

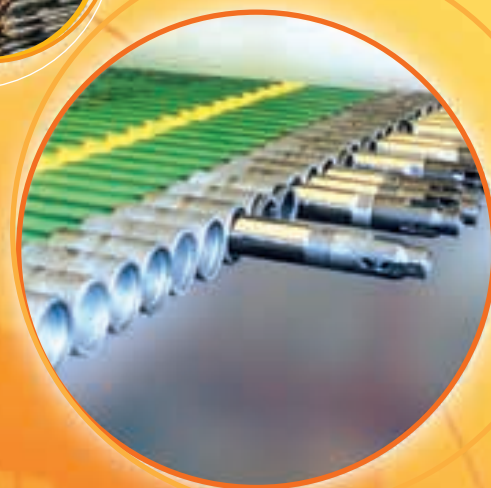


山東墨龍石油機械股份有限公司

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)



2014
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 to capitalize 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.

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Definitions

“Company”, “the Company”, and “Shandong Molong”	refer to Shandong Molong Petroleum Machinery Company Limited
“the Group”	refer to the Company and its subsidiaries
“SZSE”	refer to Shenzhen Stock Exchange
“SEHK”	refer to The 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

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

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III. Other Information

1. *Company Contact Information*

There is no change in the Company's registered address, office address and zip code, e-mail address during the reporting period (for specifics, please see 2013 Annual Report).

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

Interim reports of the Company have been disclosed in the designated newspaper and website approved by China Securities Regulatory Commission. There is no change in where the Company keep its semi-annual report (for specifics, please see 2013 annual reports.)

3. *Registry Changes*

There is no change in the Company's registration dates and locations, Business license of enterprise legal person registration number, Tax registration number, organizing institution bar code and other registration status during the reporting period (for specifics, please see 2013 annual report).

III. SUMMARY OF FINANCIAL RESULTS AND INDICATORS

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

	30 June 2014 (unaudited)	30 June 2013 (unaudited)	Increase/ decrease (%)
Operating Revenue (RMB)	1,336,912,993.10	1,139,353,466.09	17.34%
Net profit attributable to equity holders of Listed Company (RMB)	9,237,809.23	45,601,697.63	-79.74%
Net profit after extraordinary gains or losses attributable to equity holders of Listed Company (RMB)	6,113,057.42	35,935,466.59	-82.99%
Net cash flows from operating activities (RMB)	317,932,041.21	(256,088,828.09)	224.15%
Basic earnings per Share (RMB)	0.01	0.06	-83.33%
Diluted earnings per Share (RMB)	0.01	0.06	-83.33%
Net Assets Income Rate (%)	0.34%	1.57%	-1.23%
	30 June 2014 (unaudited)	31 December 2013 (audited)	Increase/ decrease (%)
Total Assets (RMB)	6,171,569,912.37	5,793,466,052.68	6.53%
Net assets attributable to shareholders of Listed Company (owners' interests attributable to shareholders of List Company)	2,683,242,303.53	2,674,103,955.73	0.34%

II. Differences in accounting data under domestic and overseas accounting standards

1. *Differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report*

During the reporting period, there are no differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report.

2. *Differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report*

During the reporting period, there are no differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report.

III. Extraordinary Gains or Losses Items

Unit: RMB

Item	Amount	Instruction
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	241,125.98	—
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)	2,787,036.89	—
Non-operating gain or loss other than the above	626,505.68	—
(Deduct): Amount of income tax	525,989.03	—
Effect on minority shareholders interest (after tax)	3,927.71	—
Total	3,124,751.81	—

During the reporting period, no extraordinary gain or loss was deemed to be recurring gain or loss item as defined and illustrated in the "Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 — Extraordinary Gains or Losses".

IV. DIRECTORS' REPORT

I. Overview

During the reporting period, the Group achieved an unaudited revenue of RMB1,336,912,993.10, representing an increase of approximately 17.34% as compared to the same period last year; the unaudited total profit was RMB11,443,619.66, representing a decrease of approximately 78.13% as compared to the same period last year; the unaudited profit attributable to equity holders of the Company was RMB9,237,809.23, representing a decrease of 79.74% as compared to the same period last year; and the unaudited net profit after extraordinary items was RMB6,113,057.42, representing a decrease of approximately 82.99% as compared with the same period last year.

II. Main Business Analysis

During the reporting period, there is no significant change in the Company's main business scope, and its main operating profit derives from its sucker rod pumps, sucker rods, pumping units, oil casing and tubing and petroleum machinery parts and other businesses.

Comparison of the changes in the main financial data

Unit: RMB

	30 June 2014 (unaudited)	30 June 2013 (unaudited)	Increase/ decrease (%)	Reason
Operation revenue	1,336,912,993.10	1,139,353,466.09	17.34%	
Operating costs	1,184,701,686.19	1,015,901,005.30	16.62%	
Selling expense	74,614,125.24	23,752,807.70	214.13%	The increase in selling expense is because the Company is developing a presence in overseas markets during the reporting period and there was an increase in transportation, agency and other fees.
Handling expense	47,661,443.49	48,140,892.36	-1.00%	
Financial expense	22,041,420.84	12,032,644.85	83.18%	The increase in financial expense is mainly due to the increase in short-term borrowing, Corporate bond interest and exchange loss during the reporting period.
Income tax expense	3,497,384.22	7,895,402.71	-55.70%	The decrease in income tax expense is mainly due to the decrease in total profit during the reporting period.
R&D investment	28,899,413.75	60,825,706.01	-52.49%	The decrease in R&D investment is mainly due to the decrease in R&D projects during the reporting period.
The net cash flow by operations	317,932,041.21	(256,088,828.09)	224.15%	The increase in net profit from operations is mainly due to the increase in cash received in operations and decrease in the limited acceptance deposit during the reporting period.

Unit: RMB

	30 June 2014 (unaudited)	30 June 2013 (unaudited)	Increase/ decrease (%)	Reason
The net cash flow by investment activities	(240,402,375.92)	(299,867,199.67)	19.83%	
The net cash flow by financial activities	334,197,076.86	678,392,924.07	-50.74%	The decrease in the net cash flow by financial activities is mainly due to the issuance of company bonds over the same period last year
Net increase in cash and cash equivalents	406,706,908.18	113,052,162.68	259.75%	The net increase in cash and cash equivalents is mainly due to the decrease in the limited acceptance, guarantee and loan deposit, and the increase in short-term borrowing by the end of quarter and that the borrowed money was not used.

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

In terms of the domestic market, the Group's main customers are the major oil fields in the PRC, which includes CNPC Group, Sinopec Group, CNOOC Group and Yanchang Petroleum and their oilfields. Revenue generated from sales to the oil fields received from the above four major customers accounted for 27.26% of the Group's total sales revenue.

During the reporting period, Molong special thread casings produced by Molong were used in bulk in the Southwest Oil and Gas Field (西南油氣田) of Sinopec which is 3000 meters underground and rich in H₂S, and economic special thread casings were supplied in bulk to Southwest Oil and Gas Field of Sinopec; knuckle thread gas-sealed casing and gas-sealed buckle casings were designed and used in Daqing Oilfield (大慶油田); pumps were successfully sold to Hainan Oilfield (海南油田) market; cylinder pipes and high-pressured boiler tubes were also launched and bulk orders were received; and the Company also received bulk orders for heavy castings. With the Company's debut of new products in the markets and the engagements with new customers, the Company's market share was further enlarged.

In terms of the overseas market, while the Group continue to strengthen its existing markets and customer base, it stepped up its efforts to expand its sales in global oil-producing areas. The Group has expanded into Uzbekistan, Nigeria, Iran, Iraq and other market areas, obtained new certifications from a number of oil companies in Egypt and Amazon and further expanded its overseas market scope and market share. In particular, the high-pressured boiler tubes has been exported to Uzbekistan. During the six months ended 30 June 2014, the Group's revenue generated from exports accounted for 42.60% of the Group's total sales revenue.

In terms of new product developments, by leveraging on the Company's advantages, the Group increased its efforts in new product development, actively expanded its product mix, enriched product types, and sequentially developed various products. These include a variety of specifications in the X65Q line pipes, X52NS large inner diameter anti-acid pipelines, geological drill pipes, cylinder pipes, special buckling tubing, big reduction ratio gearboxes, anti-gas and sand-control pumps, ring valve protection air synergistic pumps, horse hung pumps, bailing wells long pump barrel pumps among others. All of these had successfully completed its trial production and were sold to domestic and foreign markets.

In addition, the Company had 10 new patent applications, including the sucker-rod coupling and anti-oxidation device for tubing heating which were approved as practical new patents; and seven products of the Company, including the high seal air compression thermal recovery Wells casing, BNO maritime service with the line pipe, anti-gas and sand-control pump, ML-TSCS special buckling tubing and casing, special new type of gear reducer for pumping unit, CO2 corrosion resistant super 11Cr casing, resistance to low temperature and corrosion casting body were approved as the technological innovation projects in Shandong. The Company was also awarded the title of the “National Torch Plan key high-tech enterprise”.

III. Principal operations by Products and by Region

Unit: RMB

	Operation revenue (Unaudited)	Operating costs (Unaudited)	Gross profit margin (%)	Year-on-year increase/ decrease in operation revenue (%)	Year-on-year Increase/ decrease in operating costs (%)	Year-on-year increase/ decrease in gross profit margin (%)
By industry						
Petroleum machinery specialized equipment manufacturing	1,323,532,950.04	1,175,513,321.85	11.18%	18.09%	17.78%	0.23%
By product						
Casing and tubing	1,190,148,591.51	1,068,284,458.68	10.24%	16.58%	16.12%	0.36%
Three kinds of pumping units	32,793,410.66	26,944,319.60	17.84%	-8.65%	-6.83%	-1.61%
Petroleum machinery	80,534,107.31	61,462,579.85	23.68%	48.00%	52.15%	-2.08%
Others	20,056,840.56	18,821,963.72	6.16%	108.17%	115.71%	-3.28%
By region						
PRC	754,028,407.37	730,591,242.43	3.11%	4.33%	9.81%	-4.83%
Abroad	569,504,542.67	444,922,079.42	21.88%	43.07%	33.73%	5.46%

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IV. Core Competitiveness Analysis

During the reporting period, the group further strengthen its cooperation with four domestic oil companies, the non-API and specialized, personalized product are being mass produced. New products are being used in major domestic oil field and block and the oil well pipe seamless pipe sales soared. High pressure chemical fertilizer pipe, large diameter thick wall pipe and A333 Gr. 6 low temperature pipe have gone through customer trials and is being supplied in the market. In the overseas markets, oil casing pipe, line pipe products are awarded new production certificates by Russian, Iranian, Uzbekistani, Egyptian and other national oil companies and the products have gained customers' recognition. Large diameter casing, casing series special deduction and ML-FJ direct-connect buckle and other new products are being supplied to customers. This further expanded the overseas market share and improved the reputation of the company in the international energy equipment market.

In terms of development of new products, utilizing the research strengths of “Province-class Enterprise Technical Center of Shandong Province” and “Shandong Molong post-doctoral research station”, the Group continued to strengthen its technological cooperations with various research institutes to increase its efforts to develop high-end products, expand product structures and enrich product categories. The Group has successfully developed products including the large inner diameter tube, Cr anto-CO2 corrosion casing, and Anti-H2S tube, Anti-hydrogen sulfide corrosion tube, extra-long and thick tube, suspension pillar tube, thin-walled high-pressure alloy tube, nickel plating anticorrosion sucker rod, acidic line pipe, large-diameter pipe, anti-paraffin anti-dust wear-resistant oil-well pump and other new products which was bulk supplied to domestic and overseas customers. Continuous development and introduction of new products to the market enables the Company to respond swiftly, thus enhancing the Company’s resistance to risk.

V. Investment Situation Analysis

1. Use of proceeds

(1) The general use of proceeds

	Unit: RMB’0,000
Total proceeds	49,600
Total investment of proceeds during the reporting period	49,600
Total cumulative investment of proceeds	49,600
Total proceeds that changed its use during the reporting period	0
Total cumulative proceeds that changed its use during the reporting period	0
Ratio of total cumulative proceeds of changed use (%)	0.00%

Description of the general use of proceeds

The Company issued corporate bonds totalling RMB500 million. After deducting underwriting expenses of RMB4 million, the net proceeds available for use amounted to RMB496 million and the funds was received on June 14, 2013. Up to 30 June 2014, the bank interest on deposit generated from the proceeds amounted to RMB20,780.75, other costs amounted to RMB380. During this year, RMB495,999,980.00 of the proceeds were used and RMB495,999,980.00 of the proceeds were cumulatively used. The interest generated from the remaining of the proceeds amounted to RMB20,420.75 and the proceeds have not been depleted.

(2) The promised projects of proceeds

Applicable Not applicable

(3) Projects of the changed proceeds

Applicable Not applicable

2. 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
Shouguang Baolong	Subsidiary	Manufacturing	Production and sales of oil equipment	150,000,000.00	904,096,979.43	196,427,606.94	736,834,099.67	(4,899,922.99)	(4,882,779.08)
Weihai Baolong	Subsidiary	Manufacturing	Manufacture and sales of metal material specialized for petroleum use	26,000,000.00	392,081,864.21	316,399,691.30	163,731,666.44	(14,019,099.34)	(13,827,067.71)
Maolong New Materials	Subsidiary	Manufacturing	Manufacture and sales of: petroleum equipment and accessories; high pressure isolation switch, high pressure electrical appliances, voltage electrical appliances and complete equipment; processing and sales of alloy accessories	12,380,000.00	453,266,117.24	56,672,771.65	0.00	(1,221,740.42)	(1,221,740.42)
Molong Electro-mechanical Equipment	Subsidiary	Manufacturing	Manufacture and sales of outer thickening oil well tubing and electrical complete equipment	USD1,000,000	94,187,119.41	55,281,384.69	45,798,693.37	3,844,161.39	2,883,121.02
MPM International Limited	Subsidiary	Trading	Acquisition and sales of petroleum extraction and chemical machinery electric equipment	USD1,000,000	163,232,444.67	14,687,206.14	73,161,657.92	1,825,832.16	1,825,832.16
Shouguang Maolong Microfinance Company Limited	Joint stock company	Servicing	Origination of loans in Shouguang City; development of small enterprise business; management.	150,000,000.00	167,188,193.84	166,058,020.21	7,314,302.58	6,777,606.72	5,794,205.02

3. Other major investments during the reporting period

Unit: RMB'0000

Name of projects	Aggregate investment	The investment amount in this reporting period	Accumulated investment as at the end of the Reporting Period	Project progress	Benefits realized during the Reporting Period
Casting product technical transformation project	56,000	32,133.25	50,616.75	80.00%	—
90 tons electric furnace	25,000	3,186.20	27,462.78	100.00%	—
Total	81,000	35,319.45	78,079.53	—	—

VI. Operating result forecast for the nine months ending 30 September 2014

Operating result forecast for the nine months ending 30 September 2014: Net profit attributable to shareholders of listed companies is positive and not it is not a situation of turning losses into gains.

Change in net profit attributable to shareholders of the listed Company from January to September 2014 (%)	-80.00% to -30.00%
Range of change in net profit attributable to shareholders of the listed Company from January to September 2014 (RMB'0000)	810.73 to 2,837.55
Net profit attributable to shareholders of the listed Company from January to September 2013 (RMB'0000)	4,053.64

Reasons for the change in results

Affected by the economic situation, low domestic and international market demand, fierce and disorderly competition, the selling price of products is down compared with the same period last year, resulting in a decline in net profit.

VII. Particulars of profit distribution by the Company during the reporting period

The profit distribution plan of Company last year was no distribution of cash dividends, giving bonus and transferring accumulation fund into share capital.

VIII. Proposals on profit distribution and conversion of capital reserves into share capital during this reporting period

There was no proposal on distribution cash dividends, giving bonus and transferring accumulation fund into share capital.

IX. 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
21 February 2014	Shouguang Shandong	On-site research and investigation	Organization	Guosen securities economic research institute, E Fund Management, ICBC credit suisse fund	Matters including recent development of the industry and development trend in the future, production and operation of the Company; visited the Company's production line.

X. Disclosures in accordance with the Listing Rules of SEHK

1. Results

The Group's profit and the state of financial affairs of the Group and the Company for the first half of 2014 are set out in the "IX Financial Statements" of the interim report.

2. Financial Summary

A summary of the results and of the assets and liabilities of the Group for the first six months of the past two financial years is as follows:

Results

	For the 6 months ended 30 June	
	2014 RMB'0000	2013 RMB'0000
Total revenue from operation	133,691.30	113,935.35
Profit from operations	778.90	4,094.04
Total profit	1,144.36	5,231.75
Net profit	794.62	4,442.21
Minority interests	(129.16)	(117.96)
Net profit attributable to shareholders of the Company	923.78	4,560.17
Basic earnings share (RMB)	0.01	0.06

Assets and Liabilities

	For the 6 months ended 30 June	
	2014 RMB'0000	2013 RMB'0000
Total assets	617,156.99	579,346.61
Total liabilities	342,761.27	305,734.46
Net assets	274,395.72	273,612.15

3. *Changes in Share Capital*

Details of changes in the share capital of the Company for the 6 months ended 30 June 2014 are set out in note 30 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 2014 are set out in note 31 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 2014 are set out in note 11 to the consolidated financial statements.

6. *Capitalised Interest*

For the 6 months ended 30 June 2014, the Group had capitalised interest amounting to RMB9,578,507.03.

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. *Continuing Related Party Transactions*

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

9. *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 2014, 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%
Zhang Yun San	Beneficial	30,608,000	5.65%	3.84%
Lin Fu Long	Beneficial	26,162,000	4.83%	3.27%

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%

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.

10. *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 2014.

11. *Share Option Scheme*

The Company does not have any share option scheme.

12. *Substantial Shareholders*

The details are set out section VI of this interim report.

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 2014 or at any time in the first half of 2014.

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 2014.

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 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 SEHK. 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.

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 2014 and up to the date of this report.

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V. MATERIAL MATTERS

I. Corporate Governance

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), listing rules of SEHK (香港聯合交易所股票上市規則) and the relevant provisions of the China Securities Regulatory Commission (CSRC), the Company continued to optimise its legal person governance structure, and established a modern enterprise policy to regulate the operations of the Company. The board of directors thinks the state of governance of the Company is currently in compliance with the requirements under the relevant documents of CSRC.

1. Shareholders and general meetings: The Company has established a corporate governance structure to ensure that all shareholders are able to fully exercise their rights and enjoy equal status, in particular for minority shareholders. Sufficient time is provided at general meetings of shareholders, which are to be convened legally and validly, for the discussion of each proposal, to provide good opportunities for communications between the Board and the shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or through its designated e-mail address for any enquiries.

2. Controlling shareholder and the listed company: The Company's controlling shareholder is Zhang En Rong. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without adversely affecting the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with laws and regulations and the terms and procedures as set out in the Articles. The staffing, assets, financial affairs, organization and business of the controlling shareholder are independent to those of the listed company. The controlling shareholder has not directly or indirectly interfered with the decision-making and business activities of the Company beyond the general meeting.

3. Directors and the Board: The Company appoints directors in strict compliance with the procedures set out its Articles, ensuring that the directors are appointed in an open, fair, just and independent manner. In order to fully reflect the opinions of minority shareholders, a cumulative voting scheme is adopted for the appointment of directors. The Board of Directors has a reasonable professional structure, acting in the best interests of the Company and in good faith. The Company has formulated a set of rules of procedure for Board of Directors meetings, and board meetings are convened and held in strict compliance with the Articles and Rules of Procedure of the Board of Directors Meetings. To optimise the corporate governance structure, three specialist committees — the Nomination Committee, Audit Committee and Remuneration and Evaluation Committee — have been established by the Board of Directors in accordance with the Governance Standards for Listed Companies. The majority of members and the convenors in each of these committees are Independent Directors, providing scientific and professional opinions for reference by the Board of Directors in its decision-making.

4. Supervisors and the Supervisory Committee: The Supervisors possess professional knowledge and work experience in legal, accounting and other areas and are elected by way of cumulative voting. They monitor the financial affairs and supervise the lawful and regulatory performance of duties by the Company's Directors, the General Manager and other members of the senior management, and safeguard the legal rights and interests of the Company and shareholders. The Company has formulated rules of procedure for the Supervisory Committee meetings. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles and the Rules of Procedure for Supervisory Committee Meetings.

5. Performance appraisal and incentive mechanism: During the year, the Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and personal performance in accordance with the Articles of the Company. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of the Company.

6. Information disclosure and transparency: The Secretary to the Board of Directors is responsible for handling information disclosure, arranging receptions of visiting shareholders and answering enquiries on behalf of the Company. Relevant information is disclosed in strict compliance with Rules on Fair Information Disclosure by Companies Listed on the Shenzhen Stock Exchange and the Articles in a true, accurate, complete and timely manner, ensuring that all shareholders have equal access to information. There were no instances of majority shareholders or de facto controllers owning information otherwise not publicly disclosed or other irregularities in corporate governance in the first half of 2014.

7. Stakeholders: The Company respects the legal rights and interests of banks and other stakeholders such as creditors, employees, consumers, and suppliers, and works actively with these stakeholders to promote the sustainable and healthy development of the Company.

8. 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 2014, 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.

9. 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.

10. Model Code for Securities Transactions for Directors and Supervisors of the Company: For the six months ended 30 June 2014, 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	—	429.67	13.10%	Cash	—	—	—
Total				—	—	429.67	—	—	—	—	—

2. Associated transactions on acquisition and disposal of assets

There was no associated transactions on acquisition and disposal of assets during the reporting period.

3. Associated transactions with joint investments

There was no associated transactions with joint investments during the reporting period.

4. Connected creditors' rights and debts transactions

There was no connected creditors' rights and debts transactions during the reporting period.

5. Other significant associated transactions

There was no other significant associated transactions during the reporting period.

III Engagement or dismissal of accounting firms

Has the interim financial report already been audited yet?

Yes No

VI. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. Changes in share capital

Unit: share

	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	276,295,750	34.63%	—	—	—	—	—	276,295,750	34.63%
1. Other domestic shares									
Comprising:	276,295,750	34.63%					—	276,295,750	34.63%
Domestic natural person shares	276,295,750	34.63%	—	—	—	—	—	276,295,750	34.63%
II. Shares not subject to lock-up	521,552,650	65.37%	—	—	—	—	—	521,552,650	65.37%
1. RMB ordinary shares	265,426,250	33.27%	—	—	—	—	—	265,426,250	33.27%
2. Overseas-listed foreign shares (H shares)	256,126,400	32.10%	—	—	—	—	—	256,126,400	32.10%
III. Total number of shares	797,848,400	100.00%	—	—	—	—	—	797,848,400	100.00%

II. Shareholders' profiles

Unit: share

Total number of ordinary shareholders at the end of this reporting period

42,604

Shareholding of shareholders holding more than 5% or the top 10 shareholders

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	—	209,637,750	69,879,250
HKSCC Nominees Limited	Overseas non-state owned	32.03%	255,563,090	—	—	255,563,090
Zhang Yun San	Domestic natural person	4.03%	32,184,000	—	22,956,000	9,228,000
Lin Fu Long	Domestic natural person	3.28%	26,162,000	—	25,662,000	500,000
Xie Xin Cang	Domestic natural person	1.34%	10,705,000	—	10,705,000	—
Cui Huan You	Domestic natural person	1.15%	9,180,000	—	—	9,180,000
Liu Yun Long	Domestic natural person	1.15%	9,170,000	—	7,335,000	1,835,000
Liang Yong Qiang	Domestic natural person	0.65%	5,189,000	—	—	5,189,000
Ren Chang Hong	Domestic natural person	0.14%	1,110,000	—	—	1,110,000
Li Jia Yao	Domestic natural person	0.13%	1,018,852	—	—	1,018,852

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	255,563,090	H shares	255,563,090
Zhang En Rong	69,879,250	A Shares	69,879,250
Zhang Yun San	9,228,000	A Shares	7,652,000
		H shares	1,576,000
Cui Huan You	9,180,000	A Shares	9,180,000
Liang Yong Qiang	5,189,000	A Shares	5,189,000
Liu Yun Long	1,835,000	A Shares	1,835,000
Ren Chang Hong	1,110,000	A Shares	1,110,000
Li Jia Yao	1,018,852	A Shares	1,018,852
Zhan Hui Huang	829,800	A Shares	829,800
Dong Bo	800,000	A Shares	800,000

The top 10 to sell unlimited shares between the shareholders, and the top 10 infinite tradable or action consistent relationship between shareholders and the top 10 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.

The shareholders of the Company has not carried out repurchase transactions during the report period.

III. The controlling shareholder or actual controller changes

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Controlling shareholders during the reporting period to change

The Company's controlling shareholder did not change during the reporting period.

The actual controller during the reporting period to change

The Company's actual controllers did not change during the reporting period.

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

As at 30 June 2014, 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.	Interest of controlled corporation	30,500,000	11.91%	3.82%
Segantii Capital Management Limited	Interest of controlled corporation	22,839,200	8.92%	2.86%

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 (A shares)	Number of increase holdings of shares in this period (A-shares)	Number of decrease holdings of shares in this period (A-shares)	Shares held at the end of this Reporting period (A share)	Number of restricted stock at the beginning of the reporting period (A shares)	Number of restricted stock was awarded in this period (A-shares)	Number of restricted stock at the end of this Reporting period (A share)
Zhang En Rong	Chairman of Company	Current	279,517,000	—	—	279,517,000	209,637,750	—	209,637,750
Zhang Yun San	Deputy Chairman and General Manager	Current	32,184,000	—	—	32,184,000	22,956,000	—	22,956,000
Lin Fu Long	Executive director	Current	34,216,000	—	8,054,000	26,162,000	25,662,000	—	25,662,000
Guo Huan Ran	Executive director	Current	—	—	—	—	—	—	—
Xiao Qing Zhou	Non-executive Director	Current	—	—	—	—	—	—	—
Guo Hong Li	Non-executive Director	Current	—	—	—	—	—	—	—
Wang Chun Hua	Independent non-executive Director	Current	—	—	—	—	—	—	—
John Paul Cameron	Independent non-executive Director	Current	—	—	—	—	—	—	—
Qin Xue Chang	Independent non-executive Director	Current	—	—	—	—	—	—	—
Liu Huai Duo	Supervisor	Current	—	—	—	—	—	—	—
Fan Ren Yi	Supervisor	Current	—	—	—	—	—	—	—
Zhang Jiu Li	Supervisor	Current	—	—	—	—	—	—	—
Zhang Shou Kui	Vice general manager	Current	—	—	—	—	—	—	—
Yang Jin	Financial Controller of Company	Current	—	—	—	—	—	—	—
Zhao Hong Feng	Secretary to the Board	Current	—	—	—	—	—	—	—
Total			345,917,000	—	8,054,000	337,863,000	258,255,750	—	258,255,750

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II. Remunerations of Directors, Supervisors and Senior Management

There is no change in the Company's directors, supervisors and senior managers during the reporting period (for specifics, please see 2013 annual report).

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

I. Audit report

The semi-annual financial report is unaudited.

II. Financial statements

Financial in notes to the statements of the unit is: RMB

1. Consolidated Balance Sheets

Items	Closing balance	Unit: RMB	
		Opening balance	
Current assets:			
Cash and bank balances	862,260,682.94	597,770,865.98	
Deposit reservation for balance	—	—	
Lending funds	—	—	
Trading financial assets	—	—	
Bills receivable	151,940,068.01	135,159,594.04	
Accounts receivable	591,959,447.37	563,772,597.42	
Prepayments	28,387,840.33	47,775,985.84	
Receivable premium	—	—	
Reinsurance accounts receivable	—	—	
Receivable from subcontracting reserves	—	—	
Interests receivable	5,307,206.41	4,606,049.44	
Dividend receivables	—	—	
Other receivable	34,489,353.32	31,160,536.48	
Financial assets purchased under agreements to resell	—	—	
Inventories	1,068,677,975.45	1,155,180,417.60	
Non-current assets due within one year	—	—	
Other current assets	44,566,036.06	47,778,203.78	
Total current assets	2,787,588,609.89	2,583,204,250.58	

Unit: RMB

Items	Closing balance	Opening balance
Non-current assets:		
Loans and advances from other parties	—	—
Available-for-sales investments	—	—
Held-to-maturity investments	—	—
Long term receivables	—	—
Long-term equity investment	62,620,045.81	60,881,784.30
Investment properties	—	—
Fixed assets	1,909,152,019.72	1,710,839,377.57
Construction in progress	521,899,222.67	442,414,993.81
Construction materials	—	—
Disposal of fixed assets	—	—
Biological asset	—	—
Oil and nature gas	—	—
Intangible assets	462,584,120.86	486,672,315.83
Development expenditure	26,624,021.44	0.00
Goodwill	83,483,383.21	83,483,383.21
Long-term deferred expenses	118,055.64	159,722.28
Deferred income tax assets	47,929,974.67	46,005,562.05
Other non-current assets	269,570,458.46	379,804,663.05
Total non-current assets	3,383,981,302.48	3,210,261,802.10
Total assets	6,171,569,912.37	5,793,466,052.68
Current liabilities:		
Short-term borrowings	1,708,143,056.00	1,367,290,846.00
Borrowings from the Central Bank	—	—
Customer bank deposits and due to banks and other financial institutions	—	—
Placements from banks and other financial institutions	—	—
Financial liabilities at fair value through profit or loss	—	—
Bills payable	462,461,172.94	427,566,182.16
Accounts payable	606,649,356.69	548,559,433.90
Receipts in advance	62,669,654.76	92,679,015.92
Funds from selling out and repurchasing financial assets	—	—
Bank charges and commission payable	—	—
Salaries payable	25,264,458.36	22,842,605.99
Taxes payable	19,444,823.26	34,382,133.48
Interests payable	7,932,156.29	24,239,399.58
Dividends payable	—	—
Other payables	23,267,258.13	26,790,378.33
Amounts due to reinsurers	—	—
Insurance contract reserve	—	—
Customer brokerage deposits	—	—
Securities underwriting brokerage deposits	—	—
Non-current liabilities within one year	—	—
Other current liabilities	1,808,000.00	1,808,000.00
Total current liabilities	2,917,639,936.43	2,546,157,995.36

Unit: RMB

Items	Closing balance	Opening balance
Non-current liabilities:		
Long-term borrowings	—	—
Bonds payable	497,444,444.43	496,777,777.77
Long-term payables	—	—
Specific payable	—	—
Provision	—	—
Deferred income tax liabilities	10,720,332.27	10,792,803.04
Other non-current liabilities	1,808,000.00	3,616,000.00
Total non-current liabilities	509,972,776.70	511,186,580.81
Total liabilities	3,427,612,713.13	3,057,344,576.17
Shareholders' equity:		
Share capital	797,848,400.00	797,848,400.00
Capital reserve	849,500,658.42	849,500,658.42
Less: Treasury stock	—	—
Special reserve	—	—
Surplus reserve	168,908,489.86	168,908,489.86
General risk provision	—	—
Undistributed profits	866,720,239.55	857,482,430.32
Foreign currency translation differences	264,515.70	363,977.13
Total equity attributable to shareholders of the Company	2,683,242,303.53	2,674,103,955.73
Minority interests	60,714,895.71	62,017,520.78
Total shareholders' equity	2,743,957,199.24	2,736,121,476.51
Total liabilities and shareholders' equity	6,171,569,912.37	5,793,466,052.68

Legal Representative: Zhang En Rong Accountant-in-charge: Yang Jin Partner-in-charge: Ding Zhi Shui

2. Company's Balance Sheet

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Current assets:		
Cash and bank balances	815,905,985.56	477,333,126.10
Financial assets at fair value through profit or loss	—	—
Bills receivable	132,150,373.01	117,939,796.64
Accounts receivable	967,883,534.49	562,804,031.40
Prepayments	246,881,797.80	434,575,347.30
Interests receivable	5,307,206.41	4,606,049.44
Dividend receivables	—	—
Other receivables	269,326,240.26	252,454,655.05
Inventories	857,645,998.00	898,794,179.36
Non-current assets due within one year	—	—
Other current assets	8,443,343.08	1,870,576.46
Total current assets	3,303,544,478.61	2,750,377,761.75
Non-current assets:		
Available-for-sales investments	—	—
Held-to-maturity investments	—	—
Long term receivables	—	—
Long-term equity investment	652,069,921.73	652,069,921.73
Investment properties	—	—
Fixed assets	1,267,608,712.58	1,317,036,319.12
Construction in progress	256,360,614.98	199,649,242.90
Construction materials	—	—
Disposal of fixed assets	—	—
Biological asset	—	—
Oil and nature gas	—	—
Intangible assets	217,946,022.88	236,648,160.28
Development expenditure	26,624,021.44	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	37,511,610.22	35,775,939.76
Other non-current assets	75,551,909.12	259,788,383.05
Total non-current assets	2,533,672,812.95	2,700,967,966.84
Total assets	5,837,217,291.56	5,451,345,728.59

Unit: RMB

Items	Balance at the end of the year	Balance at the beginning of the year
Current liabilities:		
Short-term borrowings	1,646,615,056.00	1,223,404,006.00
Financial liabilities at fair value through profit or loss	—	—
Bills payable	460,698,172.94	427,566,182.16
Accounts payable	303,446,544.09	330,301,216.50
Receipts in advance	182,104,914.08	218,914,621.07
Salaries payable	18,765,448.58	16,941,477.46
Taxes payable	4,987,365.98	19,831,397.51
Interests payable	7,849,556.86	24,202,101.43
Dividends payable	—	—
Other payables	15,637,262.52	16,898,117.61
Non-current liabilities within one year	—	—
Other current liabilities	1,808,000.00	1,808,000.00
Total current liabilities	2,641,912,321.05	2,279,867,119.74
Non-current liabilities:		
Long-term borrowings	—	—
Bonds payable	497,444,444.43	496,777,777.77
Long-term payables	—	—
Specific payable	—	—
Provision	—	—
Deferred income tax liabilities	796,080.96	690,907.42
Other non-current liabilities	1,808,000.00	3,616,000.00
Total non-current liabilities	500,048,525.39	501,084,685.19
Total liabilities	3,141,960,846.44	2,780,951,804.93
Shareholders' equity:		
Share capital	797,848,400.00	797,848,400.00
Capital reserve	849,481,990.92	849,481,990.92
Less: Treasury stock	—	—
Special reserve	—	—
Surplus reserve	168,908,489.86	168,908,489.86
General risk provision	—	—
Undistributed profits	879,017,564.34	854,155,042.88
Foreign currency translation differences	—	—
Total shareholders' equity	2,695,256,445.12	2,670,393,923.66
Total liabilities and shareholders' equity	5,837,217,291.56	5,451,345,728.59

Legal Representative: Zhang En Rong Accountant-in-charge: Yang Jin Partner-in-charge: Ding Zhi Shui

3. Consolidated Income Statements

Unit: RMB

Items	Amount of this year	Amount of last year
I. Total revenue from operations	1,336,912,993.10	1,139,353,466.09
Including: operating revenue	1,336,912,993.10	1,139,353,466.09
Interest income	—	—
Earned insurance premium	—	—
Brokerage and commission income	—	—
II. Total costs of operations	1,330,862,303.49	1,099,442,066.62
Including: Operating cost	1,184,701,686.19	1,015,901,005.30
Interest expenses	—	—
Brokerage and commission expenses	—	—
Surrenders	—	—
Net amount of compensation paid	—	—
Net amount of reserves for reinsurance contract	—	—
Insurance dividend payments	—	—
Reinsurance premium	—	—
Business tax and surcharges	8,981,611.25	874,949.27
Selling expenses	74,614,125.24	23,752,807.70
Administrative expenses	47,661,443.49	48,140,892.36
Finance costs	22,041,420.84	12,032,644.85
Asset impairment losses	(7,137,983.52)	(1,260,232.86)
Add: Gains from changes in fair value	—	—
Investment income	1,738,261.51	1,028,962.27
Including: Gains from investment in associates and joint ventures	1,738,261.51	1,028,962.27
Exchange gain (loss)	—	—
III. Operating (loss) profit	7,788,951.12	40,940,361.74
Add: Non-operating income	4,045,212.49	11,988,474.60
Less: Non-operating expenses	390,543.95	611,300.07
Including: Loss from disposal of non-current assets	358,974.66	575,515.07
IV. Total (loss) profit	11,443,619.66	52,317,536.27
Less: Income tax (credit) expenses	3,497,384.22	7,895,402.71
V. Net (loss) profit	7,946,235.44	44,422,133.56
Including: The combined party which was before the implementation of net profit	—	—
Net (loss) profit attributable to shareholders of the Company	9,237,809.23	45,601,697.63
Net (loss) profit attributable to minority interests	(1,291,573.79)	(1,179,564.07)
VI. (Loss) earnings per share:	—	—
(i) Basic (loss) earnings per share	0.01	0.06
(ii) Diluted (loss) earnings per share	0.01	0.06
VII. Other comprehensive income	(110,512.71)	181,834.08
VIII. Total comprehensive (expense) income	7,835,722.73	44,603,967.64
Total comprehensive (expense) income attributable to owners of the Company	9,138,347.80	45,765,348.29
Total comprehensive (expense) income attributable to minority interests	(1,302,625.07)	(1,161,380.65)

Legal Representative: Zhang En Rong Accountant-in-charge: Yang Jin Partner-in-charges: Ding Zhi Shui

4. Company's Income Statements

Unit: RMB

Items	Amount of this year	Amount of last year
I. Operating revenue	1,434,984,761.74	1,191,099,020.52
Less: Operating cost	1,266,355,491.33	1,055,820,432.05
Business tax and surcharges	8,503,006.02	366,558.55
Selling expenses	74,526,146.86	23,730,665.06
Administrative expenses	37,901,232.77	41,889,228.14
Finance costs	26,367,273.22	12,131,966.58
Asset impairment losses	(3,088,128.75)	—
Add: Gains from changes in fair value	—	—
Investment income	—	—
Including: Gains from investment in associates and joint ventures	—	—
II. Operating (loss) profit	24,419,740.29	57,160,170.14
Add: Non-operating income	3,198,700.85	11,870,775.80
Less: Non-operating expenses	41,931.52	523,717.08
Including: Loss from disposal of non-current assets	20,362.23	509,717.08
III. Total (loss) profit	27,576,509.62	68,507,228.86
Less: Income tax (credit) expenses	2,713,988.16	7,405,343.47
IV. Net (loss) profit	24,862,521.46	61,101,885.39
V. Earnings (loss) per share:		
(i) Basic earnings (loss) per share	—	—
(ii) Diluted earnings (loss) per share	—	—
VI. Other comprehensive income	—	—
VII. Total comprehensive (expense) income	24,862,521.46	61,101,885.39

Legal Representative: Zhang En Rong Accountant-in-charge: Yang Jin Partner-in-charges: Ding Zhi Shui

5. Consolidated Statements of Cash Flow

Unit: RMB

Items	Amount of this year	Amount of last year
I. CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from the sale of goods or rendering of services	1,486,422,725.74	1,527,339,650.50
Net increase in customer bank deposits and due to banks and other financial institutions	—	—
Net increase in borrowings from central bank	—	—
Net increase in placements from other financial institutions	—	—
Premiums received from original insurance contracts	—	—
Net cash received from reinsurance business	—	—
Net increase of policy holder deposits and investment funds	—	—
Net increase from disposal of tradable financial assets	—	—
Interest, handling charges and commission received	—	—
Net increase in placements from banks and other financial institutions	—	—
Net increase in repurchase business capital	—	—
Receipts of tax refunds	27,970,576.46	41,972,733.05
Other cash receipts relating to operating activities	119,681,144.05	19,445,557.32
SUB-TOTAL OF CASH INFLOWS FROM OPERATING	1,634,074,446.25	1,588,757,940.87
Cash payments for goods purchased and services received	1,128,330,158.35	1,627,841,962.19
Net increase in loans and advances to customers	—	—
Net increase in deposits with central bank and other financial institutions	—	—
Original insurance contract claims paid	—	—
Interest, brokerage charges and commissions paid	—	—
Policyholder dividend paid	—	—
Cash paid to and on behalf of employees	71,230,146.04	72,600,431.48
Payments of all types of taxes	34,958,878.96	30,637,880.08
Other cash payments relating to operating activities	81,623,221.69	113,766,495.21
SUB-TOTAL OF CASH OUTFLOWS ACTIVITIES	1,316,142,405.04	1,844,846,768.96
NET CASH FLOWS FROM OPERATING ACTIVITIES	317,932,041.21	(256,088,828.09)
II. CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash receipts from disposals of investments	—	—
Cash receipts from disposals of investments	—	—
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets	434,855.83	370,958.54
Net cash receipts form disposals of subsidiaries and other business units	—	—
Other cash receipts relating to investing activities	—	—

Unit: RMB

Items	Amount of this year	Amount of last year
SUB-TOTAL OF CASH INFLOWS FROM INVESTING ACTIVITIES	434,855.83	370,958.54
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets	240,837,231.75	300,238,158.21
Cash payments to acquire investments	—	—
Net increase in pledged loans	—	—
Net cash payments for acquisition of subsidiaries and other business units	—	—
Other cash payments relating to investment activities	—	—
SUB-TOTAL OF CASH OUTFLOWS FROM INVESTING ACTIVITIES	240,837,231.75	300,238,158.21
NET CASH FLOWS FROM INVESTING ACTIVITIES	(240,402,375.92)	(299,867,199.67)
III. CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash receipts from investors	—	—
Including: Cash receipts from the shareholders of subsidiaries	—	—
Cash receipts from borrowings	1,217,536,092.31	1,064,790,093.00
Cash receipts from issuance of bonds	—	496,000,000.00
Other cash receipts relating to financing activities	53,854,974.00	—
SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES	1,271,391,066.31	1,560,790,093.00
Cash repayments of amounts borrowed	878,003,122.31	848,989,952.57
Cash payments for distribution of dividends or profits, or cash payments for interest expenses	59,190,867.14	33,407,216.36
Including: Cash payments to the minority shareholders for distribution of dividends or profits	—	—
Other cash payments relating to financing activities	—	—
SUB-TOTAL OF CASH OUTFLOWS	937,193,989.45	882,397,168.93
NET CASH FLOWS FROM FINANCING ACTIVITIES	334,197,076.86	678,392,924.07
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(5,019,833.97)	(9,384,733.63)
V. NET INCREASE IN CASH AND CASH EQUIVALENTS	406,706,908.18	113,052,162.68
Add : Beginning balance of cash and cash equivalents	330,546,464.49	369,092,906.46
VI. ENDING BALANCE OF CASH AND CASH EQUIVALENTS	737,253,372.67	482,145,069.14

Legal Representative: Zhang En Rong Accountant-in-charge: Yang Jin Partner-in-charges: Ding Zhi Shui

6. Company's Statements of Cash Flow

	Unit: RMB	
Items	Amount of this year	Amount of last year
I. CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from the sale of goods or rendering of services	1,344,992,870.07	1,384,706,664.88
Receipts of tax refunds	26,840,676.46	41,972,733.05
Other cash receipts relating to operating activities	118,746,581.07	14,042,874.12
SUB-TOTAL OF CASH INFLOWS FROM OPERATING	1,490,580,127.60	1,440,722,272.05
Cash payments for goods purchased and services received	1,117,700,290.47	1,408,805,633.55
Cash paid to and on behalf of employees	50,795,323.25	53,063,588.30
Payments of all types of taxes	27,471,763.45	13,466,991.00
Other cash payments relating to operating activities	86,179,914.42	116,562,874.48
SUB-TOTAL OF CASH OUTFLOWS ACTIVITIES	1,282,147,291.59	1,591,899,087.33
NET CASH FLOWS FROM OPERATING ACTIVITIES	208,432,836.01	(151,176,815.28)
II. CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash receipts from disposals of investments	—	—
Cash receipts from returns on investments	—	—
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets	421,439.67	370,958.54
Net cash receipts from disposals of subsidiaries and other business units	—	—
Other cash receipts relating to investing activities	—	—
SUB-TOTAL OF CASH INFLOWS FROM INVESTMENT ACTIVITIES	421,439.67	370,958.54
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets	141,679,600.58	245,325,827.29
Cash payments to acquire investments	—	—
Net cash payments for acquisition of subsidiaries and other business units	—	—
Other cash payments relating to investment activities	—	—
SUB-TOTAL OF CASH OUTFLOWS FROM INVESTMENT ACTIVITIES	141,679,600.58	245,325,827.29
NET CASH FLOWS FROM INVESTING ACTIVITIES	(141,258,160.91)	(244,954,868.75)
III. CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash receipts from investors	—	—
Cash receipts from borrowings	1,156,008,092.31	894,257,973.00
Cash receipts from issuance of bonds	—	496,000,000.00
Other cash receipts relating to financing activities	53,854,974.00	—
SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES	1,209,863,066.31	1,390,257,973.00
Cash repayments of amounts borrowed	732,797,042.31	848,989,952.57
Cash payments for distribution of dividends or profits, or cash payments for interest expenses	58,440,465.44	32,384,128.57
Other cash payments relating to financing activities	—	—
SUB-TOTAL OF CASH OUTFLOWS FROM FINANCING ACTIVITIES	791,237,507.75	881,374,081.14
NET CASH FLOWS FROM FINANCING ACTIVITIES	418,625,558.56	508,883,891.86
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(5,010,282.98)	(10,510,248.69)
V. NET INCREASE IN CASH AND CASH EQUIVALENTS	480,789,950.68	102,241,959.14
Add : Beginning balance of cash and cash equivalents	210,108,724.61	354,662,620.79
VI. ENDING BALANCE OF CASH AND CASH EQUIVALENTS	690,898,675.29	456,904,579.93

Legal Representative: Zhang En Rong Accountant-in-charge: Yang Jin Partner-in-charges: Ding Zhi Shui

7. Consolidated Statement of Changes in Shareholder's Equity

For the six months ended 30 June 2014

Unit: RMB

Items	Amount for the six months ended 30 June 2014									
	Equity attributable to the shareholders of the Company									
	Share capital	Capital reserve	Treasury stock	Less: Special reserve	Surplus reserve	General risk provision	Undistributed profits	Translation differences	Minority interests	Total equity
I. Balance at the end of the previous year	797,848,400.00	849,500,658.42	—	—	168,908,489.86	—	857,482,430.32	363,977.13	62,017,520.78	2,736,121,476.51
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	849,500,658.42	—	—	168,908,489.86	—	857,482,430.32	363,977.13	62,017,520.78	2,736,121,476.51
III. Changes in the current year	—	—	—	—	—	—	9,237,809.23	(99,461.43)	(1,302,625.07)	7,835,722.73
(i) Net profit	—	—	—	—	—	—	9,237,809.23	—	(1,291,573.79)	7,946,235.44
(ii) Other comprehensive income	—	—	—	—	—	—	—	(99,461.43)	(11,051.28)	(110,512.71)
Total comprehensive income	—	—	—	—	—	—	9,237,809.23	(99,461.43)	(1,302,625.07)	7,835,722.73
(iii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—
(iv) Profit distribution	—	—	—	—	—	—	—	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—
2. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—
(v) 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	—	—	—	—	—	—	—	—	—	—
(vi) Special	—	—	—	—	—	—	—	—	—	—
1. Withdraw	—	—	—	—	4,539,390.74	—	—	—	—	4,539,390.74
2. Utilise	—	—	—	—	(4,539,390.74)	—	—	—	—	(4,539,390.74)
(vii) Other	—	—	—	—	—	—	—	—	—	—
(IV) Balance at the end of the current year	797,848,400.00	849,500,658.42	—	—	168,908,489.86	—	866,720,239.55	264,515.70	60,714,895.71	2,743,957,199.24

7. Consolidated Statement of Changes in Shareholder's Equity

For the six months ended 30 June 2013

Units: RMB

Items	Amount for the six months ended 30 June 2013									
	Equity attributable to the shareholders of the Company									
	Share capital	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Translation differences	Minority interests	Total equity
I. Balance at the end of the previous 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
Add: under the same control enterprise merger of retroactive adjustment	—	—	—	—	—	—	—	—	—	—
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning 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
III. Changes in the current year	—	—	—	—	—	—	(215,614,668.47)	301,911.59	(1,852,479.12)	(217,165,236.00)
(i) Net profit	—	—	—	—	—	—	(175,722,248.47)	—	(1,886,024.86)	(177,608,273.33)
(ii) Other comprehensive income	—	—	—	—	—	—	—	301,911.59	33,545.74	335,457.33
Total comprehensive income	—	—	—	—	—	—	(175,722,248.47)	301,911.59	(1,852,479.12)	(177,272,816.00)
(iii) Shareholder's capital	—	—	—	—	—	—	—	—	—	—
Injection and capital reduction	—	—	—	—	—	—	—	—	—	—
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—
(iv) Profit distribution	—	—	—	—	—	—	(39,892,420.00)	—	—	(39,892,420.00)
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—
2. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	(39,892,420.00)	—	—	(39,892,420.00)
4. Others	—	—	—	—	—	—	—	—	—	—
(v) 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	—	—	—	—	—	—	—	—	—	—
(vi) Special	—	—	—	—	—	—	—	—	—	—
1. Withdraw	—	—	—	11,695,395.27	—	—	—	—	—	11,695,395.27
2. Utilise	—	—	—	(11,695,395.27)	—	—	—	—	—	(11,695,395.27)
(vii) Other	—	—	—	—	—	—	—	—	—	—
(IV) Balance at the end of the current year	797,848,400.00	849,500,658.42	—	—	168,908,489.86	—	857,482,430.32	363,977.13	62,017,520.78	2,736,121,476.51

Legal Representative: Zhang En Rong

Accountant-in-charge: Yang Jin

Partner-in-charge: Ding Zhiui

8. Company's Statement of Changes in Shareholder's Equity

For the six months ended 30 June 2014

Units: RMB

Items	Amount for the six months ended 30 June 2014						Undistributed profits	Total equity
	Share capital	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision		
I. Balance at the end of the previous year	797,848,400.00	849,481,990.92	—	—	168,908,489.86	—	854,155,042.88	2,670,393,923.66
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	849,481,990.92	—	—	168,908,489.86	—	854,155,042.88	2,670,393,923.66
III. Changes in the current year	—	—	—	—	—	—	24,862,521.46	24,862,521.46
(i) Net profit	—	—	—	—	—	—	24,862,521.46	24,862,521.46
(ii) Other comprehensive income	—	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	—	24,862,521.46	24,862,521.46
(iii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—
1. Capital injection from shareholders	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(iv) Profit distribution	—	—	—	—	—	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—
2. Transfer to general risk provision	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(v) 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	—	—	—	—	—	—	—	—
(vi) Special	—	—	—	—	—	—	—	—
1. Withdraw	—	—	—	1,685,370.75	—	—	—	1,685,370.75
2. Utilise	—	—	—	(1,685,370.75)	—	—	—	(1,685,370.75)
(vii) Other	—	—	—	—	—	—	—	—
IV. Balance at the end of the current year	797,848,400.00	849,481,990.92	—	—	168,908,489.86	—	879,017,564.34	2,695,256,445.12

For the six months ended 30 June 2013

Units: RMB

Items	Amount for the six months ended 30 June 2013						Undistributed profits	Total equity
	Share capital	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve	General risk provision		
I. Balance at the end of the previous year	797,848,400.00	849,481,990.92	—	—	168,908,489.86	—	981,137,343.28	2,797,376,224.06
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
II. Balance at the beginning 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
III. Changes in the current year	—	—	—	—	—	—	(126,982,300.40)	(126,982,300.40)
(i) Net profit	—	—	—	—	—	—	(87,089,880.40)	(87,089,880.40)
(ii) Other comprehensive income	—	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	—	(87,089,880.40)	(87,089,880.40)
(iii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—
1. Capital injection from shareholders	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—
(iv) Profit distribution	—	—	—	—	—	—	(39,892,420.00)	(39,892,420.00)
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—
2. Transfer to general risk provision	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	(39,892,420.00)	(39,892,420.00)
4. Others	—	—	—	—	—	—	—	—
(v) 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	—	—	—	—	—	—	—	—
(vi) Special	—	—	—	—	—	—	—	—
1. Withdraw	—	—	—	4,952,778.10	—	—	—	4,952,778.10
2. Utilise	—	—	—	(4,952,778.10)	—	—	—	(4,952,778.10)
(vii) Other	—	—	—	—	—	—	—	—
IV. Balance at the end of the current year	797,848,400.00	849,481,990.92	—	—	168,908,489.86	—	854,155,042.88	2,670,393,923.66

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Legal Representative: Zhang En Rong Accountant-in-charge: Yang Jin Partner-in-charge: Ding Zhiui

III. 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. Its place of registration and principal place of business is No. 999 Wen Sheng Street, 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 issue price of HK\$0.70 per share with a nominal value of RMB0.10 each, which were listed in the Growth Enterprise Market of the Stock Exchange of Hong Kong.

Upon the approval by China Securities Regulatory Commission with Zheng Jian Guo He Zi [2005] No. 13 (證監國合字[2005]13號文), on 12 May 2005, the Company issued 108,000,000 additional overseas listed foreign shares (H Shares) at the issue price of HK\$0.92 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 increased 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 issued 49,252,000 additional overseas listed foreign shares (H Shares) at the issue price of HK\$1.70 per share with a nominal value of RMB0.10 each. The Company's registered capital has changed to RMB328,924,200.00, and the total number of shares has changed to 3,289,242,000 shares.

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 offer 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.

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

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

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

IV. Significant Accounting Policies and Accounting Estimates

1. Basic of preparation

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The financial statements have been prepared on a going concern basis and in accordance with Application Guidance for Accounting Standard for Business Enterprises (ASBEs) issued by the Ministry of Finance of the People's Republic of China (MoF). Also, the financial statements have been prepared according to the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 — General Provisions on Financial Reporting (revised 2010) issued by the China Securities Regulatory Commission, the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

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

The functional currency of the Company and those subsidiaries established in the PRC is Renminbi ("RMB"). The functional currency of the overseas subsidiary is based on the primary economic environment where it operates.

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

(1) **Business combinations involving entities under common control**

The assets and liabilities acquired through a business combination involving enterprise under common control is measured by the acquirer according to the carrying amount recorded by the acquirer's at the combination date. The difference between the consideration of combination and the carrying amount of the acquired net assets is included in capital reserve; if the capital reserve is not sufficient, it is adjusted in retained earnings.

(2) **Business combinations involving entities not under common control**

The cost of business combinations is the aggregate of the fair value, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquire. When the costs of business combinations exceed the acquirer's identifiable net assets, the difference is recognised as goodwill. When the costs of business combination less than the acquirer's identifiable net assets, after reassessment, the difference is included in the profit or loss in the current period. When the costs of business combination less than the acquirer's identifiable net assets, after reassessment, the difference is included in the profit or loss in the current period.

6. *Basis for preparation of consolidated financial statements*

The scope of consolidation in the consolidated financial statements is determined on the basis of control. Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Subsidiaries are all entities over which the Group has the power to control.

All significant intra-group balances and transactions are eliminated on consolidation. The portion of subsidiaries' equity that is not attributable to the Company is treated as minority interests and presented as "minority interests" in the consolidated balance sheet within shareholders' equity. The portion of net profits or losses of subsidiaries for the period attributable to minority interests is presented as "minority interests" in the consolidated income statement below the "net profit" line item.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

When preparing the consolidated financial statements, if the Company acquired the subsidiary through business combination not involving enterprise under common control, the separate financial statements shall be adjusted based on the fair value of identifiable net asset at the acquisition date. If the subsidiary is acquired through business combination involving enterprise under common control, the consolidated financial statements shall included the carrying amount of assets, liabilities, operating result and cash flow of the subsidiary at the beginning of the current period.

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between the aggregate of the consideration received on disposal and the fair value of any retained interest and the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognised as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

7. Cash and cash equivalents

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

8. Foreign currency transactions and translation of financial statements denominated in foreign currency

(1) Foreign currency transactions

The Group's transactions in currencies other than RMB are recorded at the rates of exchanges prevailing on the dates of the transactions.

On balance sheet date, foreign currency monetary items are translated into RMB at the spot exchange rate of that date. Exchange differences arising thereon are directly expensed in the profit and loss for the current period unless they arise from foreign currency borrowings for the purchase or construction of qualifying assets which are eligible for capitalisation. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items denominated in foreign currency measured at historical cost shall continue to be translated at the spot exchange rate at the date of transaction.

(2) Translation of financial statements denominated in foreign currency

Assets and liabilities in the balance sheet denominated in foreign currencies are translated at the spot rate prevailing at the balance sheet date. The equity items, except for undistributed profits, are translated at the spot exchange rate when they occurred. Income and expenses in the income statement denominated in foreign currencies are translated at the spot exchange rate at the date of the transactions. The resulting differences are presented as a separated component of shareholders' equity in the balance sheet. Cash flow dominated in foreign currency or from the foreign subsidiaries are translated at the spot rate when occurs. Effects on cash arising from the change of exchange rate are presented as separate item in the cash flow statement.

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9. Financial instruments

(1) Classification of financial assets

Financial assets are initially classified as financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables and available for sales financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

FVTPL is financial assets held principally for the purpose of selling in the near term.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets are non-derivatives that are either designated or not classified as other financial assets.

(2) Recognition and measure of financial assets

The financial asset of the Company becomes a party of financial contract, which is initially recognised at its fair value in balance sheet. Transaction cost related to the acquisitions of financial assets at fair value through profit or loss is expensed to the profit or loss as incurred. Transaction costs are included in the carrying amount of assets at initial recognition.

After initial recognition, the Company shall measure the financial assets at FVTPL and available-for-sale financial assets at their fair values. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current period.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

(3) Transfers of financial assets recognition basis and measurement method

Financial asset that satisfied any of the following criteria shall be derecognised: (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 recognises it as a related financial asset and recognises 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 recognised 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 recognised 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 recognised and the part that qualifies for derecognition, based on the fair values of the respective parts. The difference between the following amounts is recognised 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.

(4) Financial liabilities to terminate recognition criteria

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

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

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable (including transferred non-cash assets or new financial liability) is recognised in profit or loss.

(5) fair value measurement for Financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group categorises inputs for the fair value measurements into three levels. The Group would use the inputs by the order of Level 1, Level 2 and Level 3.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

(6) Impairment test method and impairment provision method of financial assets excluding accounts receivables

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Impairment loss is recognised when there is objective evidence of impairment occurred.

On disposal, the differences between the consideration received and the carrying amount of assets after deducting the accumulated fair value adjustments previously recorded in equity are recorded as investment income. At the same time, the accumulated gains or losses recognised shareholders' equity in prior periods are transferred to the statement of profit or loss.

For financial assets carried at amortised cost, the amount of the impairment loss recognised the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place. Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in reserve.

10. Accounts receivable

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Accounts receivable includes trade receivables, other receivables and etc. The Groups trade receivables derived from sales of goods and services rendered are initially recognised at contracts price or fair values agreed with buyers or service receivers clients.

Provision for bad debts are assessed by single item and by the Group at the same time.

(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 recognises 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 recognised in single item test, they ceased to be included in accounts receivable portfolio with similar risk characteristics for impairment test.

(2) According to the combination of provision for bad debts to receivables

Designation	According to the provision of combination provision for bad debts method	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	other methods	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

(3) Single item with insignificant accounts receivable but provided for bad debts separately

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

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11. Inventory

(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.

(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.

(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.

(4) Inventory taking system

The inventory taking system shall be on a perpetual basis.

(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

(1) Initial Measurement of Long-term Equity Investment

The initial investment cost of a long-term equity investment acquired through a business combination under common control of a single enterprise is the carrying amount of the cost invested by the owners at combination date. The difference between the consideration paid and the carrying amount of the net assets acquired is included in capital reserve. If the capital reserve is not sufficient, it is adjusted in retained earnings. The initial investment cost of the long-term equity investment acquired through a business combination without common control of a single enterprise shall be the aggregate cost of assets given. When the costs of business combinations exceed the acquirer's identifiable net assets, the difference is recognised as goodwill. When the costs of business combination less than the acquirer's identifiable net assets, after reassessment, the difference is included in the profit or loss in the current period. The audit fee, legal fee, valuation, consultancy and other expenses related to the business combination is recognised in the statement of profit or loss of the current period. The initial investment cost of long-term equity investment acquired by payment of cash shall be actual purchase price that has been paid. For the long-term equity investment acquired by the issue of equity securities, the initial investment cost shall be the fair value of the securities issued. For a long-term equity investment acquired through an exchange of non-monetary assets or debt restricting transaction, the initial investment cost shall be determined in accordance with relevant accounting standards.

(2) Subsequent measurement of long-term equity investments

1) The calculation of long-term equity investments cost: Investments in subsidiaries are accounted for using the cost method. Investments in subsidiaries are adjusted by equity method when there is addition or recovery of investment. The cash dividends or profit distribution declared by the investees are recognised as investment income in profit or loss.

- 2) The equity method for long-term investments: Under the equity method, there is no adjustment to the long-term investment when initial investment cost is higher than the carrying amount of the net assets acquired. If the investment cost is lower than the carrying amount of the net assets acquired, the difference is recognised to the statement of the profit and loss. Under the equity method, the net profit and loss and other comprehensive income of the long-term investments attributable to the Group are recognised in the investment income and other comprehensive income respectively, and the carrying amount of the long-term investments is also adjusted. When the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by that amount attributable to the Group. Changes in shareholders' equity of the investee other than net profit or loss are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognised as other comprehensive income which is included in the capital reserve. The Group recognises its share of the investee's net profit or loss based on the fair value of the investee's individual separately identifiable assets, etc at the acquisition date after making appropriate adjustments. The Group recognises its share of the investee's net profit or loss and other comprehensive income after adjustments, if there is any difference between accounting policies and accounting period in the Group and in the investee. Unrealised profits or losses resulting from the Group's transactions with its associates and joint ventures are recognised as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated. The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled enterprise is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognised according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognising its share of those profits only after its share of the profits exceeds the share of losses previously not recognised.

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(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.

(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 is land or building held to earn rentals and/or for capital appreciation.

Investment property is initially measured at cost. The cost of Investment properties purchased includes purchasing price, tax, and other expenses directly related to the assets. The cost of Investment properties constructed by the Company itself is cost of construction incurred to bring the assets to its intended usage condition. 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 amortised using the same policy as that for buildings and land use rights.

The Group reassesses and adjusts the estimated useful life, estimated residual value and depreciation (amortisation) rates of investment property annually.

Where an investment property is changed for owner-occupied purpose, it is transferred to a fixed asset or intangible asset at the date of the change. Where the owner-occupied property is changed for earning rentals or for capital appreciation, the fixed asset or intangible asset is transferred to an investment property at the date of the change. On conversion, the immediate carrying amount before conversion is taken as the cost of the asset.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset and related taxes) is included in the profit or loss for the year which the property is derecognised.

14. *Fixed assets*

(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.

(2) **Recognition and measure of fixed assets under financing lease**

A fixed asset acquired under finance lease with reasonably certainty that the Group will obtain ownership by the end of lease term, the period of expected use is the useful life of the asset. Otherwise, the asset is depreciated over the shorter of the lease term and its useful life. A fixed asset is derecognised on disposal or it is expected that there shall be no economic benefit arising from using or after disposal. Where the fixed assets are sold, transferred, retired or damaged, the income received after disposal after deducting the carrying amount and related taxes are recognised in profit or loss for the current period.

(3) **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	5.00%	4.75%
Machinery and equipment	5–20	5.00%	19.00%–4.75%
Electronic equipment	3–5	5.00%	31.67%–19.00%
Vehicles	5	5.00%	19.00%
Others	5	5.00%	19.00%

(4) **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.

(5) **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.

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15. *Construction in progress*

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

16. *Borrowing costs*

(1) **Recognition principle of Capitalization of borrowing costs**

Borrowing costs include interest, amortisation of discount or premium related to borrowings, ancillary costs incurred in connection with the borrowings, and exchange difference arising from foreign currency borrowings.

Qualifying assets are assets (fixed assets, investment properties, inventories), that necessarily takes a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

(2) **Period of Capitalization of borrowing costs**

Borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalisation of borrowing costs can commence only when all of the following conditions are satisfied; expenditures for the asset are being incurred, borrowing costs are being incurred; and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. The amount of other borrowing costs incurred shall be recognised as an expense in the period in which they are incurred.

(3) **Period of suspend capitalization**

Capitalisation 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. Capitalisation of borrowing costs shall cease when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale.

(4) **The calculation method of capitalization of borrowing costs amount**

When funds are borrowed under a specific-purpose borrowing the amount of interest to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds; when funds are borrowed under general-purpose borrowings the amount of interest to be capitalised is determinate by applying the weighted average of the interest rate applicable to the general purpose borrowing to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. Capitalisation rate confirmed as general borrowing weighted average rate.

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17. *Intangible Assets*

(1) **Valuation methods of intangible assets**

The Company's intangible assets mainly include land use right, patented technology, non-patented technology, software, and etc.

Intangible assets are measured at the initial costs at acquisition. The cost of a purchased intangible asset is determined by the expenditures actually incurred and other costs. The cost of an intangible asset invested by an investor is determined in accordance with the value stipulated in the investment contract or agreement, except where the value stipulated in the contract or agreement is not fair, fair value will be used.

(2) Service life of the intangible assets with limited service life estimation

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use. The cost of land use right is amortised evenly over the whole period of the right. The cost of software use right and non-patented technology of the Group is amortised evenly over the shorter period of the expected useful life, the contractual beneficial period and the useful life specified in the law. The amortisation charge shall be recognized as cost of an intangible asset or profit or loss for the current period by the object of benefit derives from the assets.

The estimated useful life and amortisation method of intangible asset with finite useful life is re-assessed at the end of each financial year. Any changes will be dealt with as changes on accounting estimates.

(3) Judgment of the intangible assets with uncertain service life

The estimated useful life of intangible assets with indefinite infinite useful life is reviewed in each accounting period. Where there is objective evidence to prove that the useful life of an intangible asset is finite, the Group shall estimate the useful life and amortise that intangible asset over its estimated useful life.

(4) Intangible assets impairment test method and their impairment provision

If there is any sign indicating that an intangible asset may be impaired, the intangible asset will be tested for impairment at the end of the year. An intangible asset with infinite useful lives are tested for impairment annually, irrespective of whether there is any sign to indicating that the asset may be impaired.

If the recoverable amount of an intangible asset is less than its carrying amount, the difference is recognised as an impairment loss. Once an impairment loss on the intangible asset is recognised, it will not be reversed in a subsequent accounting period.

(5) Division within the company research and development specific standards for the research and development phase of the project

With reference to the nature of expenditures and uncertainty of the final achievement, expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred.

Expenditure on the development phase is recognized as an intangible asset when all of the following conditions are satisfied:

- (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (2) the management's intention to complete the intangible asset and use or sell it;
- (3) probable economic benefits to the Group, including a market for the output of the intangible asset or the intangible asset itself and benefits to the Group for internal use;
- (4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;
- (5) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Expenditure on the development phase which does not meet the above conditions is included in the profit or loss in the period in which it is incurred. Expenditure in the development phase which has been included in the profit or loss in the prior period will not be recognised as intangible asset in subsequent period. The capitalised expenditure in the development phase shall be recognised as intangible asset when the asset is ready to its intended use.

18. Long-term prepaid expenses

Long-term prepaid expenses of the Group are expenditures such as property renovation cost, which have incurred but shall be undertaken in more than 1 year of amortisation period (not including 1 year) of the current and future periods. They are amortised evenly over the estimated benefit period.

If the long-term prepaid expenses are no longer beneficial to the subsequent accounting periods, the unamortised balance is then fully transferred to profit or loss for the period

19. Contingent liabilities

(1) Recognition criteria of contingent liabilities

A provision is recognised as a liabilities when an obligation related to a contingency, such as guarantees provided to outsiders, pending litigations or arbitrations, product warranties, redundancy plan, onerous contract, reconstructing, expected disposal of fixed assets, satisfied all of the following conditions: (a) the obligation is a present obligation of the Group; (b) it is probable that an outflow of economic benefits will be required to settle the obligation and (c) the amount of the obligation can be measured reliably.

(2) measurement method of contingent liabilities

A provision shall be initially measured at the best estimate of the expenditure required to settle the related present obligation. Considering the factors, such as risk, uncertainties, and time value of money related to the contingencies. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflows. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

The Group reviews the carrying amount of a provision at the balance sheet date and the carrying amount shall be adjusted to the current best estimate.

20. Share-based payment and equity instruments

(1) The category of share-based payment

“Share — based payment” refers to a transaction in which an enterprise grants equity instruments or undertakes equity — instrument — based liabilities in return for services from employee or other parties. The share — based payments shall consist of equity — settled share — based payments and cash — settled share — based payments.

(2) Method for the confirmation of the fair value of equity instruments

The equity-settled share-based payment in return for employee services shall be measured at the fair value of the equity instruments granted to the employees. As to a equity-settled share-based payment in return for employee services, if the right cannot be exercised until the vesting period comes to an end or until the prescribed performance conditions are met, then on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the number of vested equity instruments, be included in the relevant costs or expenses and the capital reserves at the fair value of the equities instruments on the date of the grant.

A cash-settled share-based payment shall be measured in accordance with the fair value of liability calculated and confirmed based on the shares or other equity instruments undertaken by an enterprise. 11As to a cash-settled share-based payment instruments, if the right may be exercised immediately after the grant, the fair value of the liability undertaken by the enterprise shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly. As to a cash-settled share-based payment, if the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the enterprise. An enterprise shall, on each balance sheet date and on each account date prior to the settlement of the relevant liabilities, re-measure the fair values of the liabilities and include the changes in the current profits and losses.

21. Revenue recognition

(1) Revenue from sales of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied: (a) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; (b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the associated economic benefits will flow into the Company; and (e) the associated costs incurred or to be incurred can be measured reliably at the time of recognising revenue from the sales of goods. For domestic sales, the Group recognises revenue when goods are delivered to and accepted by the customers. For export sales, the Group recognises revenue when risk and rewards of exported goods transferred to customer in accordance with contractual terms about trade arrangements stated in sales contract and relevant regulations under International Rules for the Interpretation of Trade Terms (2010). If there are any special terms about risk transfer stated in sales contract, the relevant revenue is recognised in accordance with these terms.

(2) Revenue from provision of services

Revenue from the rendering of services is recognised only when all of the following conditions are satisfied: (a) the amount of revenue and costs for the transaction involving the rendering of services can be measured reliably; (b) the associated economic benefits can flow into the Group; (c) and the stage of completion of the service can be measured reliably.

When the provision of services is commenced and completed in different accounting year, the revenue is recognised percentage of completion method at the balance sheet date the outcome of the transaction can be estimated reliably. The percentage of completion shall be determined by the cost incurred and the estimated whole cost. When the outcome of a transaction involving the rendering of services cannot be estimated reliably and it is probable that the cost incurred will be recovered, revenue shall be recognised only to the extent of the expenses recognised that are recoverable. When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense for the year.

22. Government grants

(1) The category of government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration, excluding the investments injection from the government and the capital reserves nature as ruled by the government, in which is capital nature but not classified as government grants. Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

(2) The accounting policy of government grants

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. For a fixed quota for the allocation of the grant, it is measured at the amount receivable.

If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount (RMB1).

The Group's government grants are classified as capital nature and expenditure nature. For capital nature, the grants are obtained to purchase or construct any form of long-term assets. The grants other than capital nature are classified as expenditure nature. If the grant conditions are not stated specifically, the principal stated above applies.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Reversal of recognised government grant will be set off to the carrying amount of relevant deferred income. Any excess of the reversal to the carrying amount of deferred income will be recognised in the profit or loss in current period. In case there is no relevant deferred income, reversal will be directly recognised in the profit or loss in current period.

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

Deferred tax assets and liabilities are recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deductible tax losses and tax deduction in future financial years which are approved by tax regulation are treated as deductible temporary differences and recognised as deferred tax assets. No deferred tax liabilities are recognised in respect of temporary difference arising from the initial recognition of goodwill. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. At the end of the reporting period, deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The Group may limit the deferred tax assets to the amount of taxable temporary difference. When there are no sufficient taxable liabilities to match with the relevant deferred tax assets, the recognised deferred tax assets will be reduced. When the taxable liabilities are sufficient, the reduced amount would be reversed. Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. Deferred tax assets and deferred tax liabilities will be set off when the following criteria are met: 1) Deferred tax assets and deferred tax liabilities are derived from the same tax bureau and the same entity of the Group; 2) The entity of the Group has the statutory right to set off the income tax assets and income tax liabilities in the current period.

24. *Operating lease and finance lease*

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(1) **Accounting for operating lease**

The Group as operating lessee

Lease payment for operating lease is recognised 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 recognised as profit or loss for the current period upon occurrence.

The Group as operating lessor

Rental income is recognised 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 capitalised 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.

(2) **Accounting for finance lease**

The Group as finance lessee

At the commencement of the lease, the leased assets should be recognised at the lower of the fair value of the present value of the minimum payment. The difference between the carrying amount and the present value of the minimum payment will be recognised as future finance charges to be amortised over the lease term. The minimum lease payment less future finance charges will be presented as non-current liabilities and maturity within one year non-current liabilities.

When it is probable the ownership of the leased assets will be obtained after the lease term, the depreciation of leased assets will be over the useful lives of the leased assets. Otherwise, the depreciation will be over the shorter of lease term of useful lives of the leased assets.

The Group as finance lessor

At the commencement of the lease, the initial recognition amount of finance lease receivables and balances without guarantee will be the sum of minimum receipt amount and initial expenses. The difference of carry amount and the sum of minimum receipt amount, initial direct costs and balances without guarantee is treated as unrealised finance income allocating to each of period during the lease period. Finance income is recognised according to each period using effective income method.

The unguaranteed residual value would be reviewed at the end of each year. There is no adjustment while the unguaranteed residual value increases. If the evidence indicates that unguaranteed residual value has been decreased, the lease implicit interest rate would be recalculated. Any causes of decrease in net value of lease investment are accounted to the current profit or loss. The financing revenue would be recognised according to modified net value of lease investment and the lease implicit interest rate. The net value of lease investment is the balance of the minimum lease payment plus unguaranteed residual value and minus the unrealized financing income.

The recognised loss of unguaranteed residual value that might be recovered, which would be return in the original recognized amount of investment and recalculated lease implicit interest rate. The financing revenue would be recognized according to modified net value of lease investment and the lease implicit interest rate.

It might be accounted to the current profit or loss when the contingent rental actual occurs.

25. *The other major accounting policies and accounting estimates and the method of preparation of financial statements*

(1) Employee Benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. They include short-term salaries, post-employment benefits, termination benefits and other long-term staff welfare.

Short-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service. Short term wages include wages or salaries, bonuses, allowances and subsidies, social security contributions (e.g. medical insurance, injury insurance and birth insurance), housing funds, union running costs, employee education costs, short-term paid leaves, short-term profit sharing schemes, non-monetary welfare and other short-term salaries. The Group recognises employee remuneration payables as liabilities during the accounting period in which employees render their services and allocates it to related cost of assets and expenses based on the beneficiaries of the services.

Termination benefits are employee benefits payable as a result of either: (i) an entity's decision to terminate an employee's employment before the normal retirement date; or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits. The Group accounts for these termination benefits as charge to the profit or loss for current period when the Group has made a formal plan for termination of the employment relationship or an offer for voluntary redundancy which will be implemented immediately without realistic possibility of withdrawal and the Group estimated liability for compensation arising from the termination of employment with employees.

Other long-term employee benefits include all employee remunerations other than short term wages, post-employment benefits and termination benefits.

(2) Critical accounting estimate and judgments

Preparing the financial statements, the management of the Company is required to make estimation and assumptions. These estimations and assumptions may affect the carrying amounts of accounting policy, assets, liabilities, revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the accounting estimations and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) *Impairment loss of accounts receivable*

As the end of the reporting period, the Group reviews whether impairment loss evidence on accounts receivable which are stated at amortised cost exists. If there is impairment loss evidence, the Group assesses the amount of impairment loss to be recognised. Impairment evidence includes information shown the expected future cash flow of individual or a group of accounts receivable decreases significantly, negative credit information of individual or a group of accounts receivable and etc. Impairment loss will be written back if there is evidence shown that the impairment on accounts receivable could be recovered subsequently.

(ii) *Provision for inventories*

The Group assesses the net realisable value of inventories periodically and makes allowance for inventories which the cost is higher than the net realisable value. Net realisable value is determined by the Group using the selling price of same product less its estimated future completion cost, selling expenses and related taxes. When the estimated actual selling price or cost is different with prior period, the management of the Group will make relevant adjustment on the net realisable value. The carrying amount of inventories on the statement of financial position may be adjusted as there may be a difference between the actual future outcomes and the estimation based on the experience. Therefore, the provision for inventories may be different due to the actual outcomes are not same as estimation. The adjustment on provision for inventories will affect the profit or loss of current period.

(iii) *Estimated impairment of goodwill*

The Group performs test for impairment of goodwill annually. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated.

The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

If the pre-tax discount rate adopted by the management of the Group in the future cash flow is higher than the current period, impairment loss will be provided for the goodwill by the Group.

If the actual gross profit margin or pre-tax discount rate is higher or lower than the estimation by the management, the recognised impairment loss on goodwill could not be reversed.

(iv) *Estimation on impairment loss on fixed assets*

The Group performs impairment test on fixed assets like buildings and plant and machinery which have impairment indicators at the end of the reporting period. The recoverable amounts of fixed assets have been determined based on the discounted future cash flow and the fair value of the assets, taking into account the disposal charges. These calculations and valuations require the use of accounting estimates.

If the gross profit margin adopted by the management of the Group in the future cash flow of the asset group or portfolio of asset group is lower than the current period, impairment loss will be provided for the fixed assets by the Group.

If the discount rate adopted by the management of the Group in the future cash flow is higher than the current period, impairment loss will be provided for the fixed assets by the Group.

If the actual gross profit margin or pre-tax discount rate is higher or lower than the estimation by the management, the recognised impairment loss on fixed assets could not be reversed.

(v) *Estimation on impairment loss on intangible assets*

Amortisation will not be provided by the Group for intangible assets with infinite useful lives. Intangible assets with infinite useful lives will be tested for impairment annually. The useful lives of intangible assets will be tested in each of the accounting period. If there is evidence stating that the useful lives of intangible assets are definite, amortisation will be provided over the useful lives of the intangible asset.

If there is any impairment indicator for the intangible asset, the intangible asset will be tested for impairment at the end of the reporting period. As to intangible assets with infinite useful life, impairment test will be performed annually.

If the gross profit margin adopted by the management of the Group in the future cash flow of the asset group or portfolio of asset group is lower than the current period, impairment loss will be provided for the intangible assets by the Group.

If the discount rate adopted by the management of the Group in the future cash flow is higher than the current period, impairment loss will be provided for the intangible assets by the Group.

If the actual gross profit margin or pre-tax discount rate is higher or lower than the estimation by the management, the recognised impairment loss on intangible assets could not be reversed.

(vi) *Estimation on recognition of deferred tax assets*

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

(vii) *Useful life of fixed assets and intangible assets*

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

26. *Audit committee's review [Company please confirm]*

The Audit Committee has reviewed the Group's condensed consolidated interim financial information for the six months ended 30 June 2014 with the management of the Company.

27. *Gearing ratio*

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total assets, as shown in the interim condensed consolidated balance sheet. During the period, the Group's gearing ratio is 55.54%.

V. Taxation

1. Main tax types and tax rates

Tax Type	Basis of taxing	Tax rate
Value-added tax	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"	17%
Business tax	Operation Revenue	5%
Urban maintenance and construction tax	Value-added tax and business tax payables	7%
Business income tax	Taxable income	15%–25%
Building tax	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.	
Education surtax	Value-added tax and business tax payables	3%
Education surcharge	Value-added tax and business tax payables	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

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

Name of the Company and subsidiaries	Rate of income tax
The Company	15%
Shouguang Molong Logistic Company Limited ("Molong Logistic Company")	25%
MPM International Limited ("MPM Limited")	16.5%
Shouguang Baolong Petroleum Material Company Limited ("Shouguang Baolong")	25%
Shouguang Maolong New Materials Technology Development Company Limited ("Maolong New Materials")	25%
Shouguang Molong Electro-mechanical Equipment Company Limited ("Molong Electro-mechanical Equipment")	25%
Shouguang Maolong Old Metals Recycle Company Limited ("Maolong Recycle")	25%
Weihai Baolong Company Limited ("Weihai Baolong")	25%
Wendeng Baolong Recyclable Resource Company Limited ("Baolong Recyclable Resource")	25%

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% for the three consecutive years since 1 December 2011.

3. *Other Description*

During the period, there is no change in the Group's applied tax rate and tax incentives policy comparing to last period.

VI. Business Combination & Consolidated Financial Statements

1. Details of Subsidiaries

(1) Subsidiaries acquired through establishment or investment

Unit: RMB

Name of company	Type of organisation	Place of registration	Nature of Business	Registered Capital	Business Scope	Investment at the end of the period	Other amount substantively constituted as net investment	Percentage of shareholding	Percentage of voting rights	Included in Consolidated Financial Statements	Minority shareholders' equity	Amounts of profit or loss for the year attributable to minority shareholders' equity	From the equity holders of the parent company and reducing share minority shareholders in subsidiary company loss for the period over the minority shareholders in the company at the beginning of the owners' equity in balance after share
Shouguang Baolong	LLC	Shouguang City, Shandong Province	Manufacturing	150,000,000.00	Manufacture and sales of petroleum equipment	105,000,000.00	—	70.00%	70.00%	Yes	58,928,282.08	—	—
Weihai Baolong	LLC	Weihai City, Shandong Province	Manufacturing	26,000,000.00	Manufacture and sales of petroleum special metal materials	270,602,708.10	—	100.00%	100.00%	Yes	—	—	—
Molong Logistic Company	LLC (Legal entity wholly-owned)	Shouguang City, Shandong Province	Service	3,000,000.00	Goods storage (exclude contraband), cargo work, empty distribution and logistics information consultant	3,000,000.00	—	100.00%	100.00%	Yes	—	—	—

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

Name of company	Type of organisation	Place of registration	Nature of Business	Registered Capital	Business Scope	Investment at the end of the period	Other amount substantially constituted as net investment	Percentage of shareholding	Percentage of voting rights	Included in Consolidated Financial Statements	Minority shareholders' equity	Amounts of profit or loss for the year attributable to minority shareholders' equity	From the equity holders of the parent company and reducing share minority shareholders in subsidiary company loss for the period over the minority shareholders in the company at the beginning of the owners' equity in balance after share
MPM Limited (Hong Kong)	LLC	Hong Kong, PRC	Trade	US\$1,000,000.00	Acquisition and sales of petroleum extraction and chemical machinery	7,276,230.00	—	90.00%	90.00%	Yes	1,786,613.63	—	—
Maolong New Material	LLC (Legal entity wholly-owned)	Shouguang City, Shandong Province	Manufacturing	12,380,000.00	Research and development, technological promotion and services for energy equipment and new material; Petroleum drilling equipment, tools and accessories; Metal cast	306,743,691.73	—	100.00%	100.00%	Yes	—	—	—
Molong Electro-mechanical Equipment	LLC (Sino-foreign joint venture)	Shouguang City, Shandong Province	Manufacturing	US\$1,000,000.00	Manufacture and sales of outer thickening oil well tubing and electrical complete equipment	15,011,813.88	—	100.00%	100.00%	Yes	—	—	—
Baolong Recyclable Resource	LLC	Weihai City, Shandong Province	Trade	300,000.00	Trading and sales of scrap metals	271,156.08	—	100.00%	100.00%	Yes	—	—	—
Maolong Recycle	LLC	Shouguang City, Shandong Province	Trade	500,000.00	Trading of scrap metals	500,000.00	—	100.00%	100.00%	Yes	—	—	—

2. Exchange Rate for Financial Statement in Foreign Operations

When the Company prepared these consolidated financial statements, assets and liabilities denominated in foreign currencies in MPM Limited were translated at the rate of US\$1: RMB6.1528; income and expenses in the income statement and items affecting profit distribution were exchanged at the average rate of US\$1: RMB6.1477.

VII. Notes to the Consolidated Financial Statements

1. Cash and bank balances

Unit: RMB

Items	Balance at the end of the period			Balance at the beginning of the period		
	Original Currency	Exchange Rate	Equivalent to RMB	Original Currency	Exchange Rate	Equivalent to RMB
Cash on hand	—	—	51,178.12	—	—	42,463.38
RMB	—	—	51,178.12	—	—	42,463.38
Cash in Bank	—	—	545,424,602.18	—	—	201,769,587.31
RMB	—	—	324,872,530.55	—	—	167,468,536.00
USD	35,769,440.00	6.1605	220,359,118.06	5,625,959.86	6.0969	34,300,914.66
HKD	—	—	—	174.98	0.7862	136.57
EURO	22,985.44	9.3946	192,953.57	0.01	8.4189	0.08
Other funds	—	—	316,784,902.64	—	—	395,958,815.29
RMB	—	—	316,784,902.64	—	—	361,694,237.29
USD	—	—	—	5,620,000.00	6.0969	34,264,578.00
Total	—	—	862,260,682.94	—	—	597,770,865.98

(1) As at the end of the year, other fund held by the Group included bank acceptance security deposit of RMB196,405,054.44 (as at the beginning of the year: RMB201,454,237.29), borrowings and deposit for letter of credit of RMB117,909,098.20 (as at the beginning of the year: RMB130,444,578.00), deposit for letter of guarantee of RMB2,470,750.00 (as at the beginning of the year: RMB64,060,000.00).

(2) As at the end of the year, other fund held by the Group included bank acceptance bills deposit with maturity date over 3 months of RMB66,100,310.27 (as at the beginning of the year: RMB154,462,427.49), borrowings and deposit for letter of credit with maturity date over 3 months of RMB37,400,000.00 (as at the beginning of the year: RMB73,901,974.00); and deposit for letter of guarantee with maturity date over 3 months of RMB21,507,000.00 (as at the beginning of the year: RMB38,860,000.00).

2. Bills Receivable

(1) Classification of bills receivable

Items	Balance at the end of the year	Unit: RMB
		Balance at the beginning of the year
Bank acceptance notes	151,940,068.01	135,159,594.04
Total	151,940,068.01	135,159,594.04

(2) Pledged bills receivable

Unit: RMB				
Bills Endorser	Date of issue	Date of maturity	Amount	Remark
China Petroleum and Chemical Co., Ltd. Supplies equipment department	17 April 2014	17 July 2014	5,698,575.09	
Petroleum administration bureau of Xinjiang Uygur Autonomous Region	18 April 2014	18 July 2014	3,460,846.52	
Petroleum administration bureau of Xinjiang Uygur Autonomous Region	18 April 2014	18 July 2014	3,092,267.26	
Petroleum administration bureau of Xinjiang Uygur Autonomous Region	18 April 2014	18 July 2014	3,000,000.00	
Petroleum administration bureau of Xinjiang Uygur Autonomous Region	18 April 2014	18 July 2014	3,000,000.00	
Total	—	—	18,251,688.87	

(3) As at the end of the year, the top five bills endorsed to other parties but not mature are as follows:

Unit: RMB				
Bills Endorser	Date of issue	Date of maturity	Amount	Remark
Shandong LuXing Steel Pipe Co., Ltd	11 April 2014	11 October 2014	10,000,000.00	
Shandong LuXing Steel Pipe Co., Ltd	11 April 2014	11 October 2014	10,000,000.00	
Baoji Petroleum Steel Pipe Co., Ltd	21 January 2014	21 July 2014	6,663,143.25	
Hubei Jiaheng Technology Co., Ltd	17 March 2014	17 September 2014	5,300,000.00	
Hubei Jiaheng Technology Co., Ltd	21 January 2014	21 July 2014	5,000,000.00	
Total	—	—	36,963,143.25	

As at the end of this period, the Group had no bills receivable discounted before the maturity date.

3. Interest receivable

(1) Interest receivable

Unit: RMB

Items	Opening balance	Increase in this period	Decrease in this period	Closing balance
Deposit interest	4,606,049.44	701,156.97	—	5,307,206.41
Total	4,606,049.44	701,156.97	—	5,307,206.41

(2) Description of interest receivable

As at the end of this period, the Group had interests receivable of RMB5,307,206.41 representing interest from pledged deposits. There is no interest past due and not received by the Group.

4. Accounts Receivable

(1) Accounts receivable disclosed by type

Unit: RMB

Type	Closing balance				Opening balance			
	Carrying amount		Provision of bad debts		Carrying amount		Provision of bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Single item with significant accounts receivable and provided for bad debts in single item	14,402,509.27	2.39%	8,796,479.57	61.08%	15,417,953.39	2.68%	8,796,479.57	57.05%
Accounts receivable according to the combination of provision for bad debts								
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test	586,353,417.67	97.27%	—	—	557,151,123.60	96.96%	—	—
Sub-total	586,353,417.67	97.27%	—	—	557,151,123.60	96.96%	—	—
Single item with insignificant accounts receivable but provided for bad debts separately	2,067,710.16	0.34%	2,067,710.16	100.00%	2,067,710.16	0.36%	2,067,710.16	100.00%
Total	602,823,637.10	—	10,864,189.73	—	574,636,787.15	—	10,864,189.73	—

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

Unit: RMB

Companies	Carrying amount	Provision for bad debt	Ratio (%)	Reason for provision
Shengli Oilfield Highland Petroleum Equipment Co., Ltd.	3,284,636.96	3,284,636.96	100.00%	Aging over three years with low possibility of recovery
SBI Company (USA)	3,794,051.91	3,794,051.91	100.00%	Aging over one year with low possibility of recovery
Wenlai Jinlong Investment Company Limited, Beijing Office	7,323,820.40	1,717,790.70	23.45%	Aging over one year with low possibility of recovery
Total	14,402,509.27	8,796,479.57		

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

Unit: RMB

Companies	Carrying amount	Provision for bad debt	Ratio (%)	Reason for provision
South China Petrochemical Group	1,921,727.16	1,921,727.16	100.00%	Aging over three years with low possibility of recovery
Hanting Energy Service Company Limited	89,283.00	89,283.00	100.00%	Aging over three years with low possibility of recovery
Shandong Gaoke Equipment Sets Co., Ltd	40,700.00	40,700.00	100.00%	Aging over three years with low possibility of recovery
Zibo Zhongxin Electricity Company Limited	16,000.00	16,000.00	100.00%	Aging over three years with low possibility of recovery
Total	2,067,710.16	2,067,710.16		

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

Unit: RMB

Companies	Relationship	Amount	Aging	Proportion
				(%)
Shanxi Yanchang Petroleum Equipment Manufacturing Co., Ltd	Customer	71,624,475.71	Within one year	11.88%
Petroleum Administration Bureau of Xinjiang Uygur Autonomous Region	Customer	43,071,978.04	Within one year	7.15%
Shanxi Yanchang Petroleum Equipment Manufacturing Co., Ltd	Customer	40,475,148.20	Within one year	6.71%
North China Petroleum Administration Bureau	Customer	36,647,746.11	Within one year	6.08%
China Petroleum and Chemical Co., Ltd. Supplies equipment department	Customer	33,543,663.68	Within one year	5.56%
Total		225,363,011.74		37.38%

(3) Accounts receivable due from related parties are as follows:

Unit: RMB

Companies	Relationship	Amount	Proportion
			(%)
Karamay Yalong Petroleum Machinery Co., Ltd	Associate	2,071,427.45	0.35%
Total		2,071,427.45	0.35%

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5. Other Receivables

(1) Other receivables disclosed by type

Unit: RMB

Type	Closing balance				Opening balance			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables according to the combination of provision for bad debts								
Single item with significant other receivables and provided for bad debts in single item	34,489,353.32	99.66%	—	—	31,160,536.48	99.62%	—	—
Sub-total	34,489,353.32	99.66%	—	—	31,160,536.48	99.62%	—	—
Single item with insignificant other receivables but provided for bad debts separately	119,119.25	0.34%	119,119.25	100.00%	119,119.25	0.38%	119,119.25	100.00%
Total	34,608,472.57	—	119,119.25	—	31,279,655.73	—	119,119.25	—

Other receivables of insignificant amount, individually provided for bad debts

Unit: RMB

Companies	Carrying amount	Provision for bad debt	Ratio (%)	Reason for provision
Wang Lixue	40,000.00	40,000.00	100.00%	No recovery with long aging
Shouguangshi Gong An Ju	5,000.00	5,000.00	100.00%	No recovery with long aging
Shouguang City Government Sandian Office	6,470.00	6,470.00	100.00%	No recovery with long aging
Shouguang Vegetable Oil Plant	2,750.00	2,750.00	100.00%	No recovery with long aging
Other Individuals	64,899.25	64,899.25	100.00%	No recovery with long aging
Total	119,119.25	119,119.25		

(2) The nature of the large amount of other receivables or content

Unit: RMB

Companies	Amount	Nature	Proportion (%)
Shouguang City Yangkou Town Finance Department	14,530,000.00	Deposit for project development	41.98%
Gucheng Street Offices	7,161,707.00	Current account	20.69%
People's Government of Wendeng City Gaocun Town	2,000,000.00	Current account	5.78%
Sinochem International Tendering Co., Ltd.	1,602,000.00	Deposit for tendering	4.63%
Social labor insurance department of Shouguang City	787,221.43	Social security payments	2.27%
Total	26,080,928.43		75.35%

(3) The top five balances of other receivables are as follows:

Unit: RMB

Companies	Relationship	Amount	Aging	Proportion (%)
Shouguang City Yangkou Town Finance Department	Non-related party	14,530,000.00	Within one year	41.98%
Gucheng Street Offices	Non-related party	7,161,707.00	Within four years	20.69%
People's Government of Wendeng City Gaocun Town	Non-related party	2,000,000.00	Within one year	5.78%
Sinochem International Tendering Co., Ltd.	Non-related party	1,602,000.00	Within one year	4.63%
Social labor insurance department of Shouguang City	Non-related party	787,221.43	Within one year	2.27%
Total		26,080,928.43		75.35%

6. Prepayments

(1) Prepayments shown by aging

Unit: RMB

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within one year	28,221,425.50	99.41%	47,650,707.35	99.74%
One to two years	138,200.61	0.49%	97,064.27	0.20%
More than three years	28,214.22	0.10%	28,214.22	0.06%
Total	28,387,840.33	—	47,775,985.84	—

(2) The top five balances of prepayments are as follows:

Unit: RMB

Companies	Relationship	Amount	Aging	Reason for unsettled
SB Energy (HK) Ltd.	Fee for technical service	7,927,619.15	Within one year	Not yet completed service
Shandong Shouguang Juneng Special Steel Co., Ltd.	Materials supplier	6,893,126.95	Within one year	Raw materials not received yet
Shouguang Shandong Electric Power Supply Company	Power suppliers	3,479,672.66	Within one year	Raw materials not received yet
Ningxia Huaheng Logistics Co., Ltd	Transportation suppliers	2,275,838.15	Within one year	Pending settlement of freight
Wuxi Chicheng Special Steel Sales Co., Ltd	Materials supplier	1,319,406.77	Within one year	Not yet settled material
Total		21,895,663.68		

As at the end of this period, the balances of prepayments do not include prepayments to shareholders holding 5% or more of the Company's voting capital.

7. Inventories

(1) Inventories

Unit: RMB

Items	Carrying amount	Closing balance	Net amount	Carrying amount	Opening balance	Net amount
		Allowance for inventories			Allowance for inventories	
Raw material	237,122,825.52	20,577,712.50	216,545,113.02	309,153,108.34	20,577,712.50	288,575,395.84
Work-in-progress	469,850,583.63	10,117,042.74	459,733,540.89	398,817,315.92	10,117,042.74	388,700,273.18
Entrusted processing materials	376,429,847.84	13,955,725.05	362,474,122.79	484,165,435.40	21,093,708.57	463,071,726.83
Finished goods	30,123,850.43	198,651.68	29,925,198.75	15,031,673.43	198,651.68	14,833,021.75
Total	1,113,527,107.42	44,849,131.97	1,068,677,975.45	1,207,167,533.09	51,987,115.49	1,155,180,417.60

(2) Allowance for inventories

Unit: RMB

Items	Balance at the beginning of this period	Allowance made during this period	Reduction during this period		Balance at the end of this period
			Reversal of allowance	Written-off	
Raw material	20,577,712.50	—	—	—	20,577,712.50
Work-in-progress	10,117,042.74	—	—	—	10,117,042.74
Entrusted processing materials	21,093,708.57	—	—	7,137,983.52	13,955,725.05
Finished goods	198,651.68	—	—	—	198,651.68
Total	51,987,115.49	—	—	7,137,983.52	44,849,131.97

(3) Reasons for providing allowance for inventories

Items	Reasons for providing allowance	Reasons for reversal during this year	Reversal to balance of inventories at 31 December 2013 (%)
Raw material	Long aging and low value in use	—	—
Work-in-progress	Cost higher than net realisable value	—	—
Entrusted processing materials	Cost higher than net realisable value	Sold	1.90%
Finished goods	Cost higher than net realisable value	—	—

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

8. Other current assets

Unit: RMB

Items	Closing balance	Opening balance
Prepaid value-added tax	43,444,170.02	39,819,829.62
Prepaid income tax	813,934.13	7,106,700.55
Other prepaid taxes	307,931.91	851,673.61
Total	44,566,036.06	47,778,203.78

9. Investment in equity joint ventures and investment in associates

Unit: RMB

Name of investee entity	Shareholding (%)	Voting right (%)	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							
	30.00%	30.00%	16,940,790.30	8,618,652.81	8,322,137.49	6,051,254.92	(445,633.59)
Shuguang Maolong Micro-credit Co., Ltd							
	30.00%	30.00%	167,188,193.84	1,130,173.63	166,058,020.21	7,314,302.58	5,794,205.02

There is no impairment indicators and the Group does not provide impairment loss for long-term equity investment.

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As at 30 June 2014, there is no restriction on the Group of transferring capital from investee companies which the Group had long-term equity investment.

10. Long-term equity investment

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

Unit: RMB

Investee Entity	Investee Entity	Investment	Opening balance	Change	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
Shuguang Mihe Water Company Limited											
	Cost method	10,000,000.00	10,000,000.00	—	10,000,000.00	9.73%	30%	—	—	—	—
Karamay Yalong Petroleum Machinery Co., Ltd											
	Equity method	1,888,500.00	2,656,509.67	—	2,656,509.67	30.00%	30%	—	—	—	—
Shuguang Maolong Microfinance Co., Ltd											
	Equity method	45,000,000.00	48,225,274.63	1,738,261.51	49,963,536.14	30.00%	30.00%	—	—	—	—
Total		56,888,500.00	60,881,784.30	1,738,261.51	62,620,045.81	—	—	—	—	—	—

As at 30 June 2014, there is no restriction on the Group of transferring capital from investee companies which the Group had long-term equity investment.

11. Fixed assets

(1) Details of fixed assets

Unit: RMB

Items	Balance at			Balance at	
	the beginning of this period	Additions	Reductions	the end of this period	
I. Costs	2,551,261,561.84	307,330,804.21	14,986,707.30	2,843,605,658.75	
Of which: Buildings	442,057,230.00	165,893,027.43	4,930,643.11	603,019,614.32	
Machinery and equipment	1,998,449,187.73	136,458,685.01	8,506,256.27	2,126,401,616.47	
Vehicles	14,835,285.39	1,263,020.46	1,475,566.76	14,622,739.09	
Electronic equipment and others	95,919,858.72	3,716,071.31	74,241.16	99,561,688.87	
	Balance at the beginning of this period	Additions	Provision for the current period	Reductions	Balance at the end of this period
II. Total accumulated depreciation:	824,215,848.46	—	107,155,704.38	12,960,311.12	918,411,241.72
Of which: Buildings	97,923,945.37	—	12,946,353.14	1,767,344.84	109,102,953.67
Machinery and equipment	655,037,138.14	—	85,173,771.74	9,571,639.38	730,639,270.50
Vehicles	10,515,976.37	—	4,386,566.90	1,524,343.10	13,378,200.17
Electronic equipment and others	60,738,788.58	—	4,649,012.60	96,983.80	65,290,817.38
	Balance at the beginning of this period				Balance at the end of this period
III. Total fixed assets net book value	1,727,045,713.38	—			1,925,194,417.03
Of which: Buildings	344,133,284.63	—			493,916,660.65
Machinery and equipment	1,343,412,049.59	—			1,395,762,345.97
Vehicles	4,319,309.02	—			1,244,538.92
Electronic equipment and others	35,181,070.14	—			34,270,871.49
IV. Total impairment provision	16,206,335.81	—			16,042,397.31
Of which: Buildings	4,986,478.28	—			4,986,478.28
Machinery and equipment	11,219,857.53	—			11,055,919.03
Electronic equipment and others	—	—			—
V. Total fixed assets net book value	1,710,839,377.57	—			1,909,152,019.72
Of which: Buildings	339,146,806.35	—			488,930,182.37
Machinery and equipment	1,332,192,192.06	—			1,384,706,426.94
Vehicles	4,319,309.02	—			1,244,538.92
Electronic equipment and others	35,181,070.14	—			34,270,871.49

During this period, depreciation expenses of RMB107,155,704.38 was recognised in profit or loss. The amount of fixed assets transferred from construction in progress was RMB274,627,759.04.

(2) Fixed assets that have not been granted with title certificates are as follows:

Items	Reason for not granted with title certificate	Estimated time of completion of application
Logistic Park Plant	Application in progress	2014
140 Plant	Application in progress	2014
New Dormitory Building	Application in progress	2015

(1) As at the end of this period, the Group had no fixed assets pledged or guaranteed.

(2) As at the end of the year, the Group had no temporarily idle fixed asset.

12. Construction in progress

(1) Details of construction in progress

Unit: RMB

Items	Closing balance			Opening balance		
	Carrying amount	Provision for impairment	Net amount	Carrying amount	Provision for impairment	Net amount
Casting plant relocation and technological Improvement project	506,167,507.90	—	506,167,507.90	184,835,037.90	—	184,835,037.90
90 tons electric arc furnace project	—	—	—	242,765,750.91	—	242,765,750.91
Others	15,731,714.77	—	15,731,714.77	14,814,205.00	—	14,814,205.00
Total	521,899,222.67	—	521,899,222.67	442,414,993.81	—	442,414,993.81

(2) Major changes in construction projects

Unit: RMB

Projects	Budget amount	Balance at the beginning of this period	Additions	Transferred to fixed assets	Other reduction	Investment to budgeted (%)	Progress (%)	Accumulated interest capitalised	Including: capitalised interest amount during this year	Interest capitalised during this year (%)	Sources of Fund	Balance at the end of this period
Casting Plant Relocation and Technological Improvement Project	560,000,000.00	184,835,037.90	321,332,470.00	—	—	90.39%	80%	9,154,954.26	7,815,665.68	5.58%	Loan from financial institution and self-raised	506,167,507.90
90 tons electric arc furnace project	250,000,000.00	242,765,750.91	31,862,008.13	274,627,759.04	—	109.85%	100%	9,875,965.68	1,762,841.35	6.00%	Loan from financial institution and self-raised	—
Total	810,000,000.00	427,600,788.81	353,194,478.13	274,627,759.04	—	—	—	19,030,919.94	9,578,507.03	—		506,167,507.90

(1) The Group's construction in progress does not have any impairment indicators, no provision is provided.

(2) At the end of the reporting period, the Group's construction in progress have no ownership issue or access right restriction due to pledge or any other reason.

13. Intangible Assets

(1) Details of intangible assets

Unit: RMB

Item	Balance at the beginning of this period	Additions	Reductions	Balance at the end of this period
Costs	673,451,101.75	471,698.11	—	673,922,799.86
Including: Land use rights	386,652,878.49	—	—	386,652,878.49
Software	770,036.72	—	—	770,036.72
Non-patent technology	283,958,016.54	—	—	283,958,016.54
Patent technology	2,070,170.00	471,698.11	—	2,541,868.11
Accumulated Amortisation	152,810,410.47	24,559,893.08	—	177,370,303.55
Including: Land use rights	22,931,565.15	4,627,934.95	—	27,559,500.10
Software	737,600.84	—	—	737,600.84
Non-patent technology	128,349,976.16	19,718,869.75	—	148,068,845.91
Patent technology	791,268.32	213,088.38	—	1,004,356.70
Net book amount	520,640,691.28	(24,088,194.97)	—	496,552,496.31
Including: Land use rights	363,721,313.34	(4,627,934.95)	—	359,093,378.39
Software	32,435.88	—	—	32,435.88
Non-patent technology	155,608,040.38	(19,718,869.75)	—	135,889,170.63
Patent technology	1,278,901.68	258,609.73	—	1,537,511.41
Provision for impairment	33,968,375.45	—	—	33,968,375.45
Including: Land use rights	—	—	—	—
Software	—	—	—	—
Non-patent technology	33,968,375.45	—	—	33,968,375.45
Patent technology	—	—	—	—
Net carrying amount	486,672,315.83	(24,088,194.97)	—	462,584,120.86
Including: Land use rights	363,721,313.34	(4,627,934.95)	—	359,093,378.39
Software	32,435.88	—	—	32,435.88
Non-patent technology	121,639,664.93	(19,718,869.75)	—	101,920,795.18
Patent technology	1,278,901.68	258,609.73	—	1,537,511.41

During this period, RMB24,559,893.08 was recognised as amortisation expense for intangible assets in the consolidated income statements.

(2) Development Expenditure

Unit: RMB

Item	Balance at the beginning of this period	Additions	Reductions		Balance at the end of this period
			Credited to profit or loss	Recognised as intangible assets	
Research stage	—	2,275,392.31	2,275,392.31	—	—
Development stage	—	26,624,021.44	—	—	26,624,021.44
Total	—	28,899,413.75	2,275,392.31	—	26,624,021.44

The development expenditure is 92.13% of total research and development expenditure of the current year.

The internal generated intangible assets are 22.03% of the total intangible assets.

14. Goodwill

Unit: RMB

Name of investee	Balance at the beginning of this period	Additions	Reductions	Balance at the end of this period	Provision for impairment at the end of this period
Business consolidation not under common control	142,973,383.21	—	—	142,973,383.21	59,490,000.00
Total	142,973,383.21	—	—	142,973,383.21	59,490,000.00

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15. Long-term equity investment

Unit: RMB

Item	Balance at the beginning of this period	Additions for the current period	Amortization amount or the current period	Reduce the amount of other	Balance at the end of this period	The reason for this reduction in the other
Foundation of platform and the ladle	159,722.28	—	41,666.64	—	118,055.64	—
Total	159,722.28	—	41,666.64	—	118,055.64	—

Long-term prepaid expenses: Average amortization method

16. Deferred tax assets and deferred tax liabilities

(1) Recognised deferred tax assets and deferred tax liabilities

	Unit: RMB	
Item	Balance at the end of this period	Balance at the beginning of this period
Deferred tax assets		
Deductible losses	9,765,657.18	9,765,657.18
Allowance for doubtful debts	1,638,991.35	1,653,166.35
Provision for inventories	8,359,462.67	8,822,681.97
Salaries payable	4,298,853.37	4,011,082.70
Accumulated amortisation of intangible assets	16,555,127.75	14,169,891.49
Accumulated depreciation and impairment of fixed assets	1,674,226.03	1,674,226.04
Deferred income	542,400.00	813,600.00
Impairment of intangible assets	5,095,256.32	5,095,256.32
Total	47,929,974.67	46,005,562.05
Deferred tax liabilities		
Long-term equity investment	3,809.38	3,809.38
Fixed assets	813,340.34	873,526.03
Intangible assets	7,582,830.89	7,700,289.51
Interests receivable	796,080.96	690,907.42
Deductible losses arose from intra-group transaction	1,524,270.70	1,524,270.70
Total	10,720,332.27	10,792,803.04

Details of unrecognised tax assets are shown as follows:

	Unit: RMB	
Item	Balance at the end of this period	Balance at the beginning of this period
Deductible losses	56,998,082.38	32,169,750.03
Total	56,998,082.38	32,169,750.03

The year of expiry of the deductible losses not recognised as deferred tax assets

Unit: RMB

Item	Balance at the end of this period	Balance at the beginning of this period	Note
2017	3,604,023.09	3,604,023.09	
2018	28,565,726.94	28,565,726.94	
2019	24,828,332.35	—	
Total	56,998,082.38	32,169,750.03	

(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

Unit: RMB

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	Deductible or taxable temporary difference after offsetting at the beginning of period
Deferred income tax assets	47,929,974.67	—	46,005,562.05	—
Deferred income tax liabilities	10,720,332.27	—	10,792,803.04	—

17. Impairment of assets

Unit: RMB

Item	Balance at the beginning of this period	Additions	Reductions		Balance at the end of this period
			Reversals	Written-off	
Provision of bad debt	10,983,308.98	—	—	—	10,983,308.98
Provision of allowances for inventories`	51,987,115.49	—	—	7,137,983.52	44,849,131.97
Accumulated impairment of fixed assets	16,206,335.81	—	—	163,938.50	16,042,397.31
Accumulated amortisation of intangible assets	33,968,375.45	—	—	—	33,968,375.45
Accumulated impairment of goodwill	59,490,000.00	—	—	—	59,490,000.00
Total	172,635,135.73	—	—	7,301,922.02	165,333,213.71

18. Other non-current liabilities

Unit: RMB

Items	Balance at the end of this period	Balance at the beginning of this period
Advance payment for land usage right (Note 1)	142,878,280.00	143,016,280.00
Advance payment for equipment (Note 2)	126,692,178.46	236,788,383.05
Total	269,570,458.46	379,804,663.05

Explain of Other non-current liabilities:

Note 1: Advance payment for land usage right was RMB142,878,280.00, presented in other non-current assets.

Note 2: Advance payment for equipment was RMB126,692,178.46, presented in other non-current assets, the equipments has not been transported to the Company yet.

19. Short-term borrowings

(1) Classification of short-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Guaranteed debt	197,208,800.00	143,886,840.00
Fiduciary debt	1,510,934,256.00	1,223,404,006.00
Total	1,708,143,056.00	1,367,290,846.00

20. Bills payable

Unit: RMB

Category	Closing balance	Opening balance
Bank acceptance	462,461,172.94	427,566,182.16
Total	462,461,172.94	427,566,182.16

The due amount of RMB462,461,172.94 in next accounting period.

21. Accounts payable

(1) Details of accounts payable are shown as follows:

Unit: RMB

Items	Closing balance	Opening balance
Materials	523,284,336.76	433,055,144.14
Construction equipment	83,365,019.93	115,504,289.76
Total	606,649,356.69	548,559,433.90

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(2) At the end of the reporting period, accounts payable aged over one year as follows:

Customer	Amount	Nature	Reason for unsettled
Wuhan Atlantic Ocean Continuous Casting Equipments Engineering Company Limited	2,503,300.00	Acquisition of equipment	Not reckoned

22. Receipts in advance

(1) Details of Receipts in advance are shown as follows:

Unit: RMB

Items	Closing balance	Opening balance
Advance sales	62,669,654.76	92,679,015.92
Total	62,669,654.76	92,679,015.92

23. Salaries Payable

Unit: RMB

Item	Balance at the beginning of this period	Additions	Reductions	Balance at the end of this period
Salaries, bonuses, allowance and subsidies	21,015,658.44	51,792,498.78	50,339,227.52	22,468,929.70
Staff welfare	—	6,968,911.91	6,968,911.91	—
Social insurance premiums	—	8,395,752.41	8,395,752.41	—
Including: 1. Medical insurance	—	2,122,334.82	2,122,334.82	—
2. Retirement insurance	—	5,284,966.73	5,284,966.73	—
3. Unemployment insurance	—	327,695.12	327,695.12	—
4. Injury insurance	—	386,471.91	386,471.91	—
5. Birth insurance	—	274,283.83	274,283.83	—
Others	1,826,947.55	1,896,236.72	927,655.61	2,795,528.66
Total	22,842,605.99	69,053,399.82	66,631,547.45	25,264,458.36

Unpaid staff salary of the Company was RMB0.00.

Expenditures for trade union and staff education was RMB1,896,236.72. Non-monetary benefit was RMB0.00, and compensation paid due to termination of employment contract was RMB0.00.

The Group's salaries payable included unpaid salary bonuses, subsidies, and etc, of RMB22,468,929.70, at the end of the year and it will be paid before the end of 2014.

24. Taxes Payables

Unit: RMB

Item	Closing balance	Opening balance
Value-added tax	4,718,889.12	19,094,744.33
Business tax	295,665.00	205,948.63
Enterprise income tax	11,027,476.00	8,082,447.07
Individual income tax	624,269.90	2,038,142.23
Urban maintenances and construction tax	226,567.47	1,060,609.22
Property tax	927,404.03	907,617.27
Land use tax	1,377,877.05	1,377,877.05
Educational surcharges	161,833.93	757,625.15
Local water conservancy construction funds	32,366.80	151,194.17
Stamp duty	52,473.96	705,928.36
Others	—	—
Total	19,444,823.26	34,382,133.48

25. Interests Payable

Unit: RMB

Item	Closing balance	Opening balance
Corporate bond interests	1,567,123.29	14,745,205.48
Bank loan interests	6,365,033.00	9,494,194.10
Total	7,932,156.29	24,239,399.58

26. Other payables

(1) Details of other payables

Unit: RMB

Item	Closing balance	Opening balance
Accrued natural gas, transportation, electricity	13,445,676.92	16,035,801.51
Deposits received	8,879,754.52	8,776,197.75
Others	941,826.69	1,978,379.07
Total	23,267,258.13	26,790,378.33

27. Other Current Liabilities

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Item	Balance at the end of this period	Balance at the beginning of this period
Deferred income	1,808,000.00	1,808,000.00
Total	1,808,000.00	1,808,000.00

Details of other current liabilities:

According to the notice of Lu-fa-gai investment [2011] no.1354 (魯發改投資[2011]1354 號) issued from Shandong Development and Reform Commission, the Company received RMB9,040,000.00 from Central Government as budget investment, which will be used in constructing high-end petroleum equipments. When the Company received this government grant, the Company recognised it as deferred income, RMB1,808,000.00 was recognised as income in current year.

28. Bonds Payable

Unit: RMB

Nature of the bond	Nominal value	Date of issue	Period	Issued amount	Nature of the bond	Balance at the beginning of this period of interest payable	Interests accrued during the year	Interests paid during the year	Balance at the end of this period of interest payable
Corporate bond	500,000,000.00	7 June 2014	3 years	500,000,000.00	14,745,205.48	12,821,917.81	26,000,000.00	1,567,123.29	497,444,444.43

On 7 June 2013, the Company issued a 3-year corporate bond with a nominal value of RMB500,000,000, interest rate is 5.20%, interests will be paid on 7 June of each year until the principal is repaid. The actual subscribed amount received by the Company is RMB496,000,000 with the effective interest at 5.5%.

29. Other Non-current Liabilities

Unit: RMB

Item	Balance at the end of this period	Balance at the beginning of this period
Deferred income	1,808,000.00	3,616,000.00
Total	1,808,000.00	3,616,000.00

According to the notice of Lu-fa-gai investment [2011] no.1354 (魯發改投資[2011]1354號) issued from Shandong Development and Reform Commission, the Company received RMB9,040,000.00 from Central Government as budget investment, which will be used in constructing high-end petroleum equipments. When the Company received this government grant, the Company recognised it as deferred income, RMB1,808,000.00 was recognised as income in current year.

30. Share Capital

Unit: RMB

	Opening balance	Previous this period movement(+, -)					Subtotal	Closing balance
		New shares issued	Bonus issue	Shares transferred from reserve	Others			
Total	797,848,400.00	—	—	—	—	—	797,848,400.00	

31. Special Reserve

Item	Opening balance	Addition	Reduction	Closing balance
Production safety fee	—	4,539,390.74	4,539,390.74	—
Total	—	4,539,390.74	4,539,390.74	—

Note: According to the rule, Cai-qi [2012] no. 16 (《企業安全生產費用提取和使用管理辦法》財企[2012]16號) enforced by MoF and State Administration of Work Safety, the Group recorded the related product safety fee as required by law.

32. Capital Reserves

Unit: RMB

Items	Opening balance	Additions	Reductions	Closing balance
Share premium	849,481,990.92	—	—	849,481,990.92
Other premium	18,667.50	—	—	18,667.50
Total	849,500,658.42	—	—	849,500,658.42

33. Reserve Funds

Unit: RMB

Items	Opening balance	Additions	Reductions	Closing balance
Statutory reserve	168,908,489.86	—	—	168,908,489.86
Total	168,908,489.86	—	—	168,908,489.86

34. Undistributed Profits

Unit: RMB

Items	Amount	Appropriation rate (%)
Balance at the end of last year	857,482,430.32	—
adjustment to the undistributed profits at beginning of the year	857,482,430.32	—
Add: Loss attributable to the owners of the Company	9,237,809.23	—
Balance at the end of this period	866,720,239.55	—

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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.

35. Operating Revenue and Operating Costs

(1) Operating Revenue and Operating Costs

Unit: RMB

Items	Incurred during the	
	current period	Incurred during the previous period
Principal operating revenue	1,323,532,950.04	1,120,808,034.80
Other business revenue	13,380,043.06	18,545,431.29
Cost of operations	1,184,701,686.19	1,015,901,005.30

(2) Principal operating (by industry)

Unit: RMB

Types of industry	Incurred during the		Incurred during the	
	Operating revenue	Cost of operations	Operating revenue	Cost of operations
Special Purpose Equipment	1,323,532,950.04	1,175,513,321.85	1,120,808,034.80	998,049,893.59
Total	1,323,532,950.04	1,175,513,321.85	1,120,808,034.80	998,049,893.59

(3) Principal operating (by product)

Unit: RMB

Products	Incurred during the		Incurred during the	
	Operating revenue	Cost of operations	Operating revenue	Cost of operations
Casing and Tubing	1,190,148,591.51	1,068,284,458.68	1,020,856,745.38	920,008,562.14
Three kinds of pumping units	32,793,410.66	26,944,319.60	35,900,532.73	28,918,501.83
Petroleum machinery part	80,534,107.31	61,462,579.85	54,415,772.25	40,397,285.39
Others	20,056,840.56	18,821,963.72	9,634,984.44	8,725,544.23
Total	1,323,532,950.04	1,175,513,321.85	1,120,808,034.80	998,049,893.59

(4) Principal operations (by Geographical segment)

Unit: RMB

Regions	Incurred during the current period		Incurred during the previous period	
	Operating revenue	Cost of operations	Operating revenue	Cost of operations
PRC	754,028,407.37	730,591,242.43	722,744,093.24	665,349,228.46
Overseas	569,504,542.67	444,922,079.42	398,063,941.56	332,700,665.13
Total	1,323,532,950.04	1,175,513,321.85	1,120,808,034.80	998,049,893.59

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

Unit: RMB

Name of customer	Operating Revenue	Percentage of the total sales revenue (%)
China National Petroleum Corporation	199,996,047.71	14.96%
UNIX Technology Co., Ltd	109,234,221.61	8.17%
Shanxi Yangchang Petroleum Co., Ltd	105,174,637.61	7.87%
Campex Inc	81,010,745.26	6.06%
Nixon Consulting Company	71,571,598.65	5.35%
Total	566,987,250.84	42.41%

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36. Tax and levies on operations

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period	Tax standard
Business tax	841,721.98	—	—
Urban maintenances and construction tax	4,383,017.23	471,126.53	—
Educational surcharges	1,878,435.97	201,911.37	—
Resources tax	1,878,436.07	201,911.37	—
Total	8,981,611.25	874,949.27	—

37. Selling Expenses

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period
Delivery expenses	54,420,019.00	20,542,465.99
Agency fees	7,227,353.64	408,342.50
Salary	1,179,642.37	866,276.74
Travelling expenses	330,391.28	151,948.74
Entertainment	492,837.62	415,596.80
Transportation fees	—	—
Office expenses	237,326.86	156,520.36
Intermediate fees	9,210,458.07	28,980.00
Depreciation charge	597,508.74	640,725.18
Others	918,587.66	541,951.39
Total	74,614,125.24	23,752,807.70

38. Administrative expenses

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period
Amortisation of intangible assets	24,013,943.25	25,559,047.18
Taxes	5,131,523.75	4,775,178.32
Salary and Staff welfare expenses	4,920,260.70	4,561,657.92
Salary and Staff welfare expenses	3,854,674.32	4,537,771.60
Machinery material consumption	900,849.03	2,049,590.06
Research and development fees of new products	2,449,460.09	2,417,386.96
Intermediate fees	50,358.47	221,865.47
electric charge	480,198.43	117,432.50
Entertainment	860,658.30	1,104,821.56
Environmental costs	164,387.53	345,646.70
Board of directors' expenses	789,736.26	741,788.85
Transportation fees	254,740.81	397,154.94
repair charge	279,872.83	161,178.59
Delivery expenses	17,190.77	235,117.97
premiums for property insurance	167,744.32	117,830.93
Travelling expenses	213,108.77	217,181.02
Publicity expenses	12,970.00	54,627.66
Water charge	176,948.47	193,297.67
Safety production costs	956,595.47	—
Trade union education funds	790,406.38	—
Others	1,175,815.54	332,316.46
Total	47,661,443.49	48,140,892.36

39. Finance Costs

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period
Interest expenses	41,564,796.39	30,205,048.70
Less: Capitalized interest expenses	(9,578,507.03)	(5,302,365.44)
Less: Interest income	(19,612,130.10)	(7,430,144.02)
Add: Foreign exchange gain	5,010,282.98	(10,510,248.69)
Add: Other expenses	4,656,978.60	5,070,354.30
Total	22,041,420.84	12,032,644.85

40. Investment income

(1) Breakdown of investment income

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period
Gain from long-term equity investments accounted for using the equity method	1,738,261.51	1,028,962.27
Total	1,738,261.51	1,028,962.27

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

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period	Reason of change from the previous period to the current period
Maolong Microfinance	1,738,261.51	1,028,962.27	—
Total	1,738,261.51	1,028,962.27	—

41. Loss on impairment of assets

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period
Provision of allowance for inventory	(7,137,983.52)	(1,260,232.86)
Total	(7,137,983.52)	(1,260,232.86)

42. Non-operating income

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

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period	Amounts credited to non-recurring profit during the current year
Total income on disposal of non-current assets	613,516.80	90,760.10	613,516.80
Including: Fixed assets disposal gains	613,516.80	90,760.10	613,516.80
Including: Fixed assets disposal gains	2,787,036.89	11,485,000.00	2,787,036.89
Including: Fixed assets disposal gains	644,658.80	412,714.50	644,658.80
Total	4,045,212.49	11,988,474.60	4,045,212.49

(2) Breakdown of Government grant

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period	Related to assets/Related to income	Whether it is a non-recurring profit and loss
Government subsidies	2,787,036.89	11,485,000.00	Related to income	Yes
Total	2,787,036.89	11,485,000.00		

The Company received RMB261,836.89 as unemployment insurance allowance in January 2014; received RMB146,000.00 as export credit insurance premium subsidies in March 2014; received RMB450,000.00 as Shouguang City Double Hundred Project funding in April 2014; received RMB21,200.00 as skills competition subsidies in May 2014; received RMB100,000.00 as saving energy and reducing consumption reward in June 2014. According to the notice of Lu-fa-gai investment [2011] no.1354 (魯發改投資[2011]1354 號) issued from Shandong Development and Reform Commission, the Company received RMB9,040,000.00 from Central Government as budget investment, which will used in constructing high-end petroleum equipments. When the Company received this government grant, the Company recognised it as deferred income, RMB1,808,000.00 was recognised as income in current year.

43. Non-operating expenses

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period	Amounts credited to non-recurring profit or loss for the current year
Total loss on disposal of non-current assets	358,974.66	575,515.07	358,974.66
Of which: Loss on disposal of fixed assets	358,974.66	575,515.07	358,974.66
Donation expenses	14,000.00	34,000.00	14,000.00
Others	17,569.29	1,785.00	17,569.29
Total	390,543.95	611,300.07	390,543.95

44. Income tax expense

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period
Income tax for the current period calculated according to tax laws and relevant rules	5,127,881.14	9,289,137.13
Adjustment on deferred income tax	(1,630,496.92)	(1,393,734.42)
Total	3,497,384.22	7,895,402.71

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

Items	Numbers	Balance as at the end of this period	Balance as at the beginning of this period
(Loss) profit attributable to the owners of the Company	1	9,237,809.23	45,601,697.63
Non operating profit attributable to the owners of the Company	2	3,124,751.81	9,666,231.04
Net (loss) profits after deducting non operating profit and loss attributable to the owners of the Company	3=1-2	6,113,057.42	35,935,466.59
Number of shares at beginning of the year	4	797,848,400.00	797,848,400.00
Capital reserve transferred from share capital or dividends (I)	5	—	—
Issue of new shares or convertible bonds (II)	6	—	—
Number of months from issue of new share (II) to the end of the year	7	—	—
Share repurchases	8	—	—
Number of months from share repurchases (II) to the end of the year	9	—	—
Reduction of number of shares	10	—	—
Number of months of reporting	11	6	6
Issued ordinary shares	12=4+5+6×7÷11-8×9÷11-10	797,848,400.00	797,848,400.00
Basic (loss) earnings per share (I)	13=1÷12	0.01	0.06
Basic (loss) earnings per share (II)	14=3÷12	0.01	0.05
Expenses recognised for potential dividends of ordinary share	15	—	—
Conversion costs	16	—	—
Income tax rate	17	—	—
Increase in weighted average number of share upon exercise of option, future and convertible bonds	18	—	—
Diluted (loss) earnings per share (I)	19=[1+(15-16)×(1-17)]÷(12+18)	0.01	0.06
Diluted (loss) earnings per share (II)	19=[3+(15-16)×(1-17)]÷(12+18)	0.01	0.05

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46. Other comprehensive income

Items	Incurred during the current period	Incurred during the previous period
Exchange differences arising on translation of a foreign operation	(110,512.71)	181,834.08
Total	(110,512.71)	181,834.08

Unit: RMB

47. Notes to cash flow statements

(1) Other cash receipts relating to operating activities

Unit: RMB

Items	amount
Government grants	2,787,036.89
Interest income	19,612,130.10
Acceptance of draft margin reduction	88,362,117.22
Other	8,919,859.84
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Total	119,681,144.05

(2) the cash payments relating to operating activities

Unit: RMB

Items	amount
Delivery fee	54,437,209.77
Development fees for new products	2,449,460.09
Consumable	1,857,444.50
Agency fees	7,227,353.64
Travelling fees	798,240.86
Intermediary services expenses	9,260,816.54
Repair expenses	279,872.83
Water and electricity expenses	657,146.90
Entertainment	1,353,495.92
Other	3,302,180.64
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Total	81,623,221.69

(3) Other cash receipts relating to investing activities

Unit: RMB

Items	amount
Decreased in security deposit for letter of guarantee	17,353,000.00
Decreased in the guarantee deposit for bank loan	36,501,974.00
<hr/>	
Total	53,854,974.00

48. Supplementary information on cash flow statements

(1) Supplementary information on cash flow statements

Unit: RMB

Item	Incurred during the current period	Incurred during the previous period
(1) Reconciliation of net profits as cash flows from operating activities:		
Net profits	7,946,235.44	44,422,133.56
Add: Provision of impaired assets	(3,088,128.75)	
Depreciation of fixed assets	94,756,189.28	89,273,321.49
Intangible assets amortized	24,013,943.25	25,559,047.18
Losses (Gains) on disposal of fixed assets, intangible assets and other long-term assets	(414,493.60)	509,717.08
Financial expenses	32,142,962.04	13,951,740.48
Investment losses	(1,738,261.51)	(1,028,962.27)
Decrease in deferred income Tax assets	(1,924,412.62)	(1,434,104.53)
Increase in deferred income Tax assets	105,173.54	40,370.10
Decrease (increase) in inventories	(86,502,442.15)	(57,899,440.45)
Decrease in operating receivables	87,161,177.42	(305,164,304.87)
(Decrease) increase in operating payables	166,440,712.92	(64,318,345.86)
Others	(966,614.05)	—
Net cash flows (used in) from operating activities	317,932,041.21	(256,088,828.09)
2. Significant investing and financing activities not involving cash receipt or payment:		
3. Changes in cash and cash equivalents:		
Balance of cash at the end of this period	737,253,372.67	482,145,069.14
Add: Balance of cash equivalents at the end of this period	330,546,464.49	369,092,906.46
Net (decrease) increase in cash and cash equivalents	406,706,908.18	113,052,162.68

(2) Cash and cash equivalents

Unit: RMB

Item	Incurred during the current period	Incurred during the previous period
Cash	737,253,372.67	330,546,464.49
Including: Cash on hand	51,178.12	42,463.38
Bank deposit available for payments at any moment	545,424,602.18	201,764,699.84
Other funds available for payments at any moment	191,777,592.37	128,739,301.27
Cash and cash equivalent at the end of this period	737,253,372.67	330,546,464.49

Note: The restricted other monetary funds included the security deposit for the bank acceptance, borrowings and the letter of guarantee and the loan and letter of credit, with the maturity over 3 months, the amounts were RMB66,100,310.27, RMB38,860,000.00 and RMB37,400,000.00 respectively, which totally equal to RMB21,507,000.00, total: RMB125,007,310.27.

VIII. 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	150,000,000.00	70.00%	70.00%	66139842-3
Shouguang Molong Logistic Company Limited	owned subsidiaries	LLC (Legal entity wholly-owned)	Shouguang City, Shandong Province	Zhang Jin Chuan	Service	3,000,000.00	100.00%	100.00%	57939315-6
Weihai Baolong Special Petroleum Materials Co., Ltd	owned subsidiaries	LLC	Weihai, Shandong Province	Zhang Jin Hui	Manufacturing	26,000,000.00	61.54%	61.54%	75638729-2
Shouguang Maolong New Materials Technology Development Co., Ltd	owned subsidiaries	LLC (Legal entity wholly-owned)	Shouguang City, Shandong Province	Lin Fu Long	Manufacturing	12,380,000.00	100.00%	100.00%	72481440-5
Shouguang Molong Electromechanical Equipment Company Limited	owned subsidiaries	LLC (Sino-foreign joint venture)	Shouguang City, Shandong Province	Zhang Huan Jun	Manufacturing	USD1,000,000.00	100.00%	100.00%	73261459-3
Shouguang Maolong Old Metals Recycle Company Limited	owned subsidiaries	LLC	Shouguang City, Shandong Province	Liu Yun Long	Trading	500,000.00	100.00%	100.00%	74566977-X
Wendeng Baolong Recyclable Resource Company Limited	owned subsidiaries	LLC	Weihai, Shandong Province	Zhang Jin Hui	Trading	300,000.00	100.00%	100.00%	76576543-5
MPM International Limited	owned subsidiaries	LLC	Hong Kong, PRC	Zhang Yun San	Trading	USD1,000,000.00	90.00%	90.00%	

2. Equity Joint Ventures and Associates of the Company

Full Names of the Subsidiaries	Type of the Subsidiaries	Place of Registration	Legal representatives	Business Nature	Registered Capital	Shareholding of the Company (%)	Proportion of Voting Right of the Company in the invested entities	Relation	Organization No.
Associates									
Karamay Petroleum Machinery Co., Ltd	LLC	Xinjiang karamay	Luo Jie	Manufacturing	6,400,000.00	30.00%	30.00%	Related Company	22895641-2
Shouguang Maolong Microfinance Co., Ltd	joint stock limited liability company	Shouguang, Shandong	Guo Huan Ran	Service	150,000,000.00	30.00%	30.00%	Related Company	59260577-4

3. Related Transactions

Table on situation on commodities sales and provision of employment service:

Unit: 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 Petroleum Machinery Co., Ltd	Oil well pumpings and accessories	Agreed price	4,296,691.28	13.10%	7,838,669.16	21.83%

4. Account receivable and payable of related parties

Account receivable of related party:

Unit: RMB

Item	Related party	Closing balance		Opening balance	
		Book balance	Bad debt balance	Book balance	Bad debt balance
Accounts receivable	Karamay Petroleum Machinery Co., Ltd	2,071,427.45	—	1,044,301.65	—

IX. Financial Statement Major Matter Notes of the Company

1. Accounts receivable

(1) Accounts receivable

Unit: RMB

Category	Closing balance				Opening balance			
	Book balance Amount	Ratio (%)	Bad debt provision Amount	Ratio (%)	Book balance Amount	Ratio (%)	Bad debt provision Amount	Ratio (%)
Single item with significant other receivables and provided for bad debt by single item	14,402,509.27	1.47%	8,796,479.57	61.08%	15,417,953.39	2.69%	8,796,479.57	57.05%
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test	962,277,504.79	98.32%	—	—	556,182,557.58	96.96%	—	—
Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test	962,277,504.79	98.32%	—	—	556,182,557.58	96.96%	—	—
Single item with insignificant other receivables but provided for bad debt by single item	2,011,010.16	0.21%	2,011,010.16	100.00%	2,011,010.16	0.35%	2,011,010.16	100.00%
Total	978,691,024.22		10,807,489.73		573,611,521.13		10,807,489.73	

As at 30 June 2014, single item with significant other receivables and provided for bad debt by single item is as follows:

Unit: RMB

Companies	Book balance	Bad debt provision	Provision ratio (%)	Reason
Shengli Oilfield Highland Petroleum Equipment Co., Ltd	3,284,636.96	3,284,636.96	100.00%	Aged over three years, difficult to recover
SBI Company (USA)	3,794,051.91	3,794,051.91	100.00%	Aged over one years, difficult to recover
Brunei Jinlong Investment Co., Ltd., Beijing office	7,323,820.40	1,717,790.70	20.60%	Aged over one years, difficult to recover
Total	14,402,509.27	8,796,479.57		

As at 30 June 2014, single item with insignificant accounts receivable but provided for bad debt in single item is as follows:

Unit: RMB

Companies	Book balance	Bad debt provision	Provision ratio (%)	Reason
South China Petrochemical Group	1,921,727.16	1,921,727.16	100.00%	Aged over three years, difficult to recover
Hanting Energy Private Services Co., Ltd	89,283.00	89,283.00	100.00%	Aged over three years, difficult to recover
Total	2,011,010.16	2,011,010.16		

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

Unit: RMB

Name	Relationship with the Company	Amount	Aging	Percentage of the total balance of accounts receivable (%)
CAMPEX Company (USA)	Customer	71,832,348.64	Within 1 year	7.42%
Shanxi Yanchang Oil Materials Co., Ltd	Customer	71,624,475.71	Within 1 year	7.40%
Petroleum Administration Bureau of Xinjiang Uygur Autonomous Region	Customer	43,071,978.04	Within 1 year	4.45%
Shanxi Yanchang Petroleum Equipment Manufacturing Co., Ltd	Customer	40,475,148.20	Within 1 year	4.18%
North China Petroleum Administration Bureau	Customer	36,647,746.11	Within 1 year	3.79%
Total		263,651,696.70		27.24%

(3) Situation on accounts due from related parties:

Unit: RMB

Name	Relationship with the Company	Amount	Percentage of the total balance of accounts receivable (%)
Shouguang Maolong New Materials Technology Development Co., Ltd	subsidiary corporation	301,656,224.50	31.17%
Karamay Yalong Petroleum Machinery Co., Ltd	Related Company	2,071,427.45	0.21%
Total		303,727,651.95	31.38%

2. Other receivables

(1) The breakdown of other 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 (%)
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	269,326,240.26	99.96%	—	—	252,454,655.05	99.95%	—	—
Sub-total	269,326,240.26	99.96%	—	—	252,454,655.05	99.95%	—	—
Single item with insignificant other receivables but provided for bad debt in single item	119,119.25	0.04%	119,119.25	100.00%	119,119.25	0.05%	119,119.25	100.00%
Total	269,445,359.51		119,119.25		252,573,774.30		119,119.25	

Top 5 other receivable are set out as follows:

Unit: RMB

Name	Book balance	Bad debt provision	Provision ratio (%)	Reason
Wang Li Xue	40,000.00	40,000.00	100.00%	Aging is longer, will not be repaid
Shouguang SanDian government office	6,470.00	6,470.00	100.00%	Aging is longer, will not be repaid
Shouguang City public security bureau	5,000.00	5,000.00	100.00%	Aging is longer, will not be repaid
Shouguang oil plant	2,750.00	2,750.00	100.00%	Aging is longer, will not be repaid
Others	64,899.25	64,899.25	100.00%	Aging is longer, will not be repaid
Total	119,119.25	119,119.25		

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(2) Top 5 other receivable are set out as follows:

Unit: RMB

Name	Relationship with the Company	Amount	Aging	Percentage of the total balance of accounts receivable (%)
Shouguang Baolong Petroleum Equipment Co., Ltd	subsidiary	207,000,000.00	Within one year	76.86%
Shouguang Molong Logistics Co., Ltd	subsidiary	30,718,635.89	Within one year	11.41%
Shouguang Yangkou town's finances	Non-related party	14,530,000.00	Within one year	5.39%
The Gucheng sub-district offices	Non-related party	6,891,320.00	Within four years	2.56%
ZhongHuaJian International Tendering Co., Ltd	Non-related party	1,602,000.00	Within one year	0.59%
Total		260,741,955.89		96.81%

(3) Other accounts receivable due from related party

Unit: RMB

Name	Relationship with the Company	Amount	Percentage of the total balance of accounts receivable (%)
Shouguang Baolong Petroleum Equipment Co., Ltd	subsidiary	207,000,000.00	76.86%
Shouguang Molong Logistics Co., Ltd	subsidiary	30,718,635.89	11.41%
Total		237,718,635.89	88.27%

3. Long-term equity investments

Unit: RMB

Investee entity	Accounting method	Investment	Opening balance	Change	Closing balance	Percentage of	Percentage of	Explanation of the	Impairment provision	Provision of impairment for the current period	Cash bonuses for the current period
						shareholding in the investee entity (%)	voting right in the investee entity (%)	inconsistent of shareholding percentage and voting right in the Investee entity			
Maolong New Materials	Cost method	306,743,691.73	306,743,691.73	—	306,743,691.73	100.00%	100.00%	—	—	—	—
Weihai Baolong	Cost method	220,000,000.00	220,000,000.00	—	220,000,000.00	61.54%	61.54%	—	—	—	—
MPM International Limited	Cost method	7,276,230.00	7,276,230.00	—	7,276,230.00	90.00%	90.00%	—	—	—	—
Shouguang Baolong	Cost method	105,000,000.00	105,000,000.00	—	105,000,000.00	70.00%	70.00%	—	—	—	—
Molong Logistic Company	Cost method	3,000,000.00	3,000,000.00	—	3,000,000.00	100.00%	100.00%	—	—	—	—
Maolong Recycle	Cost method	50,000.00	50,000.00	—	50,000.00	10.00%	10.00%	—	—	—	—
Shouguang Mihe Water	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	—	—	—	—	—	—

As at 30 June 2014, there is no restriction on the Group of transferring capital from investee companies which the Group had long-term equity investment.

4. Operating revenue and cost of operations

(1) Operating Revenue

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period
Principal operating revenue	1,248,224,039.64	1,111,639,576.59
Other business revenue	186,760,722.10	79,459,443.93
Total	1,434,984,761.74	1,191,099,020.52
Cost of operations	1,266,355,491.33	1,055,820,432.05

(2) Principal operations (by industry)

Unit: RMB

Industry	Incurred during the current period		Incurred during the previous period	
	Operating Revenue	Cost of operations	Operating Revenue	Cost of operations
Special Equipment				
Manufacturing	1,248,224,039.64	1,083,651,813.86	1,111,639,576.59	976,730,236.46
Total	1,248,224,039.64	1,083,651,813.86	1,111,639,576.59	976,730,236.46

(3) Principal operations (by product)

Unit: RMB

Product	Incurred during the current period		Incurred during the previous period	
	Operating Revenue	Cost of operations	Operating Revenue	Cost of operations
Casing and Tubing	1,134,443,430.48	992,619,083.68	1,012,612,241.26	896,788,542.27
Three kinds of pumping units	32,793,410.66	26,944,319.60	35,900,532.73	28,918,501.83
Petroleum machinery	79,293,524.80	63,118,329.96	54,412,860.74	43,204,620.73
Other	1,693,673.70	970,080.62	8,713,941.86	7,818,571.63
Total	1,248,224,039.64	1,083,651,813.86	1,111,639,576.59	976,730,236.46

(4) Principal operations (by Geographical segment)

Unit: RMB

Regions	Incurred during the current period		Incurred during the previous period	
	Operating Revenue	Cost of operations	Operating Revenue	Cost of operations
PRC	680,380,995.96	638,569,382.73	713,578,546.54	634,475,525.80
Overseas	567,843,043.68	445,082,431.13	398,061,030.05	342,254,710.66
Overseas	1,248,224,039.64	1,083,651,813.86	1,111,639,576.59	976,730,236.46

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

Unit: RMB

Name of Customer	Operating Revenue	the percentage
		of the total sales revenue %
China National Petroleum Co., Ltd	199,996,047.71	13.94%
UNIX Technology Co., Ltd	109,234,221.61	7.61%
Shanxi Yanchang Petroleum Co., Ltd	105,174,637.61	7.33%
Nixon Consulting Company	71,571,598.65	4.99%
OEML Company in the Middle East	44,165,045.23	3.08%
Total	530,141,550.81	36.95%

5. Supplementary information on cash flow statements

Unit: RMB

Supplementing Information	Amount this year	Amount last year
(1) Reconciliation of net profits as cash flows from operating activities:		
Net profits	24,862,521.46	61,101,885.39
Add: Provision of impaired assets	(3,088,128.75)	
Depreciation of fixed assets	64,564,722.55	61,736,596.61
Depreciation of fixed assets	19,173,835.51	22,873,504.66
Losses (Gains) on disposal of fixed assets, intangible assets and other long-term assets	(401,077.44)	509,717.08
Finance costs	36,203,973.48	11,751,092.81
Increase in deferred tax assets	(1,735,670.46)	(1,434,104.53)
(Decrease) increase in deferred tax liabilities	105,173.54	40,370.10
Decrease (increase) in inventories	41,148,181.36	4,142,395.97
Decrease in operating receivables	36,405,265.14	(400,751,303.61)
(Decrease) increase in operating payables	(6,997,960.38)	88,853,030.24
Others	(1,808,000.00)	
Net cash flows (used in) from operating activities	208,432,836.01	(151,176,815.28)
(2) Significant investing and financing activities not involving cash receipt or payment:		
(3) Changes in cash and cash equivalents:		
Balance of cash at the end of this period	690,898,675.29	456,904,579.93
Less: Balance of cash at the beginning of the year	210,108,724.61	354,662,620.79
Net (decrease) increase in cash and cash equivalents	480,789,950.68	102,241,959.14

X. Supplementary Information

1. Breakdown of extraordinary gains and losses

Unit: RMB

Item	Amount	Remarks
Profit or loss from disposal of non-current assets	241,125.98	
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)	2,787,036.89	
Non-operating gains and losses other than the above items	626,505.68	
Less: Effect of income tax	525,989.03	
Effect of minority equity After-Tax	3,927.71	
Total	3,124,751.81	—

2. Differences in accounting data under domestic and overseas accounting standards

1. Differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report
During the reporting period, there are no differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report.
2. Differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report
During the reporting period, there are no differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report.
3. Return on net assets and earnings per share

Unit: RMB

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	0.34%	0.01	0.01
Net profit attributable to holders of ordinary shares of the Company	0.23%	0.01	0.01

4. Reason for discrepancy in major reporting items

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

Unit: RMB

Item	As 30 June	As 31 December	Amount of variation (%)	Notes
	2014 (Unaudited)	2013 (Audited)		
Currency fund	862,260,682.94	597,770,865.98	44.25%	(1)
Deposit received	62,669,654.76	92,679,015.92	-32.38%	(2)
Tax payable	19,444,823.26	34,382,133.48	-43.44%	(3)
Interest payable	7,932,156.29	24,239,399.58	-67.28%	(4)
Other non-current liabilities	1,808,000.00	3,616,000.00	-50.00%	(5)

- (1) Currency fund increased by 44.25% compared with that at the beginning of the year, mainly because short-term borrowing increased at the end of this quarter and not used.
- (2) Deposit received decreased by 32.38% compared with that at the beginning of the year, mainly because Company's clients deliver goods gradually to write down the deposit received.
- (3) Tax payable decreased by 43.44% compared with that at the beginning of the year, mainly because the Company paid tax in time.
- (4) Interest payable decreased by 67.28% compared with that at the beginning of the year, mainly because the Company paid interest on bonds in early June.
- (5) Other non-current liabilities decreased by 50% compared with that at the beginning of the year, mainly because the Company turned the differed income amortized next year into other current liabilities.

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

Unit: RMB

Item	As 30 June 2014 (unaudited)	As 30 June 2013 (unaudited)	Amount of variation (%)	Notes
Business tax and surcharges	8,981,611.25	874,949.27	926.53%	(1)
Operating expenses	74,614,125.24	23,752,807.70	214.13%	(2)
Financial expense	22,041,420.84	12,032,644.85	83.18%	(3)
Loss from asset devaluation	(7,137,983.52)	(1,260,232.86)	-466.40%	(4)
Non-operating income	4,045,212.49	11988474.6	-66.26%	(5)
Non-operating expenses	390,543.95	611,300.07	-36.11%	(6)
Income tax	3,497,384.22	7,895,402.71	-55.70%	(7)

- (1) Business tax and surcharges increased by 926.53% compared with that at the beginning of the year, mainly because the Company's added-value tax was more in this quarter, causing the increase in urban construction tax, extra charges of education funds and the local extra charges of education funds.
- (2) Operating expenses increased by 214.13% compared with that at the beginning of the year, mainly because the Company developed overseas markets, resulting in the increase in transportation expense, agency fee etc.
- (3) Financial expense increased by 83.18% compared with that at the beginning of the year, mainly because of the increase in short-term borrowing, Corporate bond interest, exchange loss during the reporting period.
- (4) Loss from asset devaluation decreased by 466.40% compared with that at the beginning of the year, mainly because the company withdrew the inventory sales of provision for inventory write-down, the balance was larger than last year.
- (5) Non-operating income decreased 66.26% compared with that at the beginning of the year, mainly because the government subsidies was less than last year.
- (6) Non-operating expenses decreased by 36.11% compared with that at the beginning of the year, mainly because the disposal of fixed assets loss decreased compared with same period last year.
- (7) Income tax decreased by 55.7% compared with that at the beginning of the year, mainly because of the decrease in total profit.

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

Unit: RMB

Item	As 30 June 2014 (unaudited)	As 30 June 2013 (unaudited)	Amount of variation (%)	Notes
The net cash flow of operating activities	317,932,041.21	(256,088,828.09)	224.15%	(1)
The net cash flow of Investing activities	(240,402,375.92)	(299,867,199.67)	19.83%	(2)
The net cash flow of financial activities	334,197,076.86	678,392,924.07	-50.74%	(3)

- (1) The net cash flow of operating activities increased by 224.15% compared with that at the beginning of the year, mainly because of the increase in cash received in operations and decrease in the limited acceptance deposit compared with the same period last year.
- (2) The net cash flow of Investing activities increased by 19.83% compared with that at the beginning of the year, mainly because of the decrease in investment for construction of fixed assets and intangible assets compared with the same period last year.
- (3) The net cash flow of financial activities decreased by 50.74% compared with that at the beginning of the year, mainly because of the issuance of company bonds over the same period last year

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, 2014