011**	31 December 2010
MPM International Limited	**2,206,422.52**	1,113,902.05
Shouguang Baolong	**57,692,847.47**	56,099,071.75
Total	**59,899,269.99**	57,212,973.80

32. *Operating revenue and cost of operations*

(1) Operating Revenue

RMB

Items	**30 June 2011**	30 June 2010
Principal operating revenue	**1,482,778,565.96**	1,318,844,994.02
Other business revenue	**36,718,435.11**	14,805,238.64
Cost of operations	**1,374,991,038.66**	1,134,117,980.13

(2) Principal operations (by product)

RMB

Products	30 June 2011 Operating Revenue	30 June 2011 Cost of operations	30 June 2010 Operating Revenue	30 June 2010 Cost of operations
Casing and Tubing	**1,286,565,567.97**	**1,181,450,731.49**	996,327,363.07	825,938,649.37
Three kinds of pumping units	**45,435,776.97**	**36,454,582.16**	46,663,268.04	35,972,195,19
Petroleum machinery	**96,514,232.03**	**75,073,296.99**	57,322,154.78	41,671,988.99
Others	**54,262,988.99**	**55,371,622.86**	218,532,208.13	216,758,135.53
Total	**1,482,778,565.96**	**1,348,350,233.50**	1,318,844,994.02	1,120,340,969.08

(3) Principal operations (by Geographical segment)

RMB

Products	30 June 2011 Operating Revenue	30 June 2011 Cost of operations	30 June 2010 Operating Revenue	30 June 2010 Cost of operations
PRC	**954,317,920.03**	**882,654,557.66**	919,415,461.65	788,081,366.30
overseas	**528,460,645.93**	**465,695,675.84**	399,429,532.37	332,259,602.78
Total	**1,482,778,565.96**	**1,348,350,233.50**	1,318,844,994.02	1,120,340,969.08

(4) Top 5 customers' revenue from sales are as follows:

RMB

Name of customer	Operating Revenue	The percentage of the total sales revenue %
China National Petroleum Corporation — Changqing Oil Field	162,031,305.17	10.93
PPC Limited	140,688,684.97	9.49
Shandong Luxin Steel Pipes Co., Ltd	132,553,788.38	8.94
Campex Inc	89,468,273.18	6.03
SB International Inc	85,810,741.99	5.79
Total	610,552,793.69	41.08

33. Tax and levies on operations

RMB

Items	30 June 2011	30 June 2010
Business tax	—	—
Urban maintenance and construction tax	472,663.91	1,954,874.33
Educational surcharges	363,461.66	844,706.35
Others	—	272,364.69
Total	836,125.57	3,071,945.37

34. Selling expenses

RMB

Items	30 June 2011	30 June 2010
Delivery expenses	19,242,000.16	16,718,105.00
Intermediate fees	—	1,560,545.94
Travelling expenses	456,470.07	1,054,922.12
Business reception fees	383,383.10	1,336,213.37
Salary	703,721.65	581,330.08
Office expenses	207,057.70	247,535.83
Agency fees	1,082,356.79	15,451.00
Transportation fees	181,463.85	151,942.10
Storage and sales agency fees	51,432.76	202,804.78
Depreciation charge	89,064.59	89,333.27
Low priced and easily worn articles	36,379.15	31,976.78
Machinery material consumption	225,409.24	—
Other	1,598,246.18	1,112,949.97
Total	24,256,985.24	23,103,110.24

35. *Management fees*

Item	30 June 2011	RMB 30 June 2010
Research and development fees of new products	**6,628,070.52**	10,518,190.76
Amortization of intangible assets	**10,005,665.50**	982,200.26
Salary and Staff welfare expenses	**4,352,466.94**	3,793,188.54
Depreciation charges	**4,565,637.98**	3,664,972.61
Repair fees	**1,261,043.99**	8,417,596.55
Taxes	**3,653,471.44**	2,854,398.22
Machinery material consumption	**2,690,326.72**	2,767,784.33
Office expenses	**336,733.43**	381,096.29
Electricity fees	**279,409.43**	691,479.88
Business reception fees	**275,969.65**	229,311.53
Property insurance fees	**37,769.15**	198,998.08
Intermediate fees	**300,470.29**	(226,107.70)
Travelling expenses	**194,737.16**	297,703.73
Environmental protection expenses	**210,947.78**	294,168.49
Transportation fees	**248,067.36**	629,706.67
Promotion expenses	**96,613.12**	301,434.80
Stream fees	**140,240.69**	3,585.33
Delivery expenses	**442,230.29**	105,050.17
Water fees	**95,514.88**	132,262.23
Others	**728,317.96**	1,092,227.99
Total	**36,543,704.28**	37,129,249.26

36. *Finance fees*

Item	30 June 2011	RMB 30 June 2010
Interest expenses	**12,505,675.49**	33,857,642.91
Less: Capitalized interest expenses	**—**	14,306,440.80
Less: Interest income	**6,115,544.60**	2,070,713.29
Foreign exchange difference	**208,917.72**	1,960,257.76
Less: Capitalized foreign exchange difference	**—**	—
Others	**2,624,223.46**	1,776,786.91
Total	**9,223,272.07**	21,217,533.49

37. *Loss on impairment of assets*

RMB

Items	**30 June 2011**	30 June 2010
Provision of bad debt	**(77,040.00)**	(430,586.15)
Including: accounts receivable	**(77,040.00)**	(430,586.15)
Other accounts receivable	**—**	—
Provision of allowance for inventory	**—**	(1,741,356.60)
Including: Raw materials	**—**	(1,638,898.30)
Consigned processing material	**—**	193,114.35
Finished product	**—**	131,300.80
Work-in-progress	**—**	(426,873.45)
Total	**(77,040.00)**	(2,171,942.75)

38. *Non-operating income*

(1) Breakdown of non-operating income is set out as follows:

RMB

Items	**30 June 2011**	30 June 2010	**Amounts credited to non-recurring profit or loss during the current year**
Total income on disposal of non-current assets	**29,192.05**	409,169,84	29,192.05
Government grants	**14,508,408.84**	29,234,495.12	14,508,408.84
Income from penalty	**262,905.23**	98,126.20	262,905.23
Others	**222,818.00**	175,732.74	222,818.00
Total	**15,023,324.12**	29,917,523.90	

(2) Breakdown of Government grants

RMB

Items	**30 June 2011**	30 June 2010
Financial subsidies (Note 1)	**14,060,000.00**	17,237,500.00
Tax rebate from value-added tax (Note 2)	**448,408.84**	11,996,995.12
Total	**14,508,408.84**	29,234,495.12

Note 1: On 19 February 2011, a cash reward of RMB10,000.00 for 2010 Advanced Unit was received by Shouguang Baolong Petroleum Material Company Limited from the Working Committee of Gucheng Street of Shouguang City Committee of the CPC (中共壽光市委古城街道工作委員會); on 9 May 2011, a subsidy of RMB50,000.00 for Science & Technology Innovation of Weihai City was received by Weihai Baolong Petroleum Material Company Limited from Finance Bureau of Wendeng City pursuant to the file of "Wen Cai Yu Zhi [2011] No.72" (《文財預指[2011]72號》).On 26 June 2011, a cash award of RMB14,000,000.00 for technology was received by Shandong Molong Petroleum Machinery Company Limited from Finance Bureau Shouguang City.

Note 2: Maolong Recycle Company and Baolong Resources Company are operating entities involving scrap materials. According to the requirements under "Cai Shui [2008] No. 157 "Notice Regarding the Policies on Value-added Tax for Recyclable Resources" (財稅[2008]157號《關於再生資源增值稅政策的 通知》) issued by the Ministry of Finance and State Administration of Taxation, income on value-added tax rebates recognized for the Reporting Period amounted to RMB448,408.84.

39. *Non-operating expenses*

RMB

Items	30 June 2011	30 June 2010	Amounts credited to non-recurring profit or loss during the current period
Total loss on disposal of non-current assets	**125,708.49**	66,161.80	125,708.49
Of which:			
Loss on disposal of fixed assets	**125,708.49**	66,161.80	125,708.49
Donation expenses	**27,000.00**	411,078.00	27,000.00
Others	**8,487.76**	1,050.47	8,487.76
Total	**161,196.25**	478,290.27	161,196.25

40. *Non-operating expenses*

RMB

Items	Consolidation 30 June 2011	30 June 2010
Income tax for the current period calculated according to tax laws and relevant rules	**12,622,191.95**	18,211,227.95
Adjustment on deferred income tax	**311,405.14**	6,460,743.77
Total	**12,933,597.09**	24,671,971.72

41. The computational process of basic and diluted earnings per share

(1) Net profits for the period attributable to ordinary shareholders for the purpose of calculating earnings per share are as follows:

		RMB
	30 June 2011	30 June 2010
Net profits for the period attributable to ordinary shareholders	**75,447,529.37**	120,899,320.10
Of which: net profits attributable to going concern	**75,447,529.37**	120,899,320.10

(2) For the purpose of calculating earnings per share, the denominator is the weighted average of outstanding ordinary shares. The calculation is as follows:

		Unit: share
	30 June 2011	30 June 2010
Number of outstanding ordinary shares at the beginning of the year	**398,924,200.00**	328,924,200.00
Add: number of weighted ordinary shares issued during the period	**—**	—
Number of outstanding weighted ordinary shares at the end of the year	**398,924,200.00**	328,924,200.00

The Group does not have any dilutive potential ordinary shares.

(3) Earnings per share

		RMB
	30 June 2011	30 June 2010
Calculated based on net profits attributable to the equity holders of the Company:		
Basic earnings per share	**0.19**	0.37
Diluted earnings per share	**N/A**	N/A
Calculated based on net profits attributable to equity holders of the Company on the going concern basis		
Basic earnings per share	**0.19**	0.37
Diluted earnings per share	**N/A**	N/A

42. *Other comprehensive income*

	30 June 2011	30 June 2010
		RMB
Translation difference of financial statements denominated in foreign currency	**0**	36,891.14

43. *Notes to cash flow statements*

(1) Receipt of other cash related to operating activities

RMB

Item	Consolidation	
	30 June 2011	30 June 2010
Interest income	**593,887.14**	2,070,713.29
Decrease in other operating receivables	**(3,885,381.98)**	—
Decrease in guarantees of promissory notes	**—**	—
Government grants	**60,000.00**	17,237,500.00
Others	**2,630,626.11**	6,253,079.37
Total	**(600,868.73)**	25,561,292.66

(2) Payment of other cash related to operating activities

RMB

	Consolidation	
	30 June 2011	30 June 2010
Hospitality expense	**667,940.75**	1,565,524.90
Increase in guarantees of promissory foreign exchange notes	**9,513,057.02**	100,469,541.98
Expense Intermediary service	**297,470.29**	1,560,545.94
Transportation expense	**19,683,409.29**	16,837,364.81
Travel expense	**651,207.23**	1,352,498.85
Electricity expense	**279,409.43**	698,279.88
Return of current accounts of other companies	**(1,020,686.48)**	—
Agency fees	**1,082,356.80**	—
Development fees for new products	**6,628,070.52**	—
Machinery material consumption fees	**2,936,375.62**	—
Repair expense	**1,261,044.14**	—
Other	**10,512,135.85**	32,891,537.57
Total	**52,491,790.46**	155,375,293.93

(3) Payment of other cash related to fund raising activities

RMB

	Consolidation	
	30 June 2011	30 June 2010
Guarantees for borrowing	**2,844,720.95**	31,155,000.00
Intermediate fees for listing	**—**	426,067.45
Total	**2,844,720.95**	31,581,067.45

44. Supplementary information on cash flow statements

(1) Supplementary information on cash flow statements

RMB

		Consolidation	
Supplementing Information		**30 June 2011**	30 June 2010
(1)	**Reconciliation of net profits as cash flows from operating activities:**		
	Net profits	**95,042,307.35**	121,949,618.83
	Add: Provision of impaired assets	**(77,040 .00)**	(2,171,942.75)
	Depreciation of fixed assets	**71,113,147.13**	47,250,890.15
	Depreciation of real estate held for investment		—
	Intangible assets amortized	**10,005,665.50**	5,368,056.80
	Amortization of long-term deferred expenses		—
	Losses (Gains) on disposal of fixed assets, intangible assets and other long-term assets	**—**	(343,008.04)
	Losses (Gains) from change of fair value		—
	Financial expenses (gains)	**9,925,622.24**	19,529,429.84
	Investment losses (gains)	**(16,959,524.67)**	—
	Decrease (Increase) in deferred income tax assets	**(12,627.22)**	5,881,898.20
	Increase (Decrease) in deferred income liabilities	**4,900,443.06**	(613,830.09)
	Decrease (Increase) in stock	**(156,312,331.88)**	(79,850,854.41)
	Decrease (Increase) in operating receivables	**(1,508,885,696.77)**	(367,324,067.60)
	Increase (Decrease) in operating receivables	**1,517,653,603.2**	82,011,741.35
	Net cash flows from operating activities	**26,414,633.68**	(168,312,067.72)
(2)	**Net change in cash and cash equivalents:**		
	Cash balance at the end of the year	**408,890,318.57**	70,901,798.27
	Less: cash balance at the beginning of the year	**754,225,131.33**	226,121,078.70
	Net increase in cash and cash equivalents	**(345,334,812.76)**	(155,219,280.43)

(2) Components of cash and cash equivalents

	Consolidation	
	30 June 2011	31 December 2010
		RMB
1. Cash		
Consist of: treasury cash	**159,233.83**	530,027.53
Bank deposits readily available for payment	**224,813,314.04**	65,371,350.74
Other currency capital readily available for payment	**172,254,188.99**	5,000,420.00
2. Cash and cash equivalent balance at the end of year	**397,226,736.86**	70,901,798.27
Other restricted currency capital	**130,716,530.71**	211,012,958.82
3. Currency capital at the end of the year	**527,943,267.57**	281,914,757.09

VI. Related Party and Transactions

1. Situation on Controlling Shareholders of the Group

As at 30 June 2011, Mr. Zhang En Rong owns 35.03% of voting shares in the Company, and is the controlling shareholder of the Company.

2. Situation on Subsidiaries of the Group is detailed in Note (IV).

3. Situation on Associates of the Group is detailed in Note (V).9 .

4. Situation on Connected Transaction

(1) Purchase and Sales of Commodities. Rendering and Acceptance of Service

Table on situation on commodities procurement:

The Group had no connected commodities procurement during the Reporting Period.

Table on situation on commodities sales:

RMB

Related party	**Subject of connected transaction**	**Pricing method and decision procedures of connected transaction**	**Incurred during the current year Amount**	**As a proportion to same type of transaction amount (%)**
Yalong Oil Pump	Oil well pumpings accessories	Agreed price (Note 1)	**3,488,268.28**	430,186.32
Total			**3,488,268.28**	430,186.32

Note 1: The purchase of raw materials by the Company from related parties was settled by the fixed price prescribed by China's relevant government authorities. If there is no limitation of any prescribed price, the price would be negotiated and agreed by both parties with reference to market price (subject to adjustment).

(2) Situation on connected tenancy

The Group had no situation on connected tenancy during the Reporting Period.

(3) Situation on connected guarantees:

The Group had no situation on connected guarantees during the Reporting Period.

(4) Assets assignment of related party:

The Group had no assets assignment of related party during the Reporting Period.

(5) Remuneration of Key Management

The remuneration of key management of the Company in the first six months of 2011 amounted to RMB1,573,060.75 (First six months of 2010: RMB1,350,000.00).

The emoluments paid or payable on each of the 13 (31 December 2010: 12) directors and supervisors were as follows:

	Executive directors				Independent directors						Supervisors			
	Zhang En Rong (Note 1)	Zhang Yun San (Note 2)	Lin Fu Long (Note 3)	Xie Xin Cang	Wang Ping (Note 1)	Cheng Jian Xiong (Note 2)	Xiao Qing Zhou (Note 3)	Wang Chun Hua	John Paul Cameron	Chau Shing Yim, David	Liu Huai Duo (Note 2)	Liu Wan Fu	Fan Ren Yi	Total
Six months ended 30 June 2011:														
Fees							3,500	18,000	47,400	47,400				116,300.00
Basic salaries and allowances	367,285.83	297,665.03	106,404.96	190,831.69							34,237.80	12,000	6,000	1,068,425.31
Retirement scheme Contributions		2,051.04	2,051.04	2,051.04							1,367.52			7,520.64
Other		5,572.39	5,572.39	5,572.39							3,776.95			20,494.12
Total	367,285.83	305,288.46	168,028.39	198,455.12			3,500	18,000	47,400	47,400	39,382.27	12,000	6,000	1,212,740.07
Six months ended 30 June 2010:														0.00
Fees								18,000	47,400	47,400				112,800.00
Basic salaries and allowances	355,231.84	280,619.45	148,666.23	189,404.78								12,000	6,000.00	1,019,822.30
Retirement scheme Contributions		1,530.36	1,503.60	1,503.60										6,287.56
Other		2,652.37	2,622.19	2,622.19										7,896.75
Total	355,231.84	284,802.18	152,792.02	193,530.57				18,000	47,400	47,400		12,000	6,000.00	1,146,806.61

Note 1: These personnel have not received remuneration of any form from the Group.

Note 2: These personnel have resigned on 12 May 2009.

Note 3: These personnel have resigned on 8 January 2009.

Note 4: Payment of remuneration for key management are all made in the form of monetary currency.

Note 5: In 2010 and the first half of 2011, no director has waived any remuneration.

Note 6: During the current year, no amount is paid or payable for procuring any director to join or upon joining the Group; and no amount is paid or payable to them as the compensation for any director or resigned director for his/her loss of position as the director of the members of the Group.

Note 7: The Group has formulated the remuneration of directors and supervisors according to the remuneration management system of the Group, which has been approved by the Board.

Three (31 December 2010: three) of the five persons who have top highest remuneration are directors of the Company, and their remuneration detailed at Note VI 4(5). The other two (31 December 2010: two) persons' remuneration are as follows:

RMB

Name of item	**30 June 2011**	30 June 2010
Salaries	**395,156.45**	794,526.60
Retirement scheme contribution	**4,102.08**	6,014.40
Other	**11,144.78**	12,836.00
Total	**410,403.31**	813,377.00

5. *Account receivable and payable of related parties*

(1) Account receivable of related party:

Consolidation

RMB

		30 June 2011		31 December 2010	
Item	**Related party**	**Book balance**	**Bad debt balance**	Book balance	Bad debt balance
Accounts receivable	Yalong Oil Pump	**1,780,838.48**	**—**	2,576,611.00	—

VII. Commitments

1. *Capital Commitment*

	30 June 2011	RMB 31 December 2010
Contracted but not recognized in financial statements		
— Commitment on acquisition and construction of long-term assets	**63,722,396.92**	75,560,023.34

VIII. Other Significant Items

1. *Segment Reporting*

According to the internal organization structure, management requirements and internal reporting system of the Group, the Group's operating segments are divided into 4 reportable segments. The Group's management regularly evaluates the operating results of these reportable segments to determine the resources to be allocated and evaluates its results. Each of the Group's reportable segments includes casing, tubing, three kinds of pumping units, petroleum machinery and others.

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

Transfer and transaction among segments are measured on the basis of actual transaction price. Segment income and segment expenses are recognized on the basis of actual income and expense of each segment. Segment assets or liabilities are allocated in accordance with assets attributable to such operating segment used or liabilities attributable to such operating segment incurred during normal course of operation of the operating segment.

(1) Segment Reporting Information

Combined segment reporting — six months ended 30 June 2011

RMB

	Casing and Tubing	Three kinds of pumping units	Petroleum machinery	Other	Unallocated items	Inter-segment elimination	Total
Operation Revenue:							
External transaction income	1,286,565,567.97	45,435,776.97	96,514,232.03	54,262,988.99	36,718,435.11	—	1,519,497,001.07
Total operation revenue	1,286,565,567.97	45,435,776.97	96,514,232.03	54,262,988.99	36,718,435.11	—	1,519,497,001.07
Operation costs	1,181,450,731.49	36,454,582.16	75,073,296.99	55,371,622.86	26,640,805.16	—	1,374,991,038.66
Adjustment items:							
Operation Tax and annex	252,364.62	—	—	583,760.95	—	—	836,125.57
Sales Expenses	—	—	—	—	24,256,985.24	—	24,256,985.24
Administrative expenses	—	—	—	—	36,543,704.28	—	36,543,704.28
Finance expenses	—	—	—	—	9,223,272.07	—	9,223,272.07
Impairment losses on assets	—	—	—	—	(77,040.00)	—	(77,040.00)
Operation profit	104,862,471.86	8,981,194.81	21,440,935.04	(1,692,394.82)	(59,869,291.64)	—	73,722,915.25
Non-operation income	—	—	—	—	15,023,324.12	—	15,023,324.12
Non-operation expenditure	—	—	—	—	161,196.25	—	161,196.25
Total Profit	104,862,471.86	8,981,194.81	21,440,935.04	(1,692,394.82)	(45,007,163.77)	—	88,585,043.12
Income tax	—	—	—	—	12,933,597.09	—	12,933,597.09
Net profit	104,862,471.86	8,981,194.81	21,440,935.04	(1,692,394.82)	(57,940,760.86)	—	75,651,446.03
Total segment assets	2,533,817,324.44	77,082,794.00	115,376,528.68	362,290,244.06	1,425,260,449.80	—	4,513,827,340.97
Total segment liabilities	875,879,142.87	21,875,479.24	46,467,678.57	—	790,453,777.97	—	1,734,676,078.65
Supplementary information:							
Depreciation and amortization expenses	—	—	—	—	—	—	—
Impairment losses recognized in previous year:	—	—	—	—	—	—	—
Capital expenditure	52,876,854.76	24,607,555.02	491,127.97	13,155,891.47	—	—	91,131,429.22
Consist of: Expenses on construction in progress	47,401,099.87	11,221,604.12	—	—	—	—	58,622,703.99
Expenses on purchase of fixed assets	5,475,754.89	13,385,950.90	491,127.97	12,539,110.35	—	—	31,891,944.11
Expenses on purchase of intangible assets	—	—	—	616,781.12	—	—	616,781.12
Non-cash expenses other than depreciation and amortization	—	—	—	—	—	—	—

Combined segment reporting — six months ended 30 June 2010

RMB

	Casing and Tubing	Three kinds of pumping units	Petroleum machinery	Other	Unallocated items	Inter-segment elimination	Total
Operation Revenue:							
External transaction income	996,327,363.07	46,663,268.04	57,322,154.78	233,337,446.77	—	—	1,333,650,232.66
Total operation revenue	996,327,363.07	46,663,268.04	57,322,154.78	233,337,446.77	—	—	1,333,650,232.66
Operation costs	825,938,649.37	35,972,195.19	41,671,988.99	230,535,146.58	—	—	1,134,117,980.13
Adjustment items:							
Operation Tax and annex	2,294,951.97	107,484.71	132,036.51	537,472.17	—	—	3,071,945.36
Sales Expenses	20,429,295.49	929,386.07	1,257,263.28	487,165.40	—	—	23,103,110.24
Administrative expenses	—	—	—	—	37,129,249.26	—	37,129,249.26
Finance expenses	—	—	—	—	21,217,533.49	—	21,217,533.49
Impairment losses on assets	—	—	—	—	(2,171,942.75)	—	(2,171,942.75)
Operation profit	147,664,466.24	9,654,202.07	14,260,866.00	1,777,662.62	(56,174,840.00)	—	117,182,356.93
Non-operation income	—	—	—	—	29,917,523.90	—	29,917,523.90
Non-operation expenditure	—	—	—	—	478,290.27	—	478,290.27
Total Profit	147,664,466.24	9,654,202.07	14,260,866.00	1,777,662.62	(26,735,606.37)	—	146,621,590.55
Income tax	—	—	—	—	24,671,971.72	—	24,671,971.72
Net profit	147,664,466.24	9,654,202.07	14,260,866.00	1,777,662.62	(51,407,578.09)	—	121,949,618.83
Total segment assets	1,724,410,423.07	70,744,174.92	87,899,603.88	256,851,352.87	1,685,522,550.03		3,825,428,104.76
Total segment liabilities	556,694,258.87	4,118,727.05	54,071,616.38	37,575,191.04	1,781,798,228.36		2,434,258,021.70
Supplementary information:							
Depreciation and amortization expenses	42,576,289.45	1,380,840.64	2,012,277.34	—	7,511,448.46	—	53,480,855.89
Impairment losses recognized in previous year	—	—	—	—	(2,171,942.75)	—	(2,171,942.75)
Capital expenditure	13,328,945.94	7,698.87	240,385.25	—	296,386,165.96	—	309,963,196.02
Consist of: Expenses on construction in progress	—	—	—	—	248,060,118.31	—	248,060,118.31
Expenses on purchase of fixed assets	5,577,580.13	7,698.87	240,385.25		2,194,380.64	—	8,020,044.89
Expenses on purchase of intangible assets	7,751,365.81	—	—	—	46,967,058.43	—	54,718,424.24
Non-cash expenses other than depreciation and amortization	—	—	—	—	—	—	—

(2) External transaction income by location of income source and non-current assets by location of assets

In the first six months of 2011 and 2010, all of the Group's external transaction income were from China and overseas, while all assets were located in China, hence the external transaction income by location of income source is disclosed as follows:

RMB

	30 June 2011	30 June 2010
Domestic external transaction income	**954,317,920.03**	919,415,461.65
Foreign external transaction income	**528,460,645.93**	399,429,532.37
Total	**1,482,778,565.96**	1,318,844,994.02

(3) Reliability on major customers

The Group's major customers are China National Petroleum Corporation, PPC Limited , Shandong Luxing Steel Co., Ltd, Campex Inc and SB International Inc, Specific details could be referred to Note (v) 32.

2. *Financial instruments and risk management*

Major financial instruments of the Group include bills receivable, accounts receivables, equity investment, borrowings, bills payables, accounts payables, financial assets held for trading, financial liabilities held for trading, etc. Detailed descriptions of these financial instruments are set out in related note. Below are the risks associated with such financial instruments and the risk management policies adopted by the Group to mitigate such risks. The management of the Group manages and monitors such risk exposures to ensure such risks are contained within a prescribed scope.

2.1 Objective and policies of risk management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and return, where the negative effects of risks against the Group's operating results are minimized, in order to maximize the benefits of shareholders and other stakeholders. Based on such objective in risk management, the underlying strategy of the Group's risk management is to ascertain and analyze all types of risks exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

2.1.1 Market risks

2.1.1.1 Foreign exchange risk

Foreign exchange risk represents risks of loss incurred as a result of changes in exchange rate. The Group is mainly exposed to foreign exchange risks in connection with USD; except for the Company and its subsidiaries MPM of which effect purchases and sales in USD, all the business activities of the remaining principal operations of the Group are settled with RMB. On 30 June 2011, except for the USD balances in assets and liabilities, odd monies in EUR and balances in HKD as set out below, all the balances of assets and liabilities of the Group were denominated in RMB. The foreign exchange risk arising from assets and liabilities in such USD balances may affect the operating results of the Group.

RMB

	Closing balance	Opening balance
Cash and cash equivalents-USD	**1,322,983.62**	5,385,617.68
Cash and cash equivalents-HKD	**11,728.38**	14,788.49
Cash and cash equivalents-EUR	**100.36**	883.47
Accounts receivable-USD	**24,244,465.29**	216,735,933.07
Accounts receivable-EURO	**294,522.65**	2,593,713.72
Deposit received-USD	**13,978,438.29**	
Other receivables-USD		1,326,354.02
Other receivables-USD	**54,722.10**	241,257.61
Short-term borrowings-USD	**14,550,000.00**	117,866,417.20

The Group closely monitors changes in foreign exchange rates as to their effects to the Group's exposure in foreign exchange risk.

For foreign exchange risk, the Group has always placed its concern on the research of foreign exchange risk management policies and strategies, and maintain close co-operation with financial institutions engaging in foreign exchange business, while arranging favorable settlement terms via contracts. Meanwhile, with the continuous increase in the proportion of international market, if risks beyond the control of the Group, such as the appreciation of Renminbi, incurs, the Group will mitigate such risk via suitable adjustment of sales strategies.

2.1.1.2 Interest rate risk — risk in change in cash flow

The risk that changes in interest rate lead to changes in cash flow of the financial instruments of the Group is mainly associated with floating-rate bank borrowings. The Group's goal is to maintain these borrowings in floating rates.

2.1.2 Credit risk

On 30 June 2011, the most significant credit risk exposure that might incur financial losses on the Group was mainly attributable to a contractual counterparty's failure to perform its obligations,the effects of which could lead to losses in financial assets of the Group, specific details are set out as follows:

The carrying amount of financial assets recognized in the combined balance sheet: in respect of financial instruments carried at fair value, the carrying amount reflects the risk exposure; however, such amount does not represent the maximum credit exposure which changes in line with future changes in fair value.

In order to mitigate credit risk, the Group reassesses the collectability of each amount receivable on an individual basis at each balance sheet date, in order to ensure sufficient provision is allocated for amounts that are not recoverable. As such, the management of the Group believes the credit risk assumed by the Group has been significantly reduced.

The Group has adopted necessary policies to ensure that all sales customers have good credit records.

Apart from the top five accounts receivables, the Group has no other significant concentration risk.

2.1.3 Liquidity risk

In managing liquidity risk, the Group maintains cash and cash equivalent at a level deemed sufficient by the management and carry out monitoring, in order to satisfy the operating needs of the Group and lower the effects of fluctuations in cash flows. The management of the Group monitors the utilization of bank borrowings and makes sure the related borrowing agreements are complied with.

The primary source of funding for the Group is bank borrowings. On 30 June 2011, the Group had outstanding bank facilities of RMB2,928,640,000 (On 30 June 2010, the Group had unutilized bank facilities of RMB2,813,269,009.58), including outstanding short-term bank facilities of RMB2,928,640,000 (On 30 June 2010, the Group had unutilized bank facilities of RMB2,099,594,395.53).

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

RMB

Item	**30 June 2011**		
	Within 1 year	**Over 1 year**	**Total**
Monetary capital	527,943,267.57	—	527,943,267.57
Bills receivable	40,603,453.31	—	40,603,453.31
Account receivables	590,489,202.89	—	590,489,202.89
Other receivables	62,821,104.65	—	62,821,104.65
Short-term borrowings	522,483,518.10	—	522,483,518.10
Bills payables	501,529,120.12	—	501,529,120.12
Account payables	574,578,123.67	—	574,578,123.67
Interests payables	2,468,651.78	—	2,468,651.78
Dividends payables	44,967,509.98	—	44,967,509.98
Other payables	21,322,577.26	—	21,322,577.26

2.2 Fair value

The value of financial assets and financial liabilities are determined using the following method:

The fair values of derivative instrument are determined based on the publicly quoted price in an active market. If public quotation does not exist, the fair value of derivatives without options is estimated on the basis of appropriate revenue curve using future cash flow discounting method; fair value of derivatives with options is measured and determined using fixed price option model (eg. binomial model). In the opinion of the Group's management, the carrying values for financial assets and financial liabilities measured at amortized costs in financial statements are approximate to the fair value of those assets and liabilities.

2.3 Sensitivity analysis

The Group adopts sensitivity analysis techniques to analyze the possible effects of rational and probable changes in risk variables to profit and loss for the current period or to the beneficial interests. Since risk variables seldom change on a stand-alone basis, while the correlation between variables has significant influence to the ultimate amount of change effected by the change in a single risk variable; therefore, the below analysis is based on the assumption that the changes in each variable occurred separately.

IX. Approval of the Financial Statements

These financial statements had been approved by the Board on 26 August 2011.

SUPPLEMENTARY INFORMATION

I. Breakdown of extraordinary gains and losses

RMB

Item	Amount	Remarks
Profit or loss from disposal of non-current assets	(122,685.18)	
Government grants accounted for in profit and loss account of the current period (except for government grants closely related to the corporate business that were given under at a fixed standard amount or quantity as stipulated by the State) (Note)	14,060,000.00	
Non-operating gains and losses other than the above items	434,686.17	
Effect of income tax	(2,254,153.21)	
Total	12,117,847.78	

II. Return on net assets and earnings per share

This calculation of return on net assets and earnings per was prepared by Shandong Molong in accordance with the relevant requirements of the spare "Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 09) — Calculations and disclosures for the return on net assets and earnings per share" (as amended in 2010) issued by the China Securities Regulatory Commission.

Profit during the Reporting Period	Weighted aver age return on assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to holders of ordinary shares of the Company	2.78	0.19	N/A
Net profit attributable to holders of ordinary shares of the Company, after deducting extraordinary gains and losses	2.58	0.19	N/A

III. Irregular movements in major items of the accounting statements of the Company and explanation on their reasons

This movements in items of the accounting statements of the Company was prepared by Shandong Molong in accordance with the relevant requirements of the spare "Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 15) — general regulation of financial statement" (as amended in 2010) issued by the China Securities Regulatory Commission.

1. Items of combined balance sheet as at 30 June 2011 with relatively material changes as compared with that as at 1 January 2011 are set forth below:

Unit: RMB in ten thousands

Item	30 June 2011 (unaudited)	31 December 2010 (audited)	Increase/ decrease (%)	Reasons
Monetary capital	**52,794**	89,229	–40.83%	(1)
Bills receivable	**4,060**	1,912	112.34%	(2)
Other receivable	**6,282**	3,028	107.46%	(3)
Prepayments	**5,487**	15,860	–65.40%	(4)
Other current assets	**6,000**	4,105	46.16%	(5)
Construction in progress	**22,158**	13,145	68.57%	(6)
Research and development	**3,511**	0.00	—	(7)
Advance receipts expenses	**5,017**	3,472	44.50%	(8)
Dividends payable	**4,497**	2,379	89.03%	(9)

(1) Monetary capital decreased by 40.83% as compared with that at the beginning of the year, which was mainly because part of the loans was paid back during the current period;

(2) Bills receivable increased by 112.34% as compared with that at the beginning of the year, which was mainly because bills haven't been endorsed after received during the current period;

(3) Other receivable increased by 107.46% as compared with that at the beginning of the year, which was mainly because part of accounts for certain land use rights was paid in advance during the current period;

(4) Prepayments decreased by 65.40% as compared with that at the beginning of the year, which was mainly due to the surge in price level of raw materials, and the fact that the Company paid the payments of goods to suppliers to lock the maximum purchase price of major raw materials in order to reduce the soaring price risk which had been finished during the Reporting Period.

(5) Other current assets increased by 46.16% as compared with that at the beginning of the year, which was mainly due to the increase of the pending deduct VAT on purchase during the Reporting Periods;

(6) Construction in progress increased by 68.57% as compared with that at the beginning of the year, which was mainly due to the investment in high-end petroleum equipment project and 140mm oil steal tubes processing project during the current period;

(7) Research and Development expenses was mainly because the developed products have not been finished during the current period;

(8) Advance receipts increased by 44.50% as compared with that at the beginning of the year, which was mainly due to the increase in advance receipts of goods from customers during the current period;

(9) Dividends payable increased by 89.03% as compared with that at the beginning of the year, which was mainly because part of the dividends have not been paid at the end of the current period.

2. Items of combined income statement for the six months ended 30 June 2011 with relatively material changes as compared with that for the six months ended 30 June 2010 are set forth below:

Unit: RMB in ten thousands

Item	**30 June 2011 (unaudited)**	30 June 2010 (unaudited)	Increase/ decrease (%)	Reasons
Financing Costs	**922**	2,122	–56.55	(1)
Non-operating income	**1,502**	2,992	–49.80	(2)
Total profit	**8,858**	14,662	–39.58	(3)
Income tax	**1,293**	2,467	–47.59	(4)
Net profit	**7,565**	12,195	–37.97	(5)
Net profit attributable to the parents	**7,545**	12,090	–37.59	(6)

(1) Financing costs decreased by 56.55% as compared with that of the same period last year, which was mainly due to bank deposits decreased and interest expense decreased in the first half of 2011;

(2) Non-operating income decreased by 49.80% as compared with that of the same period last year, which was mainly due to removal of the obsoleted policy of value-added tax for material by the government on 1 January 2011;

(3) Total profit decreased by 39.58% as compared with that of the same period last year, which was mainly due to the fact that the 180mm project was in the early stage of production, therefore cost of manufacture is high, and the price of major raw materials has increased largely;

(4) Income tax decreased by 47.59% as compared with that of the same period last year, which was mainly due to the fact that total profit decreased in the first half of 2011;

(5) Net profit decreased by 37.97% as compared with that of the same period of last year, which was mainly due to the fact that the 180mm Project was in the early stage of production, therefore cost of manufacture is high, and the price of major raw materials has increased;

(6) Net profit attributable to owners of the parent decreased by 37.59% as compared with the same period of last year, which was mainly due to the fact that the 180mm Project was in the early stage of production, therefore cost of manufacture is high, and the price of major raw materials has increased.

VIII. DOCUMENTS AVAILABLE FOR INSPECTION

I. The financial statements which were signed and sealed by the legal representative, financial controller and head of the financial department of the Company.

II. Original copies of all of the documents and announcements of the Company which have been disclosed in the designated newspaper and website as approved by China Securities Regulatory Commission during the Reporting Period.

Shandong Molong Petroleum Machinery Company Limited
30 August 2011