

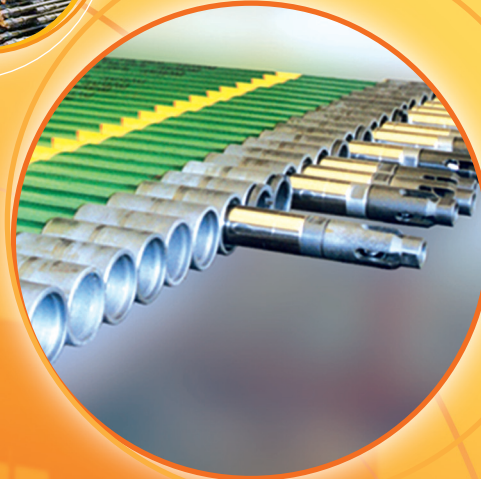
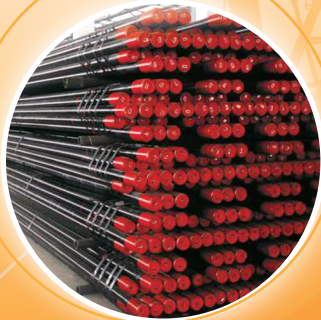


山東墨龍石油機械股份有限公司

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)



2013
Interim
Report

I. IMPORTANT, CONTENTS AND DEFINITIONS

Important

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

All directors attended the Board meeting for considering this report.

The company does not plan to distribute cash dividends or bonus shares, nor capitalizing common reserve.

The person-in-charge of the Company, Mr. Zhang En Rong, person-in-charge of accounting, Mr. Yang Jin and the manager of the accounting department, Mr. Ding Zhi Shui declare that the financial report contained in this Interim Report is true, accurate and complete.

The unaudited financial statements were prepared in accordance with the PRC and Hong Kong Accounting Standards and were reviewed by the Audit Committee of the Company with no disagreement.

Please refer to Section IV, Directors' Report for the potential risks of the Company. The forward looking statements, including future plan and development strategy, contained in this report do not constitute a real commitment to investors by the Company. Investors should be reminded of such investment risks.

There were no extraordinary use of funds by the controlling shareholder and its related parties.

There was no offering for security in violation of specified procedure.

Contents

I.	Important, Content and Definitions	1
II.	Company Profile	3
III.	Summary of Financial Results and Indicators	6
IV.	Directors' Report	7
V.	Material Matters	15
VI.	Changes in Share Capital and Shareholders	20
VII.	Directors, Supervisors and Senior Management	23
VIII.	Financial Report	24
IX.	Documents Available for Inspection	98

Definitions

“Company”, “the Company”, and “Shandong Molong”	refer to Shandong Molong Petroleum Machinery Company Limited
“the Group”	referred to the Company and its subsidiaries
“SZSE”	refer to Shenzhen Stock Exchange
“SEHK”	refer to Stock Exchange of Hong Kong Limited
“Listing Rules of Shenzhen Stock Exchange”	refer to the Rules governing the listing of securities on the Shenzhen Stock Exchange
“Listing Rules of SEHK”	refer to the Rules governing the listing of securities on the Hong Kong Stock Exchange, unless otherwise specified.

II. COMPANY PROFILE

I. Company Information

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

Directors

Executive Directors: Mr. Zhang En Rong (Chairman), Mr. Zhang Yun San (Vice Chairman), Mr. Lin Fu Long, Mr. Guo Huan Ran

Non-executive Directors: Mr. Xiao Qing Zhou, Mr. Guo Hong Li

Independent Non-executive Directors: Mr. John Paul Cameron, Ms. Wang Chun Hua, Mr. Qin Xue Chang

Special Committee

Members of Nomination Committee:

Ms. Wang Chun Hua (Chairman), Mr. Zhang Yun San, Mr. John Paul Cameron, Mr. Qin Xue Chang

Members of Remuneration and Assessment Committee:

Mr. John Paul Cameron (Chairman), Mr. Qin Xue Chang, Mr. Zhang Yun San, Ms. Wang Chun Hua

Members of Audit Committee:

Mr. Qin Xue Chang (Chairman), Mr. John Paul Cameron, Ms. Wang Chun Hua

Supervisors

Mr. Liu Huai Duo (Chairman), Mr. Fan Ren Yi, Mr. Zhang Jiu Li

Secretary to the Board of the Company: Zhao Hong Feng

Company Secretary: Chan Wing Nang, Billy

Securities Affairs Representatives: Wang Peng Hua

Correspondence Address: No. 999 Wensheng Street, Shouguang City, Shandong Province

Telephone: (86)-0536-5100890

Facsimile: (86)-0536-5100888

Email address: dsh@molonggroup.com

Authorised Representatives: Mr. Zhang Yun San, Mr. Chan Wing Nang, Billy

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

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

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

II. Contact Information

	The Secretary of the Board	Securities Affairs Representative	The Secretary of the Company
Name	Zhao Hong Feng	Wang Peng Hua	Chan Wing Nang, Billy
Office Address	No. 999 WenSheng Street, Shouguang City, Shandong Province	No. 999 WenSheng Street, Shouguang City, Shandong Province	Suite A, 11th Floor Ho Lee Commercial Building 38-44 D'Aguilar Street Central, Hong Kong
Telephone	(86)-0536-5100890	(86)-0536-5789083	(852)-23919224
Facsimile	(86)-0536-5100888	(86)-0536-5100888	
Email Address	zhf@molonggroup.com	wph@molonggroup.com	billy@apcpa.hk

III. Other Information

1. Information Disclosure and Places for Inspection of the Company's Interim Report

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

2. Registry Changes

	Date of Registration	Registered Address	Legal Person Business License	Registration Number with tax bureau	Organization No.
First Registration	30 December, 2001	No. 99 Beihuan Road, Shouguang City, Shandong Province	3700001807083	370783734705456	73470545-6
Report the Final Registration	28 August, 2012	No. 999 WenSheng Street, Shouguang City, Shandong Province	370000400000030	370783734705456	73470545-6
Changes in principal operations (if any) since the Company's listing			No change		
All changes in controlling shareholders (if any)			No change		

III. SUMMARY OF FINANCIAL RESULTS AND INDICATORS

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

	30 June 2013 (unaudited)	30 June 2012 (unaudited)	Increase/ decrease (%)
Operating Revenue (RMB)	1,139,353,466.09	1,583,899,848.87	-28.07%
Net profit attributable to equity holders of Listed Company (RMB)	45,601,697.63	75,704,983.45	-39.76%
Net profit after extraordinary gains or losses attributable to equity holders of Listed Company (RMB)	35,935,466.59	61,864,114.82	-41.91%
Net cash flows from operating activities (RMB)	(256,088,828.09)	70,405,830.95	-463.73%
Basic earning per Share (RMB)	0.06	0.1	-40%
Diluted earning per Share (RMB)	0.06	0.1	-40%
Net Assets Income Rate (%)	1.57%	2.67%	-1.1%

	30 June 2013 (unaudited)	31 December 2012 (audited)	Increase/ decrease (%)
Total Assets (RMB)	6,043,585,415.80	5,285,750,978.82	14.34%
Net assets attributable to shareholders of Listed Company (owners' interests attributable to shareholders of List Company)	2,935,182,060.90	2,889,416,712.61	1.58%

II. Extraordinary Gains or Losses Items

Item	Amount	Unit: RMB Instruction
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	(484,754.97)	—
Government grant recognised in current profit and loss (excluding those grants that are closely related to the Company's business and that were granted in accordance with the standard amount or volume prescribed by the State)	11,485,000.00	—
Non-operating gain or loss other than the above	376,929.50	—
Effect of extraordinary gains or losses on income tax	1,706,165.26	—
Effect of extraordinary gains or losses on minority shareholders interest (after tax)	4,778.23	—
Total:	9,666,231.04	—

IV. DIRECTORS' REPORT

I. Discussion and Analysis

During the Period under Review, the Group achieved unaudited revenue of RMB1,139,353,466.09, representing a decrease of approximately 28.07% as compared with the same period last year; the unaudited total profit was RMB52,317,536.27, representing a decrease of approximately 48.85%; the unaudited profit attributable to equity holders of the Company was RMB45,601,697.63, representing a decrease of 39.76%; and the unaudited net profit after extraordinary items was RMB35,935,466.59, representing a decrease of approximately 41.91%, 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 CNPC Group, Sinopec Group and CNOOC Group and their oilfields. Revenue generated from sales to the oil fields under the above three major customers in aggregate accounted for 22.37% of the Group's total sales revenue.

During the Period under Review, strong anti-twist release buckle tubing was sold to Huabei Oilfield (華北油田) and Jidong Oilfield (冀東油田); strong anti-twist release buckle tubing, economic gas-sealed buckle casing, large inner diameter tubing and thermal recovery well casing were sold to CNOOC; economic sealed buckle casing, oil well bailing pipes and inner extra-thick tubes were sold to Daqing Oilfield (大慶油田); large inner diameter tubing was sold to Xinjiang Oilfield (新疆油田); thermal recovery well casing was sold to Xingang Group (新港公司); HY-grade sucker rods were sold to the Changqing Oilfield (長慶油田); economic special buckle casing was sold to Qinghai Oilfield (青海油田); Molong special thread casing and economic special thread casing were sold to Southwest Oil and Gas Field (西南油氣田); drill rods entered Ningxia, Puyang and Tianjin markets; cylinder pipes and high-pressured boiler tubes were also launched in the new markets. With the Company's debut of new products in markets and new customer engagement, our market share was further enlarged.

In terms of overseas market, the Group further strengthened the existing markets and customer base and at the same time continued to step up its efforts to expand its sales to global oil-producing areas. The Group has developed relationship with over ten new overseas customers, obtained new certification from a number of oil companies and further expanded the overseas market scope and market share. During the Period under Review, the Group's revenue generated from exports accounted for 35.52% of the Group's total sales revenue.

In terms of new product development, by leveraging its advantages, the Group increased its efforts in new product development, actively expanded the product mix, enriched product types, and sequentially developed various products, including bailing wells tubing, large inner diameter tubing, thermal recovery well casing, parallel anti-twist release buckle tubing, anti-acid oil pipes and special buckling anti-acid tubing, acidic line pipes, high-grade steel pipelines, S135 and G105 drill rods, high-precision cold-drawn pipes, ball valves, three-way valves, check valves, C5 valves, anti-corrosion ring valve, anti-gas oil pumps, anti-corrosion gas-exhaustion and injection oil pumps, ultra-high-strength sucker rods and extra-thick inner tubing couplings etc., all of which successfully completed trial production and were sold to domestic and foreign markets. In addition, the Company's research and development of X65QS high-grade steel anti-acid pipelines, the production method of clean steels and ML110TS H2S-resistant and strong anti-pressure casing were approved as new innovation projects in Shandong. In particular, the "production method of clean steels" has obtained the national invention patent.

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

During the reporting period, the Company's main business scope has not changed much, and is still comprised of sucker rod pumps, sucker rods, pumping units, oil casing and tubing and petroleum machinery parts, etc; the main operating profit still comes from oil casing and tubing.

The main financial data changed conditions

				Unit: RMB
	30 June 2013	30 June 2012	Increase/ decrease	Instruction
	(unaudited)	(unaudited)	(%)	
Operation revenue	1,139,353,466.09	1,583,899,848.87	-28.07%	—
Operating costs	1,015,901,005.30	1,419,132,930.05	-28.41%	—
Selling expense	23,752,807.70	26,312,929.90	-9.73%	—
Handling expense	48,140,892.36	41,699,748.99	15.45%	—
Financial expense	12,032,644.85	9,959,090.74	20.82%	—
Income tax expense	7,895,402.71	19,655,252.20	-59.83%	—
R&D investment	60,825,706.01	55,681,842.50	9.24%	—
Net profit from operations	(256,088,828.09)	70,405,830.95	-463.73%	—
The net cash flow by investment activities	(299,867,199.67)	(222,479,428.33)	34.78%	—
The net cash flow by financial activities	678,392,924.07	159,985,760.68	324.03%	—
Net increase in cash and cash equivalents	113,052,162.68	2,378,794.26	4,652.5%	—

Income tax expenses during the reporting period decreased by 59.83% compared with the same period of last year, mainly because the relevant income tax expenses decreased as a result of a fall in total profit over last year.

Net cash flows from operating activities during the reporting period fell significantly over the same period of last year, mainly because the prices of main raw materials changed substantially and early prepayments was made to hedge against the prices of raw materials.

Net cash flows from investing activities during the reporting period decreased by 34.78% over the same period of last year, mainly because the Company made investment in 90 tons of electric furnace project and investment commitment in casting products after technological transformation using Rio Tinto in Australia 's Hismelt technology.

Net cash flow from financing activities during the reporting period increased by 324.03% over the same period last year, mainly because the Company issued its corporate bonds during the period.

Company's review on the progress of the operating plan during the reporting period

During the reporting period, as affected by the economic conditions, the prices of raw materials significantly fluctuated, the selling prices of its products fell over the same period last year, and demand for high-end products fell, resulting in a decrease in sales revenue and operating profit.

III. Principal operations by Products and by Region

Unit: RMB

				Year-on-year increase/ decrease in	Year-on-year Increase/ decrease in	Year-on-year increase/ decrease in
	Operation revenue (Unaudited)	Operating costs (Unaudited)	Gross profit margin (%)	operation revenue (%)	operating costs (%)	gross profit margin (%)
By product						
Casing and tubing	1,020,856,745.38	920,008,562.14	9.88%	-27.76%	-27.91%	0.19%
Three kinds of pumping units	35,900,532.73	28,918,501.83	19.45%	5.59%	-0.73%	5.13%
Petroleum machinery	54,415,772.25	40,397,285.39	25.76%	-39.26%	-42.02%	3.54%
Others	9,634,984.44	8,725,544.23	9.44%	64.39%	-68.28%	11.12%
By region						
PRC	722,744,093.20	665,349,228.50	7.94%	-28.93%	-28.9%	-0.04%
Abroad	398,063,941.60	332,700,665.10	16.42%	-27.21%	-28.72%	1.77%

IV. Core Competence Analysis

During the reporting period, the Group's cooperation with domestic and foreign customers was further strengthened, Non-API products and customized products underwent mass production. New products were successfully tested in domestic and overseas oil fields, sales of non-oil well tubes and seamless tubes increased dramatically. Through the full range of technical cooperation with the scientific research institutes to leverage on the advantage of Province-class Enterprise Technical Center of Shandong Province and Shandong Molong post-doctoral research station, the Company persistently enhanced the development of value-added products and tailor-made products, leveraged on its own advantages, developed its own potential and implemented delicacy management, increasingly upgraded its ability against risks and its core competitiveness so as to further lift the awareness of the Company's brand name in the international energy equipment market.

9

V. Investment Situation Analysis

1. Analysis of main subsidiaries, joint stock company

Condition of main subsidiaries and joint stock company

Unit: RMB

Name of company	Company Type	Industry	The main products or services	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Weihai Baolong	Subsidiary	Manufacturing	Manufacture and sales of metal material specialized for petroleum use	26,000,000.00	441,668,133.19	350,313,182.68	194,667,474.97	(13,731,211.92)	(13,722,031.77)

2. Other major investments during the reporting period

Unit: RMB'0000

Name of projects	Aggregate investment	The annual investment amount	Accumulated investment as at the end of the Reporting Period	Project progress	Benefits realized during the Reporting Period
90 tons electric furnace	13,362	4,640.26	13,483.7	85%	—
Φ 1200 mm forging expansion project	18,032	1,551.85	4,769.86	90%	—
Casting product technical transformation project	56,000	19,217.14	19,217.14	25%	—
Total	87,394	25,409.25	37,470.7	—	—

VI. Operating result forecast for the nine months ended 30 September 2013

Operating result forecast for the nine months ended 30 September 2013: Net profit attributable to shareholders of listed companies is positive and not belongs to the situation of turning losses into gains

Net profit attributable to shareholders of listed companies is positive and not belongs to the situation of turning losses into gains

10

Change in net profit attributable to shareholders of the listed Company from January to September 2013 (%)	-40% to 10%
Range of change in net profit attributable to shareholders of the listed Company from January to September 2013 (ten thousand yuan)	7,230.61 to 13,256.12
Net profit attributable to shareholders of the listed Company from January to September 2012 (ten thousand yuan)	12,051.02

Reasons for the change in results

As affected by the marco-economic downturn, competition in the industry intensified, the prices of raw materials significantly fluctuated, and the selling prices of its products fell.

VII. Details of profit distribution or conversion of capital reserves into share capital

The profit distribution plan of the Company was considered and approved at the 2012 Annual General Meeting. Based on the retained profit as at 31 December 2012, cash bonus of RMB0.5 (tax included) was declared to be paid to all shareholders for every 10 shares held.

VIII. Registration report on reception of research investigations, communications and interviews during the reporting period

Time of reception	Place of reception	Manner of reception	Types of Parties accommodated	Parties accommodated	Main topics of discussion and information provided
8 May 2013	Shouguang Shandong	On-site research and investigation	Organization	Guosen Securities (HK) Brokerage Co., Ltd	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as the condition of A Shares proceeds-funded projects.

IX. Disclosures in accordance with the Listing Rules of SEHK

1. Results

The Group's profit for the first half of 2013 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 33 of the interim report.

2. Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is as follows:

Results

	For the 6 months ended 30 June	
	2013 RMB'000	2012 RMB'000
Total revenue from operation	1,139,353	1,583,900
Profit from operations	40,940	86,758
Total profit	52,318	102,282
Net profit	44,422	82,627
Minority interests	(1,180)	6,922
Net profit attributable to shareholders of the Company	45,602	75,705
Basic earnings share (RMB)	0.06	0.10

Assets and Liabilities

	For the 6 months ended 30 June	
	2013 RMB'000	2012 RMB'000
Total assets	6,043,585	5,285,751
Total liabilities	3,045,695	2,332,464
Net assets	2,997,890	2,953,287

3. *Changes in Share Capital*

Details of changes in the share capital of the Company for the 6 months ended 30 June 2013 are set out in note 28 to the consolidated financial statements.

4. *Reserves and Distributable Reserves*

Details of changes in the reserves of the Group for the 6 months ended 30 June 2013 are set out in note 29 to the consolidated financial statements.

5. *Property, Plant and Equipment*

Details of changes in the property, plant and equipment of the Group for the 6 months ended 30 June 2013 are set out in note 10 to the consolidated financial statements.

6. *Capitalised Interest*

For the 6 months ended 30 June 2013, the Group had capitalised interest amounting to RMB0.

7. *Directors' and Supervisors' Service Contracts or Letters of Appointment*

Each of the Directors and Supervisors (including the independent non-executive Directors and Supervisors) has entered into a service contract or letter of appointment with the Company. None of the Directors or Supervisors have entered into any service contracts with the Company which is not determinable by the Company within one year without paying compensation, other than statutory compensation.

8. *Special Committee*

Details of the Audit Committee and the Remuneration and Evaluation Committee held under the Board are set out in "I. Corporate Governance" in section V of this interim report.

9. *Continuing Related Party Transactions*

For continuing related party transaction with Yalong Oil Well Pump in this reporting period, please refer to "VI. Related Party and Transactions" in section VI to the consolidated financial statements. This continuing related party transaction was not "Connected Transactions" or "Continuing Connected Transactions" under Charter 14A of Listing Rules from SEHK.

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

As at 30 June 2013, 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 SEHK 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 SEHK, were as follows:

Long positions in the Shares

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total issued share capital
Zhang En Rong	Beneficial	279,517,000	51.60%	35.03%
Lin Fu Long	Beneficial	34,216,000	6.32%	4.29%
Zhang Yun San	Beneficial	30,608,000	5.65%	3.84%

Name	Type of interest	Number of H shares	Percentage of H shares	Percentage of total issued share capital
Zhang Yun San	Beneficial	1,576,000	0.62%	0.20%

In addition, Mr. Xie Xin Cang, who has retired from the director of the Company since 28 June 2013, holds 21,410,000 A shares of the Company which amounts to 3.95% of the total A shares and 2.68% of the total issued share capital of the Company respectively. Mr. Xie confirmed that they have no disagreement with the Board of the Company and there is no other matter related to their resignations that needs to be brought to the attention of the Shareholders and the creditors of the Company.

Save as disclosed above, to the best knowledge of the Directors, Supervisors and chief executive, none of the Directors, 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 have or deemed to have under the SFO) or will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Group and to the Stock Exchange.

11. Directors' and Supervisors' Rights to Acquire Shares or Debentures

None of the Directors or Supervisors or their respective associates (as defined under the Rule 1.01 of the Listing Rules of the SEHK) was granted any rights or options to acquire any shares in or debentures of the Company by the Company or its subsidiaries or had exercised any such rights in the first half of 2013.

12. Share Option Scheme

The Company does not have any share option scheme.

13. Directors' and Supervisors' Interests in Contracts

There was no contract of significance to which the Company or any of its subsidiaries was a party and in which any of the Directors and Supervisors had a material interest, whether directly or indirectly, subsisted at the end of 30 June 2013 or at any time in the first half of 2013.

14. Material Contracts

None of the Company (or any of its subsidiaries) or the controlling Shareholders of the Company (or any of its subsidiaries) has entered into any material contracts between themselves, and none of the controlling Shareholders of the Company (or any of its subsidiaries) has provided any material service contract to the Company (or any of its subsidiaries).

15. 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 as of 30 June 2013.

16. Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

17. Corporate Governance

The principal Code on Corporate Governance adopted by the Company is set out in section VIII of this interim report.

18. Sufficiency of Public Float

According to information of the Company available to the public and to the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float throughout the first half of 2013 and up to the date of this report.

V. MATERIAL MATTERS

I. Corporate Governance

1. *The Company's corporate governance is generally in compliance with the relevant requirements of the Company Law and the 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 strictly complied with requirements of laws, regulations and regulatory documents including the Company Law, the Securities Law, the Standard on the Governance of Listed Companies and the Guidelines for Articles of Association of Listed Companies since its establishment and continued to enhance its corporate governance standards. During the reporting period, the Company continued to enhance the corporate system and operation procedures in accordance with the work arrangement of the regulatory authorities and the latest regulatory requirements. There were no differences between the actual conditions of the Company's corporate governance and the requirements of the CSRC's related laws and regulations. The Company had also fully adopted the respective code provisions set out in the Code on Corporate Governance Code of Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange.

Throughout the period under review the Company has complied 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.

In addition, the Company confirms that the company secretary of the Company has taken not less than 15 hours of professional training in the previous financial year. The company secretary has also taken sufficient continuous trainings in the first half of 2013.

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, and evaluating financial information and related disclosures through reviewing the work undertaken by the internal and external auditors. The Audit Committee consists of the independent non-executive Directors, namely Mr. Qin Xue Chang, Mr. John Paul Cameron and Ms. Wang Chun Hua. Mr. Qin Xue Chang is the Chairman of the Audit Committee. The Audit Committee held two meetings during the period under review with an attendance rate of 100%.

The Audit Committee has reviewed the Company's unaudited financial statements for the six months ended 30 June 2013, and has submitted them to the Board for approval.

4. *Nomination Committee*

The Nomination Committee consists of three independent non-executive Directors: Mr. Qin Xue Chang, 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. Qin Xue Chang, 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%.

6. *Internal Control*

The Board places great importance on internal control and risk management and is responsible for establishing and maintaining adequate internal control over financial reporting for the Company and assessing the overall effectiveness of those internal controls. The Board has reviewed the internal control system of the Group and is of the view that the system is effective.

The Company has an Internal Audit Department which plays a major role in monitoring the internal governance of the Company. The major tasks of the Internal Audit Department are reviewing the financial condition and management of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis. The Company has taken many steps to enhance the internal control of the Company in the first half of 2013, such as having all departments internal control inspection and appraisal, strengthening the checks and supervision of implementation of the internal control systems by the Audit Department and according to some weakness found during examination of the internal control, further improving the internal control system and strengthening the implementation of all the internal control systems.

During the period, the Internal Audit Department issued reports to the senior management covering various operational and financial units of the Company and also conducted reviews of areas of concern identified by the Company's management.

7. *Liability Insurance for Directors, Supervisors*

According to the Stock Exchange of Hong Kong's latest requirements under the Corporate Governance Code, during the reporting period, it has completed the arrangement of selection of the insurance undertaker of the liability insurance for directors, supervisors and senior executives, providing insurance of the performance of directors, supervisors and senior executives.

8. *Independent Non-executive Director*

The Company has appointed enough Independent Non-executive Directors with professional knowledge in accordance with Rules 3.10(1), 3.10(2) and 3.10(A) of Listing Rules. The Company appointed 3 Independent Non-executive Directors, one of which is specialized in accounting and financial management.

9. *Model Code for Securities Transactions for Directors and Supervisors of the Company*

For the six months ended 30 June 2013, the Company has adopted the code provisions on the trading of shares of the Company by relevant directors on terms no less exacting than the standard required by the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in the Appendix 10 of the "Listing Rules". After making specific enquiries of all directors and supervisors, the Company confirms that all directors and supervisors complied with the "Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules" and standards provided by the code of conducts relating to securities transactions by directors.

II. Major Transactions

1. Joint Venture Transactions of Day to Day Operations

Related party	Relationship	Type of Connected Transactions	Subject of connected transaction	Pricing method and decision procedures of connected transaction	Connected transaction price	Amount (RMB'0000)	As a proportion to same type of transaction amount (%)	Method of settlement	Similar market price	Date of disclosure	Disclosure index
Karamay Yalong Petroleum Machinery Co., Ltd	Joint venture	Sales	Oil well pumping sand accessories	Agreed price	—	783.87	21.83%	Cash	—	—	—
Total				—	—	783.87	—	—	—	—	—

III. Undertakings made by the Company and shareholders interested in 5% or more of the shares of the Company made in the reporting period or subsisting to the reporting period

18

Item	Acceptor	Commitment to content	Commitment to content	Period for acceptance	Degree of performance
Undertaking made on initial public offering or refinancing	Zhang En Rong, Zhang Yun San	Within 36 months since the date of the listing of the A Shares, shares shall not be transferred or entrusted to others to manage, and not be purchased by the Company. Also, they 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 the Company. The period of undertaking is 36 months, and was strictly complied with throughout the period under review.	On 21 October 2010	36 months	During the Reporting period, the above officials strictly performed their commitment items.
Does the undertaking performed timely			Yes		

IV. Other Material Matters

Independent opinions of Independent Directors of the Company on use of funds by related parties and external guarantees during the reporting period as follows:

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 owned subsidiaries and invested companies of the Company, there were no use of funds by controlling shareholders and other related parties during the reporting period; while the connected transactions 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).

V. Particulars about the Separation of Businesses, Personnel, Assets, Organizations, and Finance from the Controlling Shareholder

1. In terms of business: The Company was operated completely independent from the controlling shareholder, and had its independent and complete business operation capability.
2. In terms of personnel: The labour, personnel and remuneration management were completely separated from the controlling shareholder.
3. In terms of assets: There was only shareholding investment relationship between the Company and its controlling shareholders. The assets of the Company were completely separated from that of the controlling shareholder.
4. In terms of organization: The Company had a mature and independent organization structure, which was established according to the legal processes and the business practice of the Company. It was completely separated from the controlling shareholder.
5. In terms of finance: The Company had its own accounting department, accounting system, financial management system, and bank accounts which were independent of the controlling shareholder.

19

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

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

VI. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. Changes in share capital

	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 capital reserve	Others	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	396,478,000	49.69%	—	—	—	—	—	396,478,000	49.69%
1. Other domestic shares	28,229,000	3.54%	—	—	—	—	—	28,229,000	3.54%
Comprising:									
Domestic natural person shares	28,229,000	3.54%	—	—	—	—	—	28,229,000	3.54%
2. Senior management shares	368,249,000	46.15%	—	—	—	—	—	368,249,000	46.15%
II. Shares not subject to lock-up	401,370,400	50.31%	—	—	—	—	—	401,370,400	50.31%
1. RMB ordinary shares	145,244,000	18.2%	—	—	—	—	—	145,244,000	18.2%
2. Overseas-listed foreign shares (H shares)	256,126,400	32.1%	—	—	—	—	—	256,126,400	32.1%
III. Total number of shares	797,848,400	100%	—	—	—	—	—	797,848,400	100%

II. Shareholders' profiles

Unit: shares

Domestic Shares of RMB1.00 each of the Company

Name of Shareholders	Nature of Shareholders	Percentage of shareholding (%)	Shareholding at the end of this reporting period	Change in Shareholding during this reporting period	Number of Restricted shares held	Number of non-restricted shares held
Zhang En Rong	Domestic natural person	35.03%	279,517,000	0	279,517,000	0
Lin Fu Long	Domestic natural person	4.29%	34,216,000	0	34,216,000	0
Zhang Yun San	Domestic natural person	3.84%	30,608,000	0	30,608,000	0
Xie Xin Cang	Domestic natural person	2.68%	21,410,000	0	21,410,000	0
Liu Yun Long	Domestic natural person	1.84%	14,670,000	0	14,670,000	0
Cui Huan You	Domestic natural person	1.16%	9,238,000	0	9,238,000	0
Liang Yong Qiang	Domestic natural person	0.85%	6,819,000	0	6,819,000	0
Cong Li Qin	Domestic natural person	0.13%	1,007,292	0	0	1,007,292
Lin Chuan	Domestic natural person	0.11%	838,400	0	0	838,400

H Shares of RMB1.00 each of the Company

Name of Shareholders	Nature of Shareholders	Percentage of shareholding (%)	Shareholding at the end of this reporting period	Change in Shareholding during this reporting period	Number of Restricted shares held	Number of non-restricted shares held
HKSCC Nominees Limited	Overseas non-state-owned legal person	32.03%	255,522,690	—	—	255,522,690
Zhang Yun San	Domestic natural person	0.62%	1,576,000	—	—	1,576,000

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, according to the best information of the Company no other shareholders have connected relationships or are acting in concert.

Shareholdings of the top ten shareholders of non-restricted shares

Name of shareholders	Number of non-restricted shares held	Type of share	
		Type	Number of shares
HKSCC Nominees Limited	255,522,690	H shares	255,522,690
Zhang Yun San	1,576,000	H shares	1,576,000
Cong Li Qin	1,007,292	A Shares	1,007,292
Lin Chuan	838,400	A Shares	838,400
Lin Chao Bo	520,000	A Shares	520,000
Shen Ping	500,000	A Shares	500,000
Yan Wei	445,635	A Shares	445,635
Han Tian Hong	430,020	A Shares	430,020
Liu Shu Hong	393,693	A Shares	393,693
Yang Guo Qiang	391,900	A Shares	391,900

Notes:

- (1) The Company has no further information as to whether there is connected relationship or concerted-party relationship among each of the shareholders of non-restricted shares, or between the shareholders of non-restricted shares and other shareholders of the Company.
- (2) No shareholder has participate in the margin trading business.

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

As at 30 June 2013, so far as it is 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	11,061,200	4.32%	1.39%

Note 1: According to the best knowledge of the Directors of the Company and the disclosure of interest notices filed by Desmarais Paul G, Desmarais Paul G is deemed to be interested in 11,061,200 H Shares held by the companies controlled by him as at 30 June 2013.

Save as disclosed above, no persons (other than being a Director, Supervisor or chief executive of the Company) 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.

VII. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Name	Position	Duty state	Shares held at the beginning of the reporting period	Shares change during this reporting period (A share)	Shares held at the end of this reporting period (A share)
Xie Xin Cang	Executive director	Final departure	21,410,000	0	21,410,000
Liu Yun Long	Vice general manager	Final departure	14,670,000	0	14,670,000
Total	—	—	36,080,000	0	36,080,000

II. Change in directors, supervisors and senior managers

Name	Position	Form	Date
Guo Huan Ran	Executive director	Elected	28 June 2013
Qin Xue Chang	Independent non-executive Director	Elected	28 June 2013
Xie Xin Cang	Executive director	Final departure	28 June 2013
Chau Shing Yim David	Independent non-executive Director	Final departure	28 June 2013
Liu Yun Long	Vice general manager	Demission	28 June 2013

23

The term of Mr. Xie Xin Cang, an Executive Director, and Mr. Chau Shing Yim, David, an Independent Non-Executive Director, have been expired and their retirements more effective on 28 June 2013. The Board decided not to renew their terms of appointments. Both Mr. Xie and Mr. Chau confirmed that they have no disagreement with the Board of the Company and there is no other matter related to their resignations that needs to be brought to the attention of the Shareholders and the creditors of the Company.

At the annual general meeting of the Company held on 28 June 2013, Mr. Guo Huan Ran was approved to be appointed as the executive director of the Company and Mr. Qin Xue Chang was approved to be appointed as the Independent non-executive director of the Company, for the term commencing on the date of the annual general meeting and ending on the date of the conclusion of the fourth appointment period for the Board.

VIII. THE FINANCIAL STATEMENTS AND NOTES IN ACCORDING TO ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

As at 30 June 2013

1. Consolidated Balance Sheets

Item	Closing balance	Unit: RMB Opening balance
Current assets:		
Cash and bank balances	679,735,766.21	483,870,151.44
Bills receivable	194,832,249.29	197,194,589.32
Accounts receivable	605,804,312.82	455,105,433.22
Prepayments	177,641,736.47	33,896,626.16
Other receivable	20,392,895.61	18,953,847.29
Inventory	1,264,821,124.84	1,220,618,577.83
Other current assets	44,676,255.41	41,379,809.50
Total current assets	2,987,904,340.65	2,451,019,034.76
Non-current assets:		
Long-term equity investment	59,663,362.70	58,634,400.43
Fixed assets	1,787,694,255.86	1,833,866,660.51
Construction in progress	352,030,159.01	134,351,091.69
Construction materials	352,667,437.67	378,586,638.46
Intangible assets	65,487,507.94	7,077,238.89
Goodwill	132,723,383.21	132,723,383.21
Long-term unamortized expenses	201,388.92	243,055.56
Deferred income tax assets	20,683,579.84	19,249,475.31
Other non-current assets	284,530,000.00	270,000,000.00
Total non-current assets	3,055,681,075.15	2,834,731,944.06
Total assets	6,043,585,415.80	5,285,750,978.82

Item	Closing balance	Unit: RMB Opening balance
Current liabilities:		
Short-term borrowings	1,195,807,024.00	1,030,006,883.57
Bills Payable	679,550,356.73	603,403,515.62
Accounts payable	524,588,457.94	570,841,701.67
Advance receipts	56,042,988.35	25,837,981.59
Salaries payable	12,740,013.34	18,425,303.12
Taxes payable	22,945,608.40	33,669,386.02
Interests payable	5,894,400.49	6,968,896.69
Other payables	35,218,264.82	24,475,042.80
Total current liabilities	2,532,787,114.07	2,313,628,711.08
Non-current liabilities:		
Bonds payable	496,000,000.00	—
Deferred income tax liabilities	11,483,621.58	11,603,555.23
Other non-current liabilities	5,424,000.00	7,232,000.00
Total non-current liabilities	512,907,621.58	18,835,555.23
Total liabilities	3,045,694,735.65	2,332,464,266.31
Shareholders' equity:		
Share capital	797,848,400.00	797,848,400.00
Capital reserve	849,500,658.42	849,500,658.42
Surplus reserve	168,908,489.86	168,908,489.86
Undistributed profit	1,118,698,796.42	1,073,097,098.79
Foreign currency translation differences	225,716.20	62,065.54
Total equity attributable to owners of the Company	2,935,182,060.90	2,889,416,712.61
Minority interests	62,708,619.25	63,869,999.90
Total shareholders' equity	2,997,890,680.15	2,953,286,712.51
Total liabilities and shareholders' equity	6,043,585,415.80	5,285,750,978.82

2. Balance Sheets of the Company

Item	Closing balance	Unit: RMB Opening balance
Current assets:		
Cash and bank balances	654,495,277.00	469,439,865.77
Bills receivable	176,961,849.29	181,652,729.32
Accounts receivable	598,303,944.06	461,652,893.75
Prepayments	378,316,017.09	135,378,309.84
Other receivable	223,513,473.63	222,102,947.24
Inventory	985,237,533.88	989,379,929.85
Other current assets	2,124,883.50	1,521,778.24
Total current assets	3,018,952,978.45	2,461,128,454.01
Non-current assets:		
Long-term equity investment	652,069,921.73	652,069,921.73
Fixed assets	1,372,331,752.86	1,392,000,620.11
Construction in progress	217,193,182.53	45,916,706.90
Intangible assets	261,801,935.30	284,671,539.96
Research and development costs	60,314,742.22	5,527,255.20
Deferred income tax assets	15,570,090.83	14,135,986.30
Other non-current assets	47,530,000.00	33,000,000.00
Total non-current assets	2,626,811,625.47	2,427,322,030.20
Total assets	5,645,764,603.92	4,888,450,484.21

Item	Closing balance	Unit: RMB Opening balance
Current liabilities:		
Short-term borrowings	1,025,274,904.00	980,006,883.57
Bills payable	679,550,356.73	653,403,515.62
Accounts payable	316,121,800.85	377,503,612.67
Advance receipts	222,464,865.40	25,536,367.16
Salaries payable	7,376,132.64	13,068,782.18
Taxes payable	12,823,353.42	13,406,043.28
Interests payable	5,442,854.61	6,968,896.69
Other payables	16,310,001.07	13,490,303.33
Total current liabilities	2,285,364,268.72	2,083,384,404.50
Non-current liabilities:		
Bonds payable	496,000,000.00	—
Deferred income tax liabilities	498,225.75	457,855.65
Other Non-current liabilities	5,424,000.00	7,232,000.00
Total Non-current liabilities	501,922,225.75	7,689,855.65
Total liabilities	2,787,286,494.47	2,091,074,260.15
Shareholders' equity:		
Share capital	797,848,400.00	797,848,400.00
Capital reserve	849,481,990.92	849,481,990.92
Surplus reserve	168,908,489.86	168,908,489.86
Undistributed profit	1,042,239,228.67	981,137,343.28
Total shareholders' equity	2,858,478,109.45	2,797,376,224.06
Total liabilities and shareholders' equity	5,645,764,603.92	4,888,450,484.21

3. Consolidated Income Statements

Item	Unit: RMB	
	Closing balance	Opening balance
I. Total revenue from operations	1,139,353,466.09	1,583,899,848.87
Including: operating revenue	1,139,353,466.09	1,583,899,848.87
II. Total cost of operations	1,099,442,066.62	1,497,142,271.85
Including: Operating cost	1,015,901,005.30	1,419,132,930.05
Business tax and surcharges	874,949.27	672,508.07
Selling expenses	23,752,807.70	26,312,929.90
Administrative expenses	48,140,892.36	41,699,748.99
Finance costs	12,032,644.85	9,959,090.74
Asset impairment losses	(1,260,232.86)	(634,935.90)
Add: Gains from changes in fair value	—	—
Investment income	1,028,962.27	—
Including: Gains from investment in associates and joint ventures	1,028,962.27	—
III. Operating profit	40,940,361.74	86,757,577.02
Add: Non-operating income	11,988,474.60	16,004,114.85
Less: Non-operating expenses	611,300.07	479,652.08
Including: Loss from disposal of non-current assets	575,515.07	171,125.77
IV. Total profit	52,317,536.27	102,282,039.79
Less: Income tax expenses	7,895,402.71	19,655,252.20
V. Net profit	44,422,133.56	82,626,787.59
Net profit attributable to shareholders of the Company	45,601,697.63	75,704,983.45
Minority interests	(1,179,564.07)	6,921,804.14
VI. Earnings per share:		
(1) Basic earnings per share	0.06	0.1
(2) Diluted earnings per share	0.06	0.1
VII. Other comprehensive income	181,834.08	(2,418,976.09)
VIII. Total comprehensive income	44,603,967.64	80,207,811.50
Total comprehensive income attributable to owners of the Company	45,765,348.29	75,042,371.21
Total comprehensive income attributable to minority interests	(1,161,380.65)	5,165,440.29

4. Income Statements of the Company

Item	Unit: RMB	
	Closing balance	Opening balance
I. Operating revenue	1,191,099,020.52	1,638,746,385.57
Less: Operating cost	1,055,820,432.05	1,525,597,547.20
Business tax and surcharges	366,558.55	8,449.89
Selling expenses	23,730,665.06	26,217,667.00
Administrative expenses	41,889,228.14	35,816,753.86
Finance costs	12,131,966.58	7,927,397.23
Asset impairment losses	—	(634,935.90)
Add: Gains from changes in fair value	—	—
Investment income	—	—
Including: Gains from investment in associates and joint ventures	—	—
II. Operating profit	57,160,170.14	43,813,506.29
Add: Non-operating income	11,870,775.80	15,877,145.63
Less: Non-operating expense	523,717.08	394,999.71
Including: Loss from disposal of non-current assets	—	—
III. Total profit	68,507,228.86	59,295,652.21
Less: Income tax expenses	7,405,343.47	8,819,347.83
IV. Net profit	61,101,885.39	50,476,304.38
V. Earnings per share:		
(1) Basic earnings per share	—	—
(2) Diluted earnings per share	—	—
VI. Other comprehensive income	—	—
VII. Total comprehensive income	61,101,885.39	50,476,304.38

5. Consolidated Cash Flow Statements

Item	Closing balance	Unit: RMB
		Opening balance
I. Cash flows from operating activities:		
Cash received from selling goods and rendering services	1,527,339,650.50	1,772,225,208.54
Tax rebate received	41,972,733.05	68,881,225.10
Other cash received relating to operating activities	19,445,557.32	20,404,672.28
Sub-total of cash inflow from operating activities	1,588,757,940.87	1,861,511,105.92
Cash paid for purchasing goods and receiving services	1,627,841,962.19	1,480,323,367.32
Cash paid to and on behalf of employees	72,600,431.48	68,145,142.85
Taxes and surcharges paid	30,637,880.08	28,726,278.69
Other cash paid relating to operating activities	113,766,495.21	213,910,486.11
Sub-total of cash outflow from operating activities	1,844,846,768.96	1,791,105,274.97
Net cash flows from operating activities	(256,088,828.09)	70,405,830.95
II. Cash flows from investing activities:		
Cash received from disposal of investments	—	—
Cash received from return on investments	—	150,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	370,958.54	—
Other cash received relating to operating activities	—	—
Sub-total of cash inflow from investing activities	—	—
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	370,958.54	150,000.00
Cash paid for investment	300,238,158.21	177,629,428.33
Net cash paid for acquisition of subsidiaries and other business entities	—	45,000,000.00
Sub-total of cash outflow from investing activities	300,238,158.21	222,629,428.33
Net cash flows from investing activities	(299,867,199.67)	(222,479,428.33)
III. Cash flows from financing activities:		
Cash received from equity investments	—	—
Including: Cash received by subsidiaries from minority shareholders' investment	—	—
Cash received from borrowings	1,064,790,093.00	1,073,471,856.45
Cash received from bonds	496,000,000.00	—
Other cash received relating to financing activities	—	—
Sub-total of cash inflow from financing activities	1,560,790,093.00	1,073,471,856.45
Cash paid for repayment of liabilities	848,989,952.57	891,952,930.23
Cash paid for dividends, profits distribution or interest repayment	33,407,216.36	21,533,165.54
Including: Dividend and profit paid by subsidiaries to minority shareholders	—	—
Other cash paid relating to financing activities	—	—
Sub-total of cash outflow from financing activities	882,397,168.93	913,486,095.77
Net cash flows from financing activities	678,392,924.07	159,985,760.68
IV. Effect on cash and cash equivalents due to change in foreign currency exchange rate	(9,384,733.63)	(5,533,369.04)
V. Net increase(decrease) in cash and cash equivalents	113,052,162.68	2,378,794.26
Add: Balance of cash and cash equivalents at the beginning of the period	369,092,906.46	350,636,120.73
VI. Balance of cash and cash equivalents at the end of the period	482,145,069.14	353,014,914.99

6. Cash Flow Statements of the Company

Item	Closing balance	RMB Opening balance
I. Cash flows from operating activities:		
Cash received from selling goods and rendering services	1,384,706,664.88	1,753,096,199.50
Tax rebate received	41,972,733.05	61,076,240.94
Other cash received relating to operating activities	14,042,874.12	19,243,166.06
Sub-total of cash inflow from operating activities	1,440,722,272.05	1,833,415,606.50
Cash paid for purchasing goods and receiving services	1,408,805,633.55	1,502,743,655.83
Cash paid to and on behalf of employees	53,063,588.30	48,287,286.56
Taxes and surcharges paid	13,466,991.00	13,335,119.60
Other cash paid relating to operating activities	116,562,874.48	198,613,986.83
Sub-total of cash outflow from operating activities	1,591,899,087.33	1,762,980,048.82
Net cash flows from operating activities	(151,176,815.28)	70,435,557.68
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	370,958.54	—
Other cash received relating to operating activities	—	—
Sub-total of cash inflow from investing activities	370,958.54	—
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	245,325,827.29	160,344,497.73
Cash paid for investment	—	—
Net cash paid for acquisition of subsidiaries and other business entities	—	—
Sub-total of cash outflow from investing activities	245,325,827.29	160,344,497.73
Net cash flows from investing activities	(244,954,868.75)	(160,344,497.73)
III. Cash flows from financing activities:		
Cash received from equity investments	—	—
Cash received from borrowings	894,257,973.00	850,827,884.98
Cash received from bonds	496,000,000.00	—
Other cash received relating to financing activities	—	—
Sub-total of cash inflow from financing activities	1,390,257,973.00	850,827,884.98
Cash paid for repayment of liabilities	848,989,952.57	744,502,930.23
Cash paid for dividends, profits distribution or interest repayment	32,384,128.57	20,946,358.37
Other cash paid relating to financing activities	—	—
Sub-total of cash outflow from financing activities	881,374,081.14	765,449,288.60
Net cash flows from financing activities	508,883,891.86	85,378,596.38
IV. Effect on cash and cash equivalents due to change in foreign currency exchange rate	(10,510,248.69)	(5,533,369.04)
V. Net increase(decrease) in cash and cash equivalents	102,241,959.14	(10,063,712.71)
Add: Balance of cash and cash equivalents at the beginning of the period	354,662,620.79	314,143,139.67
VI. Balance of cash and cash equivalents at the end of the period	456,904,579.93	304,079,426.96

7. Consolidated Statement of Change in Shareholders' Equity

For the six months ended 30 June 2013

Unit: RMB

Items	Amount for the current year						Total shareholders' equity	
	Attributable to the shareholders of the Company					Others		Minority interests
	Share capital	Capital reserve	Surplus reserve	Undistributed profit				
I. As at 31 December 2012 (audited)	797,848,400.00	849,500,658.42	168,908,489.86	1,073,097,098.79	62,065.54	63,869,999.90	2,953,286,712.51	
II. As at 1 Jan 2013 (audited)	797,848,400.00	849,500,658.42	168,908,489.86	1,073,097,098.79	62,065.54	63,869,999.90	2,953,286,712.51	
III. Changes in the current year	—	—	—	45,601,697.63	163,650.66	-1,161,380.65	44,603,967.64	
(1) Net profit	—	—	—	45,601,697.63	—	(1,179,564.07)	44,422,133.56	
(2) Other comprehensive income	—	—	—	—	163,650.66	18,183.42	181,834.08	
Sub-total of (1) and (2)	—	—	—	45,601,697.63	163,650.66	(1,161,380.65)	44,603,967.64	
(3) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	
1. Capital injection from shareholders	—	—	—	—	—	—	—	
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	
3. Others	—	—	—	—	—	—	—	
(4) Profit distribution	—	—	—	—	—	—	—	
1. Transfer to surplus reserves	—	—	—	—	—	—	—	
2. Distribution to shareholders	—	—	—	—	—	—	—	
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	—	—	—	—	—	—	—	
IV. Balance at the end of the current year	797,848,400.00	849,500,658.42	168,908,489.86	1,118,698,796.42	225,716.20	62,708,619.25	2,997,890,680.15	

32

For the six months ended 30 June 2012

Unit: RMB

Items	Amount for the previous year						Total shareholders' equity	
	Attributable to the shareholders of the Company					Others		Minority interests
	Share capital	Capital reserve	Surplus reserve	Undistributed profit				
I. As at 31 December 2011 (audited)	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	
II. 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	57,963,335.17	2,852,977,728.35	
III. Changes in the current year	398,924,200.00	(398,924,200.00)	10,943,215.38	83,427,399.92	31,704.13	5,906,664.73	100,308,984.16	
(1) Net profit	—	—	—	134,263,035.30	—	5,903,142.04	140,166,177.34	
(2) Other comprehensive income	—	—	—	—	31,704.13	3,522.69	35,226.82	
Sub-total of (1) and (2)	—	—	—	134,263,035.30	31,704.13	5,906,664.73	140,201,404.16	
(3) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	
1. Capital injection from shareholders	—	—	—	—	—	—	—	
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	
3. Others	—	—	—	—	—	—	—	
(4) Profit distribution	—	—	10,943,215.38	(50,835,635.38)	—	—	(39,892,420.00)	
1. Transfer to surplus reserves	—	—	10,943,215.38	(10,943,215.38)	—	—	—	
2. Distribution to shareholders	—	—	—	(39,892,420.00)	—	—	(39,892,420.00)	
3. Others	—	—	—	—	—	—	—	
(5) Transfer of shareholders' equity	398,924,200.00	(398,924,200.00)	0.00	0.00	0.00	0.00	0.00	
1. Transfer of capital reserve to share capital	398,924,200.00	(398,924,200.00)	—	—	—	—	—	
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	
4. Others	—	—	—	—	—	—	—	
IV. Balance at the end of the current year	797,848,400.00	849,500,658.42	168,908,489.86	1,073,097,098.79	62,065.54	63,869,999.90	2,953,286,712.51	

8. Change in Shareholders' Equity of the Company

For the six months ended 30 June 2013

Unit: RMB

Items	Amount for the current year				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Undistributed profit	
I. As at 31 December 2011 (audited)	797,848,400.00	849,481,990.92	168,908,489.86	981,137,343.28	2,797,376,224.06
II. As at 1 Jan 2012 (audited)	797,848,400.00	849,481,990.92	168,908,489.86	981,137,343.28	2,797,376,224.06
III. Changes in the current year	—	—	—	61,101,885.39	61,101,885.39
(1) Net profit	—	—	—	61,101,885.39	61,101,885.39
(2) Other comprehensive income	—	—	—	—	—
Sub-total of (1) and (2)	—	—	—	61,101,885.39	61,101,885.39
(3) Shareholder's capital injection and capital reduction	—	—	—	—	—
1. Capital injection from shareholders	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	—	—	—	—
3. Others	—	—	—	—	—
(4) Profit distribution	—	—	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—
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	—	—	—	—	—
IV. Balance at the end of the current year	797,848,400.00	849,481,990.92	168,908,489.86	1,042,239,228.67	2,858,478,109.45

For the six months ended 30 June 2012

Unit: RMB

Items	Amount for the previous year				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Undistributed profit	
I. As at 31 December 2011 (audited)	398,924,200.00	1,248,406,190.92	157,965,274.48	922,540,824.80	2,727,836,490.20
II. As at 1 Jan 2012 (audited)	398,924,200.00	1,248,406,190.92	157,965,274.48	922,540,824.80	2,727,836,490.20
III. Changes in the current year	398,924,200.00	(398,924,200.00)	10,943,215.38	58,596,518.48	69,539,733.86
(1) Net profit	—	—	—	109,432,153.86	109,432,153.86
(2) Other comprehensive income	—	—	—	—	—
Sub-total of (1) and (2)	—	—	—	109,432,153.86	109,432,153.86
(3) Shareholder's capital injection and capital reduction	0.00	0.00	0.00	0.00	0.00
1. Capital injection from shareholders	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	—	—	—	—
3. Others	—	—	—	—	—
(4) Profit distribution	0.00	0.00	10,943,215.38	(50,835,635.38)	(39,892,420.00)
1. Transfer to surplus reserves	—	—	10,943,215.38	(10,943,215.38)	—
2. Distribution to shareholders	—	—	—	(39,892,420.00)	(39,892,420.00)
3. Others	—	—	—	—	—
(5) Transfer of shareholders' equity	398,924,200.00	(39,892,420.00)	0.00	0.00	0.00
1. Transfer of capital reserve to share capital	398,924,200.00	(39,892,420.00)	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—
4. Others	—	—	—	—	—
IV. Balance at the end of the current year	797,848,400.00	849,481,990.92	168,908,489.86	981,137,343.28	2,797,376,224.06

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 2012 profit distribution plan of the Company was passed at the 2012 Annual General Meeting on 28 June 2013. Based on the Company's total number of shares of 797,848,400 shares, a cash bonus of RMB0.5 (tax included) was to be paid for every 10 shares held.

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

35

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.

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

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

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

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

6. *Basis for preparation of consolidated financial statements*

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

37

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.

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 or 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.

42

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
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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.
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Provision method for bad debts provision	Individual determination method
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11. Inventory

11.1 Classification and initial measure of inventories

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

11.2 Method for calculating value of inventories delivered

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

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

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

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

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

11.4 Inventory taking system

The inventory taking system shall be on a perpetual basis.

11.5 Amortization of low-value consumable and packaging materials

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

12. Long-term equity investments

12.1 Determination of initial investment cost

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

12.2 Method for subsequent measurement and profit or loss recognition

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

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

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

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

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

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

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

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

12.2.3 Disposal of long-term equity investments

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

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

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

12.4 Impairment test method and impairment provision

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

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

13. *Investment property*

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

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

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

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

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

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

14. Fixed assets

14.1 Conditions for recognition of fixed assets

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

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

14.2 Method for depreciation of different fixed assets

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

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

49

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*

15.1 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.

15.2 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.

15.3 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.

19.1 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.

19.2 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.

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.

54

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.

55

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%
Building tax	(Note 2)	(Note 2)
Urban maintenance and construction tax	Paid-in value-added tax and business tax	7%
Education surtax	Paid-in value-added tax and business tax	3%
Education surcharge	Paid-in value-added tax and business tax	2%
Deed tax	Transfer price for housing and land use rights	3%-5%
Land value increment tax	Increment on transfer of state-owned land use rights, construction on land and its ancillaries	4-level ultra progressive tax rate
Business income tax (Note 3)	Taxable income	15%-25%

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

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

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

Names of the Company and subsidiaries	Rate of income tax
The Company	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] 206號) 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 passed the review. The Company was subject to an enterprise income tax rate of 15% during the reporting period.

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	57,692,847.47	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	276,602,706.10	—	100	100	Yes	Nil	Nil

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

Unit: RMB

Full Name of Subsidiaries	Type	Registered Address	Business Nature	Registered Capital	Scope of Business	Acutal capital contribution at the end of the year	Other balance items which actually constitute net investment in subsidiaries	Proportion of Shareholding (%)	Proportion of Voting Right (%)	Whether consolidated	Minority interests	Amount in minority interests used to write down the losses of minority interests
Shouguang Maolong Machinery Company Limited	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
Badong 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

When the Company prepared these consolidated financial statements, all assets and liabilities items within MPM Company's (operated overseas) balance sheet were translated at the exchange rate of US\$1 : RMB6.1787. All items within income statement and items that reflect the amount incurred by profit allocation were translated at the exchange rate of US\$1 : RMB6.2897.

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:	—	—	85,765.22	—	—	38,135.44	
RMB	—	—	85,765.22	—	—	38,135.44	
Cash in Bank:	—	—	268,410,466.95	—	—	136,381,352.33	
RMB	—	—	240,562,220.23	—	—	—	
USD	4,507,136.88	6.1787	27,848,246.64	4,072,848.42	6.2855	25,599,876.14	
HKD	—	—	—	1,440.86	0.8109	1,180.23	
Euro	0.01	8.0536	0.08	0.01	8.3176	0.08	
Other cash and cash equivalents	—	—	411,239,534.04	—	—	347,450,663.67	
RMB	—	—	411,239,534.04	—	—	347,450,663.67	
Total:	—	—	679,735,766.21	—	—	483,870,151.44	

2. Bills receivable

(1) Classification of bills receivable

Type	Closing balance	Opening balance	RMB
Bank acceptance	194,832,249.29	197,194,589.32	
Total	194,832,249.29	197,194,589.32	

(2) As at 30 June 2013, 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	RMB Note
Hebei Wenfeng Iron And Steel Co., Ltd	28 May 2013	28 November 2013	5,000,000.00	
Shanxi Coal Transportation Group Linfen Co., Ltd.	28 May 2013	28 November 2013	5,000,000.00	
China Energy Construction Group Northeast Electric Power First Engineering Company	27 May 2013	27 November 2013	5,000,000.00	
Henan Jin Chemical Industry Investment Holding Group Co., Ltd	27 May 2013	27 November 2013	5,000,000.00	
Henan Jin Chemical Industry Investment Holding Group Co., Ltd	27 May 2013	27 November 2013	5,000,000.00	
Total			25,000,000.00	

- (3) The Transfer of notes to accounts payable as a result of default by the note issuers and endorsement of undue note to other parties by the Company at the end of the period.

Endorsement of undue note to other parties by the Company

Name of Ticket Units	Date of draft	Due date	Amount	RMB Note
Hebei Hong Glass Co., Ltd	22 May 2013	22 November 2013	10,000,000.00	
Hebei Hong Glass Co., Ltd	22 May 2013	22 November 2013	10,000,000.00	
China Hydropower Construction Group Lease Holding Co., Ltd	15 March 2013	13 September 2013	7,000,000.00	
Shandong New Coal Machinery Equipment Co., Ltd	2 April 2013	2 October 2013	7,000,000.00	
Hubei Constant Technology Co., Ltd	19 February 2013	19 August 2013	6,050,000.00	
Total			40,050,000.00	

3. Accounts receivable

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

Unit: RMB

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	3,284,636.96	0.54%	3,284,636.96	100%	3,284,636.96	0.71%	3,284,636.96	100%
According to the combination of provision for bad debts to receivables								
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test	605,804,312.82	99.14%	—	—	455,105,433.22	98.86%	0.00	0%
Combination of subtotal	605,804,312.82	—	—	—	455,105,433.22	—	—	—
Single item with insignificant other receivables but provided for bad debt by single item	1,955,304.07	0.32%	1,955,304.07	100%	1,955,304.07	0.43%	1,955,304.07	100%
Total	611,044,253.85	—	5,239,941.03	—	460,345,374.25	—	5,239,941.03	—

As at 30 June 2013, Single item with significant other receivables and provided for bad debt by single item is as follows:

RMB				
Accounts receivable	Book balance	Bad debt provision	Ratio (%)	Reason
Trade receivable	3,284,636.96	3,284,636.96	100%	Aged over three years, difficult to recover
Total	3,284,636.96	3,284,636.96		

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

RMB				
Accounts receivable	Book balance	Bad debt provision	Ratio (%)	Reason
Trade receivable	1,955,304.07	1,955,304.07	100%	Aged over three years, difficult to recover
Total	1,955,304.07	1,955,304.07		

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

RMB				
Name	Relationship with the Company	Amount	Aging	Percentage of the total balance of accounts receivable (%)
Shandong New Coal Machinery Equipment Co., Ltd	customer	34,739,828.03	Within 1year	5.69%
Petrochina Changqing Oilfield Branch Company	customer	32,188,513.12	Within 1year	5.27%
Campex Inc	customer	26,164,164.04	Within 1year	4.28%
Hubei Constant Technology Co., Ltd	customer	24,600,032.63	Within 1year	4.03%
British Petroleum Pipe Co., Ltd	customer	24,030,152.16	Within 1year	3.93%
Total		141,722,689.98		23.2%

(3) Situation on accounts due from related parties:

Name	Relationship with the Company	Amount	Unit: RMB	
			Proportion of the total accounts receivables (%)	
Karamay Yalong Petroleum Machinery Co., Ltd	Related company	2,094,655.62	0.34%	
Total		2,094,655.62	0.34%	

4. Other receivables

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

Category	Closing balance				Opening balance				RMB
	Book balance		Bad debt provision		Book balance		Bad debt provision		
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	
Single item with insignificant other receivable and single item with significant accounts receivable but not impaired under single item impairment test	20,392,895.61	99.42%	—	—	18,953,847.29	99.38%	0.00	0%	According to the combination of provision for bad debts to receivables
Combination of subtotal	20,392,895.61	—	—	—	18,953,847.29	—	—	—	
Single item with insignificant other receivables but provided for bad debt by single item	119,119.25	0.58%	119,119.25	100%	119,119.25	0.62%	119,119.25	100%	
Total	20,512,014.86	—	119,119.25	—	19,072,966.54	—	119,119.25	—	

In the portfolio, other receivables were provided for bad debt using other methods.

Name	Book balance	RMB Bad debt provision
Single item with insignificant other receivable and single item with significant accounts receivable but not impaired under single item impairment test	20,392,895.61	—
Total	20,392,895.61	—

Single item with insignificant other receivables but provided for bad debt in single item at the end of the period

Other receivables	Book balance	Bad debt provision	Ratio (%)	Reason	RMB
Personal loan	119,119.25	119,119.25	100%	Aged over three years, difficult to recover	
Total	119,119.25	119,119.25			

(2) Top 5 accounts receivable are set out as follows

63

Name	Relationship with the Company	Amount	Aging	RMB Percentage of the total balance of accounts receivable (%)
Gucheng Street Agency	Non-related party	6,891,320.00	3 to 4 year	33.6%
Gaocun Town People's Government, Wendeng City	Non-related party	3,000,000.00	1 to 2 year	14.63%
China Construction Ban Shouguang Branch	Non-related party	2,112,111.21	Within 1 year	10.3%
The West Co., Ltd. of Spex	Non-related party	1,745,481.00	Within 1 year	8.51%
Shouguang Social Labor Insurance Institutions	Non-related party	1,424,680.71	Within 1 year	6.95%
Total		15,173,592.92		73.99%

5. Advance payment

(1) Advance to suppliers stated according to aging:

Aging	Closing balance		Opening balance		RMB
	Amount	Ratio (%)	Amount	Ratio (%)	
Within 1 year	177,581,254.25	99.96%	33,836,143.94	99.82%	
1 to 2 years	32,268.00	0.02%	32,268.00	0.1%	
2 to 3 years	—	0%	—	0%	
Over 3 years	28,214.22	0.02%	28,214.22	0.08%	
Total	177,641,736.47	—	33,896,626.16	—	

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

Name	Relationship with the Company	Amount	Aging	Reasons	RMB
Linqu Tiantai Delong Casting Co., Ltd.	Supplier	133,693,655.41	2013-6-20	hasn't received material	
Shandong Longsheng Steel Co., Ltd.	Supplier	20,420,501.69	2013-6-21	hasn't received material	
Shandongsheng Shengjian-zhonggong Co., Ltd.	Supplier	4,769,427.24	2013-5-31	hasn't received equipment	
Shandong Shouguang Juneng Special Steel Co., Ltd.	Supplier	4,461,130.56	2013-6-30	hasn't received material	
Shouguang Power Supply Company	Supplier	4,035,160.85	2013-6-6	hasn't used electric power	
Total		167,379,875.75			

6. Inventory

(1) Inventory categories:

Item	Closing balance			Opening balance			RMB
	Book balance	Allowance for inventories	Book value	Book balance	Allowance for inventories	Book value	
Raw materials	370,385,465.35	1,017,466.95	369,367,998.40	248,613,503.61	1,017,466.95	247,596,036.66	
Work-in-progress	410,583,259.60	1,247,247.47	409,336,012.13	453,148,290.87	1,247,247.47	451,901,043.40	
Finished product	476,924,418.14	2,838,897.01	474,085,521.13	511,401,336.43	4,099,129.87	507,302,206.56	
Entrusted processing materials	12,031,593.18	—	12,031,593.18	13,819,291.21	—	13,819,291.21	
Total	1,269,924,736.27	5,103,611.43	1,264,821,124.84	1,226,982,422.12	6,363,844.29	1,220,618,577.83	

(2) Allowance for inventories is as follows:

Inventory categories	Opening book balance	Provision for the current period	Decrease for the period		Closing book balance
			Reversals	Write-offs	
Raw materials	1,017,466.95	—	—	—	1,017,466.95
Work-in-progress	1,247,247.47	—	—	—	1,247,247.47
Finished product	4,099,129.87	—	1,260,232.86	—	2,838,897.01
Total	6,363,844.29	—	1,260,232.86	—	5,103,611.43

(3) Allowance for inventories

Items	Basis of allowance for inventories	Reason of reversal of allowance for inventories for the current period	Percentage of the reversal in the current period to the closing balance of such inventory (%)
Raw materials	Relatively long inventory age	—	—
Inventory products	Cost is higher than net realizable value	Such Inventories have been digested	0.26%
Work-in-progress	Cost is higher than net realizable value	—	—

65

7. Other current assets

Item	RMB	
	Closing balance	Opening balance
Import tax pending deduction	38,750,815.33	39,243,016.22
Prepaid land usage tax	—	—
Prepaid income tax	5,078,630.47	1,289,983.67
Other prepaid tax	846,809.61	846,809.61
Total	44,676,255.41	41,379,809.50

8. Investment in equity joint ventures and investment in associates

RMB

Name of investee entity	Percentage of the shareholding of the investee entity (%)	Percentage of the shareholding of the investee entity (%)	Total assets at the end of period	Total liabilities at the end of period	Total net asset value at the end of period	Operating income for the current period	Net profit from the current period
Consortium							
Karamay Yalong Petroleum Machinery Co., Ltd							
	30%	30%	15,297,761.36	6,714,873.87	8,582,887.49	14,490,413.19	(298,941.44)
Shouguang Maolong Micro-credit Co., Ltd							
	21%	30%	157,846,180.30	1,371,273.90	156,474,906.40	5,441,671.95	3,429,874.22

9. Long-term equity investment

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

RMB

Investee Entity	Accounting method	Investment	Opening balance	Change ment	Closing balance	Percentage of shareholding in the investee entity (%)	Percentage of voting right in the investee entity (%)	Explanation of the inconsistent of shareholding percentage and voting right in the investee entity	Impairment provision	Provision of impairment for the current period	Cash bonuses for the current period
Karamay Yalong Petroleum Machinery Co., Ltd											
	Equity method	1,888,500.00	2,720,890.78	—	2,720,890.78	30%	30%	N/A	—	—	—
Shouguang Maolong Microfinance Co., Ltd											
	Equity method	45,000,000.00	45,913,509.65	1,028,962.27	46,942,471.92	30%	30%	N/A	—	—	—
Shouguang Mihe Water Company Limited											
	Cost method	10,000,000.00	10,000,000.00	—	10,000,000.00	9.73%	9.73%	N/A	—	—	—
Total		56,888,500.00	58,634,400.43	1,028,962.27	59,663,362.70				—	—	—

10. Fixed Assets

(1) Overview of fixed assets

RMB					
Item	Opening book balance	Additions for the current period	Deductions for the current period	Closing book balance	
I. Total original book value:	2,499,449,631.04	44,751,025.89	3,156,603.63	2,541,044,053.30	
Of which: Buildings	439,321,276.04	632,832.50	—	439,954,108.54	
Machinery and equipment	1,958,298,608.33	40,436,372.37	2,527,149.61	1,996,207,831.09	
Electronic equipment and others	14,241,556.44	303,760.10	491,206.10	14,054,110.44	
Vehicles	87,588,190.23	3,378,060.92	138,247.92	90,828,003.23	
	Opening book balance	Additions for the current period	Provision for the current period	Deductions for the current period	Closing book balance
II. Total accumulated depreciation:	649,376,634.72	—	90,149,861.63	2,383,034.72	737,143,461.63
Of which: Buildings	77,018,026.67	—	9,905,548.98	—	86,923,575.65
Machinery and equipment	513,670,625.51	—	72,106,105.05	1,978,947.83	583,797,782.73
Vehicles	9,147,978.03	—	871,060.14	292,877.26	9,726,160.91
Electronic equipment and others	49,540,004.51	—	7,267,147.46	111,209.63	56,695,942.34
	Opening book balance				Closing book balance
III. Total fixed assets — net book value	1,850,072,996.32	—			1,803,900,591.67
Of which: Buildings	362,303,249.37	—			353,030,532.89
Machinery and equipment	1,444,627,982.82	—			1,412,410,048.36
Vehicles	5,093,578.41	—			4,327,949.53
Electronic equipment and others	38,048,185.72	—			34,132,060.89
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	—	—			—
V. Total fixed assets — net book value	1,833,866,660.51	—			1,787,694,255.86
Of which: Buildings	357,316,771.09	—			348,044,054.61
Machinery and equipment	1,433,408,125.29	—			1,401,190,190.83
Vehicles	5,093,578.41	—			4,327,949.53
Electronic equipment and others	38,048,185.72	—			34,132,060.89

The depreciation for the current period amounted to RMB90,149,861.63. The original value of the construction in progress transferred into fixed assets during the current period was RMB36,660,361.28.

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

Item	Original value	Reason for title certificate not duly prepared	Estimate time for preparing title certificates
Steel structure major plant zone	77,002,837.30	Is still in the process	2013
Office Building	1,124,948.75	Is still in the process	2013
180 electric rooms	2,229,256.25	Is still in the process	2013
Major electricity room	2,734,967.16	Is still in the process	2013
Steel pipes storage	2,982,953.13	Is still in the process	2013
Workshop for pumping unit and sucker rod	19,591,187.69	Is still in the process	2013
Casing and tubing storage	13,288,209.80	Is still in the process	2013
Bathroom, gatehouse, washroom, and so on	1,154,537.04	Is still in the process	2013
dormitory building	6,095,893.00	Is still in the process	2013
Workshop for 140 pipe rolling plant	9,651,174.86	Is still in the process	2013
Logistics Park Plant	11,152,202.50	New Construction	2013
1200 Plant	19,054,024.58	New Construction	2013
Total	166,062,192.06		

11. Construction in progress

68

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

Items	Closing balance			Opening balance			RMB
	Book balance	Impairment		Book balance	Impairment		Net book value
		provision	Net book value		provision	Net book value	
1200 forging expansion project	11,038,229.87	—	11,038,229.87	32,180,097.24	—	32,180,097.24	
Technological transformation project for casting products	192,171,363.50	—	192,171,363.50	—	—	—	
90 tons of electric furnace project	134,836,976.48	—	134,836,976.48	88,434,384.79	—	88,434,384.79	
Others	13,983,589.16	—	13,983,589.16	13,736,609.66	—	13,736,609.66	
Total	352,030,159.01	—	352,030,159.01	134,351,091.69	—	134,351,091.69	

(2) Change in material constructions in progress projects

Project name	Budget amount	Opening balance	Additions for the current period	Transfer to fixed assets	Transfer to intangible 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	Closing balance	RMB
1200 forging expansion project	180,320,000.00	32,180,097.24	15,518,493.91	36,660,361.28	—	—	—	2,124,718.08	973,320.51	6.48%	Loan from financial institution and Self-raised	11,038,229.87	
Technological transformation project for casting product	560,000,000.00	—	192,171,363.50	—	—	—	—	4,329,044.93	4,329,044.93	6.48%	Loan from financial institution and Self-raised	192,171,363.50	
90 tons of electric furnace project	133,620,000.00	88,434,384.79	46,402,591.69	—	—	—	—	3,335,228.88	—	—	—	134,836,976.48	
Others	—	13,736,609.66	246,797.50	—	—	—	—	—	—	—	—	13,983,589.16	
Total	873,940,000.00	134,351,091.69	254,339,246.60	36,660,361.28	—	—	—	9,788,991.89	5,302,365.44	—	—	352,030,159.01	

(3) Project progress in progress major projects

Items	Project progress	Notes
1200 forging expansion project	90%	
90 tons of electric furnace project	85%	
Technological transformation project for casting products	25%	

12. Intangible assets

(1) Intangible assets

Items	Opening book balance	Additions for the current period	Deductions for the current period	RMB
				Closing book balance
I. Total original book value:	474,373,387.07	3,900.00	—	474,377,287.07
Land use rights	224,286,488.49	—	—	224,286,488.49
Software	770,036.72	—	—	770,036.72
Non-patent technology	247,250,591.86	—	—	247,250,591.86
Patent technology	2,066,270.00	3,900.00	—	2,070,170.00
II. Total accumulated amortization	95,786,748.61	25,923,100.79	—	121,709,849.40
Land use rights	18,013,617.12	2,247,258.43	—	20,260,875.55
Software	724,011.08	6,794.88	—	730,805.96
Non-patent technology	76,660,987.15	23,465,480.81	—	100,126,467.96
Patent technology	388,133.26	203,566.67	—	591,699.93
III. Total intangible assets net book value	378,586,638.46	(25,919,200.79)	—	352,667,437.67
Land use rights	206,272,871.37	—	—	204,025,612.94
Software	46,025.64	—	—	39,230.76
Non-patent technology	170,589,604.71	—	—	147,124,123.90
Patent technology	1,678,136.74	—	—	1,478,470.07
IV. Total intangible assets book value	378,586,638.46	(25,919,200.79)	—	352,667,437.67
Land use rights	206,272,871.37	—	—	204,025,612.94
Software	46,025.64	—	—	39,230.76
Non-patent technology	170,589,604.71	—	—	147,124,123.90
Patent technology	1,678,136.74	—	—	1,478,470.07

Note: This period amortization of RMB25,923,100.79.

(2) R&D expenditure

RMB

Items	Opening book balance	Additions for the current period	Deductions for the current period		Closing book balance
			Recorded into the profits and losses of the current	Confirmed as intangible assets	
Research expenditure	—	2,415,436.96	2,415,436.96	—	—
development expenditure	7,077,238.89	58,410,269.05	—	—	65,487,507.94
Total	7,077,238.89	60,825,706.01	2,415,436.96	—	65,487,507.94

Note: During the report period, development expenditure represented 96.03% of the total research and development project expenditure.

Intangible assets formed from internal research and development of the Company represented 41.72% of the carrying amount of intangible assets at end of 30 June 2013.

13. Goodwill

RMB

Matters generating goodwill	Opening balance	Additions for the current period	Deductions	Closing balance	Impairment provision at the end of the period
Business consolidation not under common control	132,723,383.21	—	—	132,723,383.21	0.00
Total	132,723,383.21	—	—	132,723,383.21	0.00

71

14. Long-term equity investment

RMB

Item	Opening balance	Additions for the current period	amortization amount or the current period	Reduce the amount of other	Closing balance	The reason for this reduction in the other
Transformation of electric furnace platform	243,055.56	—	41,666.64	—	201,388.92	
Total	243,055.56	—	41,666.64	—	201,388.92	

15. Deferred income tax assets and deferred income tax liabilities

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

Items	Closing balance	RMB Opening balance
Deferred income tax assets:		
Accounting for the impairment of assets	867,460.34	809,529.04
Organizational costs	1,173,966.74	1,173,966.73
Deductible losses	2,387,700.67	3,299,529.41
Intangible asset amortization	12,247,443.88	9,552,641.92
Fixed assets Impairment provision	1,907,905.37	1,907,905.37
Deductible losses	878,702.84	878,702.84
Unrealized profit of intragroup transaction		
Deferred income	1,220,400.00	1,627,200.00
Sub-total	20,683,579.84	19,249,475.31
Deferred income tax liabilities:		
Trading financial instruments, valuation of derivative financial instruments	8,741,826.89	8,902,130.64
Interest receivable	498,225.75	457,855.65
Insider trading unrealized losses	2,243,568.94	2,243,568.94
Sub-total	11,483,621.58	11,603,555.23

(2) Net amount after offsetting between deferred income tax assets and deferred income tax liabilities

Items after offsetting between deferred income tax assets and deferred income tax liabilities

Item	The amount after offsetting between deferred income tax assets or liabilities at the end of period	Deductible or taxable temporary difference after offsetting at the end of period	The amount after offsetting between deferred income tax assets or liabilities at the beginning of period	RMB Deductible or taxable temporary difference after offsetting at the beginning of period
Deferred income tax assets	20,683,579.84	—	19,249,475.31	—
Deferred income tax liabilities	11,483,621.58	—	11,603,555.23	—

16. Provision for impairment of assets

Items	Opening balance	Additions for the current period	Deductions		Closing balance
			Reversals	Write-offs	
I. Provisions for bad debts	5,359,060.28	—	—	—	5,359,060.28
Provisions for inventory					
II. Impairment	6,363,844.29	—	1,260,232.86	—	5,103,611.43
Fixed assets Impairment					
III. Provision	16,206,335.81	—	—	—	16,206,335.81
Goodwill Impairment					
IV. Provision	0.00	—	—	—	0.00
Total	27,929,240.38	—	1,260,232.86	—	26,669,007.52

17. Other non-current liabilities

Item	RMB	
	Closing balance	Opening balance
Advance payment for land usage right	284,530,000.00	270,000,000.00
Total	284,530,000.00	270,000,000.00

18. Short-term borrowings

Item	RMB	
	Closing balance	Opening balance
Fiduciary debt	1,195,807,024.00	980,006,883.57
Discount loan	—	50,000,000.00
Total	1,195,807,024.00	1,030,006,883.57

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

19. Bills payable

category	Closing balance	RMB
		Opening balance
Trade acceptance	70,000,000.00	—
Bank acceptance	609,550,356.73	603,403,515.62
Total	679,550,356.73	603,403,515.62

The due amount of RMB679,550,356.73 in next accounting period.

Notes payable of the Group and the Company as at 30 June 2013 will be fully due by 19 December 2013.

20. Accounts payable

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

Item	Closing balance	RMB
		Opening balance
Material fees payable	450,832,426.27	462,477,431.54
Project equipment fees payable	73,756,031.67	108,364,270.13
Total	524,588,457.94	570,841,701.67

(2) Explanation about significant accounts payable aged over 1 year

As at 30 June 2013, the account payable included in significant accounts payable of the Group and the Company aged over 1 year of over RMB2,000,000.00 amounted to RMB13,545,731.80. This represented the acquisition cost for equipment. Such amount is outstanding due to quality problem of the accessories of the equipment .

21 Advance receipts

(1) Breakdown of advance receipts is set out as follows:

Item	Closing balance	RMB
		Opening balance
Advance sales	56,042,988.35	25,837,981.59
Total	56,042,988.35	25,837,981.59

(2) Explanation about significant advance receipt aged over 1 year

As at 30 June 2013, the Group and the Company do not have any single material advance receipt of over RMB2,000,000.00 aged over 1 year.

22. Employee benefits payable

Items	RMB			
	Opening balance	Accrued during the period	Paid during the period	Closing balance
Salaries, bonuses, allowance and subsidies	18,083,920.44	45,315,428.48	51,487,550.71	11,911,798.21
Staff welfare	101,235.82	8,363,507.56	8,233,601.51	231,141.87
Social insurance premiums	—	10,025,346.05	10,025,346.05	—
Housing provident funds	—	824,297.28	824,297.28	0.00
Others	240,146.86	2,529,272.49	2,172,346.09	597,073.26
Total	18,425,303.12	67,057,851.86	72,743,141.64	12,740,013.34

Unpaid staff salary of the Company was RMB0.00.

Expenditures for trade union and staff education was RMB927,284.20. Non-monetary benefit was RMB 0.00, and compensation paid due to termination of employment contract was RMB0.00.

The payment of staff salary is payable on a fixed schedule monthly.

23. Tax payables

Item	RMB	
	Closing balance	Opening balance
Value added tax	316,185.43	4,932,510.60
Income tax	14,158,390.11	25,748,546.01
Individual income tax	78,855.92	44,353.28
Others	8,392,176.94	2,943,976.13
Total	22,945,608.40	33,669,386.02

24. Interest payable

Item	RMB	
	Closing balance	Opening balance
Bond interest	1,661,111.11	—
Short-term loan interest	4,233,289.38	6,968,896.69
Total	5,894,400.49	6,968,896.69

25. Other payables

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

Item	Closing balance	RMB Opening balance
Advance in electricity fees, water rate and gas expenses	12,669,319.30	17,816,245.51
Cash pledge	7,000,840.91	4,840,877.44
Others	15,548,104.61	1,817,919.85
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Total	35,218,264.82	24,475,042.80

(2) Explanation about significant other account payable aged over 1 year

As at 30 June 2013, the Group and the Company do not have any single material account payable of over RMB2,000,000.00 aged over 1 year.

26. Bonds payable

Name of the bond	Face value	Issuing date	Bond period	Issuing amount	Initial interest payable	Accrued interest for this issue	This issue has to pay the interest	The final interest payable	RMB Closing balance
12墨龍01	100.00	7 June 2013	3 years	500,000,000.00	0.00	1,661,111.11	0.00	1,661,111.11	496,000,000.00

76

27. Other non-current liabilities

Item	Closing balance	RMB Opening balance
Deferred income	5,424,000.00	7,232,000.00
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Total	5,424,000.00	7,232,000.00

According to the notice of Shandong Province Development and Reform Committee Lu Fa Gai Invest [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. The government grant was recognized as deferred income when received by the Company. This year's amortization amount is RMB1,808,000.00.

28. Share capital

RMB

	Opening balance	New issue	Change for the period			Sub-total	Closing balance
			Bonus shares	Shares transfer from reserve	Others		
Total shares	797,848,400.00	—	—	—	—	—	797,848,400.00

29. Capital reserves

RMB

Items	Opening balance	Increase for the period	Decrease for the period	Closing balance
capital premium	849,481,990.92	—	—	849,481,990.92
Other capital reserve	18,667.50	—	—	18,667.50
Total	849,500,658.42	—	—	849,500,658.42

30. Surplus reserve

RMB

Items	Opening balance	Increase for the period	Decrease for the period	Closing balance
Statutory surplus reserve	168,908,489.86	—	—	168,908,489.86
Total	168,908,489.86	—	—	168,908,489.86

31. Undistributed profits

RMB

Items	Amount	Proportion of appropriation or allocation
Unadjusted undistributed profits at the end of last period	1,073,097,098.79	—
adjusted undistributed profits at the beginning of the period	1,073,097,098.79	—
Add: Net profits attribute to the shareholders of the Company of the year	45,601,697.63	—
Undistributed profits at the end of the period	1,118,698,796.42	—

Adjustments to the undistributed profits breakdown as at the beginning of the year:

1. The effect of the retrospective adjustments arising from Accounting Standards for Business Enterprises and their new related requirements on the undistributed profits as at the beginning of the year amounted to RMB0.00.
2. The effect of changes in accounting policies on the undistributed profits as at the beginning of the year amounted to RMB0.00.
3. The effect of corrections of significant accounting errors on the undistributed profits as at the beginning of the year amounted to RMB0.00.
4. The effect of the change of the scope of combination under common control on the undistributed profits as at the beginning of the year amounted to RMB0.00.
5. The effect of other adjustments on the undistributed profits as at the beginning of the year amounted to RMB0.00.

32. Operating revenue and cost of operations

(1) Operating revenue

Item	RMB	
	Incurred during the current period	Incurred during the previous period
Principal operating revenue	1,120,808,034.80	1,563,819,453.38
Other business revenue	18,545,431.29	20,080,395.49
Cost of operations	1,015,901,005.30	1,419,132,930.05

(2) Principal operating (by industry)

Types of industry	RMB			
	Incurred during the current period		Incurred during the previous period	
	Operating revenue	Cost of operations	Operating revenue	Cost of operations
Special Purpose Equipment	1,120,808,034.80	998,049,893.59	1,563,819,453.38	1,402,550,502.87
Total	1,120,808,034.80	998,049,893.59	1,563,819,453.38	1,402,550,502.87

(3) Principal operating (by product)

Products	RMB			
	Incurred during the current period		Incurred during the previous period	
	Operating revenue	Cost of operations	Operating revenue	Cost of operations
Casing and Tubing	1,020,856,745.38	920,008,562.14	1,413,174,306.16	1,276,227,296.60
Three kinds of pumping units	35,900,532.73	28,918,501.83	33,999,074.87	29,132,234.05
Petroleum machinery	54,415,772.25	40,397,285.39	89,591,133.53	69,680,504.57
Others	9,634,984.44	8,725,544.23	27,054,938.82	27,510,467.65
Total	1,120,808,034.80	998,049,893.59	1,563,819,453.38	1,402,550,502.87

(4) Principal operations (by Geographical segment)

Geographical segment	RMB			
	Incurred during the current period		Incurred during the previous period	
	Operating revenue	Cost of operations	Operating revenue	Cost of operations
PRC	722,744,093.24	665,349,228.46	1,016,933,259.77	935,811,963.49
overseas	398,063,941.56	332,700,665.13	546,886,193.61	466,738,539.38
Total	1,120,808,034.80	998,049,893.59	1,563,819,453.38	1,402,550,502.87

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

Name of customer	Operating Revenue	RMB
		The percentage of the total sales revenue %
China national petroleum co., Ltd	186,931,479.40	16.41%
British petroleum pipe co., Ltd	98,856,786.33	8.68%
CNOOD	77,286,774.98	6.78%
Hebei zhongtai steel pipe manufacturing co., Ltd	73,262,711.71	6.43%
Campex	53,721,490.35	4.72%
Total	490,059,242.77	43.02%

33. Tax and levies on operations

Items	Incurred during the current period	Incurred during the previous period	RMB
			Tax standard
Business tax	—	6,927.50	
Urban maintenances and construction tax	471,126.53	358,314.94	—
Educational surcharges	201,911.37	153,563.55	—
Others	201,911.37	153,702.08	—
Total	874,949.27	672,508.07	—

34. Selling expenses

Items	Incurred during the current period	RMB
		Incurred during the previous period
Delivery expenses	20,542,465.99	22,448,267.14
Agency fee	408,342.50	1,414,807.20
Salary	866,276.74	771,992.48
Travelling expenses	151,948.74	137,581.04
Business reception fees	415,596.80	509,320.26
Transportation fees	—	—
Office expenses	156,520.36	127,369.72
Intermediate fees	28,980.00	12,330.00
Depreciation charge	640,725.18	88,745.78
Others	541,951.39	802,516.28
Total	23,752,807.70	26,312,929.90

35. Management fees

Items	RMB	
	Incurred during the current period	Incurred during the previous period
Amortization of intangible assets	25,559,047.18	17,972,616.79
Taxes	4,775,178.32	5,227,849.04
Salary and Staff welfare expenses	4,561,657.92	4,439,346.91
Depreciation charges	4,537,771.60	5,230,656.64
Machinery material consumption	2,049,590.06	2,041,145.71
Research and development fees of new products	2,417,386.96	4,212,028.08
Intermediate fees	221,865.47	265,585.40
Electricity fees	117,432.50	17,284.21
Business reception fees	1,104,821.56	846,040.50
Environmental protection expenses	345,646.70	373,113.70
Board of directors' expenses	741,788.85	361,198.00
Transportation fees	397,154.94	329,133.17
Repair fees	161,178.59	142,470.49
Delivery expenses	235,117.97	176,606.19
Property insurance fees	117,830.93	84,873.11
Travelling expenses	217,181.02	127,804.70
Publicity expenses	54,627.66	63,627.27
Water charge	193,297.67	134,205.50
Others	332,316.46	(345,836.42)
Total	48,140,892.36	41,699,748.99

81

36. Financial expense

Items	RMB	
	Incurred during the current period	Incurred during the previous period
Interest expenses	24,902,683.26	17,773,875.85
Less: Capitalized interest expenses	—	—
Less: Interest income	(7,430,144.02)	(6,579,104.94)
Foreign exchange difference	(10,510,248.69)	(5,533,369.04)
Other	5,070,354.30	4,297,688.87
Total	12,032,644.85	9,959,090.74

37. Investment income

(1) Breakdown of investment income

Items	Incurring during the current period	RMB Incurring during the previous period
Gain from long-term equity investments accounted for using the equity method	1,028,962.27	—
Total	1,028,962.27	—

(2) Gain from long-term equity investments accounted for using the equity method

Investee	Incurring during the current period	Incurring during the previous period	RMB Reason of change from the previous period to the current period
Karamay Yalong Petroleum Machinery Co., Ltd	—	0.00	—
Mao-long small loan companies	1,028,962.27	0.00	—
Total	1,028,962.27	0.00	—

82

38. Loss on impairment of assets

Items	Incurring during the current period	RMB Incurring during the previous period
Provision of bad debt	—	(634,935.90)
Provision of allowance for inventory	(1,260,232.86)	—
Total	(1,260,232.86)	(634,935.90)

39. Non-operating income

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

Items	Incurred during the current period	Incurred during the previous period	RMB
			Amounts credited to non-recurring profit during the current year
Total income on disposal of non-current assets	90,760.10	5,290.87	90,760.10
Including: Fixed assets disposal gains	90,760.10	5,290.87	90,760.10
Government grants	11,485,000.00	15,730,000.00	11,485,000.00
Income from penalty	412,714.50	268,823.98	412,714.50
Total	11,988,474.60	16,004,114.85	11,988,474.60

(2) Breakdown of Government grant

Items	Incurred during the current period	Incurred during the previous period	RMB
			Introductions
Financial subsidies	11,485,000.00	15,730,000.00	—
Total	11,485,000.00	15,730,000.00	—

83

In February 2013, a reward of RMB50,000.00 for 2011 Advanced Fiscal Unit was received in Gucheng. In March 2013, a reward of RMB200,000.00 for energy saving was received from Finance Bureau. In May 2013, a subsidy of RMB427,000 was received for foreign trade advanced unit and the export growth. In June 2013, an award of RMB9,000,000.00 for technology was received from Finance Bureau. According to the notice of Shandong Province Development and Reform Committee Lu Fa Gai Invest [2011] No.1354 (魯發改投資[2011]1354號), the Company received the central budget investment of RMB9,040,000.00 on 30 December 2011 for the construction of the high-end new petroleum equipment project. The government grant was recognized as deferred income when received by the Company. This period's amortization amount is RMB1,808,000.

40. Non-operating expenses

Items	Incurred during the current period	Incurred during the previous period	RMB
			Amounts credited to non-recurring profit or loss for the current year
Total loss on disposal of non-current assets	575,515.07	171,125.77	575,515.07
Of which: Loss on disposal of fixed assets	575,515.07	171,125.77	575,515.07
Donation expenses	34,000.00	100,000.00	34,000.00
Others	1,785.00	208,526.31	1,785.00
Total	611,300.07	479,652.08	611,300.07

41. Income tax expense

Items	Incurring during the current period	RMB Incurring during the previous period
Income tax for the current period calculated according to tax laws and relevant rules	9,289,137.13	19,403,270.80
Adjustment on deferred income tax	(1,393,734.42)	251,981.40
Total	7,895,402.71	19,655,252.20

42. 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:

	Incurring during the current period	RMB Incurring during the previous period
Net profits for the period attributable to ordinary shareholders	45,601,697.63	75,704,983.45
Of which: net profits attributable to going concern	45,601,697.63	75,704,983.45

84

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

	Incurring during the current period	Unit: share Incurring during the previous period
Number of outstanding ordinary shares at the beginning of the year	797,848,400.00	797,848,400.00
Add: number of weighted ordinary shares issued during the period	—	—
Number of outstanding weighted ordinary shares at the end of the year	797,848,400.00	797,848,400.00

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	0.06	0.1
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	0.06	0.1
Diluted earnings per share	N/A	N/A

43. *Other comprehensive income*

Item	Incurred during the current period	RMB Incurred during the previous period
Translation difference of financial statements denominated in foreign currency	181,834.08	(2,418,976.09)
Total	181,834.08	(2,418,976.09)

44. *Notes to cash flow statements*

(1) Receipt of other cash related to operating activities

Item	Amount
Government grants	11,485,000.00
Interest income	7,430,144.02
Others	530,413.30
Total	19,445,557.32

(2) Payment of other cash related to operating activities

Item	RMB Amount
Transportation expense	21,174,738.90
Development fees for new products	2,417,386.96
Machinery material consumption fees	2,538,426.88
Agency fees	659,187.97
Travel expense	369,129.76
Expense Intermediary service	741,788.85
Repair expense Advertising	161,178.59
Electricity expense	117,432.50
Hospitality expense	1,520,418.36
Increase in guarantees of promissory foreign exchange notes	82,813,452.09
Others	1,253,354.35
Total	113,766,495.21

45. Supplementary information on cash flow statements

(1) Supplementary information on cash flow statements

Supplementing Information	Incurring during the current period	RMB Incurred during the previous period
(1) Reconciliation of net profits as cash flows from operating activities:		
Net profits	44,422,133.56	82,626,787.59
Add: Provision of impaired assets	—	(634,935.90)
Depreciation of fixed assets	105,560,372.61	83,654,451.69
Intangible assets amortized	25,559,047.18	17,914,253.06
Amortization of long-term deferred expenses	—	(780,982.72)
Losses (Gains) on disposal of fixed assets, intangible assets and other long-term assets	509,717.08	(5,290.87)
Loss on retirement of fixed assets	171,125.77	—
Financial expenses	13,951,740.48	12,187,926.01
Investment losses	(1,028,962.27)	(880,666.28)
Decrease in deferred income	—	—
Tax assets	(1,434,104.53)	1,677,738.13
Increase in deferred income	—	—
Tax assets	40,370.10	(19,084,822.58)
Decrease (Increase) in stock	(57,899,440.45)	(177,351,933.74)
Decrease (Increase) in operating receivables	(321,451,355.99)	(2,067,070,033.70)
Increase (Decrease) in operating receivables	(64,318,345.86)	2,140,993,935.95
Other	—	(3,011,721.46)
Net cash flows from operating activities	(256,088,828.09)	70,405,830.95
(2) Net change in cash and cash equivalents:		
Cash balance at the end of the year	482,145,069.14	353,014,914.99
Less: cash balance at the beginning of the year	369,092,906.46	350,636,120.73
Net increase in cash and cash equivalents	113,052,162.68	2,378,794.26

(2) Components of cash and cash equivalents

Item	Closing balance	RMB
		Opening balance
1. Cash	482,145,069.14	369,092,906.46
Consist of: treasury cash	85,765.22	38,135.44
Bank deposits readily available for payment	268,410,466.95	136,381,352.33
Other currency capital readily available for payment	197,590,697.07	232,673,418.69
2. Currency capital at the end of the report period	482,145,069.14	369,092,906.46

VI. Related Party and Transactions

1. Subsidiaries of the Company

Full Names of the Subsidiaries	Type of the Subsidiaries	Types of establishment	Place of corporation	Names of legal representatives	Business Nature	Registered capital	Proportion of Shareholding	Proportion of voting right	Organization No.
Shouguang Baolong Petroleum Material Company Limited	owned subsidiaries	LLC	Shouguang City, Shandong Province	Guo Huan Ran	Manufacturing	RMB150,000,000.00	70%	70%	66139842-3
Shouguang Molong Logistic Company Limited	owned subsidiaries	LLC (Legal entity wholly-owned)	Shouguang City, Shandong Province	Zhang Jin Chuan	Service	RMB3,000,000.00	100%	100%	57939315-6
Weihai Baolong Special Petroleum Materials Co., Ltd	owned subsidiaries	LLC	Weihai, Shandong Province	張金輝 (Zhang Jin Hui)	Manufacturing	RMB26,000,000.00	61.54%	61.54%	75638729-2
Shouguang Maolong Machinery Company Limited	owned subsidiaries	LLC (Legal entity wholly-owned)	Shouguang City, Shandong Province	Lin Fu Long	Manufacturing	RMB12,380,000.00	100%	100%	72481440-5
Shouguang Molong Electro-mechanical Equipment Company Limited	owned subsidiaries	LLC (Sino-foreign joint venture)	Shouguang City, Shandong Province	張煥軍 (Zhang Huan Jun)	Manufacturing	RMB1,000,000.00	100%	100%	73261459-3
Shouguang Maolong Old Metals Recycle Company Limited	owned subsidiaries	LLC	Shouguang City, Shandong Province	Liu Yun Long	Trading	RMB500,000.00	100%	100%	74566977-X
Wendeng Baolong Recyclable Resource Company Limited	owned subsidiaries	LLC	Weihai, Shandong Province	張金輝 (Zhang Jin Hui)	Manufacturing	RMB300,000.00	100%	100%	76576543-5
MPM International Limited	owned subsidiaries	LLC	Hong Kong, PRC	Zhang Yun San	Trading	USD1,000,000.00	90%	90%	

87

2. Equity Joint Ventures and Associates of the Company

Names of the invested entities	Type	Place of Registration	Legal representatives	Business Nature	Registered Capital	Proportion of Voting Right of the Company		Organization Relation No.
						Shareholding of the Company (%)	in the invested entities	
1. Equity Joint Venture								
2. Associates								
Ya Long Oil Pump Company Limited	LLC	Xinjiang karamay	Luo Jiu (羅傑)	Manufacturing	6,400,000.00	30%	30%	Related Company 22895641-2
Shouguang Maolong Micofinance Co., Ltd	joint stock limited liability company	Shouguang, Shandong	Guo Huan Ran	Service	150,000,000.00	30%	30%	Related Company 59260577-4

3. Related Transactions

(1) Table on situation on commodities sales and provision of employment service:

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	Ratio (%)	Amount	Ratio (%)
Karamay Yalong Petroleum Machinery Co., Ltd	Oil well pumpings and accessories	Agreed price	7,838,669.16	21.83%	3,504,037.04	10.31%

4. Account receivable and payable of related parties

Account receivable of related party:

RMB

Item	Related party	Closing balance		Opening balance	
		Book balance	Bad debt balance	Book balance	Bad debt balance
Accounts receivable	Karamay Yalong Petroleum Machinery Co., Ltd	2,094,655.62	—	2,716,477.70	—

VII. Financial Statement Major Matter Notes of the Company

1. 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	3,284,636.96	0.54%	3,284,636.96	100%	3,284,636.96	0.7%	3,284,636.96	100%
According to the combination of provision for bad debts to receivables								
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test	598,303,944.06	99.14%	461,652,893.75	98.89%	—	—	—	—
Sub-total	598,303,944.06	—	—	—	461,652,893.75	—	—	—
Single item with insignificant other receivables but provided for bad debt by single item	1,898,604.07	0.32%	1,898,604.07	100%	1,898,604.07	0.41%	1,898,604.07	100%
Total	603,487,185.09		5,183,241.03		466,836,134.78		5,183,241.03	

As at 30 June 2013, 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	3,284,636.96	3,284,636.96	100%	Aged over three years, difficult to recover
Total	3,284,636.96	3,284,636.96		

As at 30 June 2013, 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	1,898,604.07	1,898,604.07	100%	Aged over three years, difficult to recover
Total	1,898,604.07	1,898,604.07		

(2) 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 (%)
Shandong New Coal Machinery Equipment Co., Ltd	Customer	34,739,828.03	Within 1 year	5.76%
Changqing Oil Field Petroleum Materials Group	Customer	32,188,513.12	Within 1 year	5.33%
CAMPEX	Customer	26,164,164.04	Within 1 year	4.34%
Hubei Constant Technology Co., Ltd	Customer	24,600,032.63	Within 1 year	4.08%
British Petroleum Pipe Co., Ltd	Customer	24,030,152.16	Within 1 year	3.98%
Total		141,722,689.98		23.49%

(3) Situation on accounts due from related parties:

Name	Relationship with the Company	Amount	RMB
			Proportion of the total accounts receivables (%)
Karamay Yalong Petroleum Machinery Co., Ltd	Related Company	2,094,655.62	0.35%
Total		2,094,655.62	0.35%

90

2. 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 (%)	
Single item with significant other receivables and provided for bad debt by single item	223,513,473.63	99.95%	0.00	0%	222,102,947.24	99.95%	0.00	0%	
Single item with insignificant other receivables but provided for bad debt in single item	119,119.25	0.05%	119,119.25	100%	119,119.25	0.05%	119,119.25	100%	
Total	223,632,592.88		119,119.25		222,222,066.49		119,119.25		

As at 30 June 2013, single item with insignificant other receivables but provided for bad debt in single item is the same as follows:

RMB

Other receivables	Book balance	Bad debt balance	Provision ratio (%)	Reason
Staff's personal borrowings	119,119.25	119,119.25	100%	Aged over three years, difficult to recover
Total	119,119.25	119,119.25		

(2) 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
Gucheng Street Offices	Non-related party	6,891,320.00	3 to 4 years	3.08%
Shouguang City Branch of China Construction Bank	Non-related party	2,112,111.21	Within 1 year	0.94%
West Centre of Shanghai Petroleum Exchange Ltd.	Non-related party	1,745,481.00	Within 1 year	0.78%
Office of Social Employment Insurance of Shouguang City	Non-related party	1,424,680.71	Within 1 year	0.64%
Shaanxi Yanchang Petroleum Materials Co., Ltd.	Non-related party	400,000.00	Within 1 year	0.18%
Total		12,573,592.92		5.62%

91

3. Long-term equity investments

RMB

Investee entity	Accounting method	Investment	Opening balance	Change ment	Closing balance	Percentage of shareholding in the investee entity (%)	Percentage of voting right in the investee entity (%)	Explanation of the inconsistent of shareholding percentage and voting right in the Investee entity	Impairment provision	Provision of impairment for the current period	Cash bonuses for the current period
Molong Logistic Company	Cost method	3,000,000.00	3,000,000.00	—	3,000,000.00	100%	100%	—	—	—	—
MPM International Limited	Cost method	7,276,230.00	7,276,230.00	—	7,276,230.00	90%	90%	—	—	—	—
Shouguang baolong Molong Electro-mechanical	Cost method	105,000,000.00	105,000,000.00	—	105,000,000.00	70%	70%	—	—	—	—
Equipment	Cost method	306,743,691.73	306,743,691.73	—	306,743,691.73	100%	100%	—	—	—	—
Maolong Recycle	Cost method	50,000.00	50,000.00	—	50,000.00	10%	10%	—	—	—	—
Weihai Baolong	Cost method	220,000,000.00	220,000,000.00	—	220,000,000.00	61.54%	61.54%	—	—	—	—
Shouguang Mihe Water Company Limited	Cost method	10,000,000.00	10,000,000.00	—	10,000,000.00	9.73%	9.73%	—	—	—	—
Total	—	652,069,921.73	652,069,921.73	—	652,069,921.73	—	—	—	—	—	—

4. Operating revenue and cost of operations

(1) Operating Revenue

Item	RMB	
	Incurred during the current period	Incurred during the previous period
Principal operating revenue	1,111,639,576.59	1,531,312,222.13
Other business revenue	79,459,443.93	107,434,163.44
Total	1,191,099,020.52	1,638,746,385.57
Cost of operations	1,055,820,432.05	1,525,597,547.20

(2) Principal operations (by industry)

Industry	RMB		RMB	
	Incurred during the current period		Incurred during the previous period	
	Operating Revenue	Cost of operations	Operating Revenue	Cost of operations
Special Equipment Manufacturing	1,111,639,576.59	976,730,236.46	1,531,312,222.13	1,421,419,899.71
Total	1,111,639,576.59	976,730,236.46	1,531,312,222.13	1,421,419,899.71

(3) Principal operations (by product)

Products	RMB		RMB	
	Incurred during the current period		Incurred during the previous period	
	Operating Revenue	Cost of operations	Operating Revenue	Cost of operations
Casing and Tubing	1,012,612,241.26	896,788,542.27	1,404,373,872.60	1,320,444,066.74
Three kinds of pumping units	35,900,532.73	28,918,501.83	33,999,074.87	29,132,234.05
Petroleum machinery	54,412,860.74	43,204,620.73	89,591,133.53	69,680,504.57
Others	8,713,941.86	7,818,571.63	3,348,141.13	2,163,094.35
Total	1,111,639,576.59	976,730,236.46	1,531,312,222.13	1,421,419,899.71

(4) 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	713,578,546.54	634,475,525.80	984,426,028.52	954,681,360.33
Overseas	398,061,030.05	342,254,710.66	546,886,193.61	466,738,539.38
Total	1,111,639,576.59	976,730,236.46	1,531,312,222.13	1,421,419,899.71

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

Name of customer	Operating Revenue	RMB the percentage of the total sales revenue %
China National Petroleum Co., Ltd	186,931,479.40	15.69%
British Petroleum Pipe Co., Ltd	98,856,786.33	8.3%
CNOOD	77,286,774.98	6.49%
Hebei Zhongtai Steel Pipe Manufacturing Co., Ltd	73,262,711.71	6.15%
CAMPEX	53,721,490.35	4.51%
Total	490,059,242.77	41.14%

93

5. Supplementary information on cash flow statements

Supplementing Information	Incurred during the current period	RMB Incurred during the previous period
(1) Reconciliation of net profits as cash flows from operating activities:		
Net profits	61,101,885.39	50,476,304.38
Add: Provision of impaired assets	—	(634,935.90)
Depreciation of fixed assets	61,736,596.61	58,741,124.33
Intangible assets amortized	22,873,504.66	16,482,522.97
Amortization of long-term deferred expenses	—	(175,762.65)
Losses (Gains) on disposal of fixed assets, intangible assets and other long-term assets	509,717.08	137,999.71
Financial expenses (gains)	11,751,092.81	10,208,320.75
Decrease (Increase) in deferred income tax assets	(1,434,104.53)	1,677,738.13
Decrease (Increase) in deferred income liabilities	40,370.10	208,182.09
Decrease (Increase) in stock	4,142,395.97	(83,148,857.32)
Decrease (Increase) in operating receivables	(400,751,303.61)	(362,532,205.15)
Increase (Decrease) in operating receivables	88,853,030.24	378,995,126.34
Net cash flows from operating activities	(151,176,815.28)	70,435,557.68
(2) Net change in cash and cash equivalents:		
Cash balance at the end of the year	456,904,579.93	304,079,426.96
Less: cash balance at the beginning of the year	354,662,620.79	314,143,139.67
Net increase in cash and cash equivalents	102,241,959.14	(10,063,712.71)

VIII. Supplementary Information

I. Breakdown of extraordinary gains and losses

Item	Amount	RMB Remarks
Profit or loss from disposal of non-current assets	(484,754.97)	
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)	11,485,000.00	
Non-operating gains and losses other than the above items	376,929.50	
Less: Effect of income tax	1,706,165.26	
Effect of minority equity (After-Tax)	4,778.23	
Total	9,666,231.04	

II. Return on net assets and earnings per share

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	1.57%	0.06	0.06
Net profit attributable to holders of ordinary shares of the Company, after deducting extraordinary gains and losses	1.23%	0.05	0.05

3 · Irregular Movements of Major Items in the Accounting Statements of the Company and Explanation on their Reason

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

Item	As 30 June	As 31 December	Amount of variation (%)	RMB
	2013 (unaudited)	2012 (audited)		Notes
Currency fund	679,735,766.21	483,870,151.44	40.48%	(1)
Accounts receivable	605,804,312.82	455,105,433.22	33.11%	(2)
Advance payment	177,641,736.47	33,896,626.16	424.07%	(3)
Construction in process	352,030,159.01	134,351,091.69	162.02%	(4)
R&D expenditure	65,487,507.94	7,077,238.89	825.33%	(5)
Deposit received	56,042,988.35	25,837,981.59	116.90%	(6)
Employee pay payable	12,740,013.34	18,425,303.12	-30.86%	(7)
Tax payable	22,945,608.40	33,669,386.02	-31.85%	(8)
Other account payable	35,218,264.82	24,475,042.80	43.89%	(9)
Bonds payable	496,000,000.00	—	100.00%	(10)

- (1) Monetary capital increased by 40.48% as compared with that at the beginning of the year, which was mainly due to abundant funds from bond issue by the Company during this period and the increase in guarantee of the relevant bank promissory notes arising from more transaction in bank promissory notes by the Company.
- (2) Account receivable increased by 33.11% as compared with that at the beginning of the year, which was mainly because more products deliveries at the end of the quarter and no timely collection of account receivable.
- (3) Prepayment increased by 424.07% as compared with that at the beginning of the year, mainly because the prices of main raw materials changed substantially and early prepayment was made to hedge against the prices of raw materials.
- (4) Construction in progress increased by 162.02% over the same period of last year, mainly because the Company made investment in 90 tons of electric furnace project and investment commitment in casting products after technological transformation using Rio Tinto in Australia's Hismelt technology.
- (5) Research and development expenditure increased by 825.33% as compared with that at the end of the year, mainly because more products are in research and development stage and have not created return.
- (6) Advance receipt increased by 116.9% as compared with that at the beginning of the year, mainly because the Company collected prepayment from customers.
- (7) Payable staff salary decreased by 30.86% as compared with that at the beginning of the year, mainly because the Company distribute year-end bonus to the staff.
- (8) Payable tax expense decreased by 31.85% as compared with that at the beginning of the year, mainly because payable tax decreased as a result of a fall in company profit.

- (9) Other payables increased by 43.89% as compared with that at the beginning of the year, mainly because the Company received more deposits for tenders.
- (10) Bond payable increased by 100% as compared with that at the beginning of the year, mainly because the Company issued its corporate bonds in this period.

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

Items	As 30 June	As 30 June	Amount of variation (%)	RMB
	2013 (unaudited)	2012 (unaudited)		Notes
Operation revenue	1,139,353,466.09	1,583,899,848.87	-28.07%	(1)
Business tax and surcharges	874,949.27	672,508.07	30.10%	(2)
Financial expense	12,032,644.85	9,959,090.74	20.82%	(3)
Loss from asset devaluation	(1,260,232.86)	(634,935.90)	98.48%	(4)
Income from investment	1,028,962.27	0	100.00%	(5)
Income tax	7,895,402.71	19,655,252.20	-59.83%	(6)

- (1) Sales revenue decreased by 28.07% over the same period of last year, mainly due to the fact that as affected by the economic conditions to the Company, the prices of raw materials significantly fluctuated, the selling prices of its products fell over the same period last year, and demand for high-end products fell, resulting in a decrease in sales revenue.
- (2) Tax and levies on operations increased by 30.1% over the same period last year, mainly because the Company realized more value-added tax for the quarter, resulting in an increase in urban construction tax and educational surcharges.
- (3) Finance fee increased by 20.82% over the same period last year, mainly because interest fee increased as a result of increase in corporate loan and issue of corporate bonds.
- (4) Loss on impairment of assets decreased by 98.48% over the same period last year, mainly because the Company sold out the inventories that was provided for allowance.
- (5) Investment income increased by 100% over the same period last year, mainly because Shouguang Baolong as its subsidiary recognized the income from the investee, Shuoguang Micro-credit Company.
- (6) Income tax decreased by 59.83% over the same period last year, mainly because income tax expense decreased as a result of a fall in profit.

(3) Cash flow of the Company during the reporting period

Item	As 30 June	As 30 June	Amount of variation (%)	RMB
	2013 (unaudited)	2012 (unaudited)		Notes
The net cash flow of operating activities	(256,088,828.09)	70,405,830.95	-463.73%	(1)
The net cash flow of Investing activities	(299,867,199.67)	(222,479,428.33)	34.78%	(2)
The net cash flow of financial activities	678,392,924.07	159,985,760.68	324.03%	(3)

(1) Net cash flows from operating activities fell significantly over the same period of last year, mainly because the prices of main raw materials fluctuated substantially and early prepayment was made to hedge against the prices of raw materials.

(2) Net cash flows from investing activities decreased by 34.78% over the same period last year, mainly because the Company made investment in 90 tons of electric furnace project and investment commitment in casting products after technological transformation using Rio Tinto in Australia's Hismelt technology.

(3) Net cash flow from financing activities increased by 324.03% over the same period last year, mainly because the Company issued its corporate bonds during the period.

IX. DOCUMENTS AVAILABLE FOR INSPECTION

- I. The financial statements which were signed and sealed by the legal representative, financial controller and head of the financial department of the Company.
- II. Original copies of all of the documents and announcements of the Company which have been disclosed in the designated newspaper and website as approved by China Securities Regulatory Commission during the reporting period.

Shandong Molong Petroleum Machinery Company Limited

August 28, 2013

