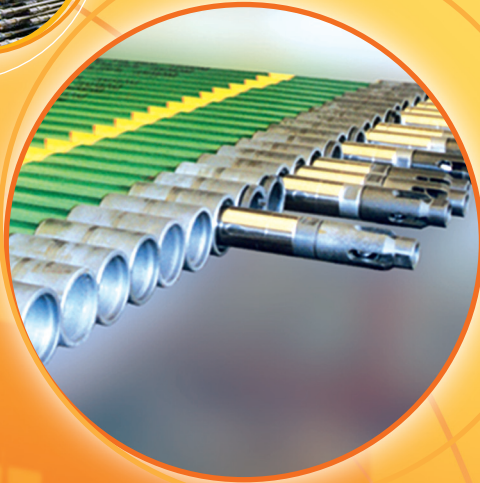




山東墨龍石油機械股份有限公司

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)



2012
Interim
Report

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IMPORTANT

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

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

Zhang En Rong, the chairman of the Company, Yang Jin, the financial controller of the Company and Liu Min, the head of the financial department, declare that they guarantee the truthfulness and completeness of the financial statements of the interim Report.

This interim 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 2012 of the Company and its subsidiaries prepared in accordance with Accounting Standards for Business Enterprises have not been audited.

Definitions: "Company", "the Company", and "Shandong Molong" refer to Shandong Molong Petroleum Machinery Company Limited, and the Company and its subsidiaries are collectively referred to as "the Group" in this report; "SZSE" refer to Shenzhen Stock Exchange, "SEHK" refer to Stock Exchange of Hong Kong Limited, "Listing Rules of Shenzhen Stock Exchange" refer to the Rules governing the listing of securities on the Shenzhen Stock Exchange, "Listing Rules of SEHK" refer to the Rules governing the listing of securities on the Hong Kong Stock Exchange, unless otherwise specified.

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: 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. Xiao Qing Zhou, Mr. Guo Hong Li
Independent Non-executive Directors: Mr. John Paul Cameron, Mr. Chau Shing Yim, David, Ms. Wang Chun Hua
4. Special Committee
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. Supervisors
Mr. Liu Huai Duo (Chairman), Mr. Fan Ren Yi, Mr. Zhang Jiu Li
6. Secretary to the Board of the Company: Xie Xin Cang
Company Secretary: Chan Wing Nang, Billy
Securities Affairs Representatives: Zhao Hong Feng
Correspondence Address: No. 99 Beihuan Road, Shouguang City, Shandong Province
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
Postal Code: 262700
Website of the Company: <http://www.molonggroup.com>
Email address: sdml@molonggroup.com
10. 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

11. Stock Information
A shares Shenzhen Stock Exchange Stock Abbreviation: 山東墨龍 Stock Code: 002490
H shares The Stock Exchange of Hong Kong Limited Stock Abbreviation: 山東墨龍 Stock Code: 00568
12. Share Registrar
A Share Registrar:
China Securities Depository and Clearing Corporation Limited Shenzhen Branch
18th Floor, CITIC Plaza, 1093 Shennan Zhong Road, Shenzhen
H Share Registrar:
Tricor Investor Services Limited
26/F, Tesbury Centre, No. 28 Queen's Road East, Wanchai, Hong
13. 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
Legal Person Business License: 370000400000030
Registration Number: 370783734705456
Organization No.: 73470545-6
14. Auditors Retained by the Company
Auditors: Deloitte Touche Tohmatsu Certified Public Accountants Ltd.
Office Address: 30th Floor, Bund Center, NO. 222 Yanan Road, Huangpu District, Shanghai
15. 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
Hong Kong Legal Advisers: DLA Piper Hong Kong
The Landmark, 17th Floor, Edinburgh Tower, 15 Queen's Road, Central, Hong Kong
16. 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 2012 (unaudited)	30 June 2011 (unaudited)	Increase/ decrease (%)
Total Assets (RMB)	5,288,055,967.03	4,688,931,436.70	12.78%
Equity attributable to equity holders of the Company (RMB)	2,870,056,764.39	2,795,014,393.18	2.68%
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)	7.19	7.01	2.57%
	30 June 2012 (unaudited)	30 June 2011 (unaudited)	Increase/ decrease (%)
Operating profit (RMB)	86,757,577.02	73,722,915.25	17.68%
Total profit (RMB)	102,282,039.79	88,585,043.12	15.46%
Net profit attributable to the equity holders of the Company (RMB)	75,704,983.45	75,447,529.37	0.34%
Net profit after extraordinary gains or losses attributable to the equity holders of the Company (RMB)	61,864,114.82	63,329,681.59	-2.31%
Net cash flow generated from operating activities (RMB)	70,405,830.95	16,901,576.66	316.56%
Net cash flow per share generated from operating activities	0.18	0.04	350.00%
Basic earnings per share (RMB per share)	0.19	0.19	—
Diluted earnings per share (RMB per share)	N/A	N/A	N/A
Return on net assets on weighted average basis (%)	2.67%	3.02%	-0.35%

Extraordinary items

Extraordinary items	Unit: RMB Amount
Gains or losses arising from the disposal of non-current profit and loss	(165,834.90)
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	15,730,000.00
Non-operating gain or loss other than the above	595,233.57
Effect of extraordinary gains or losses on income tax	(2,313,201.10)
Total	13,846,197.57

III. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. Changes in share capital

Unit: shares

	Prior to the change		Increase/decrease as a result of the change (+, -)					After the change	
	Number of shares	Percentage	New issue	Bonus issue	Transfer from	Others	Sub-total	Number of shares	Percentage
					capital reserve				
I. Shares subject to lock-up	198,239,000	49.69%	—	—	—	—	—	198,239,000	49.69%
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	3,409,500	0.85%	—	—	—	4,619,000	—	8,028,500	2.01%
Comprising:									
Domestic non-state-owned corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	3,409,500	0.85%	—	—	—	4,619,000	—	8,028,500	2.01%
4. Foreign shares									
Comprising:									
Foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	194,829,500	48.84%	—	—	—	(4,619,000)	—	190,210,500	47.68%
II. Shares not subject to lock-up	200,685,200	50.31%	—	—	—	—	—	200,685,200	50.31%
1. RMB ordinary shares	72,622,000	18.2%	—	—	—	—	—	72,622,000	18.2%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	128,063,200	32.1%	—	—	—	—	—	128,063,200	32.1%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of 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

Total number of shareholders **The total number of shareholders was 28763, of which, 28199 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	32.02%	127,741,945	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
Yu Ling Shu	Domestic natural person	0.51%	2,017,401.00	0	0	A Shares
Lou Hua	Domestic natural person	0.33%	1,300,000.00	0	0	A Shares

Shareholdings of the top ten shareholders of non-restricted shares

Name of shareholders	Number of non-restricted shares held	Name of shareholders
HKSCC Nominees Limited	127,741,945.00	H Shares
Yu Ling Shu	2,017,401.00	A Shares
Lou Hua	1,300,000.00	A Shares
Yang Peng Cheng	752,150.00	A Shares
Xu Lan Zhi	572,298.00	A Shares
Zhang Ling	442,001.00	A Shares
The customer credit guarantee securities account of ShenYin universal securities co., LTD. 申銀萬國證券股份有限公司客戶信用交易擔保證券賬戶	427,860.00	A Shares
Feng Jing Juan	427,700.00	A Shares
Zhang Yu Ping	419,323.00	A Shares
Lou Bei	351,615.00	A Shares

Connected relationship or concert-party relationship among the above shareholders

Zhang En Rong is the controlling shareholder of the Company and the father of Zhang Yun San, 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 2012, 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 the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register to be kept under section 336 of the SFO:

Long positions in the Shares of the Company

Name	Type of interest	Number of H Shares	Percentage of H Shares	Percentage of total registered capital
Desmarais Paul G. (Note 1)	Interest of controlled corporation	30,750,000 (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%

Note 1: According to the best knowledge of the Directors of the Company 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. Mackenzie 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.

Mackenzie 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.

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

On 29 March 2012, the sixteenth meeting of the third session of the Board of the Company considered and approved the resolution of appointing Mr. Yang Jin as the financial controller of the Company. Mr. Cui Huan You resigned from the position of financial controller due to health reasons and is substituted by Mr. Yang Jin whose term of office will be three years from the date of approval.

On 25 May 2012, the 2011 annual general meeting of the Company considered and approved the resolution of appointing Mr. Guo Hong Li to replace Mr. Wang Ping who expired of his term of office as the non-executive director of the Company, the term of office will expired on the date of expiry of the third session of the Board.

On 25 May 2012, the 2011 annual general meeting of the Company considered and approved the resolution of appointing Mr. Zhang Jiu Li to replace Mr. Liu Wan Fu who expired of his term of office as the supervisor of the Company, the term of office 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 published on China Securities Journal, Securities Daily, Securities Times, Shanghai Securities News, the website of CHINF (<http://www.cninfo.com.cn>) on 26 May 2012 and the website of the Hong Kong Stock Exchange (www.hkex.com) on 25 May 2012.

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III. Personnel of the Company

At the end of the reporting period, the Group had 2,844 employees in aggregate, including 2,676 production staff, 55 sales staff, 42 technical staff, 34 financial staff, 36 administrative staff. By level of education, there were 372 employees with bachelor's degree or above, 422 employees with college degree, 1,194 employees with technical secondary school education and 856 employees with high school, technical school education and levels below technical secondary school education.

V. DIRECTORS' REPORT

I. Management Discussion and Analysis

1. Business Review

During the Period Under Review, the Group achieved unaudited revenue of RMB1,583,899,848.87, representing an increase of approximately 4.24% as compared with the same period last year; the unaudited total profit was RMB102,282,039.79, an increase of approximately of 15.46%; the unaudited profit attributable to equity holders of the Company was RMB75,704,983.45, representing an increase of 0.34%; and the unaudited net profit after extraordinary items was 61,864,114.82, representing a decrease of approximately 2.31%, as compared with the same period last year.

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 owned by PetroChina Company Limited and its subsidiaries (collectively, "PetroChina Group"), and Shengli Oil Field (勝利油田), Zhongyuan Oil Field (中原油田), Jiangsu Oil Field (江蘇油田) and Jiangnan Oil Field (江漢油田), all of which are oil fields owned by China Petroleum & Chemical Corporation and its subsidiaries (collectively, "Sinopec Group"). During the Period Under Review, the Group increased its efforts to cooperate with existing oil fields customers, and gained positive response from the customers, Sales to the above oil fields under the PetroChina Group and the Sinopec Group accounted for approximately 39.42% of the Group's sales revenue.

During the Period Under Review, the Group's fluid seamless pipe and the three pumping equipment successfully won the bid again and become the qualified supplier for PetroChina Group. The Group's oil tubular products has been adopted by the North Eastern branch of Sinopec Group. The non-API petroleum special pipes began to delivery supply to Southwest Oil and Gas Field and Xinjiang Oil Field etc. In addition, the Company's new developments in the non-oil well pipe market in the regions of Southern China, Shaanxi and other has further enhanced the non-oil well pipes market share.

In terms of domestic market expansion, the cooperation between the Group and the four major domestic oil groups increased greatly, and this further implemented stated strategies for overall cooperation with the four major domestic oil groups.

In terms of overseas market, during the Period Under Review, while the Group has further strengthened the existing markets and customers, the Group has also continued to step up its efforts in developing business to regions such as the Middle East, South America, North Africa, the Middle East and had achieved great performance. The Group continued to establish and maintain 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. During the Period Under Review, the Group's revenue generated from exports accounted for approximately 35.35% of the Group's total sales revenue.

In terms of the development of new products along with the scientific advantages of "Province-class Enterprise Technical Center of Shandong Province" and "Shandong Molong post-doctoral research station", the Group continued to increase its efforts to develop high-end products and strengthened technological cooperation with research institutions such as Xi'an Jiaotong University, Northeastern University, and Xi'an Pipe Material Research Institute of PetroChina Group. With the advantages, the Company increased its efforts to develop new products, expand product mix and enrich product categories, and has successively developed products including the successful completion of the trial production of the special buckle rod (screw pump use), special economic buckle, inner diameter tubing, thermal recovery well casing, High-grade anti-H₂S corrosion + High resistance to collapsing oil casing allowed to be used in the domestic and foreign market on trial basis. Further, the Group's applications for three utility model patent have be accepted following a breakthrough in the company's new research & development results in a "two-roll cross rolling puncher roll", "2-7/8 internal diameter tubing" and "pumping unit brakes".

2. Principal operations of the Company and analysis on their operations

(1) Business scope of the Company

Business scope of the Company include: production and sales of sucker 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 2012

Unit: RMB in ten thousand

By industry or by product	Revenue from operations by industry					
	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	1,413,174,306.16	1,276,227,296.60	9.69%	9.84%	8.02%	1.52
Three kinds of pumping units	33,999,074.87	29,132,234.05	14.31%	-25.17%	-20.09%	(5.46)
Petroleum machinery	89,591,133.53	69,680,504.57	22.22%	-7.17%	-7.18%	—
Others	27,054,938.82	27,510,467.65	-1.68%	-50.14%	-50.32%	0.36
Total	1,563,819,453.38	1,402,550,502.87	10.31%	5.47%	4.02%	1.24

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

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Six months ended 30 June 2012

Unit: RMB in ten thousand

Geographical segment	Revenue from operations (Unaudited)	Year-on-year increase/decrease in revenue from operations (%)
PRC	1,016,933,259.77	6.56%
Abroad	546,886,193.61	3.49%
Total	1,563,819,453.38	5.47%

(4) Problems emerged in operations and measures to resolve them

The gloomy global economic situation, the European debt crisis and political unrest have resulted in fluctuation in the prices of bulk commodities and raw materials in society, causing the fluctuation in the Company's production cost.

(5) Consolidated Gross Profit Margin

The consolidated gross profit margin of the Group is approximately 10.31% for the six months ended 30 June 2012, increased by 1.24 percent as compared with that of 9.07% for the same period last year. Such increase was attributable to the gradual release of production capacity of the 180mm Project.

(6) Selling Expenses

The unaudited selling expenses of the Group increased from approximately RMB24.26 million for the six months ended 30 June 2011 to approximately RMB26.31 million for the six months ended 30 June 2012. Such increase was mainly due to the increase in delivery expenses and agency fees with the increasingly warmer environment. Selling expenses was approximately 1.59% of the Group's total revenue for the six months ended 30 June 2011 and increased to approximately 1.66% for the six months ended 30 June 2012.

(7) Administrative Expense

The unaudited administrative expenses of the Group increased from approximately RMB36.54 million for the six months ended 30 June 2011 to approximately RMB41.70 million for the six months ended 30 June 2012, representing a increase of approximately 14.12%. Administrative expenses was approximately 2.40% of the Group's revenue for the six months ended 30 June 2011 and increased to approximately 2.63% for the six months ended 30 June 2012, representing a increase of approximately 0.23%. The increase of proportion was mainly resulted from the increase in the amortized expenses of intangible assets during the period.

(8) Financing Cost

The unaudited financing cost of the Group for the six months ended 30 June 2012 was approximately RMB9.66 million, representing approximately 0.63% of the Group's total revenue and a increase of approximately RMB0.74 million as compared to the financing cost of RMB9.22 million for the six months ended 30 June 2011. Such increase was mainly due to interest expense increase as a result of increase in bank loans in the first half of 2012.

(9) Cash and cash equivalents

As at 30 June 2012, the Group recorded a net increase in the unaudited cash and cash equivalents by approximately RMB347.71 million over the same period in 2011. The net cash inflow from operations during the year amounted to approximately RMB70.41 million (2011: approximately RMB16.90 million). Such increase was attributable to the increase of RMB194.01 million in cash received from product sales and labor service provision, the increase of RMB3.91 million in cash paid for product purchases and labor services taken, and the increase RMB21.01 million in other cash received relating to operating activities over the same period last year. Other cash flow items were attributable to, *inter alia*, the increase of RMB743.75 million in cash received from loans and the increase of RMB373.88 million in cash for repayment of liabilities over the same period last year.

(10) bank financing and mortgage assets

In the reporting period, the Company has owned loans on credit of RMB540.24 million.

(11) Significant Investments

In the reporting period, the Group did not have other significant Investments.

(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. All risk factors which may adversely affect the realization of the future development strategies and operating targets of the Company

1. When there is any extraordinary fluctuation in the energy equipment industry caused by the macroeconomic downturn, it will directly lead to the fluctuation of product demand;
2. When there is any extraordinary fluctuation in raw material price, it will directly affect the production cost of the products and impose direct impact on the results of the Company;
3. When the exchange rate of Renminbi substantially fluctuates, it will impose direct impact on the results of the Company.

III. Investments During the Reporting Period

Use of proceeds during the reporting period (unaudited)

Unit: RMB in ten thousands

Project undertaken and investment of surplus proceeds	Project change (including changed partly)	Proposed investment	Investment after adjusted (1)	Investment during the Period under Review	Accumulative total investment ended 30 June 2011 (2)	Rate of progress of investment during the Period under Review (%) (3)=(2)/(1)	The date of project achieved the intended use	Effect during the Period under Review	Achieved the intended effects	Significant changes of the feasibility of project
Total proceeds					119,673.83					
Total proceeds which changed usage during the Period under Review					0.00					Investment of total proceeds during the reporting period 247.78
Accumulative total proceeds which changed usage					0.00					
Ratio of accumulated total proceeds with uses changed					0.00%					Accumulated investment of total proceeds 119,673.83
Project undertaken										
180mm Project	No	72,000.00	72,000.00	0.00	72,000.00	100.00%	—	—	Yes	No
Subtotal of investment project undertaken	—	72,000.00	72,000.00	0.00	72,000.00	—	—	—	—	—
Investment of surplus proceeds										
Oil Steel Tubes Processing Projects	No	22,000.00	22,000.00	247.78	22,000.00	100.00%	—	—	N/A	No
Paid back bank loans (if any)	—	—	—	—	—	—	—	—	—	—
Supplied working fund (if any)	—	25,673.83	25,673.83	0	25,673.83	100.00%	—	—	—	—
Subtotal of investment of surplus proceeds	—	47,673.83	47,673.83	247.78	47,673.83	—	—	—	—	—
Total	—	119,673.83	119,673.83	247.78	119,673.83	—	—	—	—	—
Explanation on failure to progress as scheduled and realize 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	An amount of RMB2,477,800 was used for the petroleum pipes processing project for the period, and the surplus net proceeds were fully utilized.									
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	N/A									
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									

IV. (1) Analysis and explanation on major year-on-year changes in composition of assets of the Company during the reporting period

Unit: RMB in ten thousands

Item	As at	As at	Increase/ decrease (%)	Reasons
	30 June 2012 (unaudited)	31 December 2011 (unaudited)		
Cash and bank balance	57,819.06	41,363.20	39.78%	(1)
Bills receivable	18,322.08	7,352.89	149.18%	(2)
Prepayments	6,826.51	4,212.79	62.04%	(3)
Other current assets	5,743.06	1,258.06	356.50%	(4)
Construction in progress	4,103.88	8,352.31	-50.87%	(5)
Research and development expenditures	89,551.13	71,050.21	26.04%	(6)
Advance receipts	71,547.58	38,369.02	86.47%	(7)
Dividends payable	7,371.00	2,071.35	255.85%	(8)

- (1) Monetary capital increased by 39.78% as compared with that at the beginning of the year, which was mainly resulted from an increase in bank acceptance of the Company which led to the corresponding increase in guarantee deposited with banks, resulting in an increase in other monetary capital during the current period;
- (2) Bills receivable increased by 149.18% as compared with that at the beginning of the year, which was mainly because bills were undue or have not been endorsed after received during the current period;
- (3) Prepayments increased by 62.04% as compared with that at the beginning of the year, which was due to the increase in purchases, resulting in the corresponding increase in prepayments for materials;
- (4) Long-term equity investment increased by 356.50% as compared with that at the beginning of the year, which was mainly attributed to the capital contribution from Shouguang Baolong Petroleum Material Company Limited, a holding subsidiary of the Company, for the establishment of Shouguang Maolong Micofinance Co., Ltd.;
- (5) Construction in progress decreased by 50.87% as compared with that at the beginning of the year, which was mainly resulted from the transfer of 180 heat treatment lines and fine processing lines into fixed assets upon their completion during the current period;
- (6) Short-term borrowings increased by 26.04% as compared with that at the beginning of the year, which was mainly caused by the increase in borrowings by the Company to satisfy liquidity during the current period;
- (7) Bills payable increased by 86.47% as compared with that at the beginning of the year, which was mainly due to the extensive usage of bank acceptance for payment by the Company during the current period;
- (8) Advance receipts increased by 255.85% 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.

(2) *Analysis and explanation on major year-on-year changes in profit and loss indicators during the reporting period*

Six months ended 30 June 2012

Unit: RMB in ten thousands

Item	30 June 2012 (unaudited)	30 June 2011 (unaudited)	Increase/ decrease (%)	Reasons
Impairment losses on assets	(63.49)	(7.70)	724.16%	(1)
Non-operating expenses	47.97	16.12	197.56%	(2)
Income tax	1,965.53	1,293.36	51.97%	(3)
Minority profit and loss for the current period	692.18	20.39	3294.43%	(4)

- (1) Loss on impairment of assets increased by 724.16% as compared with that of the same period last year, which was mainly resulted from the receipt of accounts receivable which had been provided for as bad debt for the prior period during the current period;
- (2) Non-operating expenses increased by 197.56% as compared with that of the same period last year, which was mainly due to the transfer of net values to losses resulting from the increase in disposal of fixed assets over the same period last year during the current period;
- (3) Income tax increased by 51.97% as compared with that of the same period last year, which was mainly attributed to the increase in profits from Shouguang Baolong, a subsidiary of the Company, over the same period last year during the current period;
- (4) Minority profit and loss for the current period increased by 3,294.43%, as compared with that of the same period last year, which was mainly attributed to the increase in profits during the current period from Shouguang Baolong, a subsidiary of the Company, over the same period last year, which led to the corresponding increase of minority profit and loss for the current period.

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(3) *Cash flow generated from operating activities of the Company during the reporting period*

Six months ended 30 June 2012

Unit: RMB in ten thousands

Item	30 June 2012 (unaudited)	30 June 2011 (unaudited)	Increase/ decrease (%)	Reasons
Net cash flow from operating activities	7,040.58	1,690.16	316.56%	(1)
Net cash flow from investment activities	(22,247.94)	(11,991.00)	-85.54%	(2)
Net cash flow from financing activities	15,998.58	(24,253.39)	-165.96%	(3)

- (1) Net cash flow from operating activities increased by RMB53.50 million as compared with the same period last year which was mainly resulted from an increase of RMB194.00 million in cash received for the sale of commodities and provision of labor services, an increase of RMB21.00 million in other cash received relating to operating activities, an increase of RMB3.91 million for the payment in cash for the purchase of commodities and labor services, as compared with the same period last year, and an increase of RMB161.42 million in other cash paid relating to operating activities during the current period;
- (2) Net cash flow from investment activities decreased by RMB102.57 million as compared with the same period last year which was mainly resulted from the significant decrease in project expenses for the current period over the same period last year;
- (3) Net cash flow from financing activities increased of RMB402.52 million as compared with the same period last year which was mainly resulted from the increase of RMB36,987 in bank loans, the decrease of RMB29.80 million in cash used for dividend payment, distribution of profit and payment of interests during the current period as compared with the same period last year.

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

Change in net profit attributable to shareholders of the listed Company from January to September 2012	-10% to 10%
Range of change in net profit attributable to shareholders of the listed Company from January to September 2012 (ten thousand yuan)	11,975 to 14,636
Net profit attributable to shareholders of the listed Company from January to September 2011 (yuan)	133,050,404.47

Reasons for the change in results

Under the impact of the macroeconomic downturn, coupled with the relatively substantial fluctuation in the prices of raw material currently in the market and the potential adjustment of product prices, the Company expects that net profit attributable to shareholders of the listed Company will be fluctuated to a certain extent over the same period last year.

VI. Disclosures in Accordance with the Listing Rules of SEHK

1. Results

The Group's profit for the current year and the state of financial affairs of the Group and the Company at that date are set out in the consolidated financial statements on pages 24 to 31 of the annual report

2. According to the Hong Kong Securities and Futures Ordinance, disclosure of Directors', Supervisors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures

As at 30 June 2012, interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Group and to the Stock Exchange, were as follows:

Long positions in the Shares

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total 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 2012 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 month ended 30 June 2012.

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 of directors confirm that the Company has maintained a sufficient public as at the date of this report.

7. *Directors*

As at the end of reporting period, the executive Directors of the Company are Mr. Zhang En Rong, Mr. Lin Fu Long, Mr. Zhang Yun San and Mr Xie Xin Cang, the non-executive Directors of the Company are Mr. Xiao Qing Zhou and Mr. Guo Hong Li, and the independent non-executive Directors are Mr. John Paul Cameron, Ms. Wang Chun Hua and Mr. Chau Shing Yim, David.

8. *Model Code for Directors' Securities Transactions*

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the Directors. Directors are reminded of their obligations under the Model Code on a regular basis. The Company has made specific enquiry of all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the period under review.

VI. MATERIAL MATTERS

I. Corporate governance structure during the reporting period

1. *The Company's corporate governance is generally 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 a 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. *Corporate governance*

The Company has complied throughout the period under review with the code provisions set out in the Code on Corporate Governance (the "Code") contained in Appendix 14 of the Listing Rules without any deviation. None of the Directors is aware of any information that would reasonably suggest that the Company is not or was not in compliance with the Code at any time during the period under review.

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 the 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 Two meeting during the period under review with an attendance rate of 100%.

The Audit Committee has reviewed the Group's unaudited financial statements for the six months ended 30 June 2012, and submitted to the Board for approval.

4. *Nomination Committee*

The Nomination Committee consists of three independent non-executive Directors: 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 period under review with an attendance rate of 100%.

5. *Remuneration and Evaluation Committee*

The primary duty of the Remuneration 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 Committee consists of three independent non-executive Directors: 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 Committee.

The Remuneration Committee held one meeting during the period under review with an attendance rate of 100%.

II. 2011 profit distribution plan and 2012 interim profit distribution

1. The 2011 profit distribution plan of the Company has been considered and approved at the 2011 Annual General Meeting. Based on 398,924,200 shares in the total share capital as at the end of 2011, cash bonus of RMB1.00 (tax included) was declared to be paid to all shareholders for every 10 shares held. Distribution of cash bonus under such distribution amounted to RMB39,892,420.00 (tax included). For A Shares, the record date was 19 July, and the ex-rights date was 20 July.
2. The 2012 interim profit distribution plan: no profit distribution was proposed to be implemented for the interim period of 2012, also, no share capital increase by way of transfer from capital reserves will be carried out.

III. There Was no Material Litigation or Arbitration of the Company During the Reporting Period

IV. There Was no Significant Purchase or Sales of Assets and Merger During the Reporting Period

V. There Was no Major Connected Transactions During the Reporting Period

VI. Significant Contracts and their Performance

1. There was no external guarantees during the reporting period
2. There was no entrusted loans during the reporting period.
3. There was no material contracts which did not perform and did not perform in time.

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

Zhang En Rong and Zhang Yun San, the controlling shareholders of the Company, committed that shares held by Zhang En Rong and 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 A Shares Listed.

Lin Fu Long, Xie Xin Cang, Liu Yun Long, Cui Huan You, Liang Yong Qiang, and 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 A Shares Listed.

Meantime, as the directors, supervisors and senior management of the Company, Zhang En Rong, the shareholders of the Company, Lin Fu Long, Zhang Yun San, Xie Xin Cang, Cui Huan You and 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 the terms of office after the above period expires, and they shall not transfer the shares held by them within half a year after leaving. During the reporting period, the above people (or legal person) strictly performed its commitments.

Based on the confidence to the Company's future, as the shareholders of the Company, Lin Fu Long, Xie Xin Cang, Liu Yun Long, Cui Huan You, and Liang Yong Qiang continued to committed on 19 October 2011 that the lock-up shares of Shandong Molong they held would continue to extend the lock-up period for 24 months to 21 October 2013 after the prior lock-up period expired on 21 October 2011.

Meantime, they committed that shares held by them shall not be transferred or entrusted to others to manage, and not be purchased by the Company during the lock-up period. If matters which made the amount of shares changed happened, including capital conversion from capital reserve, dispatch stock dividend, allotment of shares, and additional shares, the amount of lock-up shares aforementioned shall be adjusted accordingly. If they breach the above promise and reduce shares during the lock-up period, all income from reducing shares will be turned over to the Company, and undertake the 10% liquidated damages.

VIII. Details of reception

Time of reception	Place of reception	Manner of reception	Types of parties accommodated	Parties accommodated	Main topics of discussion and information provided
2012-02-07	Shouguang, Shandong	On-site research and investigation	Organization	Shanghai Right Share Investment Management Co., Ltd	Introduction of the production and operation of the Company and visits to the production lines of the Company.
2012-05-17	Shouguang, Shandong	On-site research and investigation	Organization	Zexi Investment	Introduction of the production and operation of the Company and visits to the production lines of the Company.
2012-05-18	Shouguang, Shandong	On-site research and investigation	Organization	China Merchants Securities, Minsheng Life Insurance Company Limited, Hua Shang Fund Management Co., Ltd	Introduction of the production and operation of the Company and visits to the production lines of the Company.

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

Subject matter	Designated newspapers for information disclosure	Date of announcement	Published internet website and search path
Monthly Return of Equity Issuer on Movements in Securities		2012-01-03	http://www.hkex.com.hk
Monthly Return of Equity Issuer on Movements in Securities		2012-02-03	http://www.hkex.com.hk
Preliminary Financial Data for the Year 2011	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-02-28	http://www.hkex.com.hk http://www.cninfo.com.cn
Monthly Return of Equity Issuer on Movements in Securities		2012-03-01	http://www.hkex.com.hk
Announcement in respect of the resolutions passed at the fourteenth meeting of the third session of the Board	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-03-07	http://www.hkex.com.hk http://www.cninfo.com.cn
Registration System for insider about insider information		2012-03-07	http://www.hkex.com.hk http://www.cninfo.com.cn
Opinion of China Merchants Securities on relevant matters of the Company		2012-03-07	http://www.hkex.com.hk http://www.cninfo.com.cn
Independent opinion of the Company buying Financial Products with idle fund		2012-03-07	http://www.hkex.com.hk http://www.cninfo.com.cn
Announcement in respect of the resolutions passed at the tenth meeting of the third session of the Supervisory Committee	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-03-07	http://www.hkex.com.hk http://www.cninfo.com.cn
The Date of the Board		2012-03-13	http://www.hkex.com.hk
Announcement in relation to the commencement of operation and production of a project using the surplus net proceeds of the Company	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-03-23	http://www.hkex.com.hk http://www.cninfo.com.cn

Subject matter	Designated newspapers for information disclosure	Date of announcement	Published internet website and search path
Clarification Announcement		2012-03-23	http://www.hkex.com.hk http://www.cninfo.com.cn
Annual Result Announcements for the Year ended 31 December 2011	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn
The articles of association of the company		2012-03-30	http://www.hkex.com.hk
List of Directors and Their Role and Function		2012-03-30	http://www.hkex.com.hk
Terms of reference of the audit committee		2012-03-30	http://www.hkex.com.hk
Terms of reference of the nomination committee		2012-03-30	http://www.hkex.com.hk
Terms of reference of the remuneration and evaluation committee		2012-03-30	http://www.hkex.com.hk
Special report and audit report in respect of the conditions for depositing and using the raised money		2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn
Special explanation and independent opinion on provision of the conditions of related party occupy funds by independent directors		2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn
Internal Control Evaluation Report for the Year 2011		2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn
Special explanation on the conditions of fund occupy by controlling shareholder and other related party		2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn
Announcement in respect of the resolutions passed at the eleventh meeting of the third session of the Supervisory Committee	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn
Announcement in respect of the resolutions passed at the sixteenth meeting of the third session of the Board	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn
2011 auditors' report	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn
2011 annual report summary	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn
The independent directors nominee statement (John • Paul • Cameron)		2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn
The independent directors nominee statement (Wang Chunhua)		2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn
The independent director candidate statement (John • Paul • Cameron)		2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn
The independent director candidate statement (Wang Chunhua)		2012-03-30	http://www.hkex.com.hk http://www.cninfo.com.cn

Subject matter	Designated newspapers for information disclosure	Date of announcement	Published internet website and search path
Monthly Return of Equity Issuer on Movements in Securities		2012-04-05	http://www.hkex.com.hk
Circular of the re-election or appointment of directors subject to the approval of shareholders		2012-04-05	http://www.hkex.com.hk
Announcement in respect of holding 2011 annual results statement		2012-04-05	http://www.hkex.com.hk http://www.cninfo.com.cn
Notice of Annual General Meeting		2012-04-05	http://www.hkex.com.hk http://www.cninfo.com.cn
2011 annual report		2012-04-09	http://www.hkex.com.hk
Proxy Form of AGM		2012-04-09	http://www.hkex.com.hk
Reply Slip of AGM		2012-04-09	http://www.hkex.com.hk
The Date of the Board		2012-04-09	http://www.hkex.com.hk
Clarification Announcement		2012-04-13	http://www.hkex.com.hk
2012 first quarterly report	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-04-23	http://www.hkex.com.hk http://www.cninfo.com.cn
Monthly Return of Equity Issuer on Movements in Securities		2012-05-03	http://www.hkex.com.hk
Indicative announcement on the convening of the 2011 annual general meeting		2012-05-08	http://www.hkex.com.hk http://www.cninfo.com.cn
Additional Ordinary Resolution for Annual General Meeting		2012-05-08	http://www.hkex.com.hk http://www.cninfo.com.cn
Revised Proxy Form for the Annual General Meeting to be held on 25 May 2012		2012-05-15	http://www.hkex.com.hk
Proxy Form for H Shares Class Meeting to be held on 25 May 2012		2012-05-15	http://www.hkex.com.hk
The members of the board of directors list and its role and function		2012-05-25	http://www.hkex.com.hk
Legal opinions as witnessed by lawyers on the announcement on resolution of the 2011 annual general meeting	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-05-25	http://www.hkex.com.hk http://www.cninfo.com.cn
Announcement in respect of the resolutions passed at the first meeting of the fourth session of the Supervisory Committee	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-05-25	http://www.hkex.com.hk http://www.cninfo.com.cn
Announcement in respect of the resolutions passed at the eighteenth meeting of the third session of the Board	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-05-25	http://www.hkex.com.hk http://www.cninfo.com.cn
Announcement in respect of the resolutions passed at 2011 annual general meeting	China Securities Journal, Securities Daily, Securities Times and Shanghai Securities News	2012-05-25	http://www.hkex.com.hk http://www.cninfo.com.cn
List of Directors and their role and function		2012-06-04	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 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, the Company did not provide any external guarantees during the report 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 AND NOTES IN ACCORDING TO ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

Consolidated Balance Sheets

As at 30 June 2012

Item	Note	Closing balance	Unit: RMB Opening balance
Current assets:			
Cash and bank balances		578,190,604.39	413,632,018.60
Bills receivable		183,220,845.29	73,528,915.23
Accounts receivable		561,968,785.96	460,164,130.15
Prepayments		68,265,051.50	42,127,891.20
Dividends receivable		—	—
Other receivable		25,242,250.93	29,820,567.73
Inventory		1,291,639,472.88	1,176,981,854.52
Other current assets		86,706,509.77	72,538,796.17
Total current assets		2,795,233,520.72	2,268,794,173.60
Non-current assets:			
Long-term equity investment		57,430,624.12	12,580,624.11
Fixed assets		1,873,099,893.69	1,831,368,142.96
Construction in progress		41,038,751.93	83,523,080.85
Construction materials		—	—
Intangible assets		314,687,830.16	333,019,939.03
Goodwill		142,973,383.21	142,973,383.21
Deferred income tax assets		12,122,148.78	16,672,092.94
Other non-current assets		—	—
Research and development costs		51,469,814.42	—
Total non-current assets		2,492,822,446.31	2,420,137,263.10
Total assets		5,288,055,967.03	4,688,931,436.70

Item	Note	Closing balance	Unit: RMB Opening balance
Current liabilities:			
Short-term borrowings		895,511,338.98	710,502,077.23
Bills payable		715,475,827.18	383,690,165.06
Accounts payable		571,017,140.89	616,716,194.34
Advance receipts		73,710,034.89	20,713,521.63
Salaries payable		14,807,038.79	19,905,460.32
Taxes payable		35,423,944.15	35,749,257.97
Interests payable		4,601,625.52	5,557,955.40
Dividends payable		—	—
Other payables		26,208,372.38	22,561,056.57
Non-current liabilities due within 1 year		—	—
Total current liabilities		2,336,755,322.78	1,815,395,688.52
Non-current liabilities:			
Long-term loans		9,040,000.00	9,040,000.00
Deferred income tax liabilities		9,075,104.40	11,518,019.83
Total non-current liabilities		18,115,104.40	20,558,019.83
Total liabilities		2,354,870,427.18	1,835,953,708.35
Shareholders' equity:			
Share capital		398,924,200.00	398,924,200.00
Capital reserve		1,248,424,858.42	1,248,424,858.42
Surplus reserve		157,965,274.48	157,965,274.48
Undistributed profit		1,065,374,682.32	989,669,698.87
Foreign currency translation differences		(632,250.83)	30,361.41
Total equity attributable to owners of the Company		2,870,056,764.39	2,795,014,393.18
Minority interests		63,128,775.46	57,963,335.17
Total shareholders' equity		2,933,185,539.85	2,852,977,728.35
Total liabilities and shareholders' equity		5,288,055,967.03	4,688,931,436.70

The notes form an integral part of the financial statements.

Balance Sheets of the Company

As at 30 June 2012

Item	Note	Closing balance	Unit: RMB
			Opening balance
Current assets:			
Cash and bank balances		529,255,424.08	377,139,037.54
Bills receivable		162,608,695.29	73,528,915.23
Accounts receivable		561,264,223.71	457,266,644.14
Prepayments		78,742,852.40	8,735,715.10
Other receivable		20,878,129.24	17,510,729.92
Inventory		1,042,212,350.89	959,063,493.57
Other current assets		47,783,163.15	39,474,432.06
Total current assets		2,442,744,838.76	1,932,718,967.56
Non-current assets:			
Long-term equity investment		652,069,921.73	652,069,921.73
Investment properties		—	—
Fixed assets		1,407,477,466.38	1,350,869,260.71
Construction in progress		28,572,139.21	84,726,317.92
Construction materials		—	—
Intangible assets		229,803,189.60	246,273,322.58
Research and development costs		41,515,849.90	—
Deferred income tax assets		8,542,025.68	10,219,763.81
Other non-current assets		—	—
Total non-current assets		2,367,980,592.50	2,344,158,586.75
Total assets		4,810,725,431.26	4,276,877,554.31

Item	Note	Closing balance	Unit: RMB Opening balance
Current liabilities:			
Short-term borrowings		725,267,666.98	618,942,712.23
Bills payable		712,754,697.18	380,837,165.06
Accounts payable		332,893,083.81	462,726,552.20
Advance receipts		210,142,557.03	26,525,840.83
Salaries payable		8,510,044.70	12,801,416.26
Taxes payable		11,871,156.51	19,300,276.19
Interests payable		2,977,281.07	4,600,388.73
Dividends payable		—	—
Other payables		18,418,266.25	13,937,011.55
Non-current liabilities due within 1 year		—	—
Total current liabilities		2,022,834,753.53	1,539,671,363.05
Non-current liabilities:			
Long-term loans		9,040,000.00	9,040,000.00
Deferred income tax liabilities		537,883.15	329,701.06
Total non-current liabilities		9,577,883.15	9,369,701.06
Total liabilities		2,032,412,636.68	1,549,041,064.11
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		157,965,274.48	157,965,274.48
Undistributed profit		973,017,129.18	922,540,824.80
Total shareholders' equity		2,778,312,794.58	2,727,836,490.20
Total liabilities and shareholders' equity		4,810,725,431.26	4,276,877,554.31

Consolidated Income Statements

Item	Note	RMB	
		Amount for the current period	Amount for the previous period
I. Total revenue from operations		1,583,899,848.87	1,519,497,001.07
Including: operating revenue		1,583,899,848.87	1,519,497,001.07
II Total cost of operations		1,497,142,271.85	1,445,774,085.82
Including: Operating cost		1,419,132,930.05	1,374,991,038.66
Business tax and surcharges		672,508.07	836,125.57
Selling expenses		26,312,929.90	24,256,985.24
Administrative expenses		41,699,748.99	36,543,704.28
Finance costs		9,959,090.74	9,223,272.07
Asset impairment losses		(634,935.90)	(77,040.00)
Add: Gains from changes in fair value		—	—
Investment income		—	—
Including: Gains from investment in associates and joint ventures		—	—
III. Operating profit		86,757,577.02	73,722,915.25
Add: Non-operating income		16,004,114.85	15,023,324.12
Less: Non-operating expenses		479,652.08	161,196.25
Including: Loss from disposal of non-current assets		—	—
IV. Total profit		102,282,039.79	88,585,043.12
Less: Income tax expenses		19,655,252.20	12,933,597.09
V. Net profit		82,626,787.59	75,651,446.03
Net profit attributable to shareholders of the Company		75,704,983.45	75,447,529.37
Minority interests		6,921,804.14	203,916.66
VI. Earnings per share:			
(1) Basic earnings per share		0.19	0.19
(2) Diluted earnings per share		N/A	N/A
VII. Other comprehensive income		(2,418,976.09)	—
VIII. Total comprehensive income		80,207,811.50	75,651,446.03
Total comprehensive income attributable to owners of the Company		75,042,371.21	75,447,529.37
Total comprehensive income attributable to minority interests		5,165,440.29	203,916.66

Income Statements of the Company

Item	Note	RMB	
		Amount for the current period	Amount for the previous period
I. Operating revenue		1,638,746,385.57	1,493,295,091.92
Less: Operating cost		1,525,597,547.20	1,375,730,367.33
Business tax and surcharges		8,449.89	—
Selling expenses		26,217,667.00	24,138,520.58
Administrative expenses		35,816,753.86	28,843,335.24
Finance costs		7,927,397.23	5,883,668.35
Asset impairment losses		(634,935.90)	—
Add: Gains from changes in fair value		—	—
Investment income		—	16,959,524.67
Including: Gains from investment in associates and joint ventures		—	—
II. Operating profit		43,813,506.29	75,658,725.09
Add: Non-operating income		15,877,145.63	14,371,373.14
Less: Non-operating expense		394,999.71	47,332.73
Including: Loss from disposal of non-current assets		—	—
III. Total profit		59,295,652.21	89,982,765.50
Less: Income tax expenses		8,819,347.83	9,341,710.72
IV. Net profit		50,476,304.38	80,641,054.78
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		50,476,304.38	80,641,054.78

Consolidated Cash Flow Statements

Item	Note	RMB	
		Amount for the current period	Amount for the previous period
I. Cash flows from operating activities:			
Cash received from selling goods and rendering services		1,772,225,208.54	1,578,218,182.90
Tax rebate received		68,881,225.10	62,259,386.77
Other cash received relating to operating activities		20,404,672.28	(600,868.73)
Sub-total of cash inflow from operating activities		1,861,511,105.92	1,639,876,700.94
Cash paid for purchasing goods and receiving services		1,480,323,367.32	1,476,412,819.64
Cash paid to and on behalf of employees		68,145,142.85	61,319,499.85
Taxes and surcharges paid		28,726,278.69	32,751,014.33
Other cash paid relating to operating activities		213,910,486.11	52,491,790.46
Sub-total of cash outflow from operating activities		1,791,105,274.97	1,622,975,124.28
Net cash flows from operating activities		70,405,830.95	16,901,576.66
II. Cash flows from investing activities:			
Cash received from disposal of investments		—	—
Cash received from return on investments		150,000.00	150,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		—	—
Other cash received relating to operating activities		—	28,522,412.91
Sub-total of cash inflow from investing activities		150,000.00	28,672,412.91
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		177,629,428.33	148,582,401.91
Cash paid for investment		45,000,000.00	—
Net cash paid for acquisition of subsidiaries and other business entities		—	—
Sub-total of cash outflow from investing activities		222,629,428.33	148,582,401.91
Net cash flows from investing activities		(222,479,428.33)	(119,909,989.00)
III. Cash flows from financing activities:			
Cash received from equity investments		—	—
Including: Cash received by subsidiaries from minority shareholders' investment		—	—
Cash received from borrowings		1,073,471,856.45	329,723,181.35
Other cash received relating to financing activities		—	—
Sub-total of cash inflow from financing activities		1,073,471,856.45	329,723,181.35
Cash paid for repayment of liabilities		891,952,930.23	518,070,535.45
Cash paid for dividends, profits distribution or interest repayment		21,533,165.54	51,341,865.64
Including: Dividend and profit paid by subsidiaries to minority shareholders		—	—
Other cash paid relating to financing activities		—	2,844,720.95
Sub-total of cash outflow from financing activities		913,486,095.77	572,257,122.04
Net cash flows from financing activities		159,985,760.68	(242,533,940.69)
IV. Effect on cash and cash equivalents due to change in foreign currency exchange rate		(5,533,369.04)	207,540.27
V. Net increase (decrease) in cash and cash equivalents		2,378,794.26	(345,334,812.76)
Add: Balance of cash and cash equivalents at the beginning of the period		350,636,120.73	754,225,131.33
VI. Balance of cash and cash equivalents at the end of the period		353,014,914.99	408,890,318.57

Cash Flow Statements of the Company

Item	Note	RMB	
		Amount for the current period	Amount for the previous period
I. Cash flows from operating activities:			
Cash received from selling goods and rendering services		1,753,096,199.50	1,598,929,716.4
Tax rebate received		61,076,240.94	62,259,386.77
Other cash received relating to operating activities		19,243,166.06	(2,500,278.44)
Sub-total of cash inflow from operating activities		1,833,415,606.50	1,658,688,824.73
Cash paid for purchasing goods and receiving services		1,502,743,655.83	1,355,105,441.04
Cash paid to and on behalf of employees		48,287,286.56	42,831,165.82
Taxes and surcharges paid		13,335,119.60	18,930,482.01
Other cash paid relating to operating activities		198,613,986.83	39,279,946.15
Sub-total of cash outflow from operating activities		1,762,980,048.82	1,456,147,035.02
Net cash flows from operating activities		70,435,557.68	202,541,789.71
II. Cash flows from investing activities:			
Cash received from disposal of investments		—	—
Cash received from return on investments		—	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		—	—
Other cash received relating to operating activities		—	31,522,412.91
Sub-total of cash inflow from investing activities		—	31,522,412.91
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		160,344,497.73	109,255,892.93
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		160,344,497.73	332,255,892.93
Net cash flows from investing activities		(160,344,497.73)	(300,733,480.02)
III. Cash flows from financing activities:			
Cash received from equity investments		—	—
Cash received from borrowings		850,827,884.98	282,766,046.35
Other cash received relating to financing activities		—	—
Sub-total of cash inflow from financing activities		850,827,884.98	282,766,046.35
Cash paid for repayment of liabilities		744,502,930.23	488,070,535.45
Cash paid for dividends, profits distribution or interest repayment		20,946,358.37	50,317,839.65
Other cash paid relating to financing activities		—	2,680,000.00
Sub-total of cash outflow from financing activities		765,449,288.60	541,068,375.10
Net cash flows from financing activities		85,378,596.38	(258,302,328.75)
IV. Effect on cash and cash equivalents due to change in foreign currency exchange rate		(5,533,369.04)	207,540.27
V. Net increase (decrease) in cash and cash equivalents		(10,063,712.71)	(356,286,478.79)
Add: Balance of cash and cash equivalents at the beginning of the period		314,143,139.67	709,106,130.16
VI. Balance of cash and cash equivalents at the end of the period		304,079,426.96	352,819,651.37

Consolidated Statement of Change in Shareholders' Equity

For the six months ended 30 June 2012

Items	Amount for the current year							Amount for the previous year			RMB		
	Attributable to the shareholders of the Company			Minority interests	Translation differences	Total equity	Attributable to the shareholders of the Company			Translation differences		Total equity	
	Share capital	Capital reserve	Surplus reserve				Share capital	Capital reserve	Surplus reserve				Undistributed profit
I. As at 1 Jan 2012 (audited)	398,924,200.00	1,248,424,858.42	157,965,274.48	989,669,698.87	30,361.41	2,852,977,728.35	398,924,200.00	1,248,406,191.00	140,383,447.06	898,749,873.79	(483,325.64)	57,212,973.80	2,743,203,359.93
II. Changes in the current year													
(1) Net profit	—	—	—	75,704,983.45	—	82,626,787.59	—	—	—	168,330,282.50	—	711,952.50	169,042,235.00
(2) Other comprehensive income	—	—	—	—	(662,612.24)	(2,418,976.09)	—	—	—	—	513,687.05	57,076.37	570,763.42
Subtotal of (1) and (2)	—	—	—	75,704,983.45	(662,612.24)	80,207,811.50	—	—	—	168,330,282.50	513,687.05	769,028.87	169,612,998.42
(3) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	18,667.50	—	—	—	(18,667.50)	—
(4) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	17,571,827.42	(17,571,827.42)	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—	—	(59,838,630.00)	(59,838,630.00)	—	(59,838,630.00)
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	—	—	—	—	—	—	—	—	—	—	—	—	—
III. Balance at the end of the current year	398,924,200.00	1,248,424,858.42	157,965,274.48	1,065,374,682.32	(632,250.83)	2,933,185,539.85	398,924,200.00	1,248,424,858.42	157,965,274.48	989,669,698.87	30,361.41	57,963,335.17	2,852,977,728.35

Statement of Change in Shareholders' Equity of the Company

Items	Amount for the current year							Amount for the previous year			RMB
	Share capital	Capital reserve	Surplus reserve	Undistributed profit	Total equity	Share capital	Capital reserve	Surplus reserve	Undistributed profit	Total equity	
I. Balance at the end of the previous year	398,924,200.00	1,248,406,190.92	157,965,274.48	922,540,824.80	2,727,836,490.20	398,924,200.00	1,248,406,190.92	140,393,447.06	824,233,008.06	2,611,958,846.04	
II. Changes in the current year											
(1) Net profit	—	—	—	50,476,304.38	50,476,304.38	—	—	—	175,718,274.16	175,718,274.16	
(2) Other comprehensive income	—	—	—	—	—	—	—	—	—	—	
Sub-total of (1) and (2)	—	—	—	50,476,304.38	50,476,304.38	—	—	—	175,718,274.16	175,718,274.16	
(3) Shareholders' contributions and decrease in capital											
1. Shareholders' contributions in capital	—	—	—	—	—	—	—	—	—	—	
2. Others	—	—	—	—	—	—	—	—	—	—	
(4) Profit distribution											
1. Transfer to surplus reserves	—	—	—	—	—	—	—	17,571,827.42	(77,410,457.42)	(59,838,630.00)	
2. Distribution to shareholders	—	—	—	—	—	—	—	17,571,827.42	(17,571,827.42)	—	
3. Others	—	—	—	—	—	—	—	—	(69,838,630.00)	(69,838,630.00)	
(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	—	—	—	—	—	—	—	—	—	—	
III. Balance at the end of the current year	398,924,200.00	1,248,406,190.92	157,965,274.48	973,017,129.18	2,778,312,794.58	398,924,200.00	1,248,406,190.92	157,965,274.48	922,540,824.80	2,727,836,490.20	

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 Company's predecessor company is Molong Holdings, which was established jointly by Zhang En Rong, Lin Fu Long, Zhang Yun San, Xie Xin Cang, Liu Yun Long, Cui Huan You, Liang Yong Qiang, Shengli Oil Field Kaiyuan Oil Exploitation Company Limited (勝利油田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 Stock Exchange of Hong Kong.

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

Upon the approval by Zheng Jian Guo He Zi [2007] No. 2 (證監國合字[2007]2號文) issued and signed by China Securities Regulatory Commission on 26 January 2007 and the approval issued by the Stock Exchange of Hong Kong on 6 February 2007, the listing status of the Company's overseas listed foreign shares (H Shares) in the Growth Enterprise Market of the Stock Exchange of Hong Kong has been cancelled on 7 February 2007, and changed to list on the Main Board of the Stock Exchange of Hong Kong. Pursuant to the resolutions of 2006 Annual General Meeting convened on 25 May 2007, on the basis of a total of 647,998,000 shares as at 31 December 2006, the Company added its share capital from unallocated profit with bonus issue of 2 shares for every 1 share and added its share capital from capital reserve with the addition of 2 shares for every 1 share, 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 of the Company has resolved to implement share consolidation, that is, consolidating every 10 shares in issue with nominal value of RMB0.10 each into 1 share with nominal value of RMB1.00. Such share consolidation has been completed on 7 January 2010.

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

The Company and its subsidiaries (hereunder the "Group") are 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.

Zhang En Rong, a natural person, is the controlling shareholder and final 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 February 15, 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).

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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, the results and the cash flows.

3. Financial year

The financial year of the Group is from 1 January to 30 June 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. The Group adopts Renminbi as its currency when preparing for these financial statements.

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.

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 recognition 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.

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 written down 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.

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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 recognition 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 recognition 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 recognition 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.

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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.

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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%
Others	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 grant*

Government grants are transfer of monetary assets or non-monetary assets from the government to the Group at no consideration. Government grant 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.

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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 recognition of goodwill and does not belong to business combination, and neither affect the accounting profit nor the temporary difference related to the initial recognition 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	5%
Urban maintenance and construction tax	Paid-in value-added tax and business tax	7%
Enterprise Income Tax (Note 2)	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: Rate of income tax of the Company and subsidiaries are as follows:

Names of the Company and subsidiaries	Rate of income tax
The Company	15%
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%

2. Tax incentives and approvals

According to the "Notice Regarding the List of Shandong Province Proposed Advanced Technology Enterprise in 2011" (關於公示山東省2011年擬通過複審認定高新技術企業名單的通知) (Lu Ke Gao Zi [2011] No. 206) from Technology Office of Shandong Province, Finance Office of Shandong Province, State Administration of Taxation of Shandong Province, Local Taxation Bureau of Shandong Province on 31 October 2011, the Company's qualification of Advanced Technology Enterprise was approved and passed the review. The income tax concession lasts from 1 January 2011 to 31 December 2013. The Company was subject to a concessionary enterprise income tax rate of 15% for Advanced Technology Enterprise in 2012.

IV. Merger of Companies and Consolidated Financial Statement

1. Subsidiaries

(1) Subsidiaries acquired through establishment or investment

Full Name of Subsidiaries (Note 3)	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 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	63,128,775.46	Nil
Shouguang Molong Logistic (Note 3)	LLC	Shouguang City, Shandong Province	Transportation	3,000,000.00	Transportation	3,000,000.00	—	100	100	Yes	—	Nil
Weihai Baolong Company Limited	LLC	Weihai, Shandong Province	Manufacture	26,000,000.00	Manufacture and sales of special petroleum metal materials	276,602,708.10	—	100	100	Yes	Nil	Nil

RMB

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

Full Name of Subsidiaries	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	RMB
Shouguang Maolong Machinery Company Limited	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	—	—	100	100	Yes	Nil	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	—	—	100	100	Yes	Nil	Nil	
Shouguang Maolong Old Metals Recycle Company Limited (Note 3)	LLC	Shouguang, Shandong Province	Trade	RMB500,000.00	Trading of scrap metals	—	—	100	100	Yes	Nil	Nil	
Baolong Recyclable Resource Company Limited (Note 5)	LLC	Weihai, Shandong Province	Manufacture	RMB300,000.00	Trading and sales of scrap metals	—	—	100	100	Yes	Nil	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	—	—	90	90	Yes	2,206,422.52	Nil	

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

Assets and liabilities items stated in the foreign currency balance sheet of a foreign subsidiary are included in the scope of consolidation of the financial statements of the Group and translated into the reporting currency using the spot exchange rate prevailing at the date of balance sheet. The ownership interests 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 translation differences in the foreign currency financial statement due to the above translation are separately presented under the ownership interests items in the balance sheet.

V. Notes to the Financial Statements

1. Cash & cash equivalents

Item	Closing balance			Opening balance			RMB
	Foreign currency amount	Exchange Rate	Amount in RMB	Foreign currency amount	Exchange Rate	Amount in RMB	
Cash:							
RMB	—	—	830,137.30	—	—	153,603.44	
Cash in Bank:							
RMB	—	—	192,714,555.31	—	—	224,925,512.85	
Other cash and cash equivalents (note):							
RMB	—	—	384,645,911.78	—	—	188,552,902.31	
Total			578,190,604.39			413,632,018.60	

2. Bills receivable

(1) Classification of bills receivable

Item	Consolidated	
	Closing balance	Opening balance
Bank acceptance	183,220,845.29	73,528,915.23

(2) As at 30 June 2012, the breakdown for bills endorsed to other parties but undue were as follows:

Consolidation and the Company

Name of Ticket Units	Date of draft	Due date	Amount
Shandong Xinmei Machinery Equipment Co., Ltd	2012-5-30	2012-11-30	5,000,000.00
Hebei Zhongtai Steel Tube Manufacturing Co., Ltd	2012-6-18	2012-12-18	5,000,000.00
Hebei Zhongtai Steel Tube Manufacturing Co., Ltd	2012-6-26	2012-12-26	6,000,000.00
Shandong Xinmei Machinery Equipment Co., Ltd	2012-4-12	2012-10-12	10,000,000.00
Hebei Zhongtai Steel Tube Manufacturing Co., Ltd	2012-4-5	2012-10-05	10,000,000.00
Total			36,000,000.00

(3) Balance of bills payable as at 30 June 2012 does not have any amount due to bill of shareholders with over 5% (inclusive) voting rights in the Company.

3. Accounts receivable

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

Category	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant other receivables and provided for bad debt by single item	9,137,722.76	1.6	8,257,613.70	90.37	9,735,286.00	2.07	8,829,484.60	90.70
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test	561,088,676.90	98.39	—	—	459,258,328.75	97.90	—	—
Single item with insignificant other receivables but provided for bad debt by single item	56,700.00	0.01	56,700.00	100	119,765.00	0.03	119,765.00	100.00
Total	570,283,099.66	100.00	8,314,313.70	1.46	469,113,379.75	100.00	8,949,249.60	1.91

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 assess 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:

Aging	Amount	Closing balance			Amount	Opening balance		
		Ratio (%)	Bad debt provision	Bad debt provision		Ratio (%)	Bad debt provision	Bad debt provision
Within 1 year	552,972,105.39	96.96	—	552,972,105.39	444,600,302.69	94.77	—	444,600,302.69
1 to 2 years	5,075,136.24	0.89	—	5,075,136.24	8,210,585.63	1.75	—	8,210,585.63
2 to 3 years	233,000.00	0.04	—	233,000.00	5,247,762.19	1.12	1,358,702.10	3,889,060.09
Over 3 years	12,002,858.03	2.10	8,314,313.70	3,688,544.33	11,054,729.24	2.36	7,590,547.50	3,464,181.74
Total	570,283,099.66	100.00	8,314,313.70	561,968,785.96	469,113,379.75	100.00	8,949,249.60	460,164,130.15

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 2012, Single item with significant other receivables and provided for bad debt by single item is as follows:

Accounts receivable	Book balance	Bad debt balance	Provision ratio (%)	Reason
Trade receivable	9,137,722.76	8,257,613.70	90.37%	Relatively long aged, difficult to recover

As at 30 June 2012, single item with insignificant accounts receivable but provided for bad debt in single item is as follows:

Accounts receivable	Book balance	Bad debt balance	Provision ratio (%)	Reason
Trade receivable	56,700.00	56,700.00	100%	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	Accumulated amount of bad debt provision before write-back or recovery	Amount written-back or recovered
Written-back of bad debt of 華南石化	Payment recovered	Period of over 2 years	6,450,649.04	571,870.90
Written-back of bad debt of 成海管業	Payment recovered	Period of over 2 years	63,065.00	63,065.00

(3) The Group and the Company did not have other receivables from shareholder unit 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 (%)
American Tubular Products, LLC	Customer	37,590,368.52	Within 1 year	6.6%
Campex Inc	Customer	30,690,023.59	Within 1 year	5.4%
Shandong Xinmei Machinery Equipment Co., Ltd	Customer	27,836,156.03	Within 1 year	4.9%
Daqing Oil Field Petroleum Materials Group	Customer	24,428,450.61	Within 1 year	4.3%
Cnooc Limited	Customer	23,640,921.1	Within 1 year	4.1%
Total		144,185,919.85		25.3%

(5) Situation on accounts due from related parties:

RMB

Name	Relationship with the Company	Amount	Proportion of the total accounts receivables (%)
Ya Long Oil Pump Company Limited	Related company	1,245,523.40	0.22

4. Advance payment

(1) Advance to suppliers stated according to aging:

Aging	Closing balance		Opening balance	RMB Ratio (%)
	Amount	Ratio (%)		
Within 1 year	67,545,827.28	99.00	42,099,676.98	99.93
1 to 2 years	691,010.00	1.00	—	—
2 to 3 years	0.00	0.00	—	—
Over 3 years	28,214.22	0.00	28,214.22	0.07
Total	68,265,051.50	100.00	42,127,891.20	100.00

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

Name	Relationship with the Company	Amount	Aging	Reasons	RMB
WenDeng electric power corporation	Supplier	11,763,647.14	Within 1 year	hasn't used electric power	
山東壽光巨能熱電發展有限公司	Supplier	7,624,540.35	Within 1 year	hasn't used electric power	
Shandong Longsheng Steel Co., Ltd	Supplier	3,220,973.36	Within 1 year	hasn't received material	
山東傳洋集團有限公司	Supplier	2,835,688.38	Within 1 year	hasn't received material	
北京燃氣集團山東有限公司文登分公司	Supplier	2,753,939.75	Within 1 year	hasn't received material	
Total		28,198,788.98			

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

5. Other receivables

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

Category	Closing balance				Opening balance				RMB
	Book balance		Bad debt balance		Book balance		Bad debt balance		
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)	
Single item with significant other receivables and provided for bad debt in single item	—	—	—	—	—	—	—	—	
Single item with insignificant other receivables and single item with significant other receivables but not impaired after separate impairment test	25,242,250.93	99.53	—	—	29,820,567.73	99.60	—	—	
Single item with insignificant other receivables but provided for bad debt in single item	119,119.25	0.47	119,119.25	100	119,119.25	0.40	119,119.25	100	
Total	25,361,370.18	100.00	119,119.25	0.47	29,939,686.98	100.00	119,119.25	0.40	

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:

Aging	Closing balance				Opening balance				RMB
	Amount	Ratio (%)	Bad debt balance	Book Value	Amount	Ratio (%)	Bad debt balance	Book Value	
	Within 1 year	14,386,730.06	56.73	—	14,386,730.06	11,413,126.53	38.12	—	11,413,126.53
1 to 2 years	7,582,484.49	29.89	—	7,582,484.49	13,232,789.36	44.20	—	13,232,789.36	
2 to 3 years	2,965,600.00	11.69	—	2,965,600.00	2,797,191.34	9.34	—	2,797,191.34	
Over 3 years	426,555.63	1.68	119,119.25	307,436.38	2,496,579.75	8.34	119,119.25	2,377,460.50	
Total	25,361,370.18	100.00	119,119.25	25,242,250.93	29,939,686.98	100.00	119,119.25	29,820,567.73	

As at 30 June 2012, single item with insignificant other receivables but provided for bad debt in single item is the same as follows:

Other receivables	Book balance	Bad debt balance	Provision ratio (%)	Reason	RMB
Staff 's personal borrowings	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

Name	Amount	Nature or content of the amount	Percentage of the total balance of other accounts receivable (%)	RMB
Gucheng Street Offices	6,891,320.00	Land removal advance	27.17%	
China Petroleum Materials Corporation	6,000,000.00	Tender bond	23.66%	
Wendeng City Gaocun Town Government	3,000,000.00	Temporary borrowing from the government	11.83%	
Total	15,891,320.00		62.66%	

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

Name	Relationship with the Company	Amount	Aging	RMB
				Percentage of the total balance of accounts receivable
Gucheng Street Offices	Non-related party	6,891,320.00	Within 1 year	27.17%
China Petroleum Materials Corporation	Non-related party	6,000,000.00	Within 1 year	23.66%
Wendeng City Gaocun Town Government	Non-related party	3,000,000.00	Within 1 year	11.83%
Everbright Bank, Jiaozhou branch	Non-related party	875,903.85	Within 1 year	3.45%
Yan'an Transfer Station — Equipment Supply Department (器材供應處延安轉運站), Changqing Oil Exploration Bureau	Non-related party	750,000.00	Within 1 year	2.96%
Total		17,517,223.85		69.07%

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

6. Inventory

- (1) Inventory categories:

Item	Closing balance			Opening balance		
	Book balance	Allowance for	Book value	Book balance	Allowance for	Book value
		inventories			inventories	
Raw materials	277,255,570.70	1,347,882.94	275907687.76	317,932,966.06	1,347,882.94	316,585,083.12
Work-in-progress	433,652,896.50	632,526.25	433020370.25	444,056,692.70	632,526.25	443,424,166.45
Entrusted processing materials	15,265,766.28	—	15265766.28	56,203,898.79	—	56,203,898.79
Finished product	568,926,009.60	1,480,361.01	567445648.59	362,249,067.17	1,480,361.01	360,768,706.16
Total	1,295,100,243.08	3,460,770.20	1291639472.88	1,180,442,624.72	3,460,770.20	1,176,981,854.52

- (2) Allowance for inventories is as follows:

Inventory categories	Opening book balance	Provision	Decrease for the period		Closing book balance
		for the current period	Reversals	Write-offs	
Raw materials	1,347,882.94	—	—	—	1,347,882.94
Work-in-progress	632,526.25	—	—	—	632,526.25
Finished product	1,480,361.01	—	—	—	1,480,361.01
Total	3,460,770.20	—	—	—	3,460,770.20

7. Other current assets

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

Item	Closing balance	RMB	
		Opening balance	
Import tax pending deduction	85,315,976.29	71,148,262.69	
Prepaid land usage tax	543,057.88	543,057.88	
Prepaid income tax	539,301.51	539,301.51	
Other prepaid tax	308,174.09	308,174.09	
Total	86,706,509.77	72,538,796.17	

8. Investment in equity joint ventures and investment in associates

Consolidation

Name of investee entity	Percentage of the shareholding of the investee entity (%)	Percentage of the shareholding of the investee entity (%)	Total assets at		Total net asset value at the end of period	Operating income for the current period	Net profit from the Current period
			the end of period	Total liabilities at the end of period			
Consortium							
Yalong Oil Pump	30	30	8,566,775.44	724,156.70	7,842,618.74	4,099,723.40	(23,254.30)
懋隆小貸	30	30	150,000,000.00	0.00	150,000,000.00	0.00	0.00

9. Long-term equity investment

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

Investee entity	Accounting method	Investment	Opening		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 cur rent period
			balance	Change ment							
Yalong Oil Pump	Equity method	1,888,500.00	2,580,624.11	(149,999.99)	2,430,624.12	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	—	—	—
Shouguang Molong Physical Distribution limited Company	Cost method	45,000,000.00	0	45,000,000.00	45,000,000.00	30	30	N/A	—	—	—
Total		56,888,500.00	12,580,624.11	44,850,000.01	57,430,624.12				—	—	—

(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 2012 to transfer capital to the Group.

10. Fixed Assets

(1) Overview of fixed assets

Item	Opening book balance	Additions		Deductions for		Closing book balance
		for the current period	for the current period	the current period	the current period	
I. Total original book value:	2,324,802,560.93	127,250,837.11	—	2,969,361.24	—	2,449,084,036.80
Of which: Buildings	395,593,063.77	4,924,179.86	—	—	—	401,032,933.63
Machinery and equipment	1,841,797,947.81	112,524,090.64	—	1,887,712.88	—	1,951,918,635.57
Electronic equipment and others	72,885,520.67	8,504,484.35	—	246,652.48	—	81,714,440.92
Vehicles	14,526,028.68	1,298,082.26	—	834,995.88	—	14,418,026.68
			Additions for the current period	Provision for the current year		
II. Total accumulated depreciation:	477,228,082.16	—	—	2,193,095.67	—	559,777,807.30
Of which: Buildings	60,187,843.62	255,982.90	6,011,627.16	—	—	66,455,453.68
Machinery and equipment	373,369,112.90	302,323.51	70,473,337.78	1,336,361.85	—	442,808,412.34
Electronic equipment and others	36,194,593.52	476,969.24	6,028,136.68	190,064.34	—	42,509,635.10
Vehicles	7,476,532.12	53,093.47	1,141,350.07	666,669.48	—	8,004,306.18
III. Total fixed assets — net book value	1,847,574,478.77	—	—	—	—	1,889,306,229.50
Of which: Buildings	335,405,220.15	—	—	—	—	334,577,479.95
Machinery and equipment	1,468,428,834.91	—	—	—	—	1,509,110,223.23
Electronic equipment and others	36,690,927.15	—	—	—	—	39,204,805.82
Vehicles	7,049,496.56	—	—	—	—	6,413,720.50
IV. Total Impairment provision	16,206,335.81	—	—	—	—	16,206,335.81
Of which: Buildings	4,986,478.28	—	—	—	—	4,986,478.28
Machinery and equipment	11,219,857.53	—	—	—	—	11,219,857.53
Electronic equipment and others	—	—	—	—	—	—
Vehicles	—	—	—	—	—	—
V. Total fixed assets — net book value	1,831,368,142.96	—	—	—	—	1,873,099,893.69
Of which: Buildings	330,418,741.87	—	—	—	—	329,591,001.67
Machinery and equipment	1,457,208,977.38	—	—	—	—	1,497,890,365.70
Electronic equipment and others	36,690,927.15	—	—	—	—	39,204,805.82
Vehicles	7,049,496.56	—	—	—	—	6,413,720.50

Note : The depreciation for the current period amounted to RMB83,654,451.69. The original value of the construction in progress transferred into fixed assets during the current period was RMB93,610,951.84.

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

Item	Reason for title certificate not duly prepared	Estimate time for preparing title certificates
Steel structure major plant zone	Is still in the process	31 December 2012
Office Building	Is still in the process	31 December 2012
180 electric rooms	Is still in the process	31 December 2012
Major electricity room	Is still in the process	31 December 2012
Steel pipes storage	Is still in the process	31 December 2012
Workshop for pumping unit and sucker rod	New Construction	31 December 2012
Finish machining plant	New Construction	31 December 2012
Casing and tubing storage	New Construction	31 December 2012
Road surface, country yard wall and so on	New Structure	31 December 2012
Bathroom, gatehouse, washroom, and so on	New Construction	31 December 2012
New dormitory building	Is in the process of approving the title certificate	31 December 2013
New staff canteen	Is in the process of approving the title certificate	31 December 2013
140 pipe rolling plant	Is in the process of approving the title certificate	31 December 2013

11. Construction in progress

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

Items	Closing balance			Opening balance			RMB
	Book balance	Impairment	Net book	Book balance	Impairment	Net book	value
		provision	value		provision	value	
180 heat treatment machining line	—	—	—	40,665,467.84	—	40,665,467.84	
OCTG finish machining line	—	—	—	24,353,797.05	—	24,353,797.05	
High-end petroleum equipment project	—	—	—	503,219.19	—	503,219.19	
Φ 1200mm forging expansion project	17,574,391.74	—	17,574,391.74	81,339.21	—	81,339.21	
Storage	10,730,730.71	—	10,730,730.71	—	—	—	
Shouguang Baolong casting and forging workshop conversion	12,466,612.72	—	12,466,612.72	—	—	—	
Others	267,016.76	—	267,016.76	17,919,257.56	—	17,919,257.56	
Total	41,038,751.93	—	41,038,751.93	83,523,080.85	—	83,523,080.85	

(2) Change in material constructions in progress projects

Project name	Budget amount	Opening balance	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	RMB
											Closing balance
180 heat treatment machining line	71,950,000.00	40,665,467.84	30,325,741.26	70,991,209.10	98.67	100	—	—	—	Loan from financial institution and self-raised fund	—
High-end petroleum equipment project	60,000,000.00	503,219.19	1,482,072.85	1,985,292.04	87.2	100	—	—	—	Loan from financial institution and self-raised fund	—
OCTG finish machining line	108,510,000.00	24,353,797.05	1,715,711.69	26,069,508.74	88.28	100	—	—	—	Loan from financial institution and self-raised fund	—
Ø 1200mm forging expansion project	30,000,000.00	81,339.21	17,493,052.53	—	58.58	58.58	—	—	—	Loan from financial institution and self-raised fund	17,574,391.74
Shouguang Baolong casting and forging workshop conversion	133,620,000.00	—	12,466,612.72	—	9.33	9.33	—	—	—	Loan from financial institution and self-raised fund	12,466,612.72
Storage	13,000,000.00	—	10,730,730.71	—	82.54	82.54	—	—	—	Loan from financial institution and self-raised fund	10,730,730.71
Others	—	17,919,257.56	438,023.83	18,090,264.63	—	—	—	—	—	Loan from financial institution and self-raised fund	267,016.76
Total	417,080,000.00	83,523,080.85	74,651,945.59	117,136,274.50							41,038,751.93

12. Intangible assets

(1) Intangible assets

Items	RMB			
	Opening book balance	Additions for the current period	Deductions for the current period	Closing book balance
I. Total original book value:	385,829,680.84	12,390.00	0.00	385,842,070.84
Land use rights	224,286,488.49	—	—	224,286,488.49
Software	770,036.72	—	—	770,036.72
Non-patent technology	159,721,405.63	—	—	159,721,405.63
Patent technology	1,051,750.00	12,390.00	—	1,064,140.00
II. Total accumulated amortization	52,809,741.81	18,344,498.87	0.00	71,154,240.68
Land use rights	13,503,443.38	2,255,086.89	—	15,758,530.27
Software	710,421.32	6,794.88	—	717,216.20
Non-patent technology	38,511,898.32	15,972,140.47	—	54,484,038.79
Patent technology	83,978.79	110,476.63	—	194,455.42
III. Total intangible assets net book value	333,019,939.03	(18,332,108.87)	0.00	314,687,830.16
Land use rights	210,783,045.11	(2,255,086.89)	—	208,527,958.22
Software	59,615.40	(6,794.88)	—	52,820.52
Non-patent technology	121,209,507.31	(15,972,140.47)	—	105,237,366.84
Patent technology	967,771.21	(98,086.63)	—	869,684.58
IV. Total impairment provision	0.00	0.00	0.00	0.00
Land use rights	—	—	—	—
Software	—	—	—	—
Non-patent technology	—	—	—	—
Patent technology	—	—	—	—
V. Total intangible assets book value	333,019,939.03	0.00	0.00	314,687,830.16
Land use rights	210,783,045.11	—	—	208,527,958.22
Software	59,615.40	—	—	52,820.52
Non-patent technology	121,209,507.31	—	—	105,237,366.84
Patent technology	967,771.21	—	—	869,684.58

Note : Amortization for the period amounted to RMB18,332,553.08.

13. Goodwill

Matters generating goodwill	Opening balance	Additions for the current period		Deductions	Closing balance	RMB
						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

Items	Consolidation		RMB
	Closing balance	Opening balance	
Deferred income tax assets:			
Bad debt balance	1,313,524.85	1,365,925.33	
Including: Accounts receivable	1,295,656.96	1,348,057.44	
Other receivables	17,867.89	17,867.89	
Allowance for inventories	551,453.53	551,453.53	
Salaries payable	2,995,421.14	3,696,223.46	
Intangible assets amortization	3,345,467.82	4,817,635.02	
Fixed assets Impairment provision	2,141,584.71	2,141,584.71	
Deductible losses	57,096.73	1,834,039.02	
Unrealized profit of intra-group transaction	—	547,631.87	
Deferred income	1,717,600.00	1,717,600.00	
Total	12,122,148.78	16,672,092.94	
Deferred income tax liabilities:			
Adjustment of fair value (Note)	8,537,221.25	9,237,072.73	
Including: Inventory	—	—	
Long-term equity investments	3,809.38	3,809.38	
Fixed assets	762,605.72	1,161,091.77	
Intangible assets	7,770,806.15	8,072,171.58	
Other	—	—	
Other	—	—	
Capital from special fund	—	—	
Balance of value-added tax rebates due from government	—	1,951,246.04	
Interest receivable on guarantee deposits	537,883.15	329,701.06	
Unrealized loss of intra-group transaction	—	—	
Total	9,075,104.40	11,518,019.83	

15. Research and Development Expenditure

Item	RMB		
	Opening balance	Additions for the current period	Closing balance
Research Expenditure	—	4,212,028.08	4,212,028.08
Development Expenditure	—	51,469,814.42	51,469,814.42
Total	—	55,681,842.50	55,681,842.50

During the period, the development expenditure represented 92.44% of the total research and development expenditure for the period.

Intangible assets generated from research and development expenditure of the Company represented 36.4% of the carrying amount of intangible assets at the end of the period.

16. Provision for impairment of assets

Items	RMB				
	Opening balance	Additions for the current period	Deductions Reversals	Write-offs	Closing balance
I. Provisions for bad debts	9,068,368.85	—	634,935.90	—	8,433,432.95
Of which: trade receivables	8,949,249.60	—	634,935.90	—	8,314,313.70
Other receivables	119,119.25	—	—	—	119,119.25
Provisions for inventory impairment	3,460,770.20	—	—	—	3,460,770.20
Including: Raw materials	1,347,882.94	—	—	—	1,347,882.94
Work-in-progress	632,526.25	—	—	—	632,526.25
Finished product	1,480,361.01	—	—	—	1,480,361.01
Fixed assets Impairment provision	16,206,335.81	—	—	—	16,206,335.81
Including: Building	4,986,478.28	—	—	—	4,986,478.28
Machinery and equipment	11,219,857.53	—	—	—	11,219,857.53
Total	28,735,474.86	—	6,34,935.90	—	28,100,538.96

17. Short-term borrowings

Items	RMB	
	Closing balance	Opening balance
Credit loans	540,243,672.00	680,888,976.90
Guarantee loans	—	5,581,812.10
Secured borrowings	355,267,666.98	24,031,288.23
Total	895,511,338.98	710,502,077.23

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

Secured borrowings represent the Group's borrowing which obtained from banks by pledging its accounts receivable and order contracts.

18. Bills payable

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

Items	RMB	
	Closing balance	Opening balance
Trade acceptance	50,000,000.00	—
Bank acceptance	665,475,827.18	383,690,165.06
Total	715,475,827.18	383,690,165.06

(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:

Items	RMB	
	Closing balance	Opening balance
Material fees payable	489,691,484.28	509,741,645.18
Project equipment fees payable	81,325,656.61	106,974,549.16
Total	571,017,140.89	616,716,194.34

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

Age	RMB	
	Closing balance	Opening balance
Within 1 year	521,413,173.92	554,887,296.45
1 to 2 year	33,968,743.58	41,850,903.42
2 to 3 year	2,406,990.89	5,317,135.68
Over 3 year	13,228,232.50	14,660,858.79
Total	571,017,140.89	616,716,194.34

(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 receipts is set out as follows:

Item	RMB	
	Closing balance	Opening balance
Advance sales	73,710,034.89	20,713,521.63

(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

Items	RMB			
	Opening balance	Accrued during the period	Paid during the period	Closing balance
Salaries, bonuses, allowance and subsidies	19,556,802.06	39,870,284.45	45,049,153.33	14,377,933.18
Staff welfare	101,235.82	5,175,572.22	5,175,572.22	101,235.82
Social insurance premiums	—	7,595,169.65	7,595,169.65	—
Housing provident funds	—	919,585.31	919,585.31	—
Others	247,422.44	1,145,461.23	1,065,013.88	327,869.79
Total	19,905,460.32	54,706,072.86	59,804,494.39	14,807,038.79

22. Tax payables

Items	RMB	
	Closing balance	Opening balance
income tax	27,699,022.92	26,687,827.54
Value added tax	4,620,793.45	3,030,940.82
Business tax	—	—
Individual income tax	19,989.86	4,028,147.55
Others	3,084,137.92	2,002,342.06
Total	35,423,944.15	35,749,257.97

23. Other payables

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

Items	RMB	
	Closing balance	Opening balance
Advance in electricity fees and delivery expenses	13,190,309.02	14,833,788.59
A Shares listing expenses	1,733,064.95	—
Cash pledge	9,019,287.35	4,703,106.23
Others	2,265,711.06	3,024,161.75
Total	26,208,372.38	22,561,056.57

(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.

24. Other non-current liabilities

RMB

Items	Consolidation	
	Closing balance	Opening balance
Deferred income	9,040,000.00	9,040,000.00

According to the notice of Shandong Province Development and Reform Committee (Lu Fa Gai Tou Zi [2011] No.1354) (魯發改投資[2011]1354號), the Company received the central budget investment of RMB9,040,000.00 for the construction of the high-end petroleum equipment project during the year. The government grant was recognized as deferred income when received by the Company.

25. Share capital

RMB

Items	Opening balance	Change for the period					Sub-total	Closing balance
		New issue	Bonus shares	Shares transfer from reserve	Others			
Total shares	398,924,200.00	—	—	—	—	—	398,924,200.00	

26. Capital reserves

RMB

Items	Opening balance	Increase for the period	Decrease for the period	Closing balance
Capital premium	1,248,424,858.42	—	—	1,248,424,858.42
Total	1,248,406,190.92	—	—	1,248,424,858.42

27. Surplus reserve

RMB

Items	Opening balance	Increase for the period	Decrease for the period	Closing balance
Statutory surplus reserve	157,965,274.48	—	—	157,965,274.48
Total	157,965,274.48	—	—	157,965,274.48

28. Undistributed profits

Items	Amount	RMB
		Proportion of appropriation or allocation
Undistributed profits at the beginning of the period	989,669,698.87	—
Add: Errors in earlier stage	—	—
Add: Net profits attribute to the shareholders of the Company of the year	75,704,983.45	—
Less: Appropriation of statutory surplus reserves	—	—
Ordinary shares dividend payable	—	—
Ordinary shares dividend transfer as share capital	—	—
Undistributed profits at the end of the period	1,065,374,682.32	—

29. Operating revenue and cost of operations

(1) Operating Revenue

Item	Incurred during the current period	RMB
		Incurred during the previous period
Principal operating revenue	1,563,819,453.38	1,482,778,565.96
Other business revenue	20,080,395.49	36,718,435.11
Cost of operations	1,419,132,930.05	1,374,991,038.66

(2) Principal operations (by product)

Products	Incurred during the current period		Incurred during the previous period	
	Operating Revenue	Cost of operations	Operating Revenue	Cost of operations
	Casing and Tubing	1,413,174,306.16	1,276,227,296.60	1,286,565,567.97
Three kinds of pumping units	33,999,074.87	29,132,234.05	45,435,776.97	36,454,582.16
Petroleum machinery	89,591,133.53	69,680,504.57	96,514,232.03	75,073,296.99
Others	27,054,938.82	27,510,467.65	54,262,988.99	55,371,622.86
Total	1,563,819,453.38	1,402,550,502.87	1,482,778,565.96	1,348,350,233.50

(3) Principal operations (by Geographical segment)

Regions	Incurred during the current period		Incurred during the previous period	
	Operating Revenue	Cost of operations	Operating Revenue	Cost of operations
PRC	1,016,933,259.77	935,811,963.49	954,317,920.03	882,654,557.66
Overseas	546,886,193.61	466,738,539.38	528,460,645.93	465,695,675.84
Total	1,563,819,453.38	1,402,550,502.87	1,482,778,565.96	1,348,350,233.50

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

Name of customer	Operating Revenue	the percentage of the total sales revenue %
China National Petroleum Corporation Changqing Oilfield Filiale	175,896,753.10	11.2
Shandong Luxin Steel Pipes Co., Ltd	115,073,598.80	7.4
Offshore Engineering & Marketing Ltd	86,832,594.39	5.6
Campex Inc	78,655,897.40	5
PPC Limited	72,157,565.48	4.6
Total	528,616,409.17	33.8

30. Tax and levies on operations

Items	Incurred during the current period	Incurred during the previous period
Business tax	6,927.50	—
Urban maintenances and construction tax	358,314.94	472,663.91
Educational surcharges	153,563.55	363,461.66
Others	153,702.08	—
Total	672,508.07	836,125.57

31. Selling expenses

Items	RMB	
	Incurred during the current period	Incurred during the previous period
Delivery expenses	22,448,267.14	19,242,000.16
Intermediate fees	12,330.00	—
Travelling expenses	137,581.04	456,470.07
Business reception fees	509,320.26	383,383.10
Salary	771,992.48	703,721.65
Office expenses	127,369.72	207,057.70
Agency fees	1,414,807.20	1,082,356.79
Transportation fees	266,062.97	181,463.85
Storage and sales agency fees	—	51,432.76
Depreciation charge	88,745.78	89,064.59
Low priced and easily worn articles	20,886.05	36,379.15
Machinery material consumption	176,789.97	225,409.24
Other	338,777.29	1,598,246.18
Total	26,312,929.90	24,256,985.24

32. Management fees

Item	RMB	
	Incurred during the current period	Incurred during the previous period
Research and development fees of new products	4,212,028.08	6,628,070.52
Amortization of intangible assets	17,972,616.79	10,005,665.50
Salary and Staff welfare expenses	4,441,546.91	4,352,466.94
Depreciation charges	4,451,957.15	4,565,637.98
Repair fees	142,470.49	1,261,043.99
Taxes	5,227,849.04	3,653,471.44
Machinery material consumption	2,541,145.71	2,690,326.72
Office expenses	185,284.60	336,733.43
Electricity fees	17,284.21	279,409.43
Business reception fees	846,040.50	275,969.65
Property insurance fees	142,642.26	37,769.15
Intermediate fees	265,585.40	300,470.29
Travelling expenses	127,804.70	194,737.16
Environmental protection expenses	373,113.70	210,947.78
Transportation fees	329,133.17	248,067.36
Promotion expenses	63,627.27	96,613.12
Stream fees	—	140,240.69
Delivery expenses	176,606.19	442,230.29
Water fees	134,205.50	95,514.88
Others	48,807.32	728,317.96
Total	41,699,748.99	36,543,704.28

33. Finance fees

Item	RMB	
	Incurred during the current period	Incurred during the previous period
Interest expenses	17,773,875.85	12,505,675.49
Less: Capitalized interest expenses	—	—
Less: Interest income	6,579,104.94	6,115,544.60
Foreign exchange difference	(5,533,369.04)	208,917.72
Less: Capitalized foreign exchange difference	—	—
Other	4,297,688.87	2,624,223.46
Total	9,959,090.74	9,223,272.07

34. Loss on impairment of assets

Items	RMB	
	Incurred during the current period	Incurred during the previous period
Provision of bad debt	(634,935.90)	(77,040.00)
Including: accounts receivable	(634,935.90)	(77,040.00)
Other accounts receivable	—	—
Provision of allowance for inventory	—	—
Including: Raw materials	—	—
Work-in-progress	—	—
Finished product	—	—
Total	(634,935.90)	(77,040.00)

35. Non-operating income

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

Items	RMB		
	Incurred during the current period	Incurred during the previous period	Amounts credited to non-recurring profit during the current year
Total income on disposal of non-current assets	5,290.87	29,192.05	5,290.87
Government grants	15,730,000.00	14,508,408.84	15,730,000.00
Income from penalty	268,823.98	262,905.23	268,823.98
Others	—	222,818.00	—
Total	16,004,114.85	15,023,324.12	

(2) Breakdown of Government grants

Items	RMB	
	Incurred during the current period	Incurred during the previous period
Financial subsidies	15,730,000.00	14,060,000.00
Tax rebate from value-added tax	—	448,408.84
Total	15,730,000.00	14,508,408.84

Note: In February 2012, a cash reward of RMB10,000.00 for 2011 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); In February 2012, a cash reward of RMB60,000.00 for 2011 Foreign Trade Commendation (外貿工作表彰獎) from the Financial Bureau was received by the Company; In March 2012, the export growth subsidies of RMB660,000.00 was received by the Company from Shouguang Commerce Bureau (壽光商務局); In June 2012, a cash award of RMB15,000,000.00 for technology was received by Shandong Molong Petroleum Machinery Company Limited from Finance Bureau Shouguang City.

36. Non-operating expenses

Items	RMB		
	Incurred during the current period	Incurred during the previous period	Amounts credited to non-recurring profit or loss for the current year
Total loss on disposal of non-current assets	171,125.77	125,708.49	171,125.77
Of which: Loss on disposal of fixed assets	171,125.77	125,708.49	171,125.77
Donation expenses	100,000.00	27,000.00	100,000.00
Others	208,526.31	8,487.76	208,526.31
Total	479,652.08	161,196.25	479,652.08

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37. Non-operating expenses

Items	RMB	
	Incurred during the current period	Incurred during the previous period
Income tax for the current period calculated according to tax laws and relevant rules	19,403,270.80	12,622,191.95
Adjustment on deferred income tax	251,981.4	311,405.14
Total	19,655,252.20	12,933,597.09

38. 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:

	Incurred during the current period	RMB Incurred during the previous period
Net profits for the period attributable to ordinary shareholders	75,704,983.45	75,447,529.37
Of which: net profits attributable to going concern	75,704,983.45	75,447,529.37

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

	Incurred during the current period	Unit: share Incurred during the previous period
Number of outstanding ordinary shares at the beginning of the year	398,924,200.00	398,924,200.00
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	398,924,200.00

The Group does not have any dilutive potential ordinary shares.

- (3) Earnings per share

	Incurred during the current period	RMB Incurred during the previous period
Calculated based on net profits attributable to the equity holders of the Company:		
Basic earnings per share	0.19	0.19
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	0.19
Diluted earnings per share	N/A	N/A

39. Other comprehensive income

	RMB	RMB
	Incurred during the current period	Incurred during the previous period
Translation difference of financial statements denominated in foreign currency	(2,418,976.09)	—

40. Notes to cash flow statements

(1) Receipt of other cash related to operating activities

	RMB	
	Consolidation	
Item	Incurred during the current period	Incurred during the previous period
Interest income	4,077,740.98	593887.14
Decrease in other operating receivables	—	(3885381.98)
Decrease in guarantees of promissory foreign exchange notes	—	—
Government grants	15,730,000.00	60000.00
Other	596,931.30	2630626.11
Total	20,404,672.28	(600868.73)

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(2) Payment of other cash related to operating activities

	RMB	
	Consolidation	
	Incurred during the current period	Incurred during the previous period
Hospitality expense	1,355,360.76	667,940.75
Increase in guarantees of promissory foreign exchange notes	162,180,099.30	9,513,057.02
Expense Intermediary service	277,915.40	297,470.29
Transportation expense	22,624,873.33	19,683,409.29
Travel expense	265,385.74	651,207.23
Electricity expense	17,284.21	279,409.43
Return of current accounts of other companies	—	(1,020,686.48)
Agency fees	1,414,807.20	1,082,356.80
Development fees for new products	4,212,028.08	6,628,070.52
Machinery material consumption fees	2,743,915.73	2,936,375.62
Repair expense Advertising	142,470.49	1,261,044.14
Other	18,676,345.87	10,512,135.85
Total	213,910,486.11	52,491,790.46

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

	RMB	
	Consolidation	
	Incurred during the current period	Incurred during the previous period
Guarantees for borrowing	—	2844720.95
Intermediate fees for listing	—	—
	—	2844720.95

41. *Supplementary information on cash flow statements*

(1) Supplementary information on cash flow statements

	RMB	
	Consolidation	
Supplementing Information	Incurred during the current period	Incurred during the previous period
(1) Reconciliation of net profits as cash flows from operating activities:		
Net profits	82,626,787.59	95,042,307.35
Add: Provision of impaired assets	(634,935.90)	(77,040.00)
Depreciation of fixed assets	83,654,451.69	71,113,147.13
Depreciation of real estate held for investment	—	—
Intangible assets amortized	17,914,253.06	10,005,665.50
Amortization of long-term deferred expenses	(780,982.72)	—
Losses (Gains) on disposal of fixed assets, intangible assets and other long-term assets	165,834.90	—
Losses (or gains) from change of fair value	—	—
Financial expenses (gains)	12,187,926.01	9,925,622.24
Investment losses (gains)	(880,666.28)	(16,959,524.67)
Decrease (Increase) in deferred income tax assets	1,677,738.13	(12,627.22)
Decrease (Increase) in deferred income liabilities	(19,084,822.58)	4,900,443.06
Decrease (Increase) in stock	(177,351,933.74)	(156,312,331.88)
Decrease (Increase) in operating receivables	(2,067,070,033.70)	(1,508,885,696.77)
Increase (Decrease) in operating receivables	2,140,993,935.95	1,517,653,603.2
Other	(3,011,721.46)	—
Net cash flows from operating activities	70,405,830.95	26,414,633.68
(2) Net change in cash and cash equivalents:		
Cash balance at the end of the year	353,014,914.99	408,890,318.57
Less: cash balance at the beginning of the year	350,636,120.73	754,225,131.33
Net increase in cash and cash equivalents	2,378,794.26	(345,334,812.76)

(2) Components of cash and cash equivalents

	RMB	
	Consolidation	
	Closing balance	Opening balance
1. Cash		
Consist of: treasury cash	830,137.30	153,603.44
Bank deposits readily available for payment	192,714,555.31	224,925,512.85
Other currency capital readily available for payment	159,470,222.38	125,557,004.44
2. Cash and cash equivalent balance at the end of year	—	—
Other restricted currency capital	—	—
3. Currency capital at the end of the year	353,014,914.99	350,636,120.73

VI. Related Party and Transactions

1. Situation on Controlling Shareholders of the Group

As at 30 June 2012, 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 period	Incurred during the previous period
			Amount	Amount
Yalong Oil Pump	Oil well pumpings and accessories	Agreed price	3,504,037.04	3,488,268.28
Total			3,504,037.04	3,488,268.28

(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. **Account receivable and payable of related parties**

(1) **Account receivable of related party:**

Item	Related party	Closing balance		Opening balance	
		Book balance	Bad debt balance	Book balance	Bad debt balance
Accounts receivable	Yalong Oil Pump	1,245,523.40	—	957,200.50	—

VII. Commitments

1. **Capital Commitment**

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	Closing balance	Opening balance
Contracted but not recognized in financial statements		
— Commitment on acquisition and construction of long-term assets	66,634,919.82	45,726,786.00

VIII. Approval of the Financial Statements

These financial statements had been approved by the Board of Directors of the Company on 24 August 2012.

SUPPLEMENTARY INFORMATION

I. Breakdown of extraordinary gains and losses

Item	Amount	RMB Remarks
Profit or loss from disposal of non-current assets	(165,834.90)	
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)	15,730,000.00	
Non-operating gains and losses other than the above items	595,233.57	
Effect of income tax	(2,313,201.10)	
<hr/>		
Total	13,846,197.57	

II. Return on net assets and earnings per share

This calculation of return on net assets and earnings per share 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 average return on assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to holders of ordinary shares of the Company	75,704,983.45	0.19	N/A
Net profit attributable to holders of ordinary shares of the Company, after deducting extraordinary gains and losses	68,780,590.02	0.17	N/A

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. The original copy of the auditors' report which was sealed by the accounting firm and signed by a certified public accountant.
- III. 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
August 24, 2012