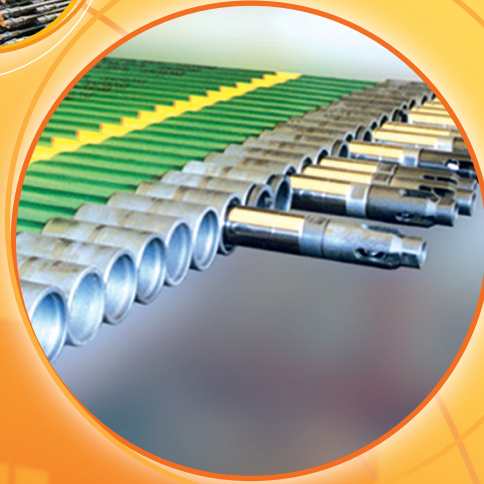
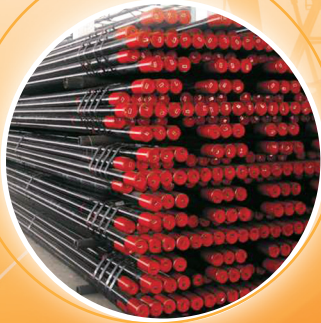




# 山東墨龍石油機械股份有限公司

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)



**2015**  
Interim  
Report



# I. IMPORTANT, CONTENTS AND DEFINITIONS

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 Interim report (the “Report”), and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents. This Report has been prepared in both Chinese and English. For any discrepancies, the Chinese version shall prevail.

All directors attended the Board meeting for considering this report.

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

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

## Contents

I.	Important, Content and Definitions	1
II.	Company Profile	3
III.	Summary of Financial Results and Indicators	4
IV.	Directors' Report	6
V.	Material Matters	15
VI.	Changes in Share Capital and Shareholders	18
VII.	Directors, Supervisors and Senior Management	22
VIII.	Financial Report	23
IX.	Documents Available for Inspection	114

## Definitions

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

## II. COMPANY PROFILE

### I. Company Information

Stock Abbreviation	SHANDONG MOLONG
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

	<b>The Secretary of the Board</b>	<b>Securities Affairs Representative</b>	<b>The Secretary of the Company</b>
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

3

### III. Other Information

#### 1. *Company Contact Information*

The registered address, office address and zip code, web address and e-mail address have no changes during the reporting period. For details, please see the 2014 Annual Report.

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

The name of the newspaper for information disclosure, the website will designated by the Chinese Securities Regulatory Commission for publishing this interim report have no changes during the reporting period. For details, please see 2014 Annual Report.

#### 3. *Registration Changes*

The registrations status of company registration dates and locations, registration number for business license of enterprise legal person, Tax registration number, organization codes have no changes during the reporting period. For details, please see the 2014 Annual Report.

### III. SUMMARY OF FINANCIAL RESULTS AND INDICATORS

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

Retrospective adjustment to or restatement of the accounting data for prior years by the Company due to change of accounting policies and correction of accounting errors.

Yes  No

	<b>30 June 2015 (unaudited)</b>	30 June 2014 (unaudited)	<b>Increase/ decrease(%)</b>
Operating Revenue (RMB)	<b>1,097,649,636.91</b>	1,336,912,993.10	-17.90%
Net profit attributable to equity holders of Listed Company (RMB)	<b>10,313,286.91</b>	9,237,809.23	11.64%
Net profit after extraordinary gains or losses attributable to equity holders of Listed Company (RMB)	<b>(9,827,977.66)</b>	6,113,057.42	-260.77%
Net cash flows from operating activities (RMB)	<b>126,758,914.81</b>	317,932,041.21	-60.13%
Basic earning per Share (RMB)	<b>0.01</b>	0.01	0.00%
Diluted earning per Share (RMB)	<b>0.01</b>	0.01	0.00%
Net Assets Income Rate (%)	<b>0.38%</b>	0.34%	0.04%

	<b>30 June 2015 (unaudited)</b>	31 December 2014 (audited)	<b>Increase/ decrease(%)</b>
Total Assets (RMB)	<b>5,926,976,218.24</b>	6,044,500,696.03	-1.94%
Net assets attributable to shareholders of Listed Company (owners' interests attributable to shareholders of List Company)	<b>2,704,623,673.40</b>	2,694,285,331.17	0.38%

#### 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 for Business Enterprise 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 overseas international accounting standards and China Accounting Standards for Business Enterprise 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

Applicable  Not Applicable

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)	(41,384.21)	—
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)	23,150,709.22	—
Non-operating gain or loss other than the above	563,716.82	—
Less: Effect of extraordinary gains or losses on income tax	3,509,793.81	—
Effect of extraordinary gains or losses on minority shareholders interest (after tax)	21,983.45	—
Total	20,141,264.57	—

No extraordinary gain or loss items as defined or illustrated in the “Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 — Extraordinary Gains or Losses” were defined by the Company as its recurring gain or loss items during the reporting period.

## IV. DIRECTORS' REPORT

### 1. Overview

In the first half of 2015, amidst the global economic downturn, the frequent fluctuation in global oil price, continuous low steel price, weak demand of overseas markets and declining growth of domestic economy, the energy equipment industry has presented a trend of higher professional level and increasing market competition. In face of the new challenges from shales gas and offshore petroleum, the Company has organized and planned for project construction, continuously increased the investment in technology and research and development of new products, steadily expanded its market coverage, integrally enhanced the management standards, proactively conquer the influence of internal and external difficulties and factors, in order to ensure the stable operation of company

### 2. Main business analysis

During the reporting period, the Group achieved an unaudited revenue of RMB1,097,649,636.91, representing a decrease of approximately 17.90% as compared to the same period last year; the unaudited total profit was RMB6,510,155.32, representing a decrease of approximately 43.11% as compared to the same period last year; the unaudited profit attributable to equity holders of the Company was RMB10,313,286.91 representing an increase of 11.64% as compared to the same period last year; and the unaudited net profit after extraordinary items was RMB-9,827,977.66, representing a decrease of approximately 260.77% as compared with the same period last year.

#### *The changes in main financial data*

Unit: RMB

6

	<b>30 June 2015 (unaudited)</b>	30 June 2014 (unaudited)	<b>Increase/ decrease (%)</b>	<b>Reasons for the changes</b>
Operation revenue	<b>1,097,649,636.91</b>	1,336,912,993.10	-17.90%	
Operating costs	<b>909,522,428.13</b>	1,184,701,686.19	-23.23%	
Selling expense	<b>122,469,789.17</b>	74,614,125.24	64.14%	The increase is mainly because the Company developed new customers in central Asia last year and the Company needed bear all the domestic and foreign transportation and offshore service fees, which lends to a significant increase in transportation and service fees in its selling expense.
Handling expense	<b>62,563,240.66</b>	47,661,443.49	31.27%	The increase is mainly because the Company's subsidiary Weihai Baolong company was in temporary suspension of operation ,and all the depreciation for fixed assets was included in handling expense
Financial expense	<b>13,815,135.10</b>	22,041,420.84	-37.32%	The decrease is mainly because the company's loan decreased and exchange earnings increased .



Unit: RMB

	<b>30 June 2015 (unaudited)</b>	30 June 2014 (unaudited)	<b>Increase/ decrease (%)</b>	<b>Reasons for the changes</b>
Income tax expense	<b>7,501,818.28</b>	3,497,384.22	114.50%	The increase is mainly because the profit of this period and provision for the income tax increased and the loss of the company's subsidiaries were not recognized as deferred income tax assets.
R&D investment	<b>33,317,771.95</b>	28,899,413.75	15.29%	
Net profit from operations	<b>126,758,914.81</b>	317,932,041.21	-60.13%	The decrease is mainly because the cash received from operations activities decreased and the restricted deposit increased.
The net cash flow by investment activities	<b>(120,485,175.10)</b>	(240,402,375.92)	-49.88%	The decrease is mainly because cash the company paid for the fixed assets decreased.
The net cash flow by financial activities	<b>(104,606,463.99)</b>	334,197,076.86	-131.30%	The decrease is mainly because the loan balance decreased compared with same period last year and repayment of loan increased.
Net increase in cash and cash equivalents	<b>(92,657,847.79)</b>	406,706,908.18	-122.78%	The decrease is mainly because the restricted deposit and the loan repayment increased.

7

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

- In terms of the domestic market, the Group's major customers are major oil fields in the PRC, including Daqing Oil Field (大慶油田), Changqing Oil Field (長慶油田), Xinjiang Oil Field (新疆油田), Liaohe Oil Field (遼河油田), Qinghai Oil Field (青海油田), Talimu Oil Field (塔里木油田), Huabei Oil Field (華北油田), Jidong Oil Field (冀東油田) and Jilin Oil Field (吉林油田), under PetroChina Company Limited and its subsidiaries (collectively, "PetroChina Group"), as well as the Shengli Oil Field (勝利油田), Zhongyuan Oil Field (中原油田), Jiangsu Oil Field (江蘇油田) and Jiangnan Oil Field (江漢油田), under China Petroleum & Chemical Corporation and its subsidiaries (collectively, "Sinopec Group"). During the reporting period, the Group developed closer business cooperation with existing oil fields customers and has gained positive feedback. The sales to the above oil fields under the PetroChina Group and the Sinopec Group accounted for approximately 10.05% of the Group's main operating revenue.
- For overseas market, the Group continued to develop its business in the West Asia, South America, Middle East, North Africa and Russia, during the reporting period and develop new customers relationships, selling mainly casing and tubing, line pipe products and sucker rods. In addition, our casing and tubing products have obtained certification by many national oil companies in Kuwait, Bolivia, Abu Dhabi, Nigeria etc., during the reporting period. With the introduction new customers and the obtaining of the certification from well-known national oil companies, the Group has further increased its market shares in the overseas markets, and its popularity in the international oil drilling equipment market. Currently, the Group has established and maintained good and long-term cooperative relationships with many overseas oil suppliers and oil field service companies, which is beneficial to sales in overseas markets. During the reporting period, the Group's revenue derived from exports accounted for approximately 48.42% of the Group's total sales revenue.

3. For new products development, with the scientific research advantages of “Province-level Enterprise Technical Center of Shandong Province” and “Shandong Molong post-doctoral research station”, the Group continued to strengthen its technological cooperation with various research institutes to increase its efforts to develop high-end products, expand product structures and enrich product diversities. During the reporting period, the Company obtained three patent authorization certificates for a torsion resistant sucker rod (patent for invention), a hot-rolling seamless pipe oriented cooling equipment, and a slide valve sand control heavy oil pump, respectively and two new products namely ML-IJ enhanced direct-connect buckle casing and MLC-FR rapid buckle casing are listed in the Shandong province-level technological innovation project. The Company had also developed and promoted many kinds of new products, such as extended gap bridge oil well pump, anti-scale anti-gas oil well pump, 4140 alloyed cylinder pipe, 37Mn/1 cylinder pipe, 55Mn2 high wear resistant steel pipe, ML140V high strength and hightoughness casing, 355\*10mm and 377\*10mm large diameter thin-walled pipe, D6 valve and precision casting etc., to the market. Continuous development and introduction of new products to the market enable the Company to respond quickly and enhanced our endurance to risks.

### 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 (%)
<b>By industry</b>						
Petroleum						
machinery						
specialized equipment						
manufacturing	1,086,542,619.09	889,108,777.51	18.17%	-17.91%	-24.36%	6.99%
<b>By product</b>						
Casing and tubing	1,002,014,064.10	827,383,034.12	17.43%	-15.81%	-22.55%	7.19%
Three kinds of pumping units	22,556,421.78	14,104,984.64	37.47%	-31.22%	-47.65%	19.63%
Petroleum machinery	61,180,702.89	47,057,707.26	23.08%	-24.03%	-23.44%	-0.60%
Others	791,430.32	563,051.49	28.86%	-96.05%	-97.01%	22.70%
<b>By region</b>						
PRC	560,412,631.44	509,566,381.77	9.07%	-25.68%	-30.25%	5.96%
Abroad	526,129,987.65	379,542,395.74	27.86%	-7.62%	-14.69%	5.98%

## IV. Core Competitiveness Analysis

During the reporting period, the group further strengthens its cooperation with the four leading 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 sales regions. The non OCTG seamless pipe such as boilerpipe, hydraulic pillar-used steel tube, cylinder pipesales soared. For overseas market, the Group continued to develop its business in the West Asia, South America, Middle East, and North Africa, during the reporting period and develop new customers relationship by mainly selling casing and tubing, line pipe products and sucker rods. In addition, the Group has obtained production certificates for its products in many national oil companies which are in Kuwait, Bolivia, Abu Dhabi, Nigeria etc., during the reporting period. With the new customers' development and obtaining the production certificates from national oil companies, the Group has further increased its market shares in the overseas markets, and popularity in the international oil drilling equipment market.

For new products development, with the scientific research advantages of "Province-level Enterprise Technical Center of Shandong Province" and "Shandong Molong post-doctoral research station", the Group continued to strengthen its technological cooperation with various research institutes to increase its efforts to develop high-end products, expand product structures and enrich product categories. During the reporting period, the Company obtained (i) three patent authorization certificates for a torsion resistant sucker rod (patent for invention), a hot-rolling seamless pipe oriented cooling equipment, and a slide valve sand control heavy oil pump, respectively and (ii) two new products which are ML-IJ enhanced direct-connect buckle casing and MLC-FR rapid buckle casing listed in the Shandong province-level technological innovation project. The Company had developed and promoted many kinds of new products, such as extended gap bridge oil well pump, anti-scale anti-gas oil well pump, 4140 alloyed cylinder pipe, 37Mn/1 cylinder pipe, 55Mn2 high wear resistant steel pipe, ML140V high strength and hightoughness casing, 355\*10mm and 377\*10mm large diameter thin-walled pipe, D6 valve and precision casting etc., to the market. Continuous development and introduction of new products to the market enable the Company to respond quickly and enhanced endurance to risks.

9

## V. Investment Situation Analysis

### 1. Analysis of main subsidiaries, 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
MPM International Limited	Subsidiary	Trading	Acquisition and sales of petroleum extraction and chemical machinery electric equipment	USD1,000,000	64,355,552.65	(1,565,625.40)	939,088.06	(1,597,878.54)	(1,597,878.54)
Maolong New Materials	Subsidiary	Manufacturing	Research, development and promotion of the new materials for energy equipment; the production and sales of petroleum drill and exploitation equipment, tools and accessories, metal casting and forging; the building of waste heat and gas power generation project	412,380,000.00	926,645,412.28	455,049,666.51	—	(967,984.26)	(776,794.26)

Name of company	Company Type	Industry	The main products or services	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Molong Electro-mechanical Equipment	Subsidiary	Manufacturing	Manufacture and sales of outer thickening oil well tubing and electrical complete equipment	USD1,000,000	104,976,090.12	59,088,109.40	36,590,251.89	1,826,770.40	1,170,842.62
Wendeng Renewables Company	Subsidiary	Trading	The acquisition and sales of scrap metal	300,000.00	2,522,631.24	2,497,652.03	—	(619.35)	(619.35)
Maolong Recycling Company	Subsidiary	Trading	The acquisition of scrap metal	500,000.00	2,200,410.04	1,090,457.04	12,326,113.28	(783,309.23)	(241,351.42)
Shouguang Baolong	Subsidiary	Manufacturing	Production and sales of oil equipment	150,000,000.00	813,931,596.39	148,368,616.90	562,282,358.34	(37,213,752.94)	(37,117,973.33)
Weihai Baolong	Subsidiary	Manufacturing	Manufacture and sales of metal material specialized for petroleum use	26,000,000.00	327,789,974.98	282,235,944.91	6,186,312.88	(14,926,127.22)	(14,804,058.73)
Molong Logistics Company	Subsidiary	Service	Storage and handling of goods (with no restricted items); logistics information consultant	3,000,000.00	92,634,015.74	1,891,533.99	637,162.49	(293,385.75)	(293,032.75)
Karamay Yalong Petroleum Machinery Company Limited	Joint stock company	Service	Design ,manufacture and sales of mechanical equipment; the sales of hardware and electrical equipment, electronic products, building materials and steel	6,400,000.00	16,940,790.30	8,322,137.49	6,051,254.92	(439,158.75)	(445,633.59)
Shouguang Maolong Microfinance Company Limited	Joint stock company	Service	Engage in various finance business, development of small enterprise business; and management etc. in Shouguang City.	150,000,000.00	163,359,063.33	160,669,918.94	6,521,007.30	5,897,003.18	4,422,752.38

10

## 2. Highlights of major investments not financed by the listing proceeds

Unit: RMB'0000

Name of projects	Investment made		Accumulated actual investment made as of the end of the reporting period	Progression of projects	Revenue from projects	Date of disclosure (if any)	Disclosure index (if any)
	Total planned investment	during the reporting period	the reporting period				
Casting plant overall relocation technical transformation project	80,000	5,849.91	74,459.24	93.00%	N/A		
Sea water desalination project	15,000	7.93	1,354.25	9.00%	N/A		
Comprehensive utilization of waste heat and offgas	12,000	297.28	3,657.13	30.00%	N/A		
Oxygen station project	10,000	0	9,815.8	98.00%	N/A		
The worker skill expanding and training center	2,600	250.87	1,396.7	54.00%	N/A		
Total	119,600	6,405.99	90,683.12	—	—		

## VI. Operating result forecast for the nine months ended 30 September 2015

*Operating result forecast for the nine months ended 30 September 2015: Net profit attributable to shareholders of listed companies is positive and had continued to be in a profitable position.*

Change in net profit attributable to shareholders of the listed Company from January to September 2015 (%)	0.00% to 30.00%
Range of change in net profit attributable to shareholders of the listed Company from January to September 2015 (RMB'0000)	1,007 to 1,309
Net profit attributable to shareholders of the listed Company from January to September 2014 (RMB'0000)	1,007.46

Reasons for the change in results

Under the circumstances of economic downturn and contraction in market demand, the Company upper and lower made concerted efforts and made a breakthrough on the independent product research and development ,the sale of high value-added and new customers development etc. by deepening the internal tapping latent potentialities and enhancing technology innovation, the Company's operation situation would be improved compared to the same period last year .

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

The profit distribution plan of the 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

There was no reception of research investigations, communications and interviews during the reporting period.

## X. Disclosures in accordance with the Listing Rules of SEHK

### 1. Results

The Group's profit for the first half of 2015 and the state of financial affairs of the Group and the Company at that date are set out in the consolidated financial statements on "VIII 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 past two financial years is as follows:

### Results

	For the 6 months ended 30 June	
	2015 RMB'0000	2014 RMB'0000
Total revenue from operation	<b>109,764.96</b>	133,691.30
Profit from operations	<b>(1,716.29)</b>	778.90
Total profit	<b>651.02</b>	1,144.36
Net profit	<b>(99.17)</b>	794.62
Minority interests	<b>(1,130.49)</b>	(129.16)
Net profit attributable to shareholders of the Company	<b>1,031.33</b>	923.78
Basic earnings share (RMB)	<b>0.01</b>	0.01

### Assets and Liabilities

	For the 6 months ended 30 June	
	2015 RMB'0000	2014 RMB'0000
Total assets	<b>592,697.62</b>	604,450.07
Total liabilities	<b>317,769.38</b>	329,425.32
Net assets	<b>274,928.24</b>	275,024.75

12

## 3. *Change in Share Capital*

Details of changes in the share capital of the Group are set out in note 32 of the consolidated financial statements.

## 4. *Reserves and Distributable Reserves*

Details of changes in the reserves of the Group for the six months ended 30 June 2015 are set out in note 35 to the consolidated financial statements.

## 5. *Property, Plant and Equipment*

Details of changes in the property, plant and equipment of the Group for the six months ended 30 June 2015 are set out in note 12 to the consolidated financial statements.

## 6. *Capitalised Interest*

For the six months ended 30 June 2015, the Group had capitalised interest amounting to RMB20,157,475.19.

## 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 “XII. 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 Charter 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 2015, 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	265,617,000	49.03%	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
Zhang Yun San	Beneficial	2,394,400	0.93%	0.30%

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 2015.

## **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 2015 or at any time in the first half of 2015.

## **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 2015.

## **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.

14

## **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 Hong Kong Stock Exchange.

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

## **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 2015 and up to the date of this report.

## **19. Gearing Ratio**

The Group's gearing ratio was approximately 53.61% (2014: approximately 54.50%) which is calculated based on the Group's total liabilities of approximately RMB3,294.25 million (2014: approximately RMB3,294.25 million) and total assets of approximately RMB5,926.98 million (2014: approximately RMB6,044.50 million).



## 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 (上市公司治理准則), listing rules of Shenzhen Stock Exchange (深圳證券交易所股票上市規則), listing rules of Hong Kong Stock Exchange (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 think 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, with the controlling shareholder. 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 in 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 reporting period, 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 2015.

**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:** During this reporting period, the company strictly complied with the related regulations and requirements of the "Information Disclosure Management System", "Significant Information Internal Report System" and "Insider Information Insiders Registration and Filing System", and earnestly fulfilled the duty of information disclosure, maintain confidentiality and good management for the insider information, strictly controlled and prevented the leakage of insider information, prevented buying and selling the company stock using company's insider information. After self-inspection, during the reporting period, all departments of the company have performed insider information insiders registration and managed information insiders according to the reporting system, there was no incidents of illegal buying and selling the company stocks, and the company director, supervisor and senior executives had not illegally bought and sold company stock. The Company and related personnel have not been taken regulatory measures against or authorities for failure to execute the registrars and reporting system of inside information insiders or for suspected insider trading.

**9. Liability Insurance for Directors, Supervisors and Senior Management:** According to the Stock Exchange of Hong Kong's latest requirements under the Corporate Governance Code, during the reporting period, the Company has completed the selection and purchase of liability insurance for directors, supervisors and senior executives, providing coverage to 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 2015, the Company has adopted the code provisions on the trading of shares of the Company by relevant directors on terms no less enacting 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. Related Party Transactions in Day to Day Operations

Related party	Relationship	Type of Connected Transactions	Subject of connected transaction	Pricing method of connected transaction	Connected transaction price	Amount (RMB'0000)	Percentage	Whether it has exceeded the	Method of settlement	Similar market price	Date of disclosure	Disclosure index
							to the total amount for the same type of transaction (%)					
Karamay Yalong Petroleum Machinery Co., Ltd	Joint venture	Sales	Oil well pumping sand accessories	Agreed price	—	140.25	6.22%	No	Cash	—	—	—
Total				—	—	140.25	—	—	—	—	—	—

Major Transactions(if any) NIL

The actual performance of the estimated total amounts of day-to-day related party transactions to be conducted in the period under review during the reporting period by type (if any)

The reason for the difference between the transaction price and the market reference price(if any) NIL

### 2. Related transactions on acquisition and disposal of assets

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

### 3. Related transactions with joint investments

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

### 4. Related creditors' rights and debts transactions

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

### 5. Other significant related transactions

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

## III. Engagement or dismissal of accounting firms

The Company's interim financial report has not been audited yet.

## VI. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

### I. Changes in share capital

Unite: 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	241,790,250	30.31%	—	—	—	—	—	241,790,250	30.31%
1. Other domestic shares comprising:	241,790,250	30.31%	—	—	—	—	—	241,790,250	30.31%
domestic natural person shareholders	241,790,250	30.31%	—	—	—	—	—	241,790,250	30.31%
II. Shares not subject to lock-up	556,058,150	69.69%	—	—	—	—	—	556,058,150	69.69%
1. RMB ordinary shares	299,931,750	37.59%	—	—	—	—	—	299,931,750	37.59%
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

Unite: share

**Total number of ordinary shareholders at the end of this reporting period** 34,560

**Total number of preferred shares voting rights to be recovered at the end of this reporting period (if any)(refer to note 8)** 0

### Holding more than 5% of shareholders or the top 10 shareholders shareholdings

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	33.29%	265,617,000	—	199,212,750	66,404,250
HKSCC Nominees Limited	Overseas legal person	32.06%	255,817,090	—	—	255,817,090
Zhang Yun San	Domestic natural person	4.14%	33,002,400	—	22,956,000	10,046,400
Lin Fu Long	Domestic natural person	3.28%	26,162,000	—	19,621,500	6,540,500
Liang Yong Qiang	Domestic natural person	0.58%	4,639,000	—	—	4,639,000
Xie Xin Cang	Domestic natural person	0.43%	3,410,000	—	—	3,410,000
Zhang Chuan Sheng	Domestic natural person	0.17%	1,345,200	—	—	1,345,200
Chen Xue Dong	Domestic natural person	0.16%	1,260,837	—	—	1,260,837
Hou Xiao Xu	Domestic natural person	0.13%	1,039,966	—	—	1,039,966
Zhang Jin Lian	Domestic natural person	0.10%	822,400	—	—	822,400

Connected relationships or concert-party relationships 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	255,817,090	H shares	255,817,090
Zhang En Rong	66,404,250	A Shares	66,404,250
Zhang Yun San	10,046,400	A Shares	7,652,000
		H shares	2,394,400
Lin Fu Long	6,540,500	A Shares	6,540,500
Liang Yong Qiang	4,639,000	A Shares	4,639,000
Xie Xin Cang	3,410,000	A Shares	3,410,000
Zhang Chuan Sheng	1,345,200	A Shares	1,345,200
Chen Xue Dong	1,260,837	A Shares	1,260,837
Hou Xiao Xu	1,039,966	A Shares	1,039,966
Zhang Jin Lian	822,400	A Shares	822,400

Connected relationships or concert-party relationships between the top ten shareholders of non-restricted shares and between the top ten shareholders of non-restricted shares and top 10 shareholders of ordinary shares

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 had not carried out any agreed repurchase transactions during the report period.

20

### III. Changes of controlling shareholder or actual controlling shareholders

There is no change in the controlling shareholders of the Company during the reporting period.

There is no change in the actual controlling shareholders of the Company during the reporting period.

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

As at 30 June 2015, 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**

<b>Name</b>	<b>Type of interest</b>	<b>Number of H Shares</b>	<b>Percentage of H Shares</b>	<b>Percentage of total registered capital</b>
Desmarais Paul G.	Interest of controlled corporation	30,500,000	11.91%	3.82%

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**

There is no change in shareholdings of the directors, supervisors and senior management during the reporting period (for details, please see 2014 annual report).

### **II. Change of Directors, Supervisors and Senior Management**

There is no change in the Company's directors, supervisors and senior managers during the reporting period (for details, please see 2014 annual report).



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

### I. Auditing Report

The interim financial report is unaudited, and has been reviewed by the audit committee of the Company.

### II. Financial Statements

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

#### 1. Consolidated Balance Sheets

	Unit: RMB	
Items	Closing balance	Opening balance
<b>Current assets:</b>		
Cash and bank balances	<b>580,181,629.70</b>	615,209,216.38
Deposit reservation for balance lending funds	—	—
Lending funds	—	—
Financial assets at fair value through profit or loss	—	—
Derivative financial assets	—	—
Bills receivable	<b>74,668,073.14</b>	90,685,848.66
Accounts receivable	<b>634,980,591.35</b>	608,640,409.68
Prepayments	<b>49,052,150.53</b>	40,431,669.87
Receivable premium	—	—
Reinsurance accounts receivable	—	—
Receivable from subcontracting reserves	—	—
Interests receivable	<b>3,728,887.81</b>	2,670,703.33
Dividend receivables	—	—
Other receivable	<b>44,959,979.30</b>	48,859,721.67
Financial assets purchased under agreements to resell	—	—
Inventory	<b>893,359,288.60</b>	1,019,069,690.68
Assets classified as held-for-sale	—	—
Non-current assets due within one year	—	—
Other current assets	<b>42,522,293.51</b>	48,939,615.27
<b>Total current assets</b>	<b>2,323,452,893.94</b>	2,474,506,875.54

Unit: RMB

Items	Closing balance	Opening balance
<b>Non- current assets:</b>		
Loans and advances from other parties	—	—
Financial asset available for sale	10,000,000.00	10,000,000.00
Held-to-maturity investments	—	—
Long term receivables	—	—
Long-term equity investment	51,182,847.42	54,356,021.71
Investment properties	—	—
Fixed assets	1,733,662,549.52	1,827,767,103.63
Construction in progress	916,178,982.41	853,004,896.75
Construction materials	—	—
Disposal of fixed assets	—	—
Biological asset	—	—
Oil and nature gas	—	—
Intangible assets	453,214,513.06	478,528,348.61
Development expenditure	30,428,367.36	—
Goodwill	83,483,383.21	83,483,383.21
Long-term deferred expenses	34,722.36	76,389.00
Deferred income tax assets	45,672,049.68	43,762,193.71
Other non- current assets	279,665,909.28	219,015,483.87
<b>Total non-current assets</b>	<b>3,603,523,324.30</b>	<b>3,569,993,820.49</b>
<b>Total assets</b>	<b>5,926,976,218.24</b>	<b>6,044,500,696.03</b>
<b>Current liabilities:</b>		
Short-term borrowings	1,379,459,840.30	1,414,805,321.00
Borrowing from 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	—	—
Derivative financial liabilities	—	—
Bills payable	487,080,249.79	426,865,457.13
Trade payable	650,620,192.05	705,325,418.59
Receipts in advance	61,691,679.99	151,391,041.52
Funds from selling out and repurchasing financial assets	—	—
Bank charges and commission payable	—	—
Salaries payable	26,069,704.93	26,372,504.82
Taxes payable	27,623,908.08	10,334,086.93
Interest payable	7,766,670.60	21,635,356.93
Dividends payable	—	—
Other payable	25,882,039.11	24,879,654.35
Amounts due to reinsures	—	—
Insurance contract reserve	—	—
Customer brokerage deposits	—	—
Securities underwriting brokerage deposits	—	—
Liabilities classified as held for sale	—	—
Non-current liabilities due within one year	—	—
Other current liabilities	1,808,000.00	1,808,000.00
<b>Total current liabilities</b>	<b>2,668,002,284.85</b>	<b>2,783,416,841.27</b>

Unit: RMB

Items	Closing balance	Opening balance
<b>Non-current liabilities:</b>		
Long-term borrowings	—	—
Bonds payable	<b>498,777,777.75</b>	498,111,111.09
Including: Preferred stock	—	—
Perpetual Capital Securities	—	—
Long-term payables	—	—
Long-term salaries payable	—	—
Specific payable	—	—
Provision	—	—
Deferred income	—	1,808,000.00
Deferred income tax liabilities	<b>10,913,779.58</b>	10,917,268.07
Other non-current liabilities	—	—
<b>Total non-current liabilities</b>	<b>509,691,557.33</b>	510,836,379.16
<b>Total liabilities</b>	<b>3,177,693,842.18</b>	3,294,253,220.43
<b>Shareholders' equity:</b>		
Share capital	<b>797,848,400.00</b>	797,848,400.00
Other equity instrument	—	—
Including: Preferred stock	—	—
Perpetual Capital Securities	—	—
Capital reserve	<b>849,500,658.42</b>	849,500,658.42
Less: Treasury stock	—	—
Other comprehensive income	<b>337,217.12</b>	312,161.80
Special reserve	—	—
Surplus reserve	<b>176,686,903.51</b>	176,686,903.51
General risk provision	—	—
Undistributed profits	<b>880,250,494.35</b>	869,937,207.44
<b>Total equity attributable to shareholders of Company</b>	<b>2,704,623,673.40</b>	2,694,285,331.17
Minority interest	<b>44,658,702.66</b>	55,962,144.43
<b>Total shareholders' equity</b>	<b>2,749,282,376.06</b>	2,750,247,475.60
<b>Total liabilities and shareholders' equity</b>	<b>5,926,976,218.24</b>	6,044,500,696.03

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 period	Balance at the beginning of the period
<b>Current assets:</b>		
Cash and bank balances	524,742,639.29	603,738,557.50
Financial assets at fair value through profit or loss	—	—
Derivative financial assets	—	—
Bills receivable	45,434,341.80	78,327,566.76
Accounts receivable	1,015,524,248.04	852,857,480.28
Prepayments	271,301,083.94	188,443,152.10
Interest receivable	3,728,887.81	2,670,703.33
Dividend receivables	—	—
Other receivables	230,302,459.25	272,409,135.72
Inventories	707,522,267.21	817,174,405.99
Assets classified as held-for-sale	—	—
Non-current assets due within one year	—	—
Other current assets	—	13,437,824.29
<b>Total current assets</b>	<b>2,798,555,927.34</b>	<b>2,829,058,825.97</b>
<b>Non-current assets:</b>		
Financial assets purchased under agreements to resell	10,000,000.00	10,000,000.00
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investment	1,042,069,921.73	1,042,069,921.73
Investment properties	—	—
Fixed assets	1,160,631,649.28	1,221,470,865.17
Construction in progress	288,847,411.07	274,360,340.88
Construction materials	—	—
Disposal of fixed assets	—	—
Biological assets	—	—
Oil and nature gas	—	—
Intangible assets	217,891,631.36	238,524,368.44
Development expenditure	30,428,367.36	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	32,501,760.38	30,591,904.41
Other non-current assets	—	—
<b>Total non-current assets</b>	<b>2,782,370,741.18</b>	<b>2,817,017,400.63</b>
<b>Total assets</b>	<b>5,580,926,668.52</b>	<b>5,646,076,226.60</b>

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
<b>Current liabilities:</b>		
Short-term borrowing	<b>1,318,323,840.30</b>	1,353,615,321.00
Financial assets at fair value through profit or loss	—	—
Derivative financial liabilities	—	—
Bills payable	<b>487,080,249.79</b>	427,645,457.13
Accounts payable	<b>336,380,802.18</b>	391,534,463.53
Receipts in advance	<b>74,641,668.87</b>	167,732,495.64
Salaries payable	<b>19,576,830.67</b>	19,806,065.35
Taxes payable	<b>23,885,319.96</b>	4,439,685.96
Interest payable	<b>7,476,578.94</b>	21,557,773.76
Dividends payable	—	—
Other payables	<b>10,823,742.84</b>	9,439,187.44
Liabilities classified as held for sale	—	—
Non-current liabilities due within one year	—	—
Other current liabilities	<b>1,808,000.00</b>	1,808,000.00
<b>Total current liabilities</b>	<b>2,279,997,033.55</b>	2,397,578,449.81
<b>Non- current liabilities:</b>		
Long-term borrowings	—	—
Bonds payable	<b>498,777,777.75</b>	498,111,111.09
Including: Preferred stock	—	—
Perpetual Capital securities	—	—
Long-term payable	—	—
Long- term salaries payable	—	—
Specific payable	—	—
Provision	—	—
Deferred income	—	1,808,000.00
Deferred income tax liabilities	<b>559,333.16</b>	400,605.50
Other non- current liabilities	—	—
<b>Total non-current liabilities</b>	<b>499,337,110.91</b>	500,319,716.59
<b>Total liabilities</b>	<b>2,779,334,144.46</b>	2,897,898,166.40

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
<b>Shareholders' equity:</b>		
Share capital	<b>797,848,400.00</b>	797,848,400.00
Other equity instruments	—	—
Including: Preferred stock	—	—
Perpetual capital securities	—	—
Capital reserve	<b>849,481,990.92</b>	849,481,990.92
Less: Treasury stock	—	—
Other comprehensive income	—	—
Special reserve	—	—
Surplus reserve	<b>176,686,903.51</b>	176,686,903.51
Undistributed profits	<b>977,575,229.63</b>	924,160,765.77
<b>Total shareholders' equity</b>	<b>2,801,592,524.06</b>	2,748,178,060.20
<b>Total liabilities and shareholders' equity</b>	<b>5,580,926,668.52</b>	5,646,076,226.60

### 3. Consolidated Income Statements

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
<b>I. Total revenue from operations</b>	<b>1,097,649,636.91</b>	1,336,912,993.10
Including: Operating revenue	<b>1,097,649,636.91</b>	1,336,912,993.10
Interest income	—	—
Earned insurance premium	—	—
Brokerage and commission income	—	—
<b>II. Total costs of operations</b>	<b>1,116,139,349.13</b>	1,330,862,303.49
Including: Operating cost	<b>909,522,428.13</b>	1,184,701,686.19
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	<b>7,768,756.07</b>	8,981,611.25
Selling expenses	<b>122,469,789.17</b>	74,614,125.24
Administrative expenses	<b>62,563,240.66</b>	47,661,443.49
Finance costs	<b>13,815,135.10</b>	22,041,420.84
Asset impairment losses	—	(7,137,983.52)
Add: Gains from changes in fair value	—	—
Investment income	<b>1,326,825.71</b>	1,738,261.51
Including: Gains from investment in associates and joint ventures	<b>1,326,825.71</b>	1,738,261.51
Exchange gain	—	—
<b>III. Operating (loss) profit</b>	<b>(17,162,886.51)</b>	7,788,951.12
Add: Non- operating income	<b>23,740,893.66</b>	4,045,212.49
Including: Gain from disposal of non-current assets	—	613,516.80
Less: Non-operating expenses	<b>67,851.83</b>	390,543.95
Including: Loss from disposal of non-current assets	<b>41,384.21</b>	358,974.66
<b>IV. Total profit</b>	<b>6,510,155.32</b>	11,443,619.66
Less: Income tax expenses	<b>7,501,818.28</b>	3,497,384.22
<b>V. Net (loss)profit</b>	<b>(991,662.96)</b>	7,946,235.44
Net profit attributable to the owners of the Company	<b>10,313,286.91</b>	9,237,809.23
Net loss attributable to non-controlling interests	<b>(11,304,949.87)</b>	(1,291,573.79)

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
<b>VI. Other comprehensive income (loss), net of tax</b>	<b>26,563.42</b>	(110,512.71)
Other comprehensive income (expense) net of tax attributable to the owners of the Company	<b>25,055.32</b>	(99,461.43)
(i) Items that will not be subsequently reclassified to profit or loss	—	—
1. Net changes in net debt or equity on defined benefit plan	—	—
2. Under the equity method cannot be reclassified into the profit or loss of the invested entity cannot enjoy the share of other	—	—
(ii) Items that maybe reclassified subsequently to profit or loss	<b>25,055.32</b>	(99,461.43)
1. Under the equity method after the invested entity will be classified into the share of profits and losses of other comprehensive	—	—
2. Net gain on fair value on available-for-sale financial assets	—	—
3. Net gain on reclassification of held-to-maturity financial	—	—
4. Net gain and loss arising on cash flow hedging	—	—
5. Exchange differences arising on translation	<b>25,055.32</b>	(99,461.43)
6. Others	—	—
Other comprehensive income (expense) attributable to the non-controlling interests (net of tax)	<b>1,508.10</b>	(11,051.28)
<b>VII. Total comprehensive (expense) income</b>	<b>(965,099.54)</b>	7,835,722.73
Total comprehensive income attributable to shareholders of Company	<b>10,338,342.23</b>	9,138,347.80
Total comprehensive expense attributable to non-controlling interest	<b>(11,303,441.77)</b>	(1,302,625.07)
<b>VIII. Earnings per share:</b>		
(i) Earnings per share	<b>0.01</b>	0.01
(ii) Earnings per share — diluted	<b>0.01</b>	0.01

Business combinations under common control during this period, the net profit of the combining party before the business combinations under common control during this period is RMB Nil (2014: RMB Nil).

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



#### 4. Company's Income Statements

Unit: RMB		
Items	Amount of this period	Amount of last period
<b>I. Operating revenue</b>	<b>1,113,067,032.86</b>	1,434,984,761.74
Less: Operating cost	<b>894,638,008.61</b>	1,266,355,491.33
Business tax and surcharges	<b>7,156,995.45</b>	8,503,006.02
Selling expenses	<b>122,344,402.99</b>	74,526,146.86
Administrative expenses	<b>41,681,058.03</b>	37,901,232.77
Finance costs	<b>9,545,690.19</b>	26,367,273.22
Assets impairment losses	—	(3,088,128.75)
Add: Gains from changes in fair value	—	—
Investment income	—	—
Including: Gains from investment in associates and joint ventures	—	—
<b>II. Operating profit</b>	<b>37,700,877.59</b>	24,419,740.29
Add: Non- operating income	<b>22,756,094.25</b>	3,198,700.85
Including: Gain from disposal of non-current assets	—	421,439.67
Less: Non-operating loss	<b>36,827.32</b>	41,931.52
Including: Loss from disposal of non-current assets	<b>30,359.70</b>	20,362.23
<b>III. Total profit</b>	<b>60,420,144.52</b>	27,576,509.62
Less: Income tax expenses	<b>7,005,680.66</b>	2,713,988.16
<b>IV. Net profit</b>	<b>53,414,463.86</b>	24,862,521.46
<b>V. Other comprehensive income net of tax</b>	—	—
(I) Items that will not be subsequently reclassified to profit or loss	—	—
1. Net changes in net debt or equity on defined benefit plan	—	—
2. Under the equity method cannot be reclassified into the profit or loss of the invested entity cannot enjoy the share of other	—	—
(II) Items that maybe reclassified subsequently to profit or loss	—	—
1. Under the equity method after the invested entity will be classified into the share of profits and losses of other comprehensive	—	—
2. Net gain on fair value on available-for-sale financial assets	—	—
3. Net gain on reclassification of held-to-maturity financial assets to available-for-sale financial assets	—	—
4. Net gain and loss arising on cash flow hedging	—	—
5. Exchange differences arising on translation	—	—
6. Others	—	—
<b>VI. Total comprehensive income</b>	<b>53,414,463.86</b>	24,862,521.46
<b>VII. Earnings per share:</b>		
(i) Basic earnings per share	—	—
(ii) Diluted earnings per share	—	—

## 5. Consolidated Statements of Cash Flow

Unit: RMB

Items	Amount of this period	Amount of last period
<b>I. Cash flow from operating activities:</b>		
Cash receipts from the sale of goods or rendering of services	<b>1,027,641,713.82</b>	1,486,422,725.74
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	<b>36,769,194.81</b>	27,970,576.46
Other cash receipts relating to operating activities	<b>80,760,703.29</b>	119,681,144.05
<b>SUB-TOTAL OF CASH INFLOWS FROM OPERATING</b>	<b>1,145,171,611.92</b>	1,634,074,446.25
Cash payments for goods purchased and services received	<b>716,472,006.32</b>	1,128,330,158.35
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 commission paid	—	—
Policy holder dividend paid	—	—
Cash paid to and on behalf of employees	<b>64,546,155.77</b>	71,230,146.04
Payments of all types of taxes	<b>18,233,925.43</b>	34,958,878.96
Other cash payments relating to operating activities	<b>219,160,609.59</b>	81,623,221.69
<b>SUB-TOTAL OF CASH OUTFLOWS ACTIVITIES</b>	<b>1,018,412,697.11</b>	1,316,142,405.04
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>126,758,914.81</b>	317,932,041.21
<b>II. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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
Net cash receipts from disposals of subsidiaries and other business units	—	—
Other cash receipts relating to investing activities	—	—
<b>SUB-TOTAL OF CASH INFLOWS FROM INVESTING ACTIVITIES</b>	—	434,855.83

Unit: RMB

Items	Amount of this period	Amount of last period
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets	120,485,175.10	240,837,231.75
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	—	—
<b>SUB-TOTAL OF CASH OUTFLOWS FROM INVESTING ACTIVITIES</b>	<b>120,485,175.10</b>	240,837,231.75
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(120,485,175.10)</b>	(240,402,375.92)
<b>III. CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash receipts from investors	—	—
Including: Cash receipts from the shareholders of subsidiaries	—	—
Cash receipts from borrowings	1,140,492,317.19	1,217,536,092.31
Cash receipts from issuance of bonds	—	—
Other cash receipts relating to financing activities	5,000,000.00	53,854,974.00
<b>SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES</b>	<b>1,145,492,317.19</b>	1,271,391,066.31
Cash repayments of amounts borrowed	1,175,783,797.89	878,003,122.31
Cash payments for distribution of dividends or profits or cash payments for interest expenses	54,214,983.29	59,190,867.14
Including: Cash payment for distribution of dividends or profits to non-controlling interest	—	—
Other cash payments relating to financing activities	20,100,000.00	—
<b>SUB-TOTAL OF CASH OUTFLOWS</b>	<b>1,250,098,781.18</b>	937,193,989.45
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(104,606,463.99)</b>	334,197,076.86
<b>IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>5,674,876.49</b>	(5,019,833.97)
<b>V. NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(92,657,847.79)</b>	406,706,908.18
Add: Beginning balance of cash and cash equivalents	496,842,889.68	330,546,464.49
<b>VI. ENDING BALANCE OF CASH AND CASH EQUIVALENTS</b>	<b>404,185,041.89</b>	737,253,372.67

33

## 6. Company's Statements of Cash Flow

Unit: RMB

Item	Amount for this period	Amount of last period
<b>I. CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash receipts from the sale of goods or rendering of services	994,991,435.66	1,344,992,870.07
Receipts of tax refunds	36,769,194.81	26,840,676.46
Other cash receipts relating to operating activities	83,857,209.52	118,746,581.07
<b>SUB-TOTAL OF CASH INFLOWS FROM OPERATING</b>	<b>1,115,617,839.99</b>	<b>1,490,580,127.60</b>
Cash payments for goods purchased and services received	846,203,269.69	1,117,700,290.47
Cash paid to and on behalf of employees	48,884,377.62	50,795,323.25
Payments of all types of taxes	12,109,792.28	27,471,763.45
Other cash payments relating to operating activities	217,139,814.96	86,179,914.42
<b>SUB-TOTAL OF CASH OUTFLOWS FROM ACTIVITIES</b>	<b>1,124,337,254.55</b>	<b>1,282,147,291.59</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(8,719,414.56)</b>	<b>208,432,836.01</b>
<b>II. CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
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	—	421,439.67
Net cash receipts from disposals of subsidiaries and other business units	—	—
Other cash receipts relating to investing activities	—	—
<b>SUB-TOTAL OF CASH INFLOWS FROM INVESTING ACTIVITIES</b>	<b>—</b>	<b>421,439.67</b>
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets	29,599,690.68	141,679,600.58
Cash payments to acquire investments	—	—
Net cash payments for acquisition of subsidiaries and other business units	—	—
Other cash payments relating to investment activities	—	—
<b>SUB-TOTAL OF CASH OUTFLOWS FROM INVESTING ACTIVITIES</b>	<b>29,599,690.68</b>	<b>141,679,600.58</b>
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(29,599,690.68)</b>	<b>(141,258,160.91)</b>

Unit: RMB

Item	Amount for this period	Amount of last period
<b>III. CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash receipts from borrowings	—	—
Cash receipts from issuance of bonds	<b>1,079,356,317.19</b>	1,156,008,092.31
Other cash receipts relating to financing activities	—	—
Other cash receipts relating to financing activities	<b>5,000,000.00</b>	53,854,974.00
<b>SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES</b>	<b>1,084,356,317.19</b>	1,209,863,066.31
Cash repayments of amounts borrowed	<b>1,114,647,797.89</b>	732,797,042.31
Cash payments for distribution of dividends or profits, or cash payments for interest expenses	<b>53,595,157.97</b>	58,440,465.44
Other cash payments relating to financing activities	<b>20,100,000.00</b>	—
<b>SUB-TOTAL OF CASH OUTFLOWS</b>	<b>1,188,342,955.86</b>	791,237,507.75
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(103,986,638.67)</b>	418,625,558.56
<b>IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>5,679,564.59</b>	(5,010,282.98)
<b>V. NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(136,626,179.32)</b>	480,789,950.68
Add: Beginning balance of cash and cash equivalents	<b>485,372,230.80</b>	210,108,724.61
<b>VI. ENDING BALANCE OF CASH AND CASH EQUIVALENTS</b>	<b>348,746,051.48</b>	690,898,675.29

7. Consolidated Statement of Changes in Shareholder's Equity  
For the six months ended 30 June 2015

Unit: RMB

Items	Amount for the six months ended 30 June 2015												
	Equity attributable to shareholders of the Company												Total equity
	Share capital	Other equity instruments			Capital reserve	Less: Capital reserve	Other Comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Non-controlling interest	
	Preferred	Bond	Other										
<b>I. Balance at the end of the previous period</b>	797,848,400.00	0.00	0.00	0.00	849,500,658.42	0.00	312,161.80	0.00	176,686,903.51	0.00	869,937,207.44	55,962,144.43	2,750,247,475.60
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	0.00
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—	—	—	0.00
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	0.00
Others	—	—	—	—	—	—	—	—	—	—	—	—	0.00
<b>II. Balance at the beginning of the current period</b>	797,848,400.00	0.00	0.00	0.00	849,500,658.42	0.00	312,161.80	0.00	176,686,903.51	0.00	869,937,207.44	55,962,144.43	2,750,247,475.60
<b>III. Changes in the current period</b>	0.00	0.00	0.00	0.00	0.00	0.00	25,055.32	0.00	0.00	0.00	10,313,286.91	(11,303,441.77)	(965,099.54)
(i) Total comprehensive income (expense)	—	—	—	—	—	—	25,055.32	—	—	—	10,313,286.91	(11,303,441.77)	(965,099.54)
(ii) Shareholder's capital injection and capital reduction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—	—	—	0.00
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—	—	0.00
3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	—	—	0.00
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	0.00
(iii) Profit distribution	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	0.00	—	0.00
2. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	0.00
3. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—	—	0.00
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	0.00
(iv) Transfer of shareholder's equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	0.00
2. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	0.00
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	0.00
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	0.00
(v) Special	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Withdraw	—	—	—	—	—	—	—	2,137,045.56	—	—	—	—	2,137,045.56
2. Utilise	—	—	—	—	—	—	—	(2,137,045.56)	—	—	—	—	(2,137,045.56)
(vi) Other	—	—	—	—	—	—	—	—	—	—	—	—	0.00
<b>IV. Balance at the end of the current period</b>	797,848,400.00	0.00	0.00	0.00	849,500,658.42	0.00	337,217.12	0.00	176,686,903.51	0.00	880,250,494.35	44,658,702.66	2,749,282,376.06

For the six months ended 30 June 2014

Unit: RMB

Amount for the six months ended 30 June 2014													
Equity attributable to the shareholders of the Company													
Items	Other equity instruments				Capital reserve	Less Treasury stock	Other equity instruments	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Non-controlling interest	Total equity
	Share capital	Preferred shares	Perpetual bonds	others									
<b>I. Balance at the end of the period</b>	797,848,400.00	0.00	—	0.00	849,500,658.42	—	363,977.13	—	168,908,489.86	0.00	857,482,430.32	62,017,520.78	2,736,121,476.51
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of the correction of prior period	—	—	—	—	—	—	—	—	—	—	—	—	—
accounting errors	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>II. Balance at the beginning of the current period</b>	797,848,400.00	0.00	—	0.00	849,500,658.42	—	363,977.13	—	168,908,489.86	0.00	857,482,430.32	62,017,520.78	2,736,121,476.51
<b>III. Changes in the current period</b>	—	0.00	—	0.00	—	—	-99,461.43	—	—	0.00	9,237,809.23	(1,302,625.07)	7,835,722.73
(i) Total comprehensive income	—	—	—	—	—	—	-99,461.43	—	—	—	9,237,809.23	(1,302,625.07)	7,835,722.73
(ii) Shareholder's capital injection and capital reduction	—	0.00	—	0.00	—	—	0.00	—	—	0.00	—	—	—
1. Capital injection shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	0.00	—	0.00	—	—	0.00	—	—	0.00	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of shareholders' equity	—	0.00	—	0.00	—	—	0.00	—	—	0.00	—	—	—
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	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special	—	0.00	—	0.00	—	—	0.00	—	—	0.00	—	—	—
1. Withdraw	—	—	—	—	—	—	—	4,539,390.74	—	—	—	—	4,539,390.74
2. Utilise	—	—	—	—	—	—	—	(4,539,390.74)	—	—	—	—	(4,539,390.74)
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>IV Balance at the end of the current period</b>	797,848,400.00	—	—	—	849,500,658.42	—	264,515.70	—	168,908,489.86	—	866,720,239.55	60,714,895.71	2,743,957,199.24

8. *Company's Statement of Changes in Shareholder's Equity*  
For the six months ended 30 June 2015

Unit: RMB

Items	Amount for the six months ended 30 June 2015										
	Other equity instruments				Capital reserve	Less:			Surplus reserve	Undistributed profit	Total equity
	Share capital	Preferred	Perpetual bonds	Others		Treasury stock	Other equity instruments	Special reserve			
<b>I. Balance at the end of the previous period</b>	797,848,400.00	0.00	0.00	0.00	849,481,990.92	0.00	0.00	0.00	176,686,903.51	924,160,765.77	2,748,178,060.20
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	0.00
Effect of the correction of prior period accounting errors	—	—	—	—	—	—	—	—	—	—	0.00
Others	—	—	—	—	—	—	—	—	—	—	0.00
<b>II. Balance at the beginning of the current period</b>	797,848,400.00	0.00	0.00	0.00	849,481,990.92	0.00	0.00	0.00	176,686,903.51	924,160,765.77	2,748,178,060.20
<b>III. Changes in the current period</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	53,414,463.86	53,414,463.86
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	53,414,463.86	53,414,463.86
(ii) Shareholder's capital injection and capital reduction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital injection shareholders	—	—	—	—	—	—	—	—	—	—	0.00
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	0.00
3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	0.00
4. Others	—	—	—	—	—	—	—	—	—	—	0.00
(iii) Profit distribution	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	0.00
2. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	0.00
3. Others	—	—	—	—	—	—	—	—	—	—	0.00
(iv) Transfer of shareholders' equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	0.00
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	0.00
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	0.00
4. Others	—	—	—	—	—	—	—	—	—	—	0.00
(v) Special	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Withdraw	—	—	—	—	—	—	—	—	—	—	0.00
2. Utilise	—	—	—	—	—	—	—	—	—	—	0.00
(vi) Other	—	—	—	—	—	—	—	—	—	—	0.00
<b>IV. Balance at the end of the current period</b>	797,848,400.00	0.00	0.00	0.00	849,481,990.92	0.00	0.00	0.00	176,686,903.51	977,575,229.63	2,801,592,524.06



For the six months ended 30 June 2014

Unit: RMB

Items	Amount for the six months ended 30 June 2014										
	Other equity instruments				Capital reserve	Less:		Special reserve	Surplus reserve	Undistributed profit	Total equity
	Share capital	Preferred	Perpetual bonds	Others		Treasury stock	Other equity instruments				
<b>I. Balance at the end of the previous period</b>	797,848,400.00	0.00	0.00	0.00	849,481,990.92	0.00	0.00	0.00	168,908,489.86	854,155,042.88	2,670,393,923.66
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	0.00
Effects of the correction of prior period accounting errors	—	—	—	—	—	—	—	—	—	—	0.00
Others	—	—	—	—	—	—	—	—	—	—	0.00
<b>II. Balance at the beginning of the current period</b>	797,848,400.00	0.00	0.00	0.00	849,481,990.92	0.00	0.00	0.00	168,908,489.86	854,155,042.88	2,670,393,923.66
<b>III. Changes in the current period</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	24,862,521.46	24,862,521.46
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	24,862,521.46	24,862,521.46
(ii) Shareholder's capital injection and capital reduction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital injection shareholder	—	—	—	—	—	—	—	—	—	—	0.00
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	0.00
3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	0.00
4. Others	—	—	—	—	—	—	—	—	—	—	0.00
(iii) Profit distribution	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	0.00
2. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	0.00
3. Others	—	—	—	—	—	—	—	—	—	—	0.00
(iv) Transfer of shareholders' equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	0.00
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	0.00
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	0.00
4. Others	—	—	—	—	—	—	—	—	—	—	0.00
(v) Special	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Withdraw	—	—	—	—	—	—	—	1,685,370.75	—	—	1,685,370.75
2. Utilise	—	—	—	—	—	—	—	1,685,370.75	—	—	1,685,370.75
(vi) Other	—	—	—	—	—	—	—	—	—	—	0.00
<b>IV. Balance at the end of the current period</b>	797,848,400.00	0.00	0.00	0.00	849,481,990.92	0.00	0.00	0.00	168,908,489.86	879,017,564.34	2,695,256,445.12

### 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. 99 Beihuan Road, Shouguang City, Shandong Province. The Company's predecessor company is Molong Holdings, which was established jointly by Zhang En Rong, Lin Fu Long, Zhang Yun San, Xie Xin Cang, Liu Yun Long, Cui Huan You, Liang Yong Qiang, Shengli Oil Field Kaiyuan Oil Exploitation Company Limited (勝利油田開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 address of the registered office and the principal place of business is 999 Wen Sheng Street, Shouguang City, Shandong Province.

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

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

The Group consolidated financial statements including Shouguang Baolong Petroleum Material Company Limited, Shouguang Maolong Machinery Company Limited, Weihai Baolong Company Limited eight companies. Compared with last year, there is no change in the scope of the consolidated financial statements.

For the Group subsidiaries See Note 8, Changes in the scope of Consolidation and Note 9 in the other subjects of interest" related content

41

## **IV. Basis of Preparation of the Consolidated Financial Statements**

### **1. Basis of preparation**

The financial statements have been prepared on a going concern basis, according to the actual occurrence of the transactions and events and in accordance with Application Guidance for Accounting Standard for Business Enterprises (ASBEs) issued by the Ministry of Finance of the People cil well pumps, oil well sucker rods, oil pumping machinery, oil pumping pipes, petroleum machinery, tex requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 n the Preparation Convention of Information Disclosure b4) 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. Going concern**

The Group has stable cash flows and recorded recent history of profitable operations and is able to obtain the financial resources to support the production and operation. There is no indication of major events that may affect its ability of going concern. Thus, the financial statements have been prepared under the assumption of going concern.

## V. Significant Accounting Policies and Accounting Estimates

Specific accounting policies and accounting estimates tip: the Group adopt specific accounting policies and accounting estimates according to the actual production and management features including the business cycle, recognition and measurement of receivables and bad debts, inventory measurement, fixed assets classification and depreciation method, invisible asset amortization, research and development costs capitalization requirements, revenue recognition and measurement, etc.

### 1. *Statement of compliance*

The financial statements truly and completely reflect the financial position of the Group and the Company as at 30 June 2015 and the results of their operations and their cash flows for the year ended 30 June 2015.

### 2. *Financial year*

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

### 3. *Operating cycle*

Operating cycle refers to period from assets purchased for production to cash or cash equivalents realised. The operating cycle of the Company is 12 months.

### 4. *Reporting currency*

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

The Group adopts Renminbi as its currency when preparing for these financial statements.

### 5. *Business combinations under common control and other than common control accounting treatment*

The assets and liabilities that the Group acquires as the combining party in a business combination under common control shall be measured at their book value of the combined party on the combining date in the consolidated statements of the ultimate controlling party. The balance between the book value of the net assets acquired and that of the consideration paid shall be used to adjust capital reserves. If capital reserves are insufficient for offsetting, retained earnings will be adjusted.

The identifiable assets, liabilities and contingent liabilities acquired from the acquiree in a business combination not under common control shall be measured at fair value on the acquisition date. The combination costs shall be the aggregate of the fair value of cash or non-cash assets paid by the Group on the acquisition date to obtain control over the acquiree, the debts issued or undertaken by the Group and the equity securities issued as well as all relevant direct costs for the business combination (for a business combination realised by two or more transactions, the combination costs shall be the aggregate of the costs of all separate transactions). The amount of the combination costs in excess of the fair value of the identifiable net assets of the acquiree shall be recognized as goodwill. If the combination costs are less than the fair value of the identifiable net assets of the acquiree, the fair value of the identifiable assets, liabilities and contingent liabilities acquired from the combination as well as the fair value of the non-cash assets or the equity securities issued for paying the consideration will be reviewed. If the combination costs are still less than the fair value of the identifiable net assets after review, the balance shall be accounted for as non-operating income for the current period.

## 6. *Basis of preparation of consolidated financial statements*

The Group will include all subsidiaries and Variables Interest Entities into the consolidated financial statements.

Necessary adjustments will be made when there is inconsistency on the accounting policies and accounting period between the Company and its subsidiaries when preparing the consolidated financial statements.

Significant intra-group transactions, current balance and unrealised profits within the scope of combination shall be offset in preparing the consolidated statements. The shares of owners' equity in subsidiaries not attributable to the parent company and the net loss or profit for the current period, other comprehensive income and total comprehensive income attributable to minority interests shall be presented in the consolidated financial statements as "minority interests, profit or loss attributable to minority interests, other comprehensive income attributable to minority interests and total comprehensive income attributable to minority interests", respectively.

The operating results and cash flows of a subsidiary acquired from business combination under common control shall be included in the consolidated financial statements from the beginning of the current period of the combination. When preparing the comparative consolidated financial statements, relevant items in the financial statements of the previous year will be adjusted as if the reporting entity formed after the combination had been in existence since the ultimate controlling party gains control.

In preparing consolidated statements, equity interests in an investee under common control realised by two or more transactions, which finally bring about the business combination, shall be adjusted as if they had been in existence in the current state since the ultimate controlling party gains control. When preparing the comparative statements, to the extent that the Group and the combined party are both under the control of the ultimate controlling party, the relative assets and liabilities of the combined party shall be included in the comparative statements of the Group's consolidated financial statements, and the increase in net assets arising from the combination will be adjusted against the related items under owners' equities in the comparative statements. To avoid double counting the value of the net assets of the combined party, long-term equity investments before the combination, as well as the relevant recognized profit or loss, other comprehensive income and other changes in net assets from the day of acquiring the original equity interest or the day when the Group and the combined party are under the same ultimate control, whichever is later, to the combination date shall be offset against the retained earnings at the beginning of the period and the profit or loss for the current period in the comparative statements, respectively.

The operating results and cash flows of a subsidiary acquired from a business combination not under common control unit shall be included in the consolidated financial statements since the Group gains control. When preparing the consolidated financial statements, the financial statements of the subsidiary shall be adjusted based on the fair value of the identifiable assets, liabilities and contingent liabilities determined on the acquisition date.

For equity interests in an investee not under common control realised by two or more transactions, which finally bring about the business combination, when preparing the consolidated statements, equity interests in the investee before the acquisition date shall be re-measured at fair value on the acquisition date and the balance between the fair value and the book value shall be included in the investment gains for the current period.

Except for other comprehensive income arising from changes as a result of re-measurement of net liabilities or net assets of the defined benefit plan of the investee, other comprehensive income under the equity method involving the equity interests in the investee held before the acquisition date and other changes in equity except net profit or loss, other comprehensive income and profit distribution shall be converted into investment gains or loss in the period in which the acquisition date falls.

For partial disposal of the Group's long-term equity investments in a subsidiary without losing control, in the consolidated financial statements, the balance between the disposal consideration and the corresponding share of the subsidiary's net assets entitled from the disposal of the long-term equity investments, which is continuously calculated since the acquisition date or the combination date, shall be used to adjust the capital surplus or share premium. If the capital surplus is insufficient for offsetting, the retained earnings shall be adjusted.

For disposal of the Group's equity investments in a subsidiary realised by two or more transactions until loss of control, if the transactions fall under a package deal, those transactions shall be accounted for as a deal under which the subsidiary is disposed of and control is lost. However, before losing control over the subsidiary, the balance between each disposal consideration and the corresponding share of the subsidiary's net assets entitled from the disposal of the investments shall be recognized as other comprehensive income in the consolidated financial statements and when control is lost, converted into investment gain or loss for the period in which control is lost.

## **7. *The accounting recognition for joint arrangements and joint operation***

The joint arrangements of the Group consist of joint operation and joint ventures. For joint operation projects, the Group, as a joint operation party, recognizes assets held and liabilities assumed by itself, recognises other assets held and liabilities assumed on a pro-rata basis, and recognizes related revenues and expenses itself or on a prorata basis according to the relevant agreements. For assets transaction involving purchases and sales with the joint operation which does not constitute a business, only the proportion of profit or loss attributable to other parties to the joint operation which results from the transaction is recognized.

## **8. *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 not exceeding three months, and which are subject to insignificant risk of value change.

## **9. *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.

## 10. Financial assets and financial liabilities

Financial assets and liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

### (1) Financial assets

#### (1) *Classification, recognition and measure 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.

Financial assets at fair value through profit or loss consist of financial assets held for trading and those designated as financial assets at fair value through profit or loss at initial recognition. The Group shall classify financial assets as financial assets held for trading as long as they meet one of the following conditions: the purpose of acquiring the financial assets is to sell them within a short time; they fall under a portfolio of identifiable financial instruments for centralized management, and there is objective evidence that the Company has managed the portfolio in a manner for making profits within a short time; they fall under derivative instruments, except those designated as effective hedging instruments, financial guarantee contracts and equity-linked investments that are not quoted in an active market and whose fair value cannot be measured reliably and have to be settled through delivery. The Group shall designate financial instruments as financial assets at fair value through profit or loss at initial recognition only when they meet one of the following conditions: The designation can eliminate or significantly reduce inconsistencies in terms of recognition and measurement of relevant gains or losses caused by different measurement bases of the financial instruments. The formal written documents of corporate risk management or investment strategies have recorded that the financial portfolio is managed and assessed on the basis of the fair value and this is reported to the key management personnel. The financial instrument is a hybrid instrument containing one or more embedded derivatives, unless the embedded derivatives do not significantly change the cash flow of the hybrid instrument or obviously should not be separated from the relevant hybrid instrument. The hybrid instrument contains embedded derivatives that need to be separated but cannot be measured separately on the acquisition date or on the subsequent balance sheet date. The Group does not have such financial assets at present, which shall be subsequently measured at fair value. Changes in fair value shall be accounted for in gains or loss from changes in fair value. The interests or cash dividends acquired while the Group holds the assets shall be recognized as investment gains. In the process of disposal, the balance between its fair value and the initial booked amount shall be recognized as investment gains or loss and gains or loss from changes in fair value will be adjusted.

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. Held to-maturity investments using the effective interest method are subsequently measured at amortised cost, the amortisation or impairment and gains or losses are recognised upon termination arising and are recognised in the profit or loss for the current period.

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. In this type of asset, the equity instruments without quoted price in an active market and whose fair value cannot be reliably measured and the derivative financial instruments related to and settled by delivery of an equity instrument, are subsequently measured at cost; the other instruments in an active market, although there is no active market price or the market price but the fair value can be reliably measured, are measured at fair value, and the changes in fair value are recognized in other comprehensive income. These financial assets are subsequently measured at fair value, except for impairment losses and foreign exchange gain and loss of monetary financial assets, the change in fair value of available for sale financial assets are recognized directly in shareholders' equity, when the financial asset is derecognized, the cumulative amount of changes in fair value recognized directly in equity before is recognized in the income statement. Interests of available for sale debt instruments held by investment which are calculated by the effective interest method, and cash dividends related to available for sale equity instruments declared by the investee issued are recognized as investment income in profit or loss.

(2) *Recognition and measurement of financial assets*

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.

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.



(3) *Impairment loss on financial assets*

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.

Impairment will be provided on the equity instruments measured by the cost when the performance of the investee continued to decline and there is no sign of reversing. The impairment is calculated based on the present value of estimated future cash flows and the difference between the carrying value.

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.

(2) **Financial liabilities**

(1) *Classification, recognition and measurement of financial liabilities*

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

47

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.

(2) *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. Where an agreement between the Company and the creditor has been entered into to replace the existing financial liabilities by way of a new undertaking of financial liabilities, and the terms of the contracts for the new financial liabilities are materially different from those of the existing financial liabilities, the existing financial liabilities shall be derecognized, and at the same time the new financial liabilities shall be recognised. If the Company makes substantial amendments to all of or part of the terms of the contract for the new financial liabilities, the existing financial liabilities or part of them shall be derecognized, and meanwhile the financial liabilities under the amended terms shall be recognized as new financial liabilities. The balance between the book value of the part derecognized and the consideration paid shall be included in the profit or loss for the current period.

(3) *Offsetting financial assets and financial liabilities*

The Group measures the fair value of financial assets and financial liabilities at the price of the principal market. If there is no principal market, the fair value of financial assets and financial liabilities shall be measured at the price of the most advantageous market, and a valuation technique which is applicable at that time and has sufficient data as well as other information support will be adopted.

The Group categories 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. 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. The Group will give priority to the use of the Level 1 of the input value, finally using Level 3 of input values.

During the year, the group had no financial liabilities that are measured at fair value and recognised in the profit or loss.

## 11. *Accounts receivable*

(1) **Single item with significant accounts receivable and provided for bad debts in single item.**

Judgment basis or amount standard for single item with significant amount

The Group recognizes accounts receivable of over RMB3 million and other receivables of over RMB2 million as single item with significant accounts receivable. °

Provision method for single item with significant amount and provided for bad debts in single item

The Group conducts impairment test for single item with significant accounts receivable separately, and tests financial assets without impairment separately, including conducting impairment test on financial asset groups with similar credit risk characteristics. For accounts receivable with impairment loss recognized in single item test, they ceased to be included in accounts receivable portfolio with similar risk characteristics for impairment test.

(2) **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

## 12. Inventory

Inventories of the Group mainly include raw materials, products and finished products.

The inventory taking system shall be on a perpetual basis. Inventories are initially measured at cost. When inventories are delivered, weight average method is adopted to determine the actual cost of inventories delivered. Packaging materials and low-value consumable are amortised by one-time written-off.

At the balance sheet date, inventories are calculated at the lower of cost and net realisable value. If the net present values of the inventories are lower than the cost, provision for impairment is recognised. The provisions for finished goods and large-amount raw materials are made on the excess of their costs over their lower net realisable values on an item-by-item basis. Other inventories items are assessed on collective basis.

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. Net realisable value of goods-in-stock, work-in-progress or held-for-sale raw materials are determined by their estimated sales less the related selling expenses and taxes. Net realizable value for raw material for held for production are determined by the estimated selling price of finished goods less the estimated cost to completion, selling expenses and taxes.

## 13. Assets classified as held for sale

The assets of the Group that meet the following conditions to be classified as held for sale: the underlying assets can be sold immediately according to the usual and customary terms; the Group has approved a resolution on the disposal of certain assets; the Group and the transferee signed irrevocable transfer agreement and the transfer will be completed within one year.

49

## 14. Long-term equity investments

Long-term equity investments include the Company's investment in entities, including investments in jointly ventures that the Group have control, common control or significant influence.

Our judgment of joint control is based on the fact that all participants involved or groups of participants jointly control the arrangement, and that policies of relevant activities must be unanimously agreed by participants who jointly control the arrangement.

When the Group owns 20% or above but less than 50% of the voting right of the investee directly, or indirectly through subsidiaries, it is considered to have a material influence on the investee. If the voting right in the investee is less than 20%, the influence on investee will be decided based on facts and circumstances including representatives in the board of directors of similar authority of the investee, or participation in the process of formulating the financial and operating policies of the investee, having significant transactions with the investee, dispatching management personnel to the investee, and providing key technology and data to the investee.

An investee that is under the control of the Group is deemed as a subsidiary of the Group. For long-term equity investments acquired through a business combination under common control, they will be used as the initial investment cost of long-term equity investment according to the share of the merged party in the book value of net assets in the financial statements of the ultimate controlling party on the date of merger. If the book value of net assets of the merged party at the date of merger is negative, long-term equity investment cost is recognized as nil.

As for the package deals which acquire equity of investee under the same control through multiple deals and ultimately form merger, the Group shall handle each deal as one with controlling rights by means of accountancy. For those which are not package deals, they will be used as the initial investment cost of long-term equity investment according to the share of the book value of net assets in the merged party's financial statements of the ultimate controlling party on the date of merger. The balance between initial investment cost and book value of long-term equity investment before merger plus the book value of acquired new payment consideration of the further obtained shares on the date of merger shall adjust capital surplus. If the value of capital surplus is not enough to be offset, retained earnings shall be offset.

The merger cost will be the initial investment cost at the Long-term equity investments acquired through a business combination under common control.

As for the package deals which acquire equity of investee under the same control through multiple deals and ultimately form merger, the Group shall handle each deal as one with controlling rights by means of accountancy. For those which are not package deals, they will be used as the initial investment cost of long-term equity investment according to the share of the book value of net assets in the merged party's financial statements of the ultimate controlling party on the date of merger. The balance between initial investment cost and book value of long-term equity investment before merger plus the book value of acquired new payment consideration of the further obtained shares on the date of merger shall adjust capital surplus. If the value of capital surplus is not enough to be offset, retained earnings shall be offset.

Aside from the long-term equity investments acquired through business merger, long-term equity investments acquired by cash will be used as investment cost according to the actual payment of the purchase price; long-term equity investments acquired through issuance of equity securities will be used as investment cost according to the fair value of the equity securities issued; long-term equity investments from investors will be used as investment cost according to the investment contracts or agreement value; if company owns long-term equity investments which are acquired through debt restructuring, non-monetary assets exchange and other means, investment cost shall be determined according to the provisions of relevant accounting standards of enterprises and practical situation of company.

The Group's investments in subsidiaries are accounted for using the cost method and using equity method for the investments in joint ventures and associates. Investments in subsidiaries are adjusted by equity method when there is addition or recovery of Investment, include the amount of the additional investment costs paid and the fair value of the related transaction costs of equity investments. The cash dividends or profit distribution declared by the investees are recognised as investment income in profit or loss.

Subsequent measurement adopts the long-term equity investment accounted by equity method. Increase or decrease the book value of long-term equity investments according to the variations of other investment unit owners' rights and interests. Determination of the reversionary shares of net income and loss of the investee should be based on the fair value of the identifiable assets when investment is made according to the accounting policies and accounting period of the Group. And offset the internal profits and losses caused between associated enterprises and joint ventures. Calculate the parts attributable to investment enterprise according to share-holding proportion, confirm after the adjustment to net profit of the investee.

For long-term equity investment, the balance between its book value and actual payment will be accounted into the profit of the current period. When handling the long-term equity investment accounted by equity method which is accounted into owners' equity due to the changes in owners' equity aside from the net income and loss of the investee, the parts which were accounted into owners' equity shall be transferred into profit and loss of investment of current period according to corresponding proportion.

If the Group loses joint control or material influence on investee due to disposal of certain equity investment and other reasons, any retained interests shall be calculated according to the financial assets available for sale. The balance between book value and fair value of retained interests on the date of losing joint control or material influence will be accounted into current profit and loss. Other comprehensive income recognized in original equity investment using equity method shall be treated under accounting method subject to the basis on which the relevant assets or liabilities of the investee at the termination of equity method calculation.

When the Group loses control over the investee due to disposal of certain long-term equity interest, and the retained equity could have joint control or significant impact on the investee, the retained equity shall be measured by equity method, the difference between the carrying value of the equity and the consideration on disposal shall be recognized as investment income, and the retained equity shall be adjusted to be measured by equity method. If the retained equity after disposal fails to have joint control or significant impact on the investee, accounting treatment shall be made according to relevant provisions of the available for sale financial assets, the difference between the carrying value of the equity and the consideration on disposal shall be recognized as investment income, and the difference between the fair value and the carrying value of the retained equity shall be recognized as profit and loss of investment income in the period in which they are incurred.

As to the transactions incurred by our step-by-step disposal of equity till a complete loss of the controlling interest, if they are not a package deal, our company would make accounting treatment separately for each of them; if they are a package deal, our company would treat them as deals incurred by disposing subsidiary till losing controlling interest and make corresponding accounting treatment. But, before losing control, the difference between the disposing price of each deal and the carrying value of long-term equity investment corresponding to the disposed equity, shall be recognized as other comprehensive income and be transferred to the profits and losses of the current period when control ceases.

51

## **15. Investment Properties**

Investment properties measurement model

Not applicable

## **16. Fixed assets**

### **(1) Recognition**

Fixed assets are tangible assets with significant value and useful lives for more than one accounting year, and held for use in the production goods, rendering of services, for rental, or for administrative purposes. 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 include buildings, machinery and equipment, electronic, and other equipment and vehicles.

## (2) Depreciation method

Categories	Depreciation method	Depreciation period (year)	Residual Value Rate (%)	Annual Depreciation Rate (%)
Buildings	Straight line	20	5	4.75%
Machinery	Straight line	5–20	5	19.00%–4.75%
Electronic equipments	Straight line	3–5	5	31.67%–19.00%
Vehicles	Straight line	5	5	19.00%
Other equipment	Straight line	5	5	19.00%

## (3) Finance leased fixed assets recognized basis, pricing and depreciation method

Not applicable

## 17. Construction-in-Progress

Construction-in-progress measured at the expenditures actually incurred. The cost of construction work undertaken by the Company itself includes costs incurred during construction period, capitalised borrowing costs and other necessary costs incurred for its intended use.

Construction-in-progress is transferred to fixed assets at the date of reaching its usable conditions at an estimated amount based on the construction budget, construction price, or actual cost of construction. Depreciated is charged from the next month after it is put into use. The value of the asset will be adjusted when the resolution procedures are completed. However, it does not to revise accumulated depreciation and amortisation.

## 18. Borrowing costs

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

In terms of the borrowing costs involving fixed assets, investment real estate and stocks directly attributable to over one year construction or production to achieve its intended use or sale, the capitalization of the borrowing costs can commence only when all of the 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. When the qualified asset under acquisition, construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased. The amount of other borrowing costs shall be recognized as an expense in the period in which they are incurred. If the qualified asset is interrupted abnormally during construction or production, and interruption has lasted for three consecutive months, the capitalization of the borrowing costs shall be suspended till construction or production resumes.

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 capitalized 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.

During capitalisation period, exchange difference arising from specific-purpose borrowings denominated in foreign currency is capitalised while exchange difference arising from general-purpose borrowings denominated in foreign currency is recognised in profit or loss.

## **19. *Biotechnical assets***

Not applicable

## **20. *Oil and gas assets***

Not applicable

## **21. *Intangible Assets***

### **(1) Calculation method, usage life and amortisation test**

The Group's intangible assets mainly include land use right (maritime use right), patented technology, nonpatented 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 actual value of the intangible asset invested by the investor shall be determined by the value stipulated in the investment contract or agreement. But if the value stipulated in the contract or agreement is unfair, actual cost shall be determined by fair value. The intangible asset, which is owned by the acquiree in a combination under different control but is not confirmed in the financial statement, shall be confirmed as intangible asset at its fair value upon the initial recognition on the acquiree's assets.

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 Company 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 lives and amortisation method of intangible assets with finite useful lives are re-assessed at the end of each financial year. Any changes will be dealt with as changes on accounting estimates.

Due to various unforeseeable reasons that the intangible assets bring economic benefits to the Group for the period and confirm with the useful lives. The Group will review the useful lives on those intangible assets with indefinite useful lives at each of the accounting period.

## (2) Research and Development Accounting Policy

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.

Development phase starting time: monthly new product development plan approval is completed, preliminary studies of new products have been completed, product's formulation, technology standards have been identified.

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 recognised 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 Company, including a market for the output of the intangible asset or the intangible asset itself and benefits to the Company 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.

## 22. Impairment loss on long term assets

On each balance sheet date, long-term equity investment, investment real estate under cost model measurement, fixed assets, projects under construction, and intangible assets with limited useful life will be tested for impairment. If there is any impairment indicator for the intangible asset, the intangible asset will be tested for impairment. As to intangible assets with infinite goodwill and useful life, impairment test will be performed annually at the end of the year.



Recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flow expected to be derived from the asset. The fair value of asset shall be determined according to the price stipulated in sales agreement under fair deal. In the case without sale agreement but with asset active market, fair value shall be determined according to the price bidden by the buyer of the asset. In the case without sale agreement or asset active market, fair value shall be estimated on the basis of the best retrievable information. Disposal expenses include legal costs relative to asset disposal, relevant taxes, carriage expenses and direct expenses caused by the efforts to prepare the asset for its intended sales. The current value of the asset's expected future cash flow shall be determined by discounting the predicted future cash flow produced by the continuous use and the final disposal of asset at an appropriate discount rate. Provision for impairment is provided and recognized on individual asset basis. If it is not possible to estimate the recoverable amount of the individual asset, the Company determines the recoverable amount of the asset's cash-generate unit to which the asset belongs. An asset's cash-generating unit is the smallest group of assets that include the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

When the goodwill on the financial statement is tested for impairment, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash generating units, that is expected to benefit from the synergies of the combination. An impairment loss shall be recognized for a cash-generating unit if, and only if, the recoverable amount of unit is less than the book value of the unit. The impairment loss shall be allocated to reduce the book value of any goodwill allocated to the cash-generating unit first. Next, it shall be allocated to the other assets of the unit pro rata on the basis of the book value of each asset in the unit.

If the book value of the assets exceed its recoverable amount after the impairment test, the impairment loss is recognised as an impairment loss of these assets and the amount shall not be reversed in the subsequent accounting period.

### **23. Long-term prepaid expenses**

The Group's long-term prepaid expenses included electric platform and steel chartered cost. It will be amortised based on its beneficial period, If the long-term prepaid expenses are no longer beneficial to the subsequent accounting periods, the unamortized balance is then fully transferred to profit or loss for the period.. The amortisation period of electric platform and steel chartered is 3 years.

### **24. Employee Benefits**

#### **(1) Short-term employee benefits' accounting method**

Short-term employee benefits 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.

**(2) Post-employment welfare's accounting method**

Post-employment benefits include basic pension insurance, unemployment insurance. According to the company's risks and obligations, they are classified as defined contribution plans, defined benefit plans. For defined contribution plans in accordance with the balance sheet date in exchange for services provided by employees in the accounting period and subject to a separate deposit in escrow payments are recognised as liabilities, and profit or loss in accordance with the benefit of object-related costs or assets. The Group does not currently exist defined benefit plans.

**(3) Termination benefits' accounting method**

The Group do not have termination benefits.

**(4) Other long-term benefits' accounting method**

The Group do not have other long-term benefits.

**25. Provision**

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.

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.

If all or part of the expense necessary for settling the provision is expected to be compensated by the third party, the amount of compensation is separately recognised as an asset when it is basically determined to be recoverable, and the recognised amount of the compensation shall not exceed the carrying amount of the provision.

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.

**26. Share-based payment**

Not applicable.

**27. Preferred stock, perpetual debt and other financial instruments**

Not applicable

## 28. Revenue

The Group's revenue is mainly from sale of goods and rendering of services. Details of revenue recognition are as follows:

### (1) 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) Rendering 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 recognized and the costs incurred are recognised as an expense for the year.

57

## 29. Government grants

### (1) Government grants are classified as capital nature and accounting method

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.

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.

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.

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.

**(2) Government grants are classified as expenditure nature and accounting method**

Government grants are classified as expenditure nature are the grants other than capital nature.

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.

**30. *Deferred income tax assets/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.

**31. *Leasing***

**(1) Operating lease accounting method**

*(1) 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.

(2) *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) Financial lease's accounting method**

(1) *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.

(2) *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 recognized 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 unrealised financing income.

The recognised loss of unguaranteed residual value that might be recovered, which would be return in the original recognised 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.

## 32. Other Significant Accounting Policies and Accounting Estimates

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.

### (1) 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.

### (2) 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.

### (3) 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.

**(4) 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.

**(5) 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 life of intangible assets is 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.

**(6) 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.

**(7) 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.

### 33. Significant Changes Accounting Policies and Accounting Estimates

#### (1) Significant Changes in Accounting Policies

Applicable  Not applicable

#### (2) Impact on Changes in Accounting Estimates

Applicable  Not applicable

### 34. Others

#### 1. Production Safety Fee

The Group collects, utilizes and audits the production safety fee pursuant to the relevant requirements of Notice of the Ministry of Finance and the State Administration of Work Safety on Issuing the Administrative Measures for the Collection and Utilization of Enterprise Work Safety Funds (No. 16 [2012] of the Ministry of Finance and the State Administration of Work Safety) and Notice of the Ministry of Finance on Issuing Interpretation No. 3 of the Accounting Standards for Business Enterprises (No. 8 [2009] of the Ministry of Finance).

The provision of Group's machinery production enterprise safety production costs is based on the actual sales revenue in last year, which is extracted monthly by taking excess regressive manner in accordance with the following standard. The provision will be used for enhancing and improving production safety in the Group.

- (1) Actual sales income of RMB10 million and below, accrued in accordance with 2%;
- (2) Actual sales income of RMB10 million to RMB100 million (inclusive), accrued in accordance with 1%;
- (3) Actual sales income of RMB100 million to RMB1,000 million (inclusive), accrued in accordance with 0.2%;
- (4) Actual sales income of RMB1,000 million to RMB5,000 million (inclusive), accrued in accordance with 0.1%;
- (5) Actual sales income above RMB5,000 million, accrued in accordance with 0.05%.

The provision of the production safety fee for newly established enterprises and machinery production enterprise with production less than one year is based on actual sales revenue for the year. The provision is extracted monthly.

The provision of production safety fee is recognised in profit and loss for the year and "special reserve" account shown separately under owner's equity. When using the reserve for maintaining production safety fee, debit "special reserve", and credit "cash and cash equivalent" if the fee is expenses nature. When using the reserve for maintaining production safety fee of fixed asset, debit "construction in progress" for the amount recorded in the cost of related assets, credit "bank and cash". When the status of the project is ready for intended use, the costs of such Production safety fee should be recognised as fixed assets. If the balance of "special reserve" is fully offset during the year, the production safety fee is recognised in profit and loss for the year.



## **2. Recognition of taxation**

Income tax is recognised using balance sheet approach. Income tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax expenses or income are recognised in profit or loss for the period, except when they arise from transactions or events that are directly recognised in shareholders' equity, in which case they are recognised in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

Current tax is the amount of income tax payables to tax department in accordance with the requirement of tax laws for events and transactions in the current period. Deferred tax is recognised using the balance sheet liability method for temporary differences between the carrying amounts of certain assets or liabilities and their tax base which results in deferred tax assets and deferred tax liabilities.

## **3. Segment information**

The Group's operating segments are allocated based on internal organisation structure, management requirement and internal reporting system. The segment information is disclosed based on the operating segments.

Operating segments are satisfied the criteria of the Group's components that including the component will generate income or incur expenses during the daily operation, the Group is able to assess the operating result of the component and decide the resources allocation, and the Group is able to obtain the component's financial position, operating result, cash flow and etc accounting information. If there are two or more operating segments which are similar in economic feature, they will be combined into one operating segment after satisfied with certain criteria.

## VI. Taxation

### 1. Main tax types and tax rates

<b>Tax Type</b>	<b>Basis of taxing</b>	<b>Tax rate</b>
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.	1.2%–12%
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:

<b>Name of the Company and Subsidiaries</b>	<b>Rate of income tax</b>
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*

According to the “Notice Regarding the List of Shandong Province Proposed Advanced Technology Enterprise in 2015” (關於“於認定山東科興生物製品有限公司等889家企業為2014年高新技術企業的通知) (Lu Ke Gao Zi [2015] 33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,, 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 2014.

## VI. Notes to the Consolidated Financial Statements

### 1. Cash and cash equivalents

	Unit: RMB	
Items	<b>Balance at the end of the period</b>	Balance at the beginning of the period
Cash on hand	<b>27,144.83</b>	83,692.32
Cash in Bank	<b>250,130,315.58</b>	323,835,489.16
Other foreign currency	<b>330,024,169.29</b>	291,290,034.90
Total	<b>580,181,629.70</b>	615,209,216.38
Include: Amount deposit in overseas	<b>2,509,419.37</b>	3,133,676.26

(1) Fund deposited in overseas represented the bank balance under the Hong Kong subsidiary, MPM Limited.

(2) As at the end of the period, other fund held by the Group included bank acceptance security deposit of RMB257,974,169.30 (as at the beginning of the period: RMB 176,490,478.32), borrowings and deposit for letter of credit of RMB49,999,999.99 (as at the beginning of the period: RMB 10,404,906.58), deposit for letter of guarantee of RMB22,050,000.00 (as at the beginning of the period: RMB 22,050,000.00) and fixed deposit of Nil (as at the beginning of the period: 82,344,650.00)

(3) As at the end of the period, other fund held by the Group included bank acceptance bills deposit with maturity date over 3 months of RMB155,896,587.81 (as at the beginning of the period: RMB68,391,676.70), borrowings and deposit for letter of credit with maturity date over 3 months of Nil (as at the beginning of the period: RMB5,000,000.00); and deposit for letter of guarantee with maturity date over 3 months of RMB20,100,000.00 (as at the beginning of the period: RMB Nil); fixed deposits with maturity date over 3 months of Nil (as at the beginning of the period: RMB44,974,650.00).

### 2. Bills Receivable

#### (1) Classification of bills receivable

	Unit: RMB	
Items	<b>Balance at the end of the period</b>	Balance at the beginning of the period
Bank acceptance notes	<b>73,718,073.14</b>	90,685,848.66
Business acceptance notes	<b>950,000.00</b>	—
Total	<b>74,668,073.14</b>	90,685,848.66

(2) Pledged bills receivable

Unit: RMB

<b>Items</b>	<b>Pledged amount at the end of the period</b>
Bank acceptance notes	15,512,069.80
Total	15,512,069.80

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

Unit: RMB

<b>Items</b>	<b>Balance at the end of the period</b>	Balance at the beginning of the period
Bank acceptance notes	<b>383,617,010.60</b>	—
Total	<b>383,617,010.60</b>	—

(4) Bills receivable discounted before the maturity date as at the end of the period

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

67

3. *Derivatives*

applicable  Not applicable

#### 4. Accounts Receivable

##### (1) Risk Classification of Accounts Receivable

Type	Balance at the end of the period					Balance at the beginning of the period				
	Carrying amount		Impairment loss		Net book value	Carrying amount		Impairment loss		Net book value
	Amount	Ratio	Amount	Proportion		Amount	Ratio	Amount	Proportion	
Single item with significant accounts receivable and provided for bad debts in single item	14,376,029.00	2.22%	10,479,971.25	72.90%	3,896,057.75	14,376,029.00	2.31%	10,479,971.25	72.90%	3,896,057.75
Items by the credit risk characteristics combination of provision for bad debts	630,668,626.57	97.37%	—	—	630,668,626.57	604,328,444.90	97.26%	—	—	604,328,444.90
Single item with insignificant other receivables but provided for bad debts separately	2,687,096.03	0.41%	2,271,189.00	84.52%	415,907.03	2,687,096.03	0.43%	2,271,189.00	84.52%	415,907.03
<b>Total</b>	<b>647,731,751.60</b>	<b>100.00%</b>	<b>12,751,160.25</b>	<b>—</b>	<b>634,980,591.35</b>	<b>621,391,569.93</b>	<b>100.00%</b>	<b>12,751,160.25</b>	<b>—</b>	<b>608,640,409.68</b>

Accounts receivable of individual amount is significant, individually provided for bad debts.

Unit: RMB

Companies	Balances at the end of the period			
	Carrying amount	Impairment	Ratio	Reason for impairment
Shengli Oilfield Highland Petroleum Equipment Co., Ltd.	3,284,636.96	3,284,636.96	100.00%	Aging over four years, with low possibility of recovery
SBI Company (USA)	3,807,804.56	3,807,804.56	100.00%	Aging over two years, with low possibility of recovery
Wenlai Jinlong Investment Company Limited, Beijing Office	7,283,587.48	3,387,529.73	46.51%	Aging over two years, with low possibility of recovery
<b>Total</b>	<b>14,376,029.00</b>	<b>10,479,971.25</b>	<b>—</b>	

##### (2) Provision for the period (reversal) of bad debts

The impairment loss on account receivables amounted Nil. There is no reversal of provision for bad debt or recovery of impaired accounts receivable during the period.

##### (3) Written-off of accounts receivables for the period

There is no written-off of accounts receivables for the period.

(4) The top five amounts of accounts receivables are as follows:

Companies	Carrying amount	Aging	Percentage of the total accounts receivable	Impairment loss at the end of the period
HeBei ZhongTai Steel Pipe Manufacture Co., Limited	68,044,415.00	Within 1 year	10.51%	—
Shaanxi Yanchang Petroleum (Group) Corp. Ltd.	56,973,103.00	Within 1 year	8.80%	—
Dingfeng tube stock Co., Limited	47,078,508.00	Within 1 year	7.27%	—
SP Company	44,745,935.78	Within 1 year	6.91%	—
China Petroleum & Chemical Co., Ltd,	26,057,920.00	Within 1 year	4.02%	3,462,882.83
Total	242,899,881.78		37.50%	—

(5) Amount of assets and liabilities by transfer of accounts receivable and continuous involvement

As at June 30 2015, the group has no pledged accounts receivables.

## 5. Prepayments

(1) Aging of prepayments

Unit: RMB

Aging	Balance at the end of the period		Balance of the beginning of the period	
	Amount	Proportion	Amount	Proportion
Within one year	<b>48,974,371.17</b>	<b>99.84%</b>	40,372,275.65	99.85%
One to two years	<b>36,828.80</b>	<b>0.08%</b>	31,180.00	0.08%
Two to three years	<b>9,436.34</b>	<b>0.02%</b>	—	—
More than three years	<b>31,514.22</b>	<b>0.06%</b>	28,214.22	0.07%
Total	<b>49,052,150.53</b>	<b>100%</b>	40,431,669.87	100%

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

Company	Balance at the end of the period	Aging	Percentage of the total prepayments (%)
JESORO OIL LTD	29,164,818.84	Within 1 year	59.46
Ningxia Huaheng Logistics Co., Ltd	6,571,973.40	Within 1 year	13.40
Zibo QiLin FuShan Steel Co., Limited	3,020,932.20	Within 1 year	6.16
Erdos Xijin Kuangye Co.,Ltd	1,699,967.00	Within 1 year	3.47
TYK CORPORATION	1,365,058.97	Within 1 year	2.78
Total	41,822,750.41		85.26

## 6. Interests Receivable

### (1) Classification of interest receivable

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Interest income on fixed deposits	—	743,209.80
Interest income on pledged deposits	<b>3,728,887.81</b>	1,927,493.53
<b>Total</b>	<b>3,728,887.81</b>	2,670,703.33

## 7. Other Receivables

### (1) Risk Classification of Other Receivables

Type	Balance at the end of the period					Balance at the beginning of the period				
	Carrying balance		Provision for bad debts		Net book value	Carrying amount		Provision for bad debts		Net book value
	Amount	Ratio	Amount	Proportion		Amount	Ratio	Amount	Proportion	
Items by the credit risk characteristics combination of provision for bad debts	44,959,979.30	99.74%	—	—	44,959,979.30	48,859,721.67	99.76%	—	—	48,859,721.67
Single item with insignificant other receivables but provided for bad debts separately	119,119.25	0.26%	119,119.25	100.00%	—	119,119.25	0.24%	119,119.25	100.00%	0.00
<b>Total</b>	<b>45,079,098.55</b>	<b>100.00%</b>	<b>119,119.25</b>	<b>—</b>	<b>44,959,979.30</b>	<b>48,978,840.92</b>	<b>100.00%</b>	<b>119,119.25</b>	<b>—</b>	<b>48,859,721.67</b>

### (2) Provision, received or recovered bad debt for the period

There is no provision, received or recovered bad debt for the period.

The Group had no other receivables which was fully or significantly provided for bad debt in previous years recovered or partially recovered by debt restructuring or other alternatives during the period.

### (3) Written-off of other receivables for the period

There is no other receivables written-off as uncollectible during this period and previous period.



(4) Reclassification of other receivables

Unit: RMB

Nature	Balance at the end of the period	Balance at the beginning of the period
Current accounts	42,109,436.12	46,983,726.91
Individuals	1,345,531.25	1,361,899.25
Deposits	915,800.00	362,827.76
Others	708,331.18	270,387.00
Total	45,079,098.55	48,978,840.92

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

Unit: RMB

Companies	Nature	Amount	Aging	Proportion	Balance at the end of the period
Shouguang City Yangkou Town Finance Department	Deposit for project development	14,530,000.00	Two to three years	32.23%	—
General administration of Customs of the People's Republic of China	Deposits and tax receivable	11,829,809.30	Within one year	26.24%	—
Gucheng Street Offices	Current account	6,891,320.00	More than three years	15.29%	—
People's Government of Wendeng City Gaocun Town	Current account	2,000,000.00	More than three years	4.44%	—
West Center of Shanghai Petroleum Exchange Ltd.	Current account	1,128,181.00	Within one year	2.50%	—
Total		36,379,310.30		80.70%	—

## 8. Inventories

### (1) Classification

Unit: RMB

Items	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Allowance for inventories	Net book value	Carrying amount	Allowance for inventories	Net book value
Raw material	239,620,712.81	14,094,273.76	225,526,439.05	230,974,251.85	14,094,273.76	216,879,978.09
Work-in-progress	319,979,558.82	6,983,415.60	312,996,143.22	389,217,664.90	6,983,415.60	382,234,249.30
Materials in storage	359,235,384.68	13,159,842.92	346,075,541.76	411,746,691.68	13,159,842.92	398,586,848.76
Cycling materials	0.00	—	—	—	—	—
Consumptive biological assets	0.00	—	—	—	—	—
Construction contract completed but outstanding assets	0.00	—	—	—	—	—
Entrusted processing materials	9,333,618.89	572,454.32	8,761,164.57	21,941,068.85	572,454.32	21,368,614.53
Total	928,169,275.20	34,809,986.60	893,359,288.60	1,053,879,677.28	34,809,986.60	1,019,069,690.68

### (2) Allowance for inventories

Unit: RMB

Items	Balance at the beginning of the period	Allowance made during this period		Reduction during this period		Balance at the end of the period
		Provisions	Others	Reversal of Allowance and Written-off	Others	
Raw materials	14,094,273.76	—	—	—	—	14,094,273.76
Work-in-progress	6,983,415.60	—	—	—	—	6,983,415.60
Materials in storage	13,159,842.92	—	—	—	—	13,159,842.92
Entrusted processing materials	572,454.32	—	—	—	—	572,454.32
Total	34,809,986.60	—	—	—	—	34,809,986.60

## 9. Other current assets

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Prepaid income tax	42,214,361.60	48,939,615.27
Other prepaid taxes	307,931.91	—
Total	42,522,293.51	48,939,615.27

## 10. Available-for-sale financial assets

### (1) Analysis of Available-for-sale financial assets

Unit: RMB

Items	Balance at the end of the period			Balance at the beginning of the period		
	Carrying value	Impairment	Net book value	Carrying value	Impairment	Net book value
Available-for-sale financial assets:						
Using cost method	10,000,000.00	—	10,000,000.00	10,000,000.00	—	10,000,000.00
Total	10,000,000.00	—	10,000,000.00	10,000,000.00	—	10,000,000.00

### (2) Analysis of available-for-sale financial assets under cost method

Unit: RMB

Investee	Carrying value			Impairment loss			Cash dividend for the period			
	Balance at the beginning of the period	Additions	Disposals	Balance at the end of the period	Balance at the beginning of the period	Additions		Disposals	Balance at the end of the period	Shareholding
Shouguang Mine Water Company Limited	10,000,000.00	—	—	10,000,000.00	—	—	—	—	9.73%	—
Total	10,000,000.00	—	—	10,000,000.00	—	—	—	—	—	—

73

## 11. Long-term Equity Investment

Unit: RMB

Investee	Balance at the beginning of the period	Movement of the period								Balance at the end of the period	Provision of impairment at the end of the period
		Additions	Reductions	Investment gains and losses recognised under the equity method	Adjustment on other comprehensive income	Other changes in equity	Cash dividend declared	Provision of impairment	Others		
1. Joint-venture											
2. Associate											
Yalong Oil Pump Company Limited	2,820,504.16	—	—	—	—	—	—	—	—	2,820,504.16	—
Shouguang Maolong Microfinance Co., Ltd.	51,535,517.55	—	—	1,326,825.71	—	—	4,500,000.00	—	—	48,362,343.26	—
Subtotal	54,356,021.71	—	—	1,326,825.71	—	—	4,500,000.00	—	—	51,182,847.42	—
Total	54,356,021.71	—	—	1,326,825.71	—	—	4,500,000.00	—	—	51,182,847.42	—

## 12. Fixed Assets

### (1) Details of fixed assets

Unit: RMB

Items	Buildings	Machinery and equipment	Electronic and other equipment	Vehicles	Total
<b>A. Costs</b>					
1. Balance at the beginning of the period	609,621,935.70	2,136,671,270.98	100,930,829.13	15,026,559.71	2,862,250,595.52
2. Additions for the period	141,522.00	4,035,640.86	215,588.02	74,358.97	4,467,109.85
(1) Additions	141,522.00	4,035,640.86	215,588.02	74,358.97	4,467,109.85
(2) Transferred from construction in progress	—	—	—	—	—
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the period	28,000.00	254,240.00	85,232.63	26,700.00	394,172.63
(1) Disposal or retirement	28,000.00	254,240.00	85,232.63	26,700.00	394,172.63
4. Balance at the end of the period	609,735,457.70	2,140,452,671.84	101,061,184.52	15,074,218.68	2,866,323,532.74
<b>B. Accumulated depreciation</b>					
1. Balance at the beginning of the period	124,903,314.02	812,787,377.68	69,636,730.54	11,113,672.34	1,018,441,094.58
2. Additions for the period	13,443,770.52	79,957,652.17	4,372,314.97	754,152.19	98,527,889.85
(1) Provision	13,443,770.52	79,957,652.17	4,372,314.97	754,152.19	98,527,889.85
3. Reductions for the period	12,541.21	237,611.35	74,880.96	25,365.00	350,398.52
(1) Disposal or retirement	12,541.21	237,611.35	74,880.96	25,365.00	350,398.52
4. Balance at the end of the period	138,334,543.33	892,507,418.50	73,934,164.55	11,842,459.53	1,116,618,585.91
<b>C. Impairment</b>					
1. Balance at the beginning of the period	4,986,478.28	11,055,919.03	—	—	16,042,397.31
2. Additions for the period	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions for the period	—	—	—	—	—
(1) Reductions for the period	—	—	—	—	—
4. Balance of the end of the period	4,986,478.28	11,055,919.03	—	—	16,042,397.31
<b>D. Carrying values</b>					
1. At the end of the period	466,414,436.09	1,236,889,334.31	27,127,019.97	3,231,759.15	1,733,662,549.52
2. At the beginning of the period	479,732,143.40	1,312,827,974.27	31,294,098.59	3,912,887.37	1,827,767,103.63

(2) Fixed assets without certificate of ownership

Items	Carrying value	Reasons
Logistics Park Plant	10,024,008.86	Application in process
Molong Garden 7th floor	9,000,000.00	Application in process

- (1) As at the end of the period, the Group had no temporarily idle fixed asset.
- (2) As at the end of the period, the Group had no impairments and provision of impairments of fixed asset.
- (3) As at the end of the period, the Group had no fixed assets pledged or guaranteed.

13. Construction in Progress

(1) Details of Construction in Progress

Unit: RMB

Items	Balance at the end of the period			Balance at the beginning of the period		
	Carrying amount	Provision for impairment	Net book value	Carrying amount	Provision for impairment	Net book value
Casting Plant Relocation and Technological Improvement Project	744,592,415.27	—	744,592,415.27	686,093,340.23	—	686,093,340.23
Seawater Desalination Project	13,542,530.27	—	13,542,530.27	13,463,230.27	—	13,463,230.27
Heat and Gas Utilisation Project	36,571,255.85	—	36,571,255.85	33,598,467.40	—	33,598,467.40
Oxygen Station Project	98,158,042.80	—	98,158,042.80	98,158,042.80	—	98,158,042.80
Employee technical development training centre	13,967,018.90	—	13,967,018.90	11,458,300.00	—	11,458,300.00
Others	9,347,719.32	—	9,347,719.32	10,233,516.05	—	10,233,516.05
<b>Total</b>	<b>916,178,982.41</b>	<b>—</b>	<b>916,178,982.41</b>	<b>853,004,896.75</b>	<b>—</b>	<b>853,004,896.75</b>

75

(2) Major changes in construction projects

Unit: RMB

Projects	Budget amount	Balance at the beginning of the period		Transferred to fixed assets	Other reduction during the period	Balance at the end of the period		Proportion	Progress (%)	Accumulated Interest capitalised	Including: capitalized interest expenses during the period	Ratio of interest Capitalised	Sources of Fund
		the beginning of the period	Additions			the end of the period	Proportion						
Casting Plant Relocation and Technological Improvement Project	800,000,000.00	686,093,340.23	58,499,075.04	—	—	744,592,415.27	93.07%	93.00%	45,073,523.13	19,157,942.54	—	5.00%	Others
Seawater Desalination Project	150,000,000.00	13,463,230.27	79,300.00	—	—	13,542,530.27	9.03%	9.00%	217,733.77	25,970.07	—	5.00%	Others
Heat and Gas Utilisation Project	120,000,000.00	33,598,467.40	2,972,788.45	—	—	36,571,255.85	30.48%	30.00%	1,452,122.79	973,562.58	—	5.00%	Others
Oxygen Station Project	100,000,000.00	98,158,042.80	—	—	—	98,158,042.80	98.16%	98.00%	1,398,115.38	—	—	5.00%	Others
Employee technical development training centre	26,000,000.00	11,458,300.00	2,508,718.90	—	—	13,967,018.90	53.72%	54.00%	0.00	—	—	—	Others
<b>Total</b>	<b>1,196,000,000.00</b>	<b>842,771,380.70</b>	<b>64,059,882.39</b>	<b>—</b>	<b>—</b>	<b>906,831,263.09</b>	<b>—</b>	<b>—</b>	<b>48,141,495.07</b>	<b>20,157,475.19</b>	<b>—</b>	<b>—</b>	<b>—</b>

(3) Details of provision for impairments of construction in progress during the period

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

As 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.

14. Oil-and-gas assets

Applicable  Not applicable

15. Intangible assets

(1) Details of Intangible assets

Items	Land use rights/ Maritime use rights	Patent technology	Non-patent technology	Software	Total
<b>I. Costs</b>					
1. Balance at the beginning of the period	386,652,878.49	2,541,868.11	323,314,354.43	770,036.72	713,279,137.75
2. Additions for the period	—	—	—	—	—
(1) Acquisition	—	—	—	—	—
(2) Internally generated	—	—	—	—	—
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the period	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the period	386,652,878.49	2,541,868.11	323,314,354.43	770,036.72	713,279,137.75
<b>II. Accumulated depreciation</b>					
1. Balance at the beginning of the period	31,435,495.29	1,271,658.31	167,324,069.49	751,190.60	200,782,413.69
2. Additions for the period	3,922,975.85	250,551.36	21,136,504.94	3,803.40	25,313,835.55
(1) Provision	3,922,975.85	250,551.36	21,136,504.94	3,803.40	25,313,835.55
3. Reductions	—	—	—	—	—
(1) Disposals	—	—	—	—	—
4. Balance at the end of the period	35,358,471.14	1,522,209.67	188,460,574.43	754,994.00	226,096,249.24
<b>III. Impairment</b>					
1. Balance at the beginning of the period	—	—	33,968,375.45	—	33,968,375.45
2. Additions	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions	—	—	—	—	—
(1) Disposals	—	—	—	—	—
4. Balance at the end of the period	—	—	33,968,375.45	—	33,968,375.45
<b>IV. Carrying values</b>					
1. At the end of the period	351,294,407.35	1,019,658.44	100,885,404.55	15,042.72	453,214,513.06
2. At the beginning of the period	355,217,383.20	1,270,209.80	122,021,909.49	18,846.12	478,528,348.61

The internally generated intangible assets are nil of the total intangible assets.

## 16. Research and Development expenditure

Unit: RMB

Item	Balance at the beginning of the period	Additions			Reductions		Balance at the end of the period
		Internally generated expenditure	Others	Debited to profit or loss	Recognised as intangible assets	Credited to profit or loss	
Research Expenditure	—	—	—	2,889,404.59	—	—	2,889,404.59
Development Expenditure	—	30,428,367.36	—	—	—	—	30,428,367.36
Total	—	30,428,367.36	—	2,889,404.59	—	—	33,317,771.95

The development expenditure is 91.33% of the research and development expenditure.

## 17. Goodwill

### (1) Goodwill at cost

Unit: RMB

Ways to create goodwill	Balance at the beginning of the period	Additions	Reductions	Balance at the end of the period
Business combination not under common control	142,973,383.21	—	—	142,973,383.21

77

### (4) Impairment of goodwill

Unit: RMB

Ways to create goodwill	Balance at the beginning of the period	Additions	Reductions	Balance at the end of the period
Business combination not under common control	59,490,000.00	—	—	59,490,000.00

Explain the process of goodwill impairment test, parameters and recognition of goodwill impairment method:

The Goodwill is generated from the acquisition shares of Maolong New Materials Company Limited in 2007. The acquisition constitutes a non-business combination under common control.

The Group has employed a professional appraisal association to perform impairment test on goodwill on 31 December 2014. Carrying amount of goodwill has been allocated to three relevant asset groups, representing three cash-generating units. The recoverable amount of each cash-generating unit is higher of the asset group's fair value less costs to sell and its future cash flow.

- ① *Major assumptions for future cash flow are adopted in determining recoverable amount of asset groups are as follows:*

For the purposes of impairment testing for asset group, the projection is based on financial budgets of the most recent five years approved by management while the future cash flows for the sixth year onwards is projected based on zero growth rate. The discount rate is 10.80%. Other key assumption for the future cash flows is the estimated gross margin, such estimation is based on the management's past performance and expectations for the market development.

- ② *Major assumptions for the fair value less costs to sell are adopted in determining recoverable amount of asset groups are as follows:*

For the purposes of impairment testing for asset group, fair value is determined by the market price while replacement cost is determined by the market price less cost of disposal.

The company conducted the impairment test according to above methods and no impairment incurred.

### 18. Long term deferred expenses

Unit: RMB

Items	Balance at the beginning of the period	Additions	Amortisation	Reductions	Balance at the end of the period
2#electric arc furnace and ladle car based platform	76,389.00	—	41,666.64	—	<b>34,722.36</b>
Total	76,389.00	—	41,666.64	—	<b>34,722.36</b>



## 19. Deferred tax assets and deferred tax liabilities

### (1) Recognised deferred tax assets

Unit: RMB

Item	Balance at the end of the period		Balance at the beginning of the period	
	Deductible		Deductible temporary	
	Temporary difference	Deferred tax assets	difference	Deferred tax assets
Deductible profits arose from				
intra-group transaction	8,709,562.97	2,177,390.74	8,709,562.97	2,177,390.74
Deductible losses	19,959,031.48	4,989,757.87	19,959,031.48	4,989,757.87
Allowance for doubtful debts	12,870,279.50	1,960,691.48	12,870,279.50	1,960,691.48
Provision for inventories	34,809,986.60	5,778,344.08	34,809,986.60	5,778,344.08
Salaries payables	26,121,585.93	4,572,713.42	26,350,820.61	4,607,098.62
Accumulated amortisation of				
intangible assets	100,183,351.63	21,692,597.75	87,523,411.08	18,527,612.61
Accumulated depreciation and				
impairment of fixed assets	8,782,561.33	2,195,640.33	8,782,561.33	2,195,640.33
Deferred income	1,808,000.00	271,200.00	3,616,000.00	542,400.00
Impairment of intangible assets	13,558,093.45	2,033,714.01	19,888,386.55	2,983,257.98
Total	226,802,452.89	45,672,049.68	222,510,040.12	43,762,193.71

### (2) Recognised deferred tax liabilities

Unit: RMB

Item	Balance at the end of the period		Balance at the beginning of the period	
	Deductible	Deferred tax	Taxable	Deferred tax
	temporary differences	liabilities	temporary difference	liabilities
Long-term investments	15,237.51	3,809.38	15,237.51	3,809.38
Fixed assets	2,660,166.58	665,041.65	2,938,145.75	734,536.44
Intangible assets	29,755,967.94	7,433,369.79	30,104,364.66	7,526,091.16
Interests receivable	3,728,887.81	559,333.17	2,670,703.33	400,605.50
Deductible losses arose from				
intra-group transaction	9,008,902.36	2,252,225.59	9,008,902.36	2,252,225.59
Total	45,169,162.20	10,913,779.58	44,737,353.61	10,917,268.07

79

(3) Offsetting between deferred income tax assets and deferred income tax liabilities

Unit: RMB

Item	Offsetting between deferred income tax assets and liabilities at the end of period	Deductible or taxable temporary difference after offsetting at the end of period	Offsetting between deferred income tax assets and liabilities at the beginning of period	Deductible or taxable temporary difference after offsetting at the beginning of period
Deferred income tax assets	—	45,672,049.68	—	43,762,193.71
Deferred income tax liabilities	—	10,913,779.58	—	10,917,268.07

(6) Details of unrecognised tax assets are shown as follows:

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Deductible losses	150,536,790.82	98,614,758.76
Total	150,536,790.82	98,614,758.76

80

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

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period	Note
2017	3,604,023.09	3,604,023.09	
2018	42,074,676.62	42,074,676.62	
2019	52,936,059.05	52,936,059.05	
2010	51,922,032.06	—	
Total	150,536,790.82	98,614,758.76	

## 20. Other non-current assets

Items	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Prepayments for acquisition of land use rights (Note 1)	<b>127,016,280.00</b>	127,016,280.00
Prepayments for acquisition of fixed assets (Note 2)	<b>126,184,710.55</b>	79,674,985.14
Prepayments for acquisition of projects (Note 3)	<b>26,464,918.73</b>	12,324,218.73
Total	<b>279,665,909.28</b>	219,015,483.87

Note 1: The Group had prepayments for acquisition for land use rights of RMB127,016,280.00 included in other non-current assets.

Note 2: The Group had prepayments for acquisition of plant, machinery and equipment of RMB126,184,710.55 included in other non-current assets.

Note 3: The Group had prepayments for acquisition of projects of RMB26,464,918.73 included in other noncurrent assets. The Group had not received these fixed assets.

## 21. Short term borrowings

### (1) Classification of short term borrowing

Nature of loan	Unit: RMB	
	Balance at the end of the period	Balance at the beginning of the period
Guarantee loans	<b>61,136,000.00</b>	61,190,000.00
Credit loans	<b>1,318,323,840.30</b>	1,353,615,321.00
Total	<b>1,379,459,840.30</b>	1,414,805,321.00

Guaranteed loans are the guarantee to its subsidiary, MPM Limited.

### (2) Details of the outstanding short-term borrowing

The group's outstanding short-term borrowing is Nil. The Group's short term borrowings are not expired at the end of the reporting period.

## 22. Bills payable

Unit: RMB

Nature	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance notes	487,080,249.79	426,865,457.13
Total	<b>487,080,249.79</b>	426,865,457.13

The outstanding balance of bills payable is nil as at the period end.

## 23. Accounts payable

### (1) Details of accounts payable

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Material	485,295,366.73	526,501,001.59
Project equipment	165,324,825.32	178,824,417.00
Total	<b>650,620,192.05</b>	705,325,418.59

### (2) Significant accounts payable aged over one year as follows:

Unit: RMB

Company	Balance at the end of the period	Reasons of unpaid and carried-forward
Wuhan Atlantic Ocean Continuous Casting Equipments Engineering Company Limited	2,503,300.00	Not reckoned
Shandong Metallurgical Machinery Works Company Limited	1,912,336.75	Not reckoned
Wuxi Huguang Industrial Furnace Co., Limited	1,480,000.00	Not reckoned
Chengdu Metallurgical engineering Co., Limited	1,460,000.00	Not reckoned
Total	<b>7,355,636.75</b>	—

## 24. Receipts in Advance

### (1) Details of Receipts in advance

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Sales income	61,691,679.99	151,391,041.52
Total	61,691,679.99	151,391,041.52

## 25. Salaries Payable

### (1) Details of salaries payable

Unit: RMB

Item	Balance at the beginning of the period	Additions	Reductions	Balance at the end of this period
I. Short-term salaries	26,312,782.88	58,543,157.29	58,786,235.24	26,069,704.93
II. Retirement Scheme-Defined contribution plan	59,721.94	5,567,812.58	5,627,534.52	0.00
Total	26,372,504.82	64,110,969.87	64,413,769.76	26,069,704.93

### (2) Short-term salaries employee benefits

Unit: RMB

Item	Balance at the beginning of this period	Additions	Reductions	Balance at the end of this period
1. Salaries, bonuses, allowance and subsidies	22,240,431.89	47,235,123.01	48,095,966.38	21,379,588.52
2. Staff welfare	—	7,005,294.78	7,005,294.78	0.00
3. Social insurance premiums	34,575.86	2,833,495.62	2,868,071.48	0.00
Including: 1. Medical insurance	25,146.08	2,123,097.95	2,148,244.03	0.00
2. Injury insurance	6,286.52	425,279.24	431,565.76	0.00
3. Birth insurance	3,143.26	285,118.43	288,261.69	0.00
4. Union fund and staff education fund	4,037,775.13	1,469,243.88	816,902.60	4,690,116.41
Total	26,312,782.88	58,543,157.29	58,786,235.24	26,069,704.93

(3) Defined contribution plan

Unit: RMB

Items	Balance at the beginning of the period	Additions	Reductions	Balance at the end of the period
1. Retirement insurance	56,578.68	5,273,761.48	5,330,340.16	—
2. Unemployment insurance	3,143.26	294,051.10	297,194.36	—
Total	59,721.94	5,567,812.58	5,627,534.52	0.00

26. Taxes Payables

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Value added tax	9,973,146.02	1,144,672.84
Consumption tax	0.00	—
Sales tax	0.00	153,089.77
Enterprise income tax	11,368,357.45	2,472,917.23
Individual income tax	1,250,873.45	71,303.90
Urban maintenances and construction tax	623,298.54	856,574.92
Property tax	1,165,545.57	1,168,151.84
Land use tax	2,435,816.27	2,435,816.27
Educational surcharges	522,193.98	611,839.27
Local water conservancy construction funds	166,025.20	122,367.88
Stamp duty	115,619.60	1,297,353.01
Disabled employment security fund	3,032.00	—
Total	27,623,908.08	10,334,086.93

27. Interests Payable

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Corporate bond interests	1,567,123.29	14,745,205.48
Short-term borrowing interests	6,199,547.31	6,890,151.45
Total	7,766,670.60	21,635,356.93

The Group has no interests payables due as at the period end.

## 28. Other payables

### (1) Details of other payables

Items	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Accrued natural gas, transportation, electricity	<b>8,759,869.41</b>	12,327,140.22
Deposits received	<b>10,554,186.61</b>	11,090,333.08
Others	<b>6,567,983.09</b>	1,462,181.05
Total	<b>25,882,039.11</b>	24,879,654.35

### (2) Other payable due over one year

At the end of the period, the Group's other payable was not due over one year.

## 29. Other current liabilities

Items	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Deferred income within one year	<b>1,808,000.00</b>	1,808,000.00
Total	<b>1,808,000.00</b>	1,808,000.00

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. Bonds payable

#### (1) Bonds payable

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Installment payment on maturity bonds	498,777,777.75	498,111,111.09
Total	498,777,777.75	498,111,111.09

#### (2) Movement on bonds payable (not includes the preferred stock, perpetual capital securities and other financial instruments)

Unit: RMB

Installment payment on maturity bonds	500,000,000.00	2013-6-7	3 years	496,000,000.00	498,111,111.09	13,000,000.00	666,666.66	498,777,777.75
Total				496,000,000.00	498,111,111.09	13,000,000.00	666,666.66	498,777,777.75

### 31. Deferred income

86

Unit: RMB

Items	Balance at the beginning of the period	Additions	Reductions	Balance at the end of the period	Reasons
Government grants	1,808,000.00	—	1,808,000.00	—	Grants related to assets
Total	1,808,000.00	—	1,808,000.00	—	

#### Government grant

Unit: RMB

Government grant project	Balance at the beginning of the period	Addition grant received	Recognised as income	Others	Balance at the end of the period	Capital nature/ Revenue nature
High-end petroleum equipments	1,808,000.00	—	—	1,808,000.00	—	Capital nature
Total	1,808,000.00	—	—	1,808,000.00	—	

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 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.



### 32. Share Capital

Unit: RMB

	Balance at the beginning of the period	Movement for the period (increase/decrease) (+, -)					Sub-total	Balance at the end of the period
		New shares issued	Bonus issue	Shares transferred from reserve	Others			
Total shares	797,848,400.00	—	—	—	—	—	797,848,400.00	

The nominal value of the Company's ordinary shares is RMB 1 per share.

### 33. Capital Reserves

Unit: RMB

Item	Balance at the beginning of the period	Additions	Reductions	Balance at the end of the period
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

### 34. Other comprehensive income

Unit: RMB

Items	Balance at the beginning of the period	Incurred during the period					Balance at the end of the period
		Income tax	Less: Previously recognised in profit or loss in other comprehensive income	Less: Income tax expense	Attributable to the parent company after tax	Attributable to the minority interest after tax	
1. Reclassified into other comprehensive income or loss in the subsequent period	312,161.80	26,563.42	—	—	25,055.32	1,508.10	337,217.12
Difference in the translation of foreign currency financial statements	312,161.80	26,563.42	—	—	25,055.32	1,508.10	337,217.12
Total	312,161.80	26,563.42	—	—	25,055.32	1,508.10	337,217.12

### 35. Special reserve

Unit: RMB

Item	Balance at the beginning of the period	Addition	Reduction	Balance at the end of the period
Production safety fee	—	2,137,045.56	2,137,045.56	—
Total	—	2,137,045.56	2,137,045.56	—

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.

### 36. Statutory reserve

Unit: RMB

Item	Balance at the beginning of the period	Addition	Reduction	Balance at the end of the period
Statutory surplus reserve	176,686,903.51	—	—	176,686,903.51
Total	176,686,903.51	—	—	176,686,903.51

### 37. Undistributed Profits

Unit: RMB

Items	Current period	Last period
Balance at the end of last period	<b>869,937,207.44</b>	857,482,430.32
Adjustment to the undistributed profits at beginning of the period	<b>869,937,207.44</b>	857,482,430.32
Add: Profit attributable to the owners of the Company	<b>10,313,286.91</b>	20,233,190.77
Less: Statutory reserve drawn	—	7,778,413.65
Balance at the end of this period	<b>880,250,494.35</b>	869,937,207.44

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

- (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 period amounted to Nil.
- (2) The effect of changes in accounting policies on the undistributed profits as at the beginning of the period amounted to Nil.
- (3) The effect of corrections of significant accounting errors on the undistributed profits as at the beginning of the period amounted to Nil.
- (4) The effect of the change of the scope of combination under common control on the undistributed profits as at the beginning of the period amounted to Nil.
- (5) The effect of other adjustments on the undistributed profits as at the beginning of the period amounted to Nil.

89

### 38. Operating Revenue and Operating Costs

Unit: RMB

Items	Incurred during this period		Incurred during the previous period	
	Revenue	Cost	Revenue	Cost
Main operation	<b>1,086,542,619.09</b>	<b>889,108,777.51</b>	1,323,532,950.04	1,175,513,321.85
Other operation	<b>11,107,017.82</b>	<b>20,413,650.62</b>	13,380,043.06	9,188,364.34
Total	<b>1,097,649,636.91</b>	<b>909,522,428.13</b>	1,336,912,993.10	1,184,701,686.19

### 39. Tax and Levies on Operations

Unit: RMB

<b>Items</b>	<b>Incurred during this period</b>	Incurred during the previous period
Business tax	<b>111,083.43</b>	841,721.98
Urban maintenances and construction tax	<b>4,123,362.20</b>	4,383,017.23
Educational surcharges	<b>2,945,258.69</b>	1,878,435.97
Resources tax	<b>589,051.75</b>	1,878,436.07
Total	<b>7,768,756.07</b>	8,981,611.25

### 40. Selling Expenses

Unit: RMB

<b>Items</b>	<b>Incurred during this period</b>	Incurred during the previous period
Delivery expenses	<b>58,323,886.95</b>	54,420,019.00
Agency fees	<b>8,697,675.59</b>	7,227,353.64
Salary	<b>1,568,190.81</b>	1,179,642.37
Travelling expenses	<b>412,560.79</b>	330,391.28
Entertainment	<b>1,248,919.80</b>	492,837.62
Office expenses	<b>174,001.35</b>	237,326.86
Intermediate fees	<b>50,654,083.40</b>	9,210,458.07
Depreciation charge	<b>644,810.81</b>	597,508.74
Others	<b>745,659.67</b>	918,587.66
Total	<b>122,469,789.17</b>	74,614,125.24

#### 41. Administrative expenses

Unit: RMB

Items	Incurred during this period	Incurred during the previous period
Amortisation of intangible assets	<b>24,941,953.50</b>	24,013,943.25
Taxes	<b>7,746,959.48</b>	5,131,523.75
Salary and Staff welfare expenses	<b>6,756,143.91</b>	5,710,667.08
Depreciation expenses	<b>13,418,224.55</b>	3,854,674.32
Machinery material consumption	<b>128,514.01</b>	900,849.03
Research and development fees of new products	<b>2,889,404.59</b>	2,449,460.09
Intermediate fees	<b>1,347,811.43</b>	50,358.47
Electric charges	<b>537,706.57</b>	480,198.43
Entertainment	<b>644,486.37</b>	860,658.30
Environmental costs	<b>49,736.76</b>	164,387.53
Board of directors' expenses	<b>1,630,643.57</b>	789,736.26
Transportation fees	<b>223,496.30</b>	254,740.81
Repair charge	<b>354,669.52</b>	279,872.83
Delivery expenses	<b>26,904.01</b>	17,190.77
Premiums for property insurance	<b>75,582.13</b>	167,744.32
Travelling expenses	<b>282,100.60</b>	213,108.77
Publicity expenses	<b>20,380.00</b>	12,970.00
Water charge	<b>163,710.88</b>	176,948.47
Safety production costs	<b>866,123.68</b>	956,595.47
Others	<b>458,688.80</b>	1,175,815.54
<b>Total</b>	<b>62,563,240.66</b>	47,661,443.49

#### 42. Finance Costs

Unit: RMB

Items	Incurred during this period	Incurred during the previous period
Interest expenses	<b>41,653,998.56</b>	41,564,796.39
Less: Capitalized interest expenses	<b>(20,157,475.19)</b>	(9,578,507.03)
Less: Interest income	<b>(9,328,890.99)</b>	(19,612,130.10)
Add: Foreign exchange gain	<b>(5,679,564.59)</b>	5,010,282.98
Add: Other expenses	<b>7,327,067.31</b>	4,656,978.60
<b>Total</b>	<b>13,815,135.10</b>	22,041,420.84

#### 43. Loss on impairment of assets

Items	Unit: RMB	
	Incurred during this period	Incurred during the previous period
I. Provision of allowance for inventory	—	(7,137,983.52)
Total	—	(7,137,983.52)

#### 44. Investment income

Items	Unit: RMB	
	Incurred during this period	Incurred during the previous period
Gain from long-term equity investments accounted for using the equity method	1,326,825.71	1,738,261.51
Total	1,326,825.71	1,738,261.51

#### 45. Non-operating Income

Unit: RMB

Items	Incurred during the current period	Incurred during the previous period	Amounts credited to non-recurring profit or loss for the current period
Total income on disposal of non-current assets	—	613,516.80	—
Included: Income on disposal of fixed assets	—	613,516.80	—
Government grants	<b>23,150,709.22</b>	2,787,036.89	—
Penalty Income	<b>590,184.44</b>	644,658.80	—
<b>Total</b>	<b>23,740,893.66</b>	4,045,212.49	—

Government grants included in profit and loss:

Unit: RMB

Items	Incurred during this period	Incurred during the previous period	Related to assets/Related to income
Government Grants	<b>23,150,709.22</b>	2,787,036.89	Related to income
<b>Total</b>	<b>23,150,709.22</b>	2,787,036.89	

In January 2015, received social security and the job-subsidy as RMB182449.42; In January and March 2015, received support fund as RMB235,000 for foreign trade and economic cooperation development; In February 2015, received bureau of energy conservation and emission reduction technology innovation subsidies as RMB150,000; In February 2015, received patent subsidy RMB71,500; In April 2015, received weifang circular economy special subsidy of RMB 20,000; In April 2015, received the utilization of foreign capital project award, 210,000; In May 2015, received Comprehensive utilization of resources as RMB19.95 million; In May 2015, received fiscal subsidies for acquisition of disposals as RMB52,3759.80; 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 period.

#### 46. Non-operating expenses

Unit: RMB

Items	Incurred during this period	Incurred during the previous period	Included in this period non- recurring expenses
Total loss on disposal of non-current assets	41,384.21	358,974.66	—
Included: Loss on disposal of fixed assets	41,384.21	358,974.66	—
Donation expenses	24,000.00	14,000.00	—
Other	2,467.62	17,569.29	—
<b>Total</b>	<b>67,851.83</b>	390,543.95	—

#### 47. Income tax expenses

##### (1) Income tax expenses

Unit: RMB

Items	Incurred during this period	Incurred during the previous period
Income tax for the current period	9,252,946.59	5,127,881.14
Deferred income tax	(1,751,128.31)	(1,630,496.92)
<b>Total</b>	<b>7,501,818.28</b>	3,497,384.22

##### (2) Accounting profit and income tax expenses adjustment process

Unit: RMB

Items	Incurred during this period
Total Profit	6,510,155.32
Tax Expense calculated under statutory tax rate	976,523.30
Effects from different applicable tax rate on subsidiaries	67,655.18
Effects from non-deductible costs, expenses and loss	(6,336,733.15)
Effects from deductible temporary difference of the deferred tax assets not recognized in this period or deductible loss	13,647,434.40
Effects from deduction of the development and Research expenses	(1,184,767.88)
Effects from losses of associates calculated under equity method	331,706.43
<b>Tax expense</b>	<b>7,501,818.28</b>



#### 48. Other comprehensive income

Details refers to Note VI 34.

#### 49. Notes to cash flow statements

##### (1) Other cash receipts relating to cash of operating activities

Unit: RMB

Items	Incurred during this period	Incurred during the previous period
Government grants	23,150,709.22	2,787,036.89
Interest income	9,328,891.00	19,612,130.10
Reduce in bank acceptance note	—	88,362,117.22
Reduce in restricted bank deposits	44,974,650.00	—
Others	3,306,453.07	8,919,859.84
Total	80,760,703.29	119,681,144.05

##### (2) Other cash payment relating to operating activities

Unit: RMB

Items	Incurred during this period	Incurred during previous period
Delivery expenses	58,350,790.96	54,437,209.77
Development fees for new products	2,889,404.59	2,449,460.09
Consumable	287,727.31	1,857,444.50
Agency fees	8,697,675.59	7,227,353.64
Travelling fees	694,661.39	798,240.86
Intermediary fees	53,632,538.40	9,260,816.54
Repair expenses	354,669.52	279,872.83
Water and electricity expenses	701,417.45	657,146.90
Entertainment	1,813,315.32	1,353,495.92
Increased in foreign exchange guarantees deposit	87,504,911.11	—
Others	4,233,497.95	3,302,180.64
Total	219,160,609.59	81,623,221.69

(3) Other cash receipts relating to investing activities

Unit: RMB

<b>Items</b>	<b>Incurred during this period</b>	Incurred during previous period
Cash paid to association through a subsidiary	—	17,353,000.00
Cash paid to associate through an independent third party	<b>5,000,000.00</b>	36,501,974.00
	<b>5,000,000.00</b>	53,854,974.00

(4) Other cash receipts relating to investing activities

Unit: RMB

<b>Items</b>	<b>Incurred during this period</b>	Incurred during previous period
Increased in security deposit for letter of guarantee	<b>20,100,000.00</b>	—
Total	<b>20,100,000.00</b>	—

## 50. Additional information for consolidated cash flow statement

### (1) Additional information for consolidated cash flow statement

Items	Incurred during this period	Incurred during the previous period
<b>1. Reconciliation of net income to cash flow:</b>		
Net (loss) profit	(991,662.96)	7,946,235.44
Add: Provision for impairment loss of asset	—	(3,088,128.75)
Depreciation of fixed asset, petroleum assets and production assets	98,086,059.69	94,756,189.28
Amortisation of intangible asset	24,941,953.50	24,013,943.25
Loss on disposal of fixed asset, intangible asset and other long-term asset	41,384.21	(414,493.60)
Fixed asset written off	30,359.70	—
Finance costs	15,775,385.29	32,142,962.04
Investment income	(1,326,825.71)	(1,738,261.51)
Decrease in deferred tax assets	(1,909,855.97)	(1,924,412.62)
Increase in deferred tax liabilities	158,727.66	105,173.54
Decrease in inventories	141,795,250.10	(86,502,442.15)
Decrease in operating receivables	(95,340,411.54)	87,161,177.42
Increase in operating payables	(49,372,356.10)	166,440,712.92
Others	(5,129,093.06)	(966,614.05)
Net cash flows generated from operating activities	126,758,914.81	317,932,041.21
<b>2. Significant investing and financing activities not involving cash receipt or payment:</b>	—	—
<b>3. Changes in cash and cash equivalents:</b>		
Balance of cash at the end of the period	404,185,041.89	737,253,372.67
Less: Balance of cash at the beginning of the period	496,842,889.68	330,546,464.49
Net (decrease) increase in cash and cash equivalents	(92,657,847.79)	406,706,908.18

97

### (2) Cash and cash equivalents

Items	Balance as at the end of this period	Balance as at the end of previous period
<b>1. Cash</b>	<b>404,185,041.89</b>	496,842,889.68
Including: Cash on hand	27,144.83	83,692.32
Bank deposit available for payments at any moment	250,130,315.58	323,835,489.16
Other funds available for payments at any moment	154,027,581.48	172,923,708.20
<b>3. Cash and cash equivalent at the end of the period</b>	<b>404,185,041.89</b>	496,842,889.68

Unit: RMB

- (1) As at the end of the period, other fund held by the Group included bank acceptance security deposit of RMB257,974,169.30 (as at the beginning of the period: RMB 176,490,478.32), borrowings and deposit for letter of credit of RMB49,999,999.99 (as at the beginning of the period: 10,404,906.58), deposit for letter of guarantee of RMB22,050,000.00 (as at the beginning of the period: RMB 22,050,000.00) and fixed deposit of RMB Nil (as at the beginning of the period: RMB82,344,650.00).
- (2) As at the end of the period, other fund held by the Group included bank acceptance bills deposit with maturity date over 3 months of RMB 155,896,587.81 (as at the beginning of the year: RMB 68,391,676.70) borrowings and deposit for letter of credit with maturity date over 3 months of Nil (as at the beginning of the period: 5,000,000.00); and deposit for letter of guarantee with maturity date over 3 months of RMB20,100,000.00 (as at the beginning of the year: Nil); fixed deposits with maturity date over 3 months of Nil (as at the beginning of the year: RMB44,974,650.00).

## 51. Foreign Currency Projects

### (1) Foreign Currency Projects

Unit: RMB

Items	Balance at the end of the period	Exchange rate	Equivalent to RMB at the end of the period
Include: USD	<b>38,412,744.29</b>	6.1136	<b>234,840,153.49</b>
EUR	<b>115,194.59</b>	6.8699	<b>791,375.31</b>
Include: USD	<b>17,974,245.04</b>	6.1136	<b>109,887,344.48</b>
EUR	<b>228,263.45</b>	6.8699	<b>1,568,147.08</b>
Prepayments			
Include: USD	<b>4,770,482.00</b>	6.1136	<b>29,164,818.76</b>
Short term borrowings			
Include: USD	<b>97,438,978.72</b>	6.1136	<b>595,702,940.30</b>
Accounts payable			
Include: USD	<b>1,239,785.56</b>	6.1136	<b>7,579,553.00</b>
Receipts in advance			
Include: USD	<b>7,785,355.47</b>	6.1136	<b>47,596,549.20</b>
Include: EUR	<b>1,883,450.30</b>	6.8699	<b>12,939,115.22</b>
Interest payable			
Include: USD	<b>724,749.98</b>	6.1136	<b>4,430,831.48</b>

### (2) Overseas Business Entity

The Company owned subsidiaries (proportion of shares and voting rights are 90%), MPM Limited, its registered and principal place of business is in Hong Kong. USD is the reporting currency.

## 52. Others

## VIII. Change in scope of consolidation

### 1. Others

The range of consolidation of the company in current period has not changed.

## IX. The equity in other entities

### 1. Interests in subsidiaries

#### (1) List of subsidiaries

Name of subsidiaries	Place of operation	Place of incorporation	Nature of business	Shareholding (%)		Method of acquisition
				Direct	Indirect	
MPM Limited	Hong Kong	Hong Kong PRC	Trade	90.00%	0.00%	Subsidiaries acquired through business consolidation not under common control
Maolong New Materials	Shouguang, Shandong province	Shouguang Shandong province	Manufacturing	100.00%	0.00%	Subsidiaries acquired through business consolidation not under common control
Molong Electromechanical Equipment	Shouguang, Shandong province	Shouguang Shandong province	Manufacturing	0.00%	100.00%	Subsidiaries acquired through business consolidation not under common control
Baolong Recyclable Resource	Weihai, Shandong province	Weihai, Shandong province	Trade	0.00%	100.00%	Subsidiaries acquired through business consolidation not under common control
Maolong Recycle	Shouguang, Shandong province	Shouguang, Shandong province	Trade	10.00%	90.00%	Subsidiaries acquired through business consolidation not under common control
Shouguang Baolong	Shouguang, Shandong province	Shouguang, Shandong province	Manufacturing	70.00%	0.00%	Subsidiaries acquired through establishment
Weihai Baolong	Weihai, Shandong province	Weihai, Shandong province	Manufacturing	61.54%	38.46%	Subsidiaries acquired through business consolidation not under common control
Molong Logistic Company	Shouguang, Shandong province	Shouguang, Shandong province	Service	100.00%	0.00%	Subsidiaries acquired through establishment

(2) Significant Non-wholly Owned Subsidiaries

Unit: RMB

<b>Name of subsidiaries</b>	<b>Minority shareholders Proportion (%)</b>	<b>Earnings attributable to minority shareholders</b>	<b>Dividends declared to minority shareholders</b>	<b>Period end balance of earning to minority shareholders</b>
MPM Limited	10.00%	(168,049.77)	—	148,117.59
Shouguang Baolong	30.00%	(11,135,392.00)	—	44,510,585.07

(3) Financial information of significant Non-wholly Owned Subsidiaries

Unit: RMB

Name of subsidiaries	Balance at the end of the period		Balance at the beginning of the period		Non-current Liabilities	Total Liabilities	Non-current Assets	Total Assets
	Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities				
MPM Limited	51,097,117.08	13,258,435.57	65,921,178.05	—	—	65,921,178.05	13,011,305.39	77,038,667.97
Shouguang Baolong	227,655,495.28	586,276,101.11	665,562,979.49	—	—	665,562,979.49	614,273,007.25	801,393,711.38
								615,907,121.15
								77,011,090.84

Unit: RMB

Name of subsidiaries	Incurred during this period		Incurred during the pervious period		Turnover	Net income to cash flow	Profit for the period	Total comprehensive loss	Turnover	Profit for the period	Total comprehensive income (loss)	Net income to cash flow
	Turnover	Net income to cash flow	Turnover	Net income to cash flow								
MPM Limited	939,088.06	(1,597,878.54)	73,161,657.92	256.53	1,825,832.16	1,726,370.73	73,412,179.29	1,572,823.22	73,161,657.92	1,825,832.16	1,726,370.73	73,412,179.29
Shouguang Baolong	562,282,358.34	(37,117,973.33)	44,222,867.35	44,222,867.35	(4,882,779.08)	(4,882,779.08)	(40,620,524.35)	(37,117,973.33)	736,834,099.67	(4,882,779.08)	(4,882,779.08)	(40,620,524.35)

- (4) Significant restrictions on the use of group assets and debt liquidation group  
Nil
- (5) To provide financial support or other supports  
Nil

## 2. Equity in Joint Ventures and Associates

### (1) Significant Joint Ventures and Associates

Name of Joint Ventures and Associates	Place of operation	Place of registration	Business scope	Shareholding (%)		Method of accounting treatment
				Direct	Indirect	
Yalong Oil Pump Company Limited	Karamay, Xinjiang	Karamay, Xinjiang	Manufacturing	0.00%	30.00%	Equity method
Shouguang Maolong microfinance Co., Ltd	Shouguang, Shandong	Shouguang, Shandong	Finance Service	0.00%	30.00%	Equity method

### (2) Financial information of significant associates

Unit: RMB

	Balance at the end of previous period/During this period		Balance at the beginning of the current period/During previous period	
	Yalong Oil Pump Company Limited	Shouguang Maolong Microfinance Co., Ltd.	Yalong Oil Pump Company Limited	Shouguang Maolong Microfinance Co., Ltd.
Current assets	<b>13,899,100.92</b>	<b>159,662,645.78</b>	18,484,665.80	168,390,402.11
Non-current assets	<b>3,548,600.63</b>	<b>3,696,417.55</b>	3,522,584.70	3,812,020.39
Total assets	<b>17,447,701.55</b>	<b>163,359,063.33</b>	22,007,250.50	172,202,422.50
Current liabilities	<b>2,147,703.86</b>	<b>2,689,144.39</b>	5,925,307.55	955,255.94
Non-current liabilities	<b>6,716,731.88</b>	<b>0.00</b>	6,716,731.88	0.00
Total liabilities	<b>8,864,435.74</b>	<b>2,689,144.39</b>	12,642,039.43	955,255.94
Non-controlling interest				
Attributable to shareholders of the company	<b>8,583,265.81</b>	<b>160,669,918.94</b>	9,365,211.07	171,247,166.56
Share of net assets on a pro rata basis	<b>2,574,979.74</b>	<b>48,200,975.68</b>	2,809,563.32	51,374,149.97
Book value of the investment to associates	<b>2,820,504.16</b>	<b>48,362,343.26</b>	2,820,504.16	51,535,517.55
Turnover	<b>4,319,810.43</b>	<b>6,521,007.30</b>	6,051,254.92	7,314,302.58
Net profit	<b>(780,247.83)</b>	<b>4,422,752.38</b>	(445,633.59)	5,794,205.02
Total comprehensive income	<b>(780,247.83)</b>	<b>4,422,752.38</b>	(445,633.59)	5,794,205.02
Dividend received from the associates	<b>0.00</b>	<b>4,500,000.00</b>	0.00	0.00



## X. Risks associated with financial instruments

Major financial instruments of the Group include borrowings, accounts receivable, accounts payable, financial assets and financial liabilities measured at fair value through profit or loss, etc. Detailed descriptions of these financial instruments are set out in Note 4. Below are the risks associated with such financial instruments and the risk management policies adopted by the Group to mitigate such risks. The management of the Group manages and monitors such risk exposures to ensure such risks are contained within a prescribed scope.

### 1. Objective and policies of risk management

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

#### (1) Market risks

##### (1) Foreign exchange risks

Foreign exchange risk represents risks of loss incurred as a result of changes in exchange rate. The Group is mainly exposed to foreign exchange risks in connection with USD, HKD and Euro; except for the Company and its subsidiaries MPM Limited of which entered purchases and sales in USD, HKD and Euro; all the business activities of the remaining principal operations of the Group are settled with RMB. On 30 Jun 2015, except for the USD balances in assets and liabilities, odd monies in EUR and balances in HKD as set out below, all the balances of assets and liabilities of the Group were denominated in RMB. The foreign exchange risk arising from assets and liabilities in such USD balances may affect the operating results of the Group.

The Group pays close attention to the foreign currency changes to the Group.

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

##### (2) Interest rate risk

The risk that changes in interest rate lead to changes in cash flow of the financial instruments of the Group is mainly associated with floating-rate bank borrowings. In addition to entering into fixed-rate bank borrowing contracts, most of the borrowing contracts of the Group are floating-rate borrowings. The Group has not adopted other measures including entering into interest swap contract to avoid the fair value risk resulted from changes in interest rate.

Through the establishment of good relations between banks for credit lines, various credit line to ensure sufficient bank line of credit to meet the company's various types of short-term financing needs. And by shortening the duration of the borrowings, greed early repayment terms which led to reducing the risk of interest rate fluctuations.

(3) *Other price risk*

The Groups sells metal products at market price so sales may be influenced by fluctuation in selling price.

(2) **Credit risk**

As at 30 June 2015, the biggest credit risk exposure that may cause financial loss of the Group is mainly coming from the other party of the contract could not fulfil their obligations that caused the loss on the Group's financial assets, which include:

The book value of a confirmed financial asset in the consolidated balance sheet those financial instruments that are measured by fair value, the book value reflects its risk exposure, but not its biggest risk exposure, the biggest risk exposure will change as the future fair value changes.

The Group only conducts sales with third-party customers with good credit records. In order to minimize credit risk, the Group has established a team responsible for formulating credit limit, credit approval and implementing other monitoring procedures to ensure necessary follow-up measures are carried out to recover the overdue debts. As such, the risk of bad debts is low.

The Group only deposit cash and cash equivalents into banks with relatively high level of credit rating; as such the risk of cash and cash equivalents is low.

The Group only conducts sales with the third-party customers with good credit records. Apart from the top five accounts receivable, the Group has no other significant concentration of credit risk.

(3) **Liquidity risk**

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

104

## **XI. Fair Value Measurement**

### **1. Details of financial assets and financial liabilities not measured at fair value**

During the reporting period, the Group does not have assets and liabilities measured at fair value.

Financial instruments not measured at fair value include accounts receivable, short term borrowings, accounts payable and bonds payables.

Other than the financial liabilities stated below, differences between the carrying amount and the fair values of financial liabilities not stated at fair values are immaterial.

<b>Items</b>	<b>At the end of the period</b>		<b>At the beginning of the period</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Financial liabilities				
— Corporate bonds	<b>498,777,777.75</b>	<b>475,000,000.00</b>	498,111,111.09	474,650,000.00

Fair values of the corporate bonds trading in active markets are determined by quoted market price in these active markets for identical liabilities.

## XII. Related Party Relationships and Transactions

### 1. Parent company and the ultimate controlling entity

Parent company and the ultimate control. On 30 June 2015, Mr. Zhang En Rong owns 265,617,000.00 voting shares in the Company, and is the controlling shareholder of the Company.

Parent company's shareholding in the Company and its changes.

Shareholder	Holding amounts		Holding proportion (%)	
	Balance at the end of the period	Balance at the beginning of the period	At the end of the period	At the beginning of the period
Zhang Enrong	<b>265,617,000.00</b>	265,617,000.00	<b>33.29</b>	33.29

The ultimate controlling party of the company is Zhang Enrong.

### 2. Subsidiaries

The details of the subsidiaries are listed on note IX.1.

### 3. Associate and Joint Ventures of the company

The details of the joint venture and associate are listed on note IX.2.

This issue occurs with the Company related party transaction, or earlier with the Company incurred other related party transactions form a joint venture or consortium situation balances is as follows:

Name of related party	Relationship with the company
Yalong Oil Pump	Associate

### 4. Related parties transaction

#### (1) Consolidation

*Sale and Service rendered*

Unit: RMB

Name of related party	Related party transactions with the company	Amount of this period	Amount of last period
Yalong Oil Pump	Oil well pumping and accessories	1,402,519.91	4,296,691.28

5. *Account receivables and payable of related party*

(1) *Account receivables*

Unit: RMB

Items	Related party	Balance at the end of the period		Balance at the beginning of the period	
		Carrying amount	Impairment	Carrying amount	Impairment
Account receivables	Yalong Oil Pump	<b>2,071,080.14</b>	—	1,930,131.84	—

**XIII. Commitment**

1. *Capital commitment*

Capital commitment at the balance sheet date

(1) *Capital commitment of the Group at the end of the period*

*Contracted for but not provided*

Items	Balance at the end of the period	Balance at the beginning of the period
Contracted for but not provided — commitment for acquisition and construction of long-term assets	<b>295,812,874.32</b>	274,402,850.94
Total	<b>295,812,874.32</b>	274,402,850.94

(2) *Capital Commitment in previous period*

The Group had executed as stated in contracts.

(3) *Other than the commitment stated above, there is no other material commitment up to 30 June 2015*

2. *Other commitment*

(1) *Other material commitment at balance sheet date*

There is no other material commitment up to 30 June 2015.

(2) *Other material commitment is not required to be disclosed, but need to explain*

There is no other material commitment.

3. *Other*

## XIV. Events Subsequent to Balance Sheet Date

### 1. Subsequent Profit Distribution

Unit: RMB

Proposed profit distribution and dividend	0.00
Considered and approved profit distribution and dividend	0.00
<hr/>	

### 2. Sales Return

Until to the issuance of this report, there is no any sales return.

### 3. Subsequent events to be disclosed

Nil

## XV. Other significant items

### 1. Segment Reporting

#### (1) Basis for determining segments and accounting policies

##### (1) Basis for determining segments

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

##### (2) Accounting policies of segments

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

## (2) Segment Reporting Information

Unit: RMB

Items	Casing and Tubing	Three kinds of pumping units	Petroleum	Other	Unallocated Items	Inter- segment elimination	Total
			machinery plant				
Operation revenue	1,001,170,579.14	22,556,421.79	61,180,702.89	12,741,933.09	—	—	1,097,649,636.91
External income	—	—	—	—	—	—	—
Inter-segment income	—	—	—	—	—	—	—
Total segment income	1,001,170,579.14	22,556,421.79	61,180,702.89	12,741,933.09	—	—	1,097,649,636.91
Total operating income	1,001,170,579.14	22,556,421.79	61,180,702.89	12,741,933.09	—	—	1,097,649,636.91
Segment cost	945,465,583.57	16,781,353.73	54,316,932.31	23,197,103.76	—	—	1,039,760,973.37
Segment profit	55,704,995.57	5,775,068.06	6,863,770.58	(10,455,170.67)	—	—	57,888,663.54
Adjusting items: :	—	—	—	—	75,051,550.05	—	75,051,550.04
Administrative expenses	—	—	—	—	62,563,240.66	—	62,563,240.66
Finance costs	—	—	—	—	13,815,135.10	—	13,815,135.10
Investment income	—	—	—	—	1,326,825.71	—	1,326,825.71
Operating profit (loss)	55,704,995.57	5,775,068.06	6,863,770.58	(10,455,170.67)	(75,051,550.05)	—	(17,162,886.51)
Non-operating income	—	—	—	—	23,740,893.66	—	23,740,893.66
Non-operating expenses	—	—	—	—	67,851.83	—	67,851.83
Total profit (loss)	55,704,995.57	5,775,068.06	6,863,770.58	(10,455,170.68)	(51,378,508.21)	—	6,510,155.32
Income tax credit	—	—	—	—	7,501,818.28	—	7,501,818.28
Net profit (loss)	55,704,995.57	5,775,068.06	6,863,770.58	(10,455,170.68)	(58,880,326.49)	—	(991,662.96)
Total segment assets	4,959,024,534.02	106,698,324.30	249,069,732.30	38,667,694.26	573,515,933.36	—	5,926,976,218.24
Total segment liabilities	1,229,551,210.57	21,783,654.50	101,456,302.30	814,590.94	1,824,088,083.87	—	3,177,693,842.18
Supplementary Information:							
Depreciation	86,564,594.83	2,976,119.05	3,891,828.46	3,251,814.89	1,493,134.11	—	98,177,491.34
Amortisation	22,691,842.69	6,486.66	1,177,075.04	—	1,438,431.16	—	25,313,835.55
Interest income	—	—	—	—	(9,328,891.00)	—	(9,328,891.00)
Finance cost	—	—	—	—	23,144,026.10	—	23,144,026.10
Impairment losses recognized in this period:	—	—	—	—	—	—	—
Non-current assets other than long-term equity investment	2,814,159,002.25	83,409,135.59	112,263,704.20	32,045,857.66	500,462,777.18	—	3,542,340,476.88
Capital expenditure	66,843,311.50	—	—	403,711.38	—	—	67,247,022.88
Including: Construction in progress	63,023,306.32	—	—	150,779.34	—	—	63,174,085.66
Purchase of fixed assets	3,820,005.18	—	—	252,932.04	—	—	4,072,937.22
Purchase of intangible assets	—	—	—	—	—	—	—

2. Other important transactions and events affect the decision of investors

3. Others

## XVI. Notes to statement of financial position of the Company

### 1. Accounts Receivable

(1) Risk of accounts receivable category are set out below

Unit: RMB

Category	Balancing at the end of the period				Net amount	Balancing at the beginning of the period				Net amount
	Carrying amount Amount	Ratio	Provision of bad debt Amount	Proportion		Carrying amount Amount	Ratio	Provision of bad debts Amount	Proportion	
Account receivable of significant individual amount, individually provided for bad debts	14,376,029.00	1.40%	10,479,971.25	72.90%	3,896,057.75	14,376,029.00	1.66%	10,479,971.25	72.90%	3,896,057.75
Items for which provision for bad debt is recognized by group with distinctive credit risk characteristics	1,011,212,283.26	98.37%	—	—	1,011,212,283.26	848,545,515.50	98.06%	—	—	848,545,515.50
Account receivable of insignificant individual amount, individually provided for bad debts	2,385,600.52	0.23%	1,969,693.49	82.57%	415,907.03	2,385,600.52	0.28%	1,969,693.49	82.57%	415,907.03
<b>Total</b>	<b>1,027,973,912.78</b>	<b>100.00%</b>	<b>12,449,664.74</b>	<b>—</b>	<b>1,015,524,248.04</b>	<b>865,307,145.02</b>	<b>100.00%</b>	<b>12,449,664.74</b>	<b>—</b>	<b>852,857,480.28</b>

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

Applicable  Not applicable

Unit: RMB

109

Account receivables (By Company)	Balancing at the end of the period			Reasons for impairment
	Account receivables	Provision of bad debts	Proportion	
Shengli Oilfield Highland Petroleum Equipment Co., Ltd	3,284,636.96	3,284,636.96	100.00%	Aging over three periods with low possibility of recovery
SBI Company (USA)	3,807,804.56	3,807,804.56	100.00%	Aging over two years with low possibility of recovery
Wenlai Jinlong Investment Company Limited, Beijing Office	7,283,587.48	3,387,529.73	46.51%	Aging over two years with low possibility of recovery
<b>Total</b>	<b>14,376,029.00</b>	<b>10,479,971.25</b>	<b>—</b>	

(2) Provision for the period, back (or back) of bad debts.

The impairment loss on accounts receivables amounted to RMB Nil (6.2014:RMB Nil).

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

Companies	Amounts	Aging	Proportion (%)	Provision for bad debt
Maolong New Materials Company	362,245,156.00	Within one year	35.24%	—
HeBei ZhongTai Steel Pipe Manufacture Co., Limited	68,044,415.00	Within one year	6.62%	—
Shanxi Yanchang Petroleum Co., Ltd	56,973,103.00	Within one year	5.54%	—
Dingfeng Tube Stock Co., Limited	47,078,508.00	Within one year	4.58%	—
SP Company Limited	44,745,935.78	Within one year	4.35%	—
Total	579,087,117.78		56.33%	—

## 2. Other receivables

### (1) Risk Classification of Other Receivables

Unit: RMB

Type	Balance at the end of the period				Net amount	Balance at the beginning of the period				
	Book balance Amount	Ratio	Impairment loss Amount	Proportion		Book balance Amount	Ratio	Impairment loss Amount	Proportion	
Items for which provision for bad debt is recognized by group with distinctive credit risk characteristics	230,302,459.25	99.95%	—	—	230,302,459.25	272,409,135.72	99.96%	—	—	272,409,135.72
Single item with insignificant other receivables but provided for bad debts separately	119,119.25	0.05%	119,119.25	100.00%	—	119,119.25	0.04%	119,119.25	100.00%	—
Total	230,421,578.50		119,119.25	—	230,302,459.25	272,528,254.97	100.00%	119,119.25	—	272,409,135.72

### (2) Provision for the period, reversed (or recovery) for bad debt

This period the company has not made provision for other receivables other receivables for bad debts, this period has not recovered or back other receivables for bad debts.

### (3) Classification of other receivables by nature

Unit: RMB

Nature	Balance at the end of the period	Balance at the beginning of the period
Current account	228,751,746.50	271,163,355.72
Deposits	655,800.00	250,000.00
Individuals	1,014,032.00	1,114,899.25
Total	230,421,578.50	272,528,254.97



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

Unit: RMB

Companies	Nature	Amount	Aging	Proportion	Bad debts period end balance
Shouguang Maolong Machinery Company Limited	Current account	190,000,000.00	1-2 years	82.46%	—
Shouguang Yang Kou Ministry of Finance	Construction project deposit	14,530,000.00	1-2 years	6.31%	—
Weifang Customs of People's Republic of China	Deposit	11,829,809.30	Within 1 year	5.13%	—
Gu Cheng Jie Dao Office	Current account	6,891,320.00	Within 4 years	2.99%	—
West Center of Shanghai Petroleum Exchange Ltd.	Current account	1,128,181.00	Within 1 year	0.49%	—
Total		224,379,310.30		97.38%	—

### 3. Long-term equity investment

Unit: RMB

Items	Balance at the end of the period			Balance at the beginning of the period		
	Carrying Amount	Impairment	Carrying Amount	Carrying Amount	Impairment	Carrying Amount
Investment in subsidiaries	1,042,069,921.73	—	1,042,069,921.73	1,042,069,921.73	—	1,042,069,921.73
Total	1,042,069,921.73	—	1,042,069,921.73	1,042,069,921.73	—	1,042,069,921.73

(1) Investment in subsidiaries

Unit: RMB

Investee	Balance at the	Additions	Reductions	Balance at the	Provision of	Provision of
	beginning of the			end of the period	impairment for	impairment at
	period				the period	the end of the
						period
Maolong New Materials						
Company	706,743,691.73	—	—	706,743,691.73	—	—
Weihai Baolong	220,000,000.00	—	—	220,000,000.00	—	—
MPM Limited	7,276,230.00	—	—	7,276,230.00	—	—
Shouguang Baolong	105,000,000.00	—	—	105,000,000.00	—	—
Molong Logistic						
Company	3,000,000.00	—	—	3,000,000.00	—	—
Maolong Recycle	50,000.00	—	—	50,000.00	—	—
Total	1,042,069,921.73	—	—	1,042,069,921.73	—	—

(2) Other description

(1) There is no impairment indicators and the Company does not provide impairment loss for long-term equity investment.

(2) As at 30 June 2015, there is no restriction on the Group of transferring capital from investee companies which the Group had long-term equity investment.

112

4. Operating Revenue and Operating Costs

Unit: RMB

Items	Incurred during this period		Incurred during previous period	
	Revenue	Cost	Revenue	Cost
Main operation	1,060,707,024.31	832,507,827.17	1,248,224,039.64	1,083,651,813.86
Other operation	52,360,008.55	62,130,181.44	186,760,722.10	182,703,677.47
Total	1,113,067,032.86	894,638,008.61	1,434,984,761.74	1,266,355,491.33

## XVII. Supplementary Information

### 1. Statement of non-recurring profit and loss

Applicable  Not applicable

Unit: RMB

Items	Amount	Note
Loss on disposal of non-current assets	<b>(41,384.21)</b>	
Government subsidies in profit and loss of the period(excluding those government subsidies closely related to corporate business, fixed in accordance with the national standard or enjoyed quantitatively)	<b>23,150,709.22</b>	
In addition to the above, the non-operating income and expenditure	<b>563,716.82</b>	
Less: Income tax effect	<b>3,509,793.81</b>	
Effect of minority interests (after tax)	<b>21,983.45</b>	
<b>Total</b>	<b>20,141,264.57</b>	

Explain the reasons if the Company classified any extraordinary gains/losses items defined in the "Explanatory announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public Extraordinary Gains/Losses" as recurring gains/losses items, as well as those listed in the said explanatory announcement as recurring gains/losses items

Applicable  Not applicable

113

### 2. Return on Net Assets and (Loss) Earnings per Share

Profit during the reporting period	Weighted average return on assets	Earnings per share	
		Basic (RMB/Share)	Diluted (RMB/Share)
Net profit attributable to holders of ordinary shares of the company	0.38%	0.01	0.01
Net profit (loss) attributable to holders of ordinary shares of the company after deducting the non-recurring gain and loss	-0.36%	0.01	0.01

### 3. Differences in accounting data under domestic and overseas accounting standards

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

Applicable  Not applicable

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

Applicable  Not applicable

## **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, 2015

