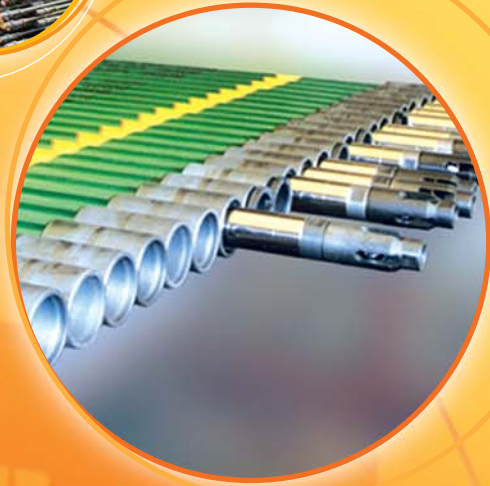
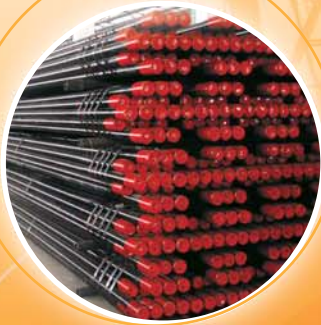




山東墨龍石油機械股份有限公司

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)



2016
Interim
Report

I. IMPORTANT, CONTENTS AND DEFINITIONS

Important

The board of directors (the “Board”), the supervisory committee (the “Supervisory Committee”) and the directors (the “Directors”), supervisors (the “Supervisors”) and senior management (the “Senior Management”) of the Company hereby warrant that there are no false representations, misleading statements or material omissions contained in this 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.

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Definitions

“Company”, “the Company”, and “Shandong Molong”	Shandong Molong Petroleum Machinery Company Limited
“the Group”	the Company and its subsidiaries
“SZSE”	The Shenzhen Stock Exchange
“SEHK”	The Stock Exchange of Hong Kong Limited
“Listing Rules of Shenzhen Stock Exchange”	the Rules governing the listing of securities on the Shenzhen Stock Exchange
“Listing Rules of SEHK”	the Rules governing the listing of securities on the Hong Kong Stock Exchange
“Renminbi” or RMB”	Renminbi, the lawful currency of the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Director(s)”	the director(s) of the Company, including all executive, non-executive and independent non-executive directors
“the reporting period”	from 1 January 2016 to 30 June 2016
“Maolong”	Shouguang Maolong Machinery Company Limited
“Articles”	the Company’s Article of Association
“The Board”	the Company’s board of directors

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
Registered Address of the Company	No. 999 WenSheng Street, Shouguang City, Shandong Province
Postal Code of Registered Address	262700
Office Address	No. 999 WenSheng Street, Shouguang City, Shandong Province
Postal Code of office address	262700
Website of the Company	http://www.molonggroup.com
Email Address	sdml@molonggroup.com

II. Contact Information

	The Secretary of the Board	Securities Affairs Representative
Name	Zhao Hong Feng	Wang Jian Lei
Office Address	No. 999 WenSheng Street, Shouguang City, Shandong Province	No. 999 WenSheng Street, Shouguang City, Shandong Province
Telephone	0536-5100890	0536-5789083
Facsimile	0536-5100888	0536-5100888
Email Address	zhf@molonggroup.com	dsh@molonggroup.com
Principal place of business in Hong Kong	Suite A, 11th Floor Ho Lee Commercial Building 38-44 D' Aguilar Street Central Hong Kong	

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III. Other Information

1. Company Contact Information

The registered address, office address, zip code, web address and e-mail address have no changes during the reporting period.

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

The name of the newspaper for information disclosure and website designated by the Chinese Securities Regulatory Commission for publishing this interim report have no changes during the reporting period. For details, please see 2015 annual report.

3. Registration Changes

	Registration date	Registration site	License of the business corporation	Tax registration number	Organizing institution bar code
Registration at beginning of report period	28 AUG 2012	No. 999 Wensheng Street Shouguang City Shandong Province	370000400000030	370783734705456	73470545-6
Registration at end of report period	18 FEB 2016	No. 999 Wensheng Street Shouguang City Shandong Province	91370000734705456P	91370000734705456P	91370000734705456P
Inquiry date of temporary announcement published at specified website(if any)					

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

	30 June 2016 (unaudited)	30 June 2015 (unaudited)	Increase/ decrease (%)
Operating Revenue (RMB)	871,031,873.22	1,097,649,636.91	-20.65%
Net profit attributable to equity holders of Listed Company (RMB)	6,039,585.20	10,313,286.91	-41.44%
Net profit after extraordinary gains or losses attributable to equity holders of Listed Company (RMB)	(1,965,200.44)	(9,827,977.66)	80.00%
Net cash flows from operating activities (RMB)	(109,265,678.50)	126,758,914.81	-186.20%
Basic earning per Share (RMB)	0.0076	0.01	-24.00%
Diluted earning per Share (RMB)	0.0076	0.01	-24.00%
Net Assets Income Rate (%)	0.25%	0.38%	-0.13%

	30 June 2016 (unaudited)	31 December 2015 (audited)	Increase/ decrease (%)
Total Assets (RMB)	6,461,481,655.40	5,851,180,723.61	10.43%
Net assets attributable to shareholders of Listed Company	2,438,618,117.60	2,433,157,226.21	0.22%

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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. Non-recurring profit and loss items and amounts

✓ Applicable □ Not Applicable

Unit: RMB

Non-recurring profit and loss items	Amount in 2016	Note (if applicable)	Amount in 2015	Amount in 2014
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	(63,847.59)	—	(41,384.21)	241,125.98
Government grant recognised in current profit and loss (excluding those grants that are closely related to the Company's business and that were granted in accordance with the standard amount or volume prescribed by the State)	10,131,155.00	—	23,150,709.22	2,787,036.89
Non-operating gain or loss other than the above	236,288.11	—	563,716.82	626,505.68
Less: Effect of extraordinary gains or losses on income tax	2,284,891.61	—	3,509,793.81	525,989.03
Effect of extraordinary gains or losses on minority shareholders interest (after tax)	13,918.27	—	21,983.45	3,927.71
Total	8,004,785.64	—	20,141,264.57	3,124,751.81

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

I. Overview

In the first half of 2016, amidst the global economic downturn, the global oil prices were continuously staying at a low level and the supply was larger than the demand. In addition, with the frequent fluctuation of the steel prices, weak demand of overseas markets and declining growth of domestic economy, the energy equipment industry has faced with an increasing level of market competition which led to a huge decline in the price of products. In face of the new challenges from shales gas and offshore petroleum, the Company has organized and planned for project construction, continuously increased its investment in technology and research and development of new products, steadily expanded its market coverage, integrally enhanced the management standards, proactively conquered the influence of internal and external difficulties and factors, in order to ensure the stable operation of the Company.

II. Main business analysis

During the reporting period, the Group achieved an unaudited revenue of RMB871,031,873.22, representing a decrease of approximately 20.65% as compared to the same period last year; the unaudited total profit was RMB-2,918,208.35, representing a decrease of approximately 144.83% as compared to the same period last year; the unaudited profit attributable to equity holders of the Company was RMB6,039,585.20 representing a decrease of 41.44% as compared to the same period last year; and the unaudited net profit after extraordinary items was RMB-1,965,200.44, representing an increase of approximately 80% as compared with the same period last year.

The changes in main financial data

Unit: RMB

	30 June 2016 (unaudited)	30 June 2015 (unaudited)	Increase/ decrease (%)	Reasons for the changes
Operation revenue	871,031,873.22	1,097,649,636.91	-20.65%	
Operating costs	770,746,262.83	909,522,428.13	-15.26%	
Selling expense	31,878,686.17	122,469,789.17	-73.97%	Mainly due to a decrease in foreign transportation and offshore service fees of the Company within the period.
Handling expense	55,144,229.18	62,563,240.66	-11.86%	
Financial expense	22,630,322.40	13,815,135.10	63.81%	Mainly due to acceptance discounts and increased bearing expenses within the period.
Income tax expense	7,568,697.95	7,501,818.28	0.89%	
R&D investment	16,580,042.85	33,317,771.95	-50.24%	Mainly due to the decrease in R & D investment.
Net profit from operations	(109,265,678.50)	126,758,914.81	-186.20%	Mainly due to the decline in operating revenues and cash received, and an increase in its subsidiaries' microfinance loan amount.
The net cash flow by investment activities	(86,812,957.03)	(120,485,175.10)	27.95%	

Unit: RMB

	30 June 2016 (unaudited)	30 June 2015 (unaudited)	Increase/ decrease (%)	Reasons for the changes
The net cash flow by financial activities	375,414,870.87	(104,606,463.99)	458.88%	Mainly due to the expiration of Company's capital raise, expenditures in corporate bonds and projects.
Net increase in cash and cash equivalents	168,280,922.13	(92,657,847.79)	281.62%	Mainly due to the increase in non-restricted margin and the delayed payment of Company's fundraising events.
Monetary capital	830,671,642.64	349,815,773.50	137.46%	Mainly due to a substantial increase of handling fee in notes payable and increase in margin deposits.
Interest receivable	11,832,482.79	4,594,396.68	157.54%	Mainly due to the acceptance margin, an increase in loan amount of Maolong's small loan company and accrued interest receivable.
Advance payment	22,981,261.73	12,063,262.16	90.51%	Mainly due to an increased prepayment for materials.
Notes payable	1,019,689,868.24	304,242,384.43	235.16%	Mainly due to the Company's intensively transact part of the notes.
Tax payable	20,676,111.88	7,387,844.14	179.87%	Mainly due to an increase in implement tax of the Company.
Interest payable	2,382,495.72	17,853,069.32	-86.65%	Mainly due to the maturity of bonds issued by the Company, and the payment of interest.
Other payables	128,974,895.46	23,979,858.24	437.85%	Mainly due to Company's due of domestic credit payment.
Other current liability	—	1,808,000.00	-100.00%	Mainly because of completing amortization of the project subsidy received from government.
Non-current liabilities due within one year	—	499,444,444.41	-100.00%	Mainly because of the return of the Company's corporate bonds upon their maturity.
Business tax and surcharges	3,829,733.61	7,768,756.07	-50.70%	Mainly due to a decrease in the value-added tax of the Company during the reporting period.
Income from investment	—	1,326,825.71	-100.00%	Mainly because Maolong was brought into consolidation scope at Sep 2015, investment gains offset at this period.
Non-business income	10,391,479.11	23,740,893.66	-56.23%	Mainly to due a decrease in project subsidy received.

Significant change in profit structures and profit sources during the reporting period.

Applicable Not Applicable

There are no significant changes in profit structures and profit sources during the reporting period.

The disclosure of future development and planning in the public disclosure documents including the prospectus and the asset reorganization report continuing to the reporting period.

Applicable Not Applicable

There is no disclosure of future development and planning in the public disclosure documents including the prospectus and the asset reorganization report continuing to the reporting period.

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

1. For domestic market, the major customers of the Group's oil well tubes business are PetroChina Company Limited ("PetroChina"), Sinopec (Hong Kong) Petrol Filling Station Co., Ltd. ("Sinopec"), China National Offshore Oil Corporation ("CNOOC") and Yanchang Petroleum International Limited, business scopes of other customers include social pipe mechanical processing, shipbuilding, high-pressure boiler, gas cylinder tube and automobile tubes, etc. and the market continues its expansion.
2. For overseas market, the Group continued to expand its business development in Central Asia, Middle East, South America and North Africa during the reporting period and develop new customers' relationship by mainly selling casing and tubing, line pipe products, subsea pipeline products and sucker rods. In addition, the Group has obtained certificates for its products in many national oil companies 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 market, and 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 results in raising sales in the overseas markets. During the reporting period, the Group's revenue from exports accounted for approximately 16.74% 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 research institutes to increase its efforts to develop high-end products, expand product structures and enrich product categories. The Group has successfully developed products including but not limited to ML-IJ enhanced direct interlocking tube, P 11 American standard alloy pipe, high pressure straight pipe, anti-corrosive airtight pipe thread and anti-corrosive suspension pump which were supplied to domestic and overseas customers in large quantities. Continuous development and introduction of new products to the market enables the Company to respond swiftly, thus enhancing our resistance to risk.

III. Principal operations by products and by region

Unit: RMB

	Operation revenue (Unaudited)	Operating costs (Unaudited)	Gross profit margin (%)	Year-on-year increase/ decrease in operation revenue (%)	Year-on-year Increase/ decrease in operating costs (%)	Year-on-year increase/ decrease in gross profit margin (%)
By industry						
Petroleum machinery specialized equipment manufacturing	855,588,808.11	765,165,251.78	10.57%	-21.26%	-13.94%	-7.60%
By product						
Casing and tubing	781,668,830.03	697,087,777.41	10.82%	-21.99%	-15.75%	-6.61%
Three kinds of pumping units	16,890,016.87	11,843,203.89	29.88%	-25.12%	-16.04%	-7.59%
Petroleum machinery	8,899,062.96	9,731,049.79	-9.35%	-85.45%	-79.32%	-32.43%
Trading	45,174,407.89	43,706,202.82	3.25%	—	—	—
Others	2,956,490.36	2,797,017.87	5.39%	273.56%	396.76%	-23.46%
By region						
PRC	712,374,641.00	633,873,589.84	11.02%	27.12%	24.39%	1.95%
Abroad	143,214,167.11	131,291,661.94	8.32%	-72.78%	-65.41%	-19.54%

IV. Core Competence Analysis

For the six months ended 30 June 2016, the Group has further strengthened the cooperation with the four major domestic oil companies, including the non-API products and the mass supply of special personalized product. New products have been successful installed in each of the domestic oil fields and blocks. The sale of non-oil well pipes seamless pipes increased rapidly. New Products like ML-IJ enhanced direct interlocking tube, P11 american standard alloy pipe, high pressure straight pipe, anti-corrosive airtight pipe thread and anti-corrosive suspension pump have been massively supplied to the market. For overseas markets, products like oil casing pipe, line pipe products has passed the product certification of the oil companies from Russia, Iran, Uzbekistan, Egypt, and other national oil companies, and gained the recognition of customers. New products like large diameter casing, special series buckle casing, and anti-corrosive subsea pipelines has been massively supplied to customers, which led to an expansion of the overseas market share and also an improvement of the fame of the Company within the international energy equipment market.

For new products development, with the scientific research advantages of "Provincial-level Enterprise Technical Center of Shandong Province" and "Shandong Molong post-doctoral research station", the Group has 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. The Group has successfully developed products including but not limited to ML-IJ enhanced direct interlocking tube, P 11 american standard alloy pipe, high pressure straight pipe, anti-corrosive airtight pipe thread and anti-corrosive suspension pump which were supplied to domestic and overseas customers in large quantities. Continuous development and introduction of new products to the market enables the Company to respond swiftly, thus enhancing our resistance to risk.

V. Investment situation analysis

1. External equity investment situation

(1) External investment situation

The Company did not hold any external investment in the reporting period.

(2) Financial enterprises stock rights situation

The Company did not hold any financial enterprises in the reporting period.

(3) Securities investment situation

The Company was not involved in any securities investment in the reporting period.

(4) Account for holding other listed company's stock rights

The Company did not hold other listed companies' stocks in the reporting period.

2. Situation of trust management, investment in derivatives and entrusted loans

(1) Trust management

The Company didn't have trust management in the reporting period.

(2) Investment in derivatives

There was no derivative investment in the reporting period.

(3) Entrusted loans

The Company did not have entrusted loans in the reporting period.

3. Situation of use of proceeds

The Company did not have use of proceeds in the reporting period.

4. Analysis of main subsidiaries, joint stock company

Unit: RMB

Name of company	Company		The main products or services	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
	Type	Industry							
MPM International Limited	Subsidiary	Trading	Acquisition and sales of petroleum extraction and chemical machinery electric equipment	USD1,000,000	68,200,397.32	(2,077,426.65)	2,811,255.71	667,504.15	667,512.60
Maolong New Materials	Subsidiary	Manufacturing	Research, development and promotion of the new materials for energy equipment; the production and sales of petroleum drill and equipment, tools and accessories, metal casting and forging; the building of waste heat and gas power generation project	712,380,000.00	1,323,085,936.08	752,892,337.69	1,952,195.41	(1,355,339.48)	(1,309,687.48)
Molong Electro-mechanical Equipment	Subsidiary	Manufacturing	Manufacture and sales of outer thickening oil well tubing and electrical complete equipment	USD1,000,000	95,062,820.07	56,185,122.18	14,881,358.67	(1,580,008.57)	(1,568,587.05)
Shouguang Baolong	Subsidiary	Manufacturing	Manufacture and sales of oil equipment	150,000,000.00	786,807,811.57	(5,768,557.84)	370,868,492.66	(62,823,312.07)	(62,764,418.82)
Weihai Baolong	Subsidiary	Manufacturing	Manufacture and sales of metal material specialized for petroleum use	26,000,000.00	301,421,018.87	234,492,424.92	65,479,353.74	(17,406,893.43)	(17,099,558.98)
Molong Logistics Company	Subsidiary	Service	Cargo warehousing (excluding prohibited items), cargo handling, empty cargo picking, logistics information, port ship docking services; sales of lamps, decorative items, household appliances, coal and products, building materials, automobile spare parts, hardware products, electrical equipment, and information technology consulting services	3,000,000.00	133,642,808.17	8,194,525.73	1,754,728.42	250,688.08	5,463,929.33
Shouguang Maolong Microfinance Company Limited	Subsidiary	Financial service	Proving and handling loans in Shouguang City; development of small enterprise businesses and their management	150,000,000.00	189,589,865.90	157,531,559.52	6,103,658.98	4,609,517.90	3,457,138.41
Shandong Molong import and export limited	Subsidiary	Trading	Operate cargo import and export within the country's permissible range, trade consultation service	10,000,000.00	89,716,700.52	11,477,845.02	45,174,407.89	1,953,331.60	1,440,820.34

5. Highlights of major investments not financed by the listing proceeds

Unit:RMB '0000

Name of projects	Total planned investment	Investment made during the reporting period	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)
Casting plant overall relocation technical transformation project	80,000	2,981.96	111,726.21	97%	N/A		
Sea water desalination project	15,000	4,645.73	9,011.28	97%	N/A		
Comprehensive utilization of waste heat and offgas	12,000	1,436.69	8,824.99	97%	N/A		
Oxygen station project	10,000	22.52	9,844.8	97%	N/A		
The worker skill expanding and training center	2,600	3.74	1,316.42	55%	N/A		
Total	119,600	9,090.64	140,723.70	—	—	—	—

VI. Operating result forecast for the nine months ended 30 September 2016

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Operating result forecast for the nine months ended 30 September 2016: 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 2016 (%)	-50.00% to 0.00%
Change in net profit attributable to shareholders of the listed company from January to September 2016 (RMB'0000)	635.92 to 1,271.83
Net profit attributable to shareholders of the listed company from January to September 2015 (RMB'0000)	1,271.83

Reasons for the change in results

In the first half of 2016, amidst the global economic downturn, the global oil prices were continuously staying at a low level and the supply was larger than the demand. In addition, with the frequent fluctuation of the steel prices, weak demand of overseas markets and declining growth of domestic economy, the energy equipment industry has faced with an increasing level of market competition which led to a huge decline in the price of products. With the intensive market competition of the energy equipment industry, sharp decrease in the price of products and a decrease in sales revenue, the Company's profitability has sharply decreased when compared with the same period in last year.

VII. The Board and the supervisors' committee explaining the accounting firm's "Non-auditor's standard report" of the reporting period.

Applicable Not Applicable

VIII. The Board explaining last year's "Non-auditor's standard report".

Applicable Not Applicable

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

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

X. Proposals on profit distribution and conversion of capital reserves into share capital during the reporting period

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

XI. 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.

XII. Disclosures in accordance with the Listing Rules of SEHK

1. Results

The Group's profit for the first half of 2016 and the state of financial affairs of the Group and the Company at that date are set out in the consolidated financial statements on "IX Financial Statements" of the interim report.

2. Financial Summary

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

Results

	For the 6 months ended 30 June	
	2016	2015
	RMB'0000	RMB'0000
Total revenue from operation	87,103.19	109,764.96
Profit from operations	(1,322.18)	(1,716.29)
Total profit	(291.82)	651.02
Net profit	(1,048.69)	(99.17)
Minority interests	(1,652.65)	(1,130.49)
Net profit attributable to shareholders of the Company	603.96	1,031.33
Basic earnings share (RMB)	0.0076	0.01

Assets and Liabilities

	For the 6 months ended 30 June	
	2016 RMB'0000	2015 RMB'0000
Total assets	646,148.17	585,118.07
Total liabilities	393,449.46	331,309.61
Net assets	252,698.71	253,808.46

3. *Change in Share Capital*

For the six months ended 30 June 2016, details of changes in the share capital of the Group are set out in note 30 of the consolidated financial statements.

4. *Reserves and Distributable Reserves*

For the six months ended 30 June 2016, details of changes in the reserves of the Group are set out in note 33 to the consolidated financial statements.

5. *Property, Plant and Equipment*

Details of changes in the property, plant and equipment of the Group for 2016 are set out in note 12 to the consolidated financial statements.

6. *Capitalised Interest*

For the six months ended 30 June 2016, the Group had capitalised interest amounting to RMB23,050,200.37.

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 a subsidiary named Karamay Yalong Petroleum Machinery Co., Ltd in the reporting period, please refer to "XII. Related Party and Transactions" in section IX 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 2016, 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 registered share capital
Zhang En Rong	Beneficial	265,617,000	49.03%	33.29%
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 registered share capital
Zhang Yun San	Beneficial	9,060,400	3.54%	1.14%

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.

The Company has adopted a Model Code for Securities Transactions by Directors on no less exacting terms than the Model Code for Securities Transactions by Directors of Listing Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry, all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2016.

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 2016.

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 2016 or at any time in the first half of 2016.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2016.

16. Pre-emptive Rights

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

17. Corporate Governance

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

Throughout the six months ended 30 June 2016, 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 2016 and up to the date of this report.

19. *Substantial Shareholders' and other persons' Interests or bond interests*

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

Name	Type of interest	Number of H Shares	Number of H Shares	Percentage of total registered capital
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.

20. *Liquidity and financial resources*

As at 30 June 2016, our Group's current ratio is 72.30%, the acid-test ratio is 49.24%, the asset-liability ratio is 60.89%, the receivable-turnover ratio is 289.89% and the inventory turnover ratio is 173.78%. The main capital source of our Group is the cash inflow from operating activities, borrowings from financial institutions and financing activities through capital markets. Our Group's demand for funds does not have obvious seasonal pattern.

As at 30 June 2016, the Group borrowed a total of RMB1,816 million from banks. The Company has issued corporate loans in the amount of RMB50 million to the public and they were due in June 2016 (at the end of the last year, the Group borrowed a total of RMB1,469 million and issued loans amounting to RMB499 million). As at 30 June 2016, the Group had monetary capital of RMB831 million (RMB350 million at the end of last year).

21. *Gearing ratio*

The Group's gearing ratio was approximately 60.89% (2015: approximately 56.62%) which is calculated based on the Group's total liabilities of approximately 3,934.49 million (2015: approximately RMB3,313.10 million) and total assets of approximately 6,161.48 million (2015: approximately RMB5,851.18 million).

22. *Treasury Policy*

The Group has established a strict internal control system for cash and fund management so as to strengthen the financial management. Most of the Group's revenues and expenses are denominated in Renminbi. The Group's liquidity and solvency are in good condition.

23. *Assets with limited ownership*

As at the end of the reporting period, the Group had no assets with limited ownership.

24. *Contingent Liabilities*

As at the end of the reporting period, the Group did not have any significant contingent liabilities to disclose.

V. MATERIAL MATTERS

I. Corporate Governance

Strictly in compliance with the requirements of the relevant laws and regulations of Company Law (公司法), Securities Law (證券法), Code of Corporate Governance for Listed Companies (上市公司治理準則), listing rules of Shenzhen Stock Exchange (深圳證券交易所股票上市規則), listing rules of 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 thinks the state of governance of the Company is currently in compliance with the requirements under the relevant documents of CSRC.

1. *Shareholders and general meetings*

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

2. *Controlling shareholder and the listed company*

The Company's controlling shareholder is Zhang En Rong. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without adversely affecting the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with laws and regulations and the terms and procedures as set out in the Articles. The staffing, assets, financial affairs, organization and business of the controlling shareholder are independent to those of the listed company, 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 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. *Audit Committee*

As at the date of this report, the Audit Committee comprises Mr. Qin Xuechang (chairman of the Audit Committee), Mr. Ji Yansong and Ms. Quan Yuhua, the independent non-executive Directors of the Company. The principal duties of the audit committee include the review of the financial information of the Company and overseeing the Company's financial reporting system, risk management and internal control systems. The Audit Committee has reviewed, with no disagreement, with the management in relation to the accounting principles and practices adopted by the Group and has discussed auditing, internal controls and financial reporting matters including the review of the condensed consolidated interim financial information for the six months ended 30 June 2016.

5. *Changes Of Directors' Information*

Below are the changes of director's information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules: There are no changes of Directors' information since the date of the interim report.

6. *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.

7. *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.

8. *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 2016.

9. *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.

10. 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.

11. 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.

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

For the six months ended 30 June 2016, 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.

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II. Contentious matter

Significant lawsuit arbitration item

Company hadn’t significant lawsuit arbitration item in this report period.

III. Query from media

There was no general query from media in this report period.

IV. Bankruptcy reorganization matter

There was no bankruptcy reorganization matter in report period.

V. Transaction in assets

1. Acquisition of assets

There was no acquisition of assets in report period.

2. *Selling assets situation*

Company didn't sell assets in report period.

3. *Business merger*

There was no business merger in report period.

VI. Implementation and influence of company stock incentive

Company didn't have stock incentive plan and implementation.

VII. Major Transactions

1. *Related Party Transactions in Day to Day Operations*

Applicable Not Applicable

Related party	Relationship	Type of Connected Transactions	Subject of connected transaction	Pricing method of connected transaction	Connected transaction price	Amount (RMB'0000)	Percentage to the total amount for the same type of transaction (%) (RMB:0000)	Approved transaction amount (RMB:0000)	Whether it has exceeded the approved amount?	Method of settlement	Similar market price	Date of disclosure	Disclosure index
Karamay Yalong Petroleum Machinery Co., Ltd	Joint venture	Sales	Oil well pumping sand accessories	Market price	Market price	112.5	6.66%	1,000	No	Cash	Yes		
Total						112.5	—	1,000	—	—	—	—	—

Major Transactions NIL

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

NIL

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

N/A

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

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

3. *Related transactions with joint investments*

There was no related transaction 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 transaction during the reporting period.

VIII. Significant contract and degree of performance

1. *Trusteeship, Contracting, lease condition*

(1) Trusteeship condition

There was no existence of trusteeship of the Company in the reporting period.

(2) Contracting condition

There was no contracting condition of the Company in the reporting period.

(3) Lease condition

There was no lease condition of the Company in the reporting period.

2. *Guarantee*

There was no guarantee condition of the Company in the reporting period.

3. *Other significant contract*

There was no other significant contract of the Company in the reporting period.

4. *Other major transaction*

There was no other major transaction of the Company in the reporting period.

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IX. Commitments of the Company or shareholders holding more than 5% shares in the reporting period or occurring before this reporting period but continuing to this reporting period

There was no commitments of the Company or shareholders holding more than 5% shares in the reporting period or occurring before this reporting period but continuing to this reporting period.

X. Engagement or dismissal of accounting firms

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

XI. Punishment and rectification

There was no punishment and rectification in the Company's reporting period.

XII. Other significant explanation

There was no other significant explanation in the Company's reporting period.

XIII. Situation of corporate bonds

There were no corporate bonds which were publicly issued and listed on securities exchange, and corporate bonds that were not yet due or due but cannot be repaid in full as at the date of the interim report.

VI. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. Changes in share capital

1. Changes in share capital

Unit: share

	Prior to the change		Increase/decrease as a result of the change (+, -)					After the change	
	Number of shares	Percentage	New issue	Bonus issue	Transfer from capital reserve	Others	Subtotal	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%

Reason for stock change

Applicable Not Applicable

Approbation of stock change

Applicable Not Applicable

Transfer ownership of stock change

Applicable Not Applicable

The influence of stock change to financial index like the recent year and the recent period basic EPS and diluted EPS, net asset value per share attributable to the Company's ordinary shareholders.

Applicable Not Applicable

Other contents that the Company considers necessary to disclose or the securities regulators request to disclose.

Applicable Not Applicable

Explanation for changes of the Company's total number of shares, shareholding structure, corporate assets and liability composition.

Applicable Not Applicable

2. Change of situation of restricted shares

Applicable Not Applicable

II. Shareholders' profiles

Unit: share

Total number of ordinary shareholders at the end of this reporting period 33,501

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

Shareholdings of shareholders holding more than 5% of ordinary shares or the top 10 ordinary shareholders

Name of Shareholders	Nature of Shareholders	Percentage of shareholding (%)	Shareholding at the end of this reporting period	Change in Shareholding during this reporting period	Number of restricted shares held	Number of non-restricted shares held	Pledge or congelation situation Stock situation Amount
Zhang En Rong	Domestic natural person	33.29%	265,617,000	0	199,212,750	66,404,250	
HKSCC Nominees Limited	Overseas legal person	32.06%	255,818,290	5,000	0	255,818,290	
Zhang Yun San	Domestic natural person	4.97%	39,668,400	0	22,956,000	16,712,400	
Lin Fu Long	Domestic natural person	3.28%	26,162,000	0	19,621,500	6,540,500	
Central Huijin Asset Management Co., Ltd	State-owned legal person	1.70%	13,536,100	0	0	13,536,100	
Chen Huai Jun	Domestic natural person	0.50%	4,008,200	4,008,200	0	4,008,200	
Xie Xin Cang	Domestic natural person	0.43%	3,410,000	0	0	3,410,000	
Song Li Rong	Domestic natural person	0.31%	2,512,554	0	0	2,512,554	
Haitong futures incorporated company- Haitong futures-Anying tianji NO.9 assets management plan	Domestic non-state legal person	0.30%	2,409,700	0	0	2,409,700	
Xinwo fund- CMBC-Xinwo zhongrui rongchuang NO.3 assets management plan	Domestic non-state legal person	0.25%	2,000,000	0	0	2,000,000	

Explanation for the incidence relation or concerted action in the Top ten holders of shares not subject to lock-up, and between Top ten holders of shares not subject to lock-up and Top ten shareholders. (If any) (Note 3)

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	255,818,290	H shares	255,818,290
Zhang En Rong	66,404,250	A Shares	66,404,250
Zhang Yun San	16,712,400	A Shares	7,652,000
		H shares	9,060,400
Central Huijin Asset Management Co., Ltd	13,536,100	A Shares	13,536,100
Lin Fu Long	6,540,500	A Shares	6,540,500
Chen Huai Jun	4,008,200	A Shares	4,008,200
Xie Xin Cang	3,410,000	A Shares	3,410,000
Song Li Rong	2,512,554	A Shares	2,512,554
Haitong futures incorporated company- Haitong futures-Anying tianji NO.9 assets management plan	2,409,700	A Shares	2,409,700
Xinwo fund- CMBC-Xinwo zhongrui rongchuang NO.3 assets management plan	2,000,000	A Shares	2,000,000

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.

Explanation for top ten common stockholders participate in securities margin trading (if any) (Note 4)

Not applicable

The shareholders of the company had not carried out any agreed repurchase transactions during the reporting period.

III. Changes of controlling shareholder or actual controlling shareholders

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

VII. PREFERRED STOCK

The company has no preferred stock.

VIII. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

✓ Applicable □ Not Applicable

Name	Position	Duty state	Shares held			Shares held at the end of the year (share)	Amount of awarded restricted shares at beginning of this reporting period (share)	Amount of awarded restricted shares during this reporting period (share)	Amount of awarded restricted shares at the end of this reporting period (share)
			at the beginning of the year (share)	increased this year (share)	decreased this year (share)				
Zhang En Rong	Chairman of the Company	Current	265,617,000	0	0	265,617,000	0	0	0
Zhang Yun San	Deputy chairman and general manager	Current	39,668,400	0	0	39,668,400	0	0	0
Guo Huan Ran	Executive Director, deputy general manager	Current	0	0	0	0	0	0	0
Yang Jin	Executive Director, financial controller	Current	0	0	0	0	0	0	0
Guo Hong Li	Non-executive Director	Current	0	0	0	0	0	0	0
Wang Chun Hua	Non-executive Director	Appoint and dismiss	0	0	0	0	0	0	0
Qin Xue Chang	Independent non-executive Director	Current	0	0	0	0	0	0	0
Ji Yan Song	Independent non-executive Director	Current	0	0	0	0	0	0	0
Quan Yu Hua	Independent non-executive Director	Current	0	0	0	0	0	0	0
Lin Fu Long	Executive Director	Term of appointment ended	26,162,000	0	0	26,162,000	0	0	0
John Paul Cameron	Independent non-executive Director	Term of appointment ended	0	0	0	0	0	0	0
Hao Liang	Chairman of Supervisory Committee	Current	0	0	0	0	0	0	0
Zhang Jiu Li	Supervisor	Current	0	0	0	0	0	0	0
Zheng Jian Guo	Supervisor	Current	0	0	0	0	0	0	0
Fan Ren Yi	Supervisor	Term of appointment ended	0	0	0	0	0	0	0
Zhang Shou Kui	Deputy general manager	Current	0	0	0	0	0	0	0
Zhao Hong Feng	Deputy general manager, Secretary to the Board	Current	0	0	0	0	0	0	0
Li Peng	Deputy general manager	Current	0	0	0	0	0	0	0
Liu Zeng Xiang	Deputy general manager	Current	0	0	0	0	0	0	0
Total			331,447,400	0	0	331,447,400	0	0	0

II. Change of Directors, Supervisors and Senior Management

✓ Applicable □ Not Applicable

Name	Position	Type	Date	Explanation
Zhang En Rong	Chairman of the Company	Elected	29 June 2016	New term of the Board of Directors
Zhang Yun San	Deputy Chairman	Elected	29 June 2016	New term of the Board of Directors
Guo Huan Ran	Executive Director	Elected	29 June 2016	New term of the Board of Directors
Yang Jin	Executive Director	Elected	29 June 2016	New term of the Board of Directors
Guo Hong Li	Non-executive Director	Elected	29 June 2016	New term of the Board of Directors
Wang Chun Hua	Non-executive Director	Elected	29 June 2016	New term of the Board of Directors
Qin Xue Chang	Independent non-executive Director	Elected	29 June 2016	New term of the Board of Directors
Ji Yan Song	Independent non-executive Director	Elected	29 June 2016	New term of the Board of Directors
Hao Liang	Chairman of this Supervisory Committee	Elected	29 June 2016	New term of the Supervisory Committee
Zhang Jiu Li	Supervisor	Elected	29 June 2016	New term of the Supervisory Committee
Zheng Jian Guo	Supervisor	Elected	29 June 2016	New term of the Supervisory Committee
Lin Fu Long	Executive Director	Term of appointment ended	29 June 2016	Term of appointment ended
John Paul Cameron	Independent non-executive Director	Term of appointment ended	29 June 2016	Term of appointment ended
Wang Chun Hua	Independent non-executive Director	Term of appointment ended	29 June 2016	Term of appointment ended
Fan Ren Yi	Supervisor	Term of appointment ended	29 June 2016	Term of appointment ended

IX. FINANCIAL REPORTS

I. Auditing Report

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

II. Financial Statements

Unit of the notes to the financial statements is: RMB

1. Consolidated Balance Sheets

Organization unit: Shandong Molong Petroleum Machinery Company Limited

30 June 2016

Unit: RMB

Items	Closing balance	Opening balance
Current assets:		
Cash and bank balances	830,671,642.64	349,815,773.50
Deposit reservation for balance	—	—
Lendings to Banks and Other Financial Institutions	—	—
Financial assets at fair value through profit or loss	—	—
Derivative financial assets	—	—
Bills receivable	48,126,912.60	46,101,762.76
Accounts receivable	610,397,174.57	497,239,999.28
Loans and Advances	166,260,375.78	136,329,884.59
Prepayments	22,981,261.73	12,063,262.16
Premium receivable	—	—
Reinsurance Accounts Receivable	—	—
Reserves for reinsurance contract receivable	—	—
Interests receivable	11,832,482.79	4,594,396.68
Dividend receivables	—	—
Other receivable	85,114,679.68	87,823,154.76
Redemptory Monetary Capital for Sale	—	—
Inventory	870,243,999.49	903,784,288.00
Assets classified as held-for-sale	—	—
Non-current assets due within one year	—	—
Other current assets	83,508,691.55	79,270,918.94
Total current assets	2,729,137,220.83	2,117,023,440.67

Unit: RMB

Items	Closing balance	Opening balance
Non-current assets:		
Loans and advances from other parties	—	—
Financial asset available for sale	10,030,000.00	10,030,000.00
Held-to-maturity investments	—	—
Long term receivables	—	—
Long-term equity investment	2,783,902.87	2,783,902.87
Investment properties		
Fixed assets	1,596,617,398.59	1,291,476,197.17
Construction in progress	1,412,801,714.31	1,710,795,797.18
Construction materials	—	—
Disposal of fixed assets	—	—
Capitalized Biological assets	—	—
Oil and nature gas	—	—
Intangible assets	499,086,549.41	468,806,719.84
Development expenditure	15,182,330.53	
Goodwill	68,483,383.21	68,483,383.21
Long-term deferred expenses	—	—
Deferred income tax assets	56,806,335.21	60,918,666.99
Other non-current assets	70,552,820.44	120,862,615.68
Total non-current assets	3,732,344,434.57	3,734,157,282.94
Total assets	6,461,481,655.40	5,851,180,723.61

Unit: RMB

Items	Closing balance	Opening balance
Current liabilities:		
Short-term borrowings	1,671,431,287.68	1,469,055,063.41
Borrowing from Central Bank	—	—
Receipt of deposits and deposits from other banks	—	—
Borrowings from banks and other financial institutions	—	—
Financial liabilities at fair value through profit or loss	—	—
Derivative financial liabilities	—	—
Bills payable	1,019,689,868.24	304,242,384.43
Trade payable	855,912,570.56	904,789,898.53
Receipts in advance	41,111,917.57	43,005,331.88
Financial assets sold for repurchase	—	—
Bank charges and commission payable	—	—
Salaries payable	34,703,979.71	26,953,318.48
Taxes payable	20,676,111.88	7,387,844.14
Interest payable	2,382,495.72	17,853,069.32
Dividends payable	—	—
Other payable	128,974,895.46	23,979,858.24
Dividend payable for reinsurance	—	—
Insurance contract reserve	—	—
Receivings from vicariously traded securities	—	—
Receivings from vicariously sold securities	—	—
Liabilities classified as held for sale	—	—
Non-current liabilities due within one year	0.00	499,444,444.41
Other current liabilities	0.00	1,808,000.00
Total current liabilities	3,774,883,126.82	3,298,519,212.84

Unit: RMB

Items	Closing balance	Opening balance
Non-current liabilities:		
Long-term borrowings	145,000,000.00	—
Bonds payable	—	—
Including Preferred stock	—	—
Perpetual Capital Securities	—	—
Long-term payables	—	—
Long-term salaries payable	—	—
Specific payable	—	—
Provision	—	—
Deferred income	—	—
Deferred income tax liabilities	14,611,418.41	14,576,914.87
Other non-current liabilities	—	—
Total non-current liabilities	159,611,418.41	14,576,914.87
Total liabilities	3,934,494,545.23	3,313,096,127.71
Shareholders' equity:		
Share capital	797,848,400.00	797,848,400.00
Other equity instrument	—	—
Including: Preferred stock	—	—
Perpetual Capital Securities	—	—
Capital reserve	849,500,658.42	849,500,658.42
Less: Treasury stock	—	—
Other comprehensive income	(1,840,869.56)	(1,262,175.75)
Special reserve	—	—
Surplus reserve	176,686,903.51	176,686,903.51
General risk provision	11,236.91	11,236.91
Undistributed profits	616,411,788.32	610,372,203.12
Total equity attributable to shareholders of Company	2,438,618,117.60	2,433,157,226.21
Minority interest	88,368,992.57	104,927,369.69
Total shareholders' equity	2,526,987,110.17	2,538,084,595.90
Total liabilities and shareholders' equity	6,461,481,655.40	5,851,180,723.61

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
Current assets:		
Cash and bank balances	757,821,278.89	326,916,816.32
Financial assets at fair value through profit or loss	—	—
Derivative financial assets	—	—
Bills receivable	43,906,512.60	42,709,812.76
Accounts receivable	875,737,012.81	729,394,966.45
Prepayments	521,703,339.04	256,081,439.26
Interest receivable	6,572,055.96	1,367,703.59
Dividend receivables	—	—
Other receivables	190,405,994.63	577,291,445.12
Inventories	626,876,133.05	664,063,395.95
Assets classified as held-for-sale	—	—
Non-current assets due within one year	—	—
Other current assets	—	5,892.62
Total current assets	3,023,022,326.98	2,597,831,472.07
Non-current assets:		
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	1,352,069,921.73	1,052,069,921.73
Investment properties	—	—
Fixed assets	1,063,870,831.06	724,838,147.91
Construction in progress	303,123,643.07	685,877,023.21
Construction materials	—	—
Disposal of fixed assets	—	—
Capitalized Biological assets	—	—
Oil and nature gas	—	—
Intangible assets	189,769,427.75	204,967,332.34
Development expenditure	15,182,330.53	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	51,683,529.18	55,795,860.96
Other non-current assets	—	—
Total non-current assets	2,985,699,683.32	2,733,548,286.15
Total assets	6,008,722,010.30	5,331,379,758.22

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Current liabilities:		
Short-term borrowing	1,605,119,287.68	1,354,119,063.41
Financial assets at fair value through profit or loss	—	—
Derivative financial liabilities	—	—
Bills payable	1,019,689,868.24	379,257,384.43
Accounts payable	355,896,990.92	374,304,512.49
Receipts in advance	73,064,163.07	59,256,216.50
Salaries payable	25,715,365.19	19,647,436.97
Taxes payable	13,936,237.97	3,062,167.56
Interest payable	2,058,675.86	17,491,882.76
Dividends payable	—	—
Other payables	101,105,678.70	8,682,202.90
Liabilities classified as held for sale	—	—
Non-current liabilities due within one year	0.00	499,444,444.41
Other current liabilities	—	1,808,000.00
Total current liabilities	3,196,586,267.63	2,717,073,311.43
Non-current liabilities:		
Long-term borrowings	145,000,000.00	—
Bonds payable	—	—
Including: Preferred stock	—	—
Perpetual Capital securities	—	—
Long-term payable	—	—
Long-term salaries payable	—	—
Specific payable	—	—
Provision	—	—
Deferred income	—	—
Deferred income tax liabilities	404,645.32	205,155.54
Other non-current liabilities	—	—
Total non-current liabilities	145,404,645.32	205,155.54
Total liabilities	3,341,990,912.95	2,717,278,466.97

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Shareholders' equity:		
Share capital	797,848,400.00	797,848,400.00
Other equity instruments	—	—
Including: Preferred stock	—	—
Perpetual capital securities	—	—
Capital reserve	849,481,990.92	849,481,990.92
Less: Treasury stock	—	—
Other comprehensive income	—	—
Special reserve	—	—
Surplus reserve	176,686,903.51	176,686,903.51
Undistributed profits	842,713,802.92	790,083,996.82
Total shareholders' equity	2,666,731,097.35	2,614,101,291.25
Total liabilities and shareholders' equity	6,008,722,010.30	5,331,379,758.22

3. Consolidated Income Statements

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
I. Total revenue from operations	871,031,873.22	1,097,649,636.91
Including: Operating revenue	871,031,873.22	1,097,649,636.91
Interest income	—	—
Earned insurance premium	—	—
Brokerage and commission income	—	—
II. Total costs of operations	884,253,677.09	1,116,139,349.13
Including: Operating cost	770,746,262.83	909,522,428.13
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	3,829,733.61	7,768,756.07
Selling expenses	31,878,686.17	122,469,789.17
Administrative expenses	55,144,229.18	62,563,240.66
Finance costs	22,630,322.40	13,815,135.10
Asset impairment losses	24,442.90	—
Add: Gains from changes in fair value	—	—
Investment income	—	1,326,825.71
Including: Gains from investment in associates and joint ventures	—	1,326,825.71
Exchange gain	—	—

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
III. Operating (loss) profit	(13,221,803.87)	(17,162,886.51)
Add: Non-operating income	10,391,479.11	23,740,893.66
Including: Gain from disposal of non-current assets	—	—
Less: Non-operating expenses	87,883.59	67,851.83
Including: Loss from disposal of non-current assets	63,847.59	41,384.21
IV. Total profit	(2,918,208.35)	6,510,155.32
Less: Income tax expenses	7,568,697.95	7,501,818.28
V. Net (loss) profit	(10,486,906.30)	(991,662.96)
Net profit attributable to the owners of the Company	6,039,585.20	10,313,286.91
Net loss attributable to non-controlling interests	(16,526,491.50)	(11,304,949.87)
VI. Other comprehensive income (loss), net of tax	(610,579.43)	26,563.42
Other comprehensive income (expense) net of tax attributable to the owners of the Company	(578,693.81)	25,055.32
(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	(578,693.81)	25,055.32
1. Under the equity method after the invested entity will be classified into the share of profits and losses of other comprehensive income	—	—
2. Net gain on fair value on available-for-sale financial assets	—	—
3. Net gain on reclassification of held-to-maturity financial assets	—	—
4. Net gain and loss arising on cash flow hedging	—	—
5. Exchange differences arising on translation	(578,693.81)	25,055.32
6. Others	—	—
Other comprehensive income (expense) attributable to the non-controlling interests (net of tax)	(31,885.62)	1,508.10
VII. Total comprehensive (expense) income	(11,097,485.73)	(965,099.54)
Total comprehensive income attributable to shareholders of Company	5,460,891.39	10,338,342.23
Total comprehensive expense attributable to non-controlling interest	(16,558,377.12)	(11,303,441.77)
VIII. Earnings per share:		
(i) Earnings per share — basic	0.0076	0.01
(ii) Earnings per share — diluted	0.0076	0.01

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For the business combination under common control effected in the current period, the net profit recognized by the merged party before the combination was RMB0, and the net profit recognized by the merged party in the previous period was RMB0.

Legal Representative:
Zhang En Rong

Accountant-in-charge:
Yang Jin

Partner-in-charge:
Ding Zhi Shui

4. Company's Income Statements

Unit: RMB

Items	Amount of this period	Amount of last period
I. Operating revenue	745,579,314.57	1,113,067,032.86
Less: Operating cost	610,224,966.68	894,638,008.61
Business tax and surcharges	3,258,424.88	7,156,995.45
Selling expenses	31,219,445.74	122,344,402.99
Administrative expenses	36,681,235.28	41,681,058.03
Finance costs	10,139,244.15	9,545,690.19
Assets impairment losses	24,442.90	—
Add: Gains from changes in fair value	—	—
Investment income	—	—
Including: Gains from investment in associates and joint ventures	—	—
II. Operating profit	54,031,554.94	37,700,877.59
Add: Non-operating income	2,936,612.64	22,756,094.25
Including: Gain from disposal of non-current assets	—	—
Less: Non-operating loss	26,539.92	36,827.32
Including: Loss from disposal of non-current assets	5,403.92	30,359.70
III. Total profit	56,941,627.66	60,420,144.52
Less: Income tax expenses	4,311,821.56	7,005,680.66
IV. Net profit	52,629,806.10	53,414,463.86
V. Other comprehensive income net of tax		
(I) Items that will not be subsequently reclassified into profit or loss	—	—
1. Net changes in net debt or equity on remeasured defined benefit plan	—	—
2. Share of investees' other comprehensive income that cannot be reclassified into profit or loss under the equity method	—	—
(II) Items that maybe reclassified subsequently into profit or loss	—	—
1. Share of investees' other comprehensive income that will be reclassified into profit or loss under the equity method	—	—
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	—	—
VI. Total comprehensive income	52,629,806.10	53,414,463.86
VII. Earnings per share:		
(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
I. Cash flow from operating activities:		
Cash receipts from the sale of goods or rendering of services	757,446,937.85	1,027,641,713.82
Net increase in customer bank deposits and due to banks and other financial institutions	—	—
Net increase in borrowings from central bank	—	—
Net increase in borrowings from other financial institutions	—	—
Premiums received from original insurance contracts	—	—
Net cash received from reinsurance business	—	—
Net increase in deposits from policyholders	—	—
Net increase in disposal of financial assets at fair value through profit or loss	—	—
Interest, handling charges and commission received	6,103,658.98	—
Net increase in placements from banks and other financial institutions	—	—
Net increase in repurchase business capital	—	—
Receipts of tax refunds	5,186,230.54	36,769,194.81
Other cash receipts relating to operating activities	55,582,542.68	80,760,703.29
SUB-TOTAL OF CASH INFLOW FROM OPERATING ACTIVITIES	824,319,370.05	1,145,171,611.92
Cash payments for goods purchased and services received	676,534,467.87	716,472,006.32
Net increase in loans and advances to customers	29,930,491.19	—
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	52,695,916.45	64,546,155.77
Payments of all types of taxes	14,957,386.17	18,233,925.43
Other cash payments relating to operating activities	159,466,786.87	219,160,609.59
SUB-TOTAL OF CASH OUTFLOWS ACTIVITIES	933,585,048.55	1,018,412,697.11
NET CASH FLOWS FROM OPERATING ACTIVITIES	(109,265,678.50)	126,758,914.81

Unit: RMB

Items	Amount of this period	Amount of last period
II. CASH FLOWS FROM INVESTING ACTIVITIES		
Cash receipts from disposals of investments	—	—
Cash receipts from disposals of investments	—	—
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets	—	—
Net cash receipts from disposals of subsidiaries and other business units	—	—
Other cash receipts relating to investing activities	—	—
SUB-TOTAL OF CASH INFLOWS FROM INVESTING ACTIVITIES	—	—
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets	86,812,957.03	120,485,175.10
Cash payments to acquire investments	—	—
Net increase in pledged loans	—	—
Net cash payments for acquisition of subsidiaries and other business units	—	—
Other cash payments relating to investment activities	—	—
SUB-TOTAL OF CASH OUTFLOWS FROM INVESTING ACTIVITIES	86,812,957.03	120,485,175.10
NET CASH FLOWS FROM INVESTING ACTIVITIES	(86,812,957.03)	(120,485,175.10)
III. CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash receipts from investors	—	—
Including: Cash receipts from the shareholders of subsidiaries	—	—
Cash receipts from borrowings	1,456,191,274.96	1,140,492,317.19
Cash receipts from issuance of bonds		
Other cash receipts relating to financing activities	781,431,313.00	5,000,000.00
SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES	2,237,622,587.96	1,145,492,317.19
Cash repayments of amounts borrowed	1,560,191,050.69	1,175,783,797.89
Cash payments for distribution of dividends or profits or cash payments for interest expenses	55,047,351.40	54,214,983.29
Including: Cash payment for distribution of dividends or profits to non-controlling interest	—	—
Other cash payments relating to financing activities	246,969,315.00	20,100,000.00
SUB-TOTAL OF CASH OUTFLOWS	1,862,207,717.09	1,250,098,781.18
NET CASH FLOWS FROM FINANCING ACTIVITIES	375,414,870.87	(104,606,463.99)
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(11,055,313.21)	5,674,876.49
V. NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	168,280,922.13	(92,657,847.79)
Add: Beginning balance of cash and cash equivalents	218,309,025.51	496,842,889.68
VI. ENDING BALANCE OF CASH AND CASH EQUIVALENTS	386,589,947.64	404,185,041.89

6. Company's Statements of Cash Flow

	Unit: RMB	
Items	Amount of this period	Amount of last period
I. CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from the sale of goods or rendering of services	625,106,733.07	994,991,435.66
Receipts of tax refunds	5,186,221.99	36,769,194.81
Other cash receipts relating to operating activities	31,944,685.58	83,857,209.52
SUB-TOTAL OF CASH INFLOWS FROM OPERATING	662,237,640.64	1,115,617,839.99
Cash payments for goods purchased and services received	341,943,329.02	846,203,269.69
Cash paid to and on behalf of employees	36,646,120.11	48,884,377.62
Payments of all types of taxes	9,850,299.58	12,109,792.28
Other cash payments relating to operating activities	148,604,200.00	217,139,814.96
SUB-TOTAL OF CASH OUTFLOWS FROM ACTIVITIES	537,043,948.71	1,124,337,254.55
NET CASH FLOWS FROM OPERATING ACTIVITIES	125,193,691.93	(8,719,414.56)
II. CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash receipts from disposals of investments	—	—
Cash receipts from disposals of investments	—	—
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets	—	—
Net cash receipts from disposals of subsidiaries and other business units	—	—
Other cash receipts relating to investing activities	—	—
SUB-TOTAL OF CASH INFLOWS FROM INVESTING ACTIVITIES	—	—
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets	5,624,857.65	29,599,690.68
Cash payments to acquire investments	300,000,000.00	—
Net cash payments for acquisition of subsidiaries and other business units	—	—
Other cash payments relating to investment activities	—	—
SUB-TOTAL OF CASH OUTFLOWS FROM INVESTING ACTIVITIES	305,624,857.65	29,599,690.68
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(305,624,857.65)	(29,599,690.68)
III. CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash receipts from borrowings	—	—
Cash receipts from issuance of bonds	1,389,879,274.96	1,079,356,317.19
Other cash receipts relating to financing activities	—	—
Other cash receipts relating to financing activities	693,033,313.00	5,000,000.00
SUB-TOTAL OF CASH INFLOWS FROM FINANCIAL ACTIVITIES	2,082,912,587.96	1,084,356,317.19
Cash repayments of amounts borrowed	1,493,879,050.69	1,114,647,797.89
Cash payments for distribution of dividends or profits, or cash payments for interest expenses	54,397,482.73	53,595,157.97
Other cash payments relating to financing activities	224,850,000.00	20,100,000.00
SUB-TOTAL OF CASH OUTFLOWS	1,773,126,533.42	1,188,342,955.86
NET CASH FLOWS FROM FINANCING ACTIVITIES	309,786,054.54	(103,986,638.67)
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	(11,025,373.26)	5,679,564.59
V. NET INCREASE IN CASH AND CASH EQUIVALENTS		
	118,329,515.56	(136,626,179.32)
Add: Beginning balance of cash and cash equivalents	195,410,068.33	485,372,230.80
VI. ENDING BALANCE OF CASH AND CASH EQUIVALENTS	313,739,583.89	348,746,051.48

7. Consolidated Statement of Changes in Shareholder's Equity

For the six months ended 30 June 2016

Unit: RMB

Items	Amount for the six months ended 30 June 2016												
	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
I. Balance at the end of the previous period	797,848,400.00	—	—	—	849,500,658.42	—	(1,262,175.75)	—	176,686,903.51	11,236.91	610,372,203.12	104,927,369.69	2,538,084,595.90
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of the connection of prior year accounting errors	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current period	797,848,400.00	—	—	—	849,500,658.42	—	(1,262,175.75)	—	176,686,903.51	11,236.91	610,372,203.12	104,927,369.69	2,538,084,595.90
III. Changes in the current period	—	—	—	—	—	—	(578,693.61)	—	—	—	6,039,565.20	(16,558,377.12)	(11,097,465.73)
(i) Total comprehensive income (expense)	—	—	—	—	—	—	(578,693.61)	—	—	—	6,039,565.20	(16,558,377.12)	(11,097,465.73)
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Transfer to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of shareholder's equity	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Withdraw	—	—	—	—	—	—	—	3,448,165.79	—	—	—	54,562.11	3,502,727.90
2. Utilise	—	—	—	—	—	—	—	3,448,165.79	—	—	—	54,562.11	3,502,727.90
(vi) Other	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	0.00	0.00	0.00	849,500,658.42	0.00	(1,840,869.56)	0.00	176,686,903.51	11,236.91	616,411,788.32	88,368,992.57	2,526,987,110.17

For the six months ended 30 June 2015

Unit: RMB

Items	Amount for the six months ended 30 June 2015												Total equity
	Equity attributable to shareholders of the Company												
	Share capital	Other equity instruments			Capital reserve	Less:		Special reserve	Surplus reserve	General risk provision	Undistributed profits	Non-controlling interest	
Preferred		Bond	Other	Capital reserve		Other Comprehensive income							
I. Balance at the end of the period	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
II. Balance at the beginning of the current period	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
III. Changes in the current period	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	—	—	—	—	—	—	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 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	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(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	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	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) Others	—	—	—	—	—	—	—	—	—	—	—	—	0.00
IV. Balance at the end of the current period	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

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

For the six months ended 30 June 2016

Unit: RMB

Items	Amount for the six months ended 30 June 2016										
	Other equity instruments				Less:			Special reserve	Surplus reserve	Undistributed profit	Total equity
	Share capital	Preferred	Perpetual bonds	Others	Capital reserve	Treasury stock	Other equity instruments				
I. Balance at the end of the previous period	797,848,400.00	—	—	—	849,481,990.92	—	—	—	176,686,903.51	790,083,996.82	2,614,101,291.25
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Effect of the correction of prior period accounting errors	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current period	797,848,400.00	—	—	—	849,481,990.92	—	—	—	176,686,903.51	790,083,996.82	2,614,101,291.25
III. Changes in the current period	—	—	—	—	—	—	—	—	—	52,629,806.10	52,629,806.10
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	52,629,806.10	52,629,806.10
(ii) Shareholder's capital injection and capital reduction	—	—	—	—	—	—	—	—	—	—	—
1. Capital injection shareholders	—	—	—	—	—	—	—	—	—	—	—
2. Other equity instruments holders' contributions	—	—	—	—	—	—	—	—	—	—	—
3. Equity settled share expenses charged to equity	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—
1. Transfer to surplus reserves	—	—	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of shareholders' equity	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(v) Special	—	—	—	—	—	—	—	—	—	—	—
1. Withdraw	—	—	—	—	—	—	—	1,962,234.13	—	—	1,962,234.13
2. Utilise	—	—	—	—	—	—	—	1,962,234.13	—	—	1,962,234.13
(vi) Other	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	0.00	0.00	0.00	849,481,990.92	0.00	0.00	0.00	176,686,903.51	842,713,802.92	2,666,731,097.35

For the six months ended 30 June 2015

Unit: RMB

Items	Amount for the six months ended 30 June 2015											
	Share capital	Other equity instruments			Capital reserve	Less:			Special reserve	Surplus reserve	Undistributed profit	Total equity
		Preferred	Perpetual bonds	Others		Treasury stock	Other equity instruments					
I. Balance at the end of the previous period	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	
Effects of the correction of prior period accounting errors	—	—	—	—	—	—	—	—	—	—	0.00	
Others	—	—	—	—	—	—	—	—	—	—	0.00	
II. Balance at the beginning of the current period	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	
III. Changes in the current period	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) Shareholders' 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	—	—	—	—	—	—	—	—	—	—	0.00	
2. Utilise	—	—	—	—	—	—	—	—	—	—	0.00	
(vi) Other	—	—	—	—	—	—	—	—	—	—	0.00	
IV. Balance at the end of the current period	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	

III. General Information of the Company

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.

See Note 8 for the Group subsidiaries, changes in the scope of Consolidation and Note 9 in the other subjects of interest" related content.

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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 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 adopted 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 2016 and the results of their operations and their cash flows for the year ended 30 June 2016.

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 subsidiaries is USD.

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.

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

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

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.
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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.
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(2) Receivables according to the credit risk characteristics withdrawing bad-debt provision.

Portfolio name	Bad-debt provision withdrawing way
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Single item with insignificant accounts receivable and single item with significant accounts receivable but not impaired under single item impairment test	Other way
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In portfolio withdrawing bad-debt provision by aging analytical method:

Applicable Not applicable

In portfolio withdrawing bad-debt provision by balance percentage:

Applicable Not applicable

In portfolio withdrawing bad-debt provision by other way:

Applicable Not applicable

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

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

The Group has classified its loans into five categories: pass, special mention, substandard, doubtful and loss, according to the following standards:

Pass loan: Loans for which corporate borrowers (personal borrowers) may perform the loan agreement (including the loan extension agreement) and repay the loan when it is due. (Duration characteristics of the extension: one extension, the duration of which is no longer than 0.5 times the original loan tenure; or the duration of one extension does not exceed six months).

Special mention loan: Loans for which corporate borrowers (personal borrowers) are currently solvent and may pay interest on normal terms despite some factors that might have an adverse impact on repayment. (Duration characteristics of the extension: the loan is extended once for a duration of no longer than the original loan tenure; or the duration of the extension does not exceed twelve months). Loans for which corporate borrowers (personal borrowers) are currently insolvent and may not pay interest on normal terms but the repayment of principal could be recovered after the enforcement of collateral.

Substandard loan: Loans for which corporate borrowers (personal borrowers) are experiencing definable solvency issues and may not pay interest on normal terms, for which collection of loan in full is impossible relying solely on the normal income of the borrowers and on which certain losses might be inflicted even after the enforcement of collateral. (Duration characteristics of the extension: the duration of one or more extensions are longer than the original loan tenure but shorter than 18 months).

Doubtful loan: Loans for which collection in full is impossible from the corporate borrowers (personal borrowers), the interest is not paid on normal terms and on which significant losses might be inflicted even after the enforcement of collateral. (Duration characteristics of the extension: the duration of one or more extensions are longer than the original loan tenure but shorter than 30 months).

Loss loan: Loans for which collection in full is impossible from the corporate borrowers (borrowers), the interest is not paid on normal terms and which are considered uncollectable after all collection measures or all necessary legal proceedings, and loans for which corporate borrowers go bankrupt or borrowers are deceased and which are not fully repaid by liquidated assets or estates. (Duration characteristics of the extension: the duration of the extension is longer than 2.5 times the original loan tenure or longer than 30 months).

During the implementation of the five-tier classification of loans, the class that a corporate borrower (personal borrower) shall be included in could be adjusted in accordance with the results of the analysis on the corporate borrower's (personal borrower's) actual operations, asset changes, repayment of principal and interest in cases of loans and collateral guarantees.

In terms of the impairment of the loans and advances that have been extended, after considering whether the principal or interest of a loan is past due, whether the borrower will encounter liquidity problems and credit rating downgrades, or be relegated to a lesser position in the market competition, or violate the original contract terms, the following factors shall also be taken into account: the value of collaterals and pledges, sustainability of the borrower's business plan, the borrower's ability to increase performance in times of financial difficulties, recoverable amount from the project and expected recoverable amount in case of insolvent liquidation, other available sources of finance and the amount of the collaterals in case of realization, the expected time for the cash inflows. etc. After conducting a reasonable assessment and judgment on these factors, provision shall be made for impairment loss based on the differences between the expected cash flows and the carrying amount.

13. 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.

14. 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.

15. 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.

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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.

16. Investment Properties

Investment properties are land use rights held to earn rental and/or for capital appreciation as well as building held to earn rental.

Investment property is initially measured at cost. The cost of Investment properties purchased includes purchasing price, tax, and other expenses directly related to the assets. The cost of Investment properties constructed by the Company itself is cost of construction incurred to bring the assets to its intended usage condition. Subsequent expenditures related to an investment property shall be included in cost of investment property only when the economic benefits associated with the asset will likely flow to the Group and its cost can be measured reliably. All other expenditures on investment property shall be included in profit or loss for the current period when incurred.

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

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

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

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

17. 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 include buildings, machinery and equipment, electronic, and other equipment and vehicles.

Depreciation is provided for all fixed assets, except for the fixed assets that are fully depreciated yet still used in operation and lands that are accounted separately for depreciation. Fixed assets are depreciated using the straight line method to measure the cost or expenses of the assets for the current period based on the usage of the assets. The useful lives, estimated residual rates and depreciation rate of each type of the fixed asset of the Group are as follows.

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(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

A fixed asset acquired under finance lease with reasonably certainty that the Group will obtain ownership by the end of lease term, the period of expected use is the useful life of the asset. Otherwise, the asset is depreciated over the shorter of the lease term and its useful life. The depreciation policy of the finance leased fixed asset is consistent with that of its own fixed assets. A fixed asset acquired under finance lease with reasonably certainty that the Group will obtain ownership by the end of lease term, the period of expected use is the useful life of the asset. Otherwise, the asset is depreciated over the shorter of the lease term and its useful life. The Group currently has no finance leased fixed assets.

18. 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.

19. 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.

20. Biotechnical assets

Not applicable

21. Oil and gas assets

Not applicable

22. 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, etc. Calculations of intangible assets are assessed as 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, 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: completion of monthly new product development plan approval, 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.

23. 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 likelihood of impairment, 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 effect 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. Then, 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 exceeds 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.

24. *Employees and Remuneration Policy*

As at 30 June 2016, the Group employed approximately 2,088 employees (as at 30 June 2015: 2,400). The Group ensures that the remuneration packages for its employees remain competitive, and its employees are generally remunerated with fixed monthly salaries, which are reviewed annually, along with discretionary performance bonuses. In addition, the Group has a thorough employee training and promotion mechanism.

(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.

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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. Production Safety Fee

The Group collects, utilizes and reviews 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 accrued monthly.

The provision of production safety fee is recognized 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 recognized as fixed assets. If the balance of "special reserve" is fully offset during the year, the production safety fee is recognized in profit and loss for the year.

27. Revenue

The Group's revenue is mainly from sale of goods, provision of services and interest income. 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.

(3) Interest income

Interest Income: When economic interest associated with the transaction can be captured by the enterprise, and the income amount can be reliably measured, interest income is recognised on the basis of time for which customers utilised our Group's funds, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When estimating future cash flows, the Group considers all contractual terms of the financial instrument but does not consider future credit losses. The calculation of effective interest includes transaction costs, premiums or discounts and fees paid or received between parties to the contract, which represent an integral part of the effective yield.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised on the written down value using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

28. 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 with 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 are classified as expenditure nature are the grants other than capital nature. If the purpose for which a government subsidy is granted is unclear, then the Company will determine the nature of the grant with reference to the above classification.

Government grants that are related to assets are recognized as deferred income, and are evenly distributed into current profit and loss during the life span of the relevant 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 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.

29. 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.

30. Leasing

(1) Operating lease accounting method

When the Group enters into a lease, it classifies that lease into either operating lease or financial lease. Financial lease refers to a type of lease whereby all risks and returns attached to the property concerned are transferred to the lessee, whereas operating lease refers to leases other than financial leases.

(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

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee.

(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.

31. Recognition of taxation

Income tax is recognized 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 recognized in profit or loss for the period, except when they arise from transactions or events that are directly recognized in shareholders' equity, in which case they are recognized 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 recognized 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.

32. Other Significant Accounting Policies and Accounting Estimates

(1) Segment Information

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

Operating segments are satisfied with the criteria of the Group's components, including that the component will generate income or incur expenses during the daily operation, that 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 other accounting information. If there are two or more operating segments that are similar in economic feature, they will be combined into one operating segment after satisfying certain criteria.

(2) Other Significant Accounting Policies and Accounting Estimates

In preparation of the financial statements, the management of the Company us 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 is 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.

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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. Preferred stock, perpetual debt and other financial instruments

Not applicable

35. Others

There is no prior period adjustment on the consolidated financial statements of the Group for the year.

VI. Taxation

1. Main tax types and tax rates

Tax Type	Basis of taxing	Tax rate
Value-added tax	Value-added tax payable is the balance after output tax minus import tax. Output tax is calculated at 17% of sales volume calculated under requirements of relevant tax laws. Export commodities are subject to taxation method of exemption, reduction and rebate	17%
Business tax	Operation Revenue	5%
Urban maintenance and construction tax	Value-added tax and business tax payables	7%
Business income tax	Taxable income	15%–25%
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
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%

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

Name of the Company and Subsidiaries	Rate of income tax
The Company	15%
Shouguang Molong Logistic Company Limited (“Molong Logistic Company”)	25%
MPM International Limited (“MPM Limited”)	16.5%
Shouguang Baolong Petroleum Material Company Limited (“Shouguang Baolong”)	25%
Shouguang Maolong New Materials Technology Development Company Limited (“Maolong New Materials”)	25%
Shouguang Molong Electro-mechanical Equipment Company Limited (“Molong Electro-mechanical Equipment”)	25%
Shouguang Maolong Old Metals Recycle Company Limited (“Maolong Recycle”)	25%
Weihai Baolong Company Limited (“Weihai Baolong”)	25%
Wendeng Baolong Recyclable Resource Company Limited (“Baolong Recyclable Resource”)	25%
ShouGuang Maolong Petty Loan Incorporated Company (“Maolong Petty Loan Company”)	25%
Shandong Molong Import and Export Limited Company (“Molong Import and Export Company”)	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 January 2014.

VII. Notes to the Consolidated Financial Statements

1. Cash and cash equivalents

Items	Balance at the end of the period	Unit: RMB Balance at the beginning of the period
Cash on hand	15,955.87	82,768.08
Cash in Bank	184,992,383.93	151,614,579.43
Other foreign currency	645,663,302.84	198,118,425.99
Total	830,671,642.64	349,815,773.50
Include: Amount deposit in overseas	1,938,762.75	1,266,927.95

Other description

- (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 RMB286,437,649.14 (as at the beginning of the period: RMB84,128,661.69), borrowings and deposit for letter of credit of RMB57,787,200.00 (as at the beginning of the period: Nil), deposit for letter of guarantee of RMB21,300,000.00 (as at the beginning of the period: RMB22,050,000.00) and fixed deposit of RMB280,138,453.70 (as at the beginning of the period: 91,939,764.30).
- (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 RMB204,264,380.00 (as at the beginning of the period: RMB37,616,983.69), borrowings and deposit for letter of credit with maturity date over 3 months of RMB18,000,000.00 (as at the beginning of the period: RMB Nil); and deposit for letter of guarantee with maturity date over 3 months of RMB21,300,000.00 (as at the beginning of the period: RMB1,950,000.00); fixed deposits with maturity date over 3 months of RMB200,517,315.00 (as at the beginning of the period: RMB91,939,764.30).

2. Bills Receivable

(1) Classification of bills receivable

Items	Unit: RMB	
	Balance at the end of the period	Balance at the end of the period
Bank acceptance notes	36,185,630.02	27,629,547.57
Business acceptance notes	11,941,282.58	18,472,215.19
Total	48,126,912.60	46,101,762.76

(2) Pledged bills receivable

Items	Unit: RMB	
	Pledged amount at the end of the period	
Bank acceptance notes	11,897,897.29	
Business acceptance notes	6,241,282.58	
Total	18,139,179.87	

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

Unit: RMB

Items	Balance at the end of the period	Balance at the end of the period
Bank acceptance notes	221,553,881.86	—
Business acceptance notes	10,941,282.58	—
Total	232,495,164.44	—

- (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.

3. Accounts Receivable

- (1) Risk Classification of Accounts Receivable

Unit: RMB

Type	Balance at the end of the period					Balance at the beginning of the period				
	Carrying amount		Impairment loss			Carrying amount		Impairment loss		
	Amount	Ratio	Amount	Proportion	Net book value	Amount	Ratio	Amount	Proportion	Net book value
Single item with significant accounts receivable and provided for bad debts in single item	54,084,132.46	8.51%	22,870,194.37	42.29%	31,213,938.09	43,608,469.83	8.34%	22,213,266.98	50.94%	21,395,202.85
Items by the credit risk characteristics combination of provision for bad debts	577,813,707.09	90.86%	—	—	577,813,707.09	473,469,333.00	90.58%	—	—	473,469,333.00
Single item with insignificant other receivables but provided for bad debts separately	4,017,661.52	0.63%	2,648,132.13	65.91%	1,369,529.39	5,656,080.05	1.08%	3,280,616.62	58.00%	2,375,463.43
Total	635,915,501.07	100.00%	25,518,326.50	—	610,397,174.57	522,733,882.88	100.00%	25,493,883.60	—	497,239,999.28

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

Applicable Not applicable

Companies	Balances at the end of the period			
	Carrying amount	Impairment	Ratio	Reason for impairment
Shandong New Coal Mechanized Equipment Incorporated Company	25,411,133.71	7,426,627.81	29.23%	Recovery has risk
Wenlai Jinlong Investment Company Limited, Beijing Office	7,893,271.00	6,532,536.40	82.76%	Aging over two years, with nondeterminacy of recovery
SBI Company (USA)	4,040,915.14	4,040,915.14	100.00%	Aging over three years, with low possibility of recovery
Shengli Oilfield Highland Petroleum Equipment Co., Ltd.	3,284,636.96	3,284,636.96	100.00%	Aging over three years, with low possibility of recovery
Samasu International Oil Corporation	3,208,887.15	928,550.67	28.94%	Recovery has risk
Shandong Kuangji Group Incorporated Company	10,245,288.50	656,927.39	6.41%	Aging over one year, 30% withdrawing
Total	54,084,132.46	22,870,194.37	—	

In portfolio withdrawing bad-debt provision by aging analytical method:

Applicable Not applicable

In portfolio withdrawing bad-debt provision by balance percentage:

Applicable Not applicable

In portfolio withdrawing bad-debt provision by other way:

Applicable Not applicable

Accounts receivable of individual amount is not significant, but individually provided for bad debts.

Companies	Carrying amount	Impairment	Ratio	Reason for impairment
Huanan Petroleum and Chemical Group	1,149,669.07	1,149,669.07	100.00%	Aging over three years, with low possibility of recovery
Metal One Tube Company	1,151,505.43	333,209.33	28.94%	Recovery has risk
PT. Dhiva Inter Sarana	782,446.33	231,213.04	29.55%	Recovery has risk
Petrochina technology development company	594,152.90	594,152.90	100.00%	Aging over one year, with nondeterminacy of recovery
Zibo Qilin electric Logistics limited company	244,795.51	244,795.51	100.00%	Cannot take back
Hanting Energy Personal Service Limited Company	95,092.28	95,092.28	100.00%	Aging over three years, with low possibility of recovery
Total	4,017,661.52	2,648,132.13	—	

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

The impairment losses on account receivables amounted to RMB656,927.39. There is reversal of RMB632,484.49 provision for bad debt or recovery of impaired accounts receivable during the period.

The significant reversal of provision for bad debt or recovery of impaired accounts receivable during the period

Unit: RMB

Companies	Recovery or reversal amount	Recovery way
Shandong Wantong hydraulic incorporated company	441,354.95	Receive payment for goods
Southern part of China petrifactiongroup	191,129.54	Receive payment for goods
Total	632,484.49	

(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:

Company	Carrying amount	Aging	Percentage of the total accounts receivable	Bad-debt provision Year end balance
Petroamazonas EP	77,541,622.02	Within 1 year	12.70	—
Prolong Oilfield Co., LTD	42,218,749.05	Within 1 year	6.92	—
	15,107,985.04	1 to 2 years	2.48	—
Peak Pipe and Supply, LLC	46,422,509.22	1 to 2 years	7.61	—
PetroChina Co	39,040,292.92	Within 1 year	6.40	—
Hebei Zhongtai Steel Pipe Manufacture Co., Ltd	36,212,696.73	Within 1 year	5.93	—
Total	256,543,854.98		42.04	—

(5) Receivables of derecognition because of transfer of financial assets

There were no receivables of derecognition because of transfer of financial assets this year.

4. Loans and Advances

(1) Loans and advances details

Items	Balance at the end of the year	Balance at the beginning of the year
Gross loans and advances to customers	178,874,296.19	148,943,805.00
Less: Provision for impairment losses	12,613,920.41	12,613,920.41
Net amount	166,260,375.78	136,329,884.59

(2) The collateral types of loans and advances are as follows:

Types	Balance at the end of the year	Balance at the beginning of the year
Pledged loans	68,022,338.26	85,781,269.46
Mortgage loans	7,308,000.00	7,414,200.00
Guaranteed loans	90,930,037.52	43,134,415.13
Total	166,260,375.78	136,329,884.59

(3) The five classification of loans and advances and provision for impairment loss are as follows:

Types	Balance at the end of the year						
	Book amount		General provision for impairment loss		Specific provision for impairment loss		Provision for impairment loss
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	
Pass	129,928,878.19	72.64	1,559,433.87	1.20	—	0.00	1,559,433.87
Special mention	7,641,618.00	4.27	76,416.18	1.00	152,832.36	2.00	229,248.54
Sub standard	40,958,800.00	22.90	409,588.00	1.00	10,239,700.00	25.00	10,649,288.00
Doubtful	345,000.00	0.19	3,450.00	1.00	172,500.00	50.00	175,950.00
Loss	—	—	—	—	—	—	—
Total	178,874,296.19	100.00	2,048,888.05	—	10,565,032.36	—	12,613,920.41

(4) Classification by lender

Types	Balance at the end of the year				Net amount
	Carrying amount		Provision for impairment loss		
	Amount	Proportion (%)	Amount	Proportion (%)	
Business	99,815,532.83	55.8	11,041,101.19	11.07	88,774,431.64
Personal	79,058,763.36	44.2	1,572,819.22	1.99	77,485,944.14
Total	178,874,296.19	100.00	12,613,920.41	—	166,260,375.78

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

Entities	Amount	Loan period	Percentage of the total loans (%)	The balance of provision for impairment loss as at the end of the year
Qingzhou TianTai Delong Casting Co., Ltd.	7,500,000.00	Within One year	4.19	90,000.00
Shandong Ferrer Chemical Co., Ltd.	7,500,000.00	Within One year	4.19	90,000.00
Shouguang Lishui Fertilizer Co., Ltd	7,500,000.00	Within One year	4.19	1,950,000.00
Shouguang Skandia Shipping Co., Ltd.	6,980,000.00	Within One year	3.90	1,814,800.00
Qingzhou Tongbao Supplies Limited	6,060,000.00	Within One year	3.39	72,720.00
Total	35,540,000.00		19.86	4,017,520.00

(6) As at 30 June 2016, the Group's total overdue loans amounted to RMB52,378,187.00, the overdue situation is as follows:

Overdue by	Amount	Percentage of the total loans and advances (%)	The balance of provision for impairment loss as the end of the year
Over 360 days	36,638,000.00	20.48	9,203,880.00
180–360 days	3,545,000.00	1.98	1,007,950.00
90–180 days	3,000,000.00	1.68	36,000.00
Within 90 days	9,195,187.00	5.14	110,342.24
Total	52,378,187.00	29.28	10,358,172.24

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	22,886,832.82	99.59%	11,359,384.66	94.16%
One to two years	83,745.30	0.36%	693,193.89	5.75%
More than three years	10,683.61	0.05%	10,683.61	0.09%
Total	22,981,261.73	—	12,063,262.16	—

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

Company	Balance at the end of the period	Aging	Percentage of the total prepayments (%)
RioTinto Asian Company	8,987,404.53	Within 1 year	39.11
Shandong Shouguang Giant Special Steel Co., Ltd	4,465,392.62	Within 1 year	19.47
Zibo QiLin FuShan Steel Co., Limited	2,782,155.52	Within 1 year	12.11
Wuxi Surui Special Steel Limited Company	1,076,881.00	Within 1 year	4.69
Linyi Fulaijin Metallic Material Limited Company	856,685.96	Within 1 year	3.73
Total	18,168,519.63		79.11

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	5,031,385.21	554,753.38
Interest income on pledged deposits	1,540,670.75	812,950.21
Interest of make loans and advance in cash	5,260,426.83	3,226,693.09
Total	11,832,482.79	4,594,396.68

(2) Interests Receivable

The above interest includes overdue loan interest within 90 days amounted RMB757,751.75. There is no other overdue interest.

7. Other Receivables

(1) Risk Classification of Other Receivables

Unit: RMB

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	85,114,679.68	99.86%	—	—	85,114,679.68	87,823,154.76	99.86%	—	—	87,823,154.76
Single item with insignificant other receivables but provided for bad debts separately	119,119.25	0.14%	119,119.25	100.00%	—	119,119.25	0.14%	119,119.25	100.00%	—
Total	85,233,798.93	100.00%	119,119.25	—	85,114,679.68	87,942,274.01	100.00%	119,119.25	—	87,823,154.76

At the end of period receivable other of Amount of single major and bad-debt provision:

Applicable Not applicable

In portfolio withdrawing bad-debt provision by aging analytical method:

Applicable Not applicable

In portfolio withdrawing bad-debt provision by balance percentage:

Applicable Not applicable

In portfolio withdrawing bad-debt provision by other way:

Applicable Not applicable

Accounts receivable of individual amount is not significant, but individually provided for bad debts.

Companies	Book balance	Bad debt amount	Provision proportion	Provision reason
Wang Li Xue	40,000.00	40,000.00	100.00	Aging is long, cannot recover
Other units	14,220.00	14,220.00	100.00	Aging is long, cannot recover
Other personage	64,899.25	64,899.25	100.00	Aging is long, cannot recover
Total	119,119.25	119,119.25	—	

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

The Group had no other receivables which were 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 receivable 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	52,557,941.87	60,027,534.95
Individuals	1,274,531.25	1,275,680.00
Deposits	29,825,614.06	24,758,847.56
Others	1,575,711.75	1,880,211.50
Total	85,233,798.93	87,942,274.01

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

Unit: RMB

Company	Nature	Amount	Aging	Proportion	Balance at the end of the period
JESORO oil company	Current account	39,993,311.56	Within one year	46.92%	—
Shouguang city Yangkou Town finances	Deposit for project development	14,530,000.00	Within three years	17.05%	—
Weifang customs of the People's Republic of China	Deposits	11,201,048.06	Within one year	13.14%	—
Shouguang City Ynagkou town financial economic management statistics centre	Current account	7,860,601.48	Within two years	9.22%	—
Sinopec international enterprise limited company Beijing tendering centre	Deposits	1,329,600.00	Within one year	1.56%	—
Total		74,914,561.10		87.89%	—

(6) Receivables of public subsidy

Company had not receivables of public subsidy in this report period.

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	234,378,502.37	8,186,591.20	226,191,911.17	219,715,781.95	8,186,591.20	211,529,190.75
Work-in-progress	291,269,961.73	21,377,704.74	269,892,256.99	321,920,163.35	21,377,704.74	300,542,458.61
Materials in storage	395,434,415.37	26,370,567.05	369,063,848.32	431,434,494.81	47,181,129.41	384,253,365.40
Entrusted processing materials	5,257,292.80	161,309.79	5,095,983.01	7,620,583.03	161,309.79	7,459,273.24
Total	926,340,172.27	56,096,172.78	870,243,999.49	980,691,023.14	76,906,735.14	903,784,288.00

(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	8,186,591.20	—	—	—	—	8,186,591.20
Work-in-progress	21,377,704.74	—	—	—	—	21,377,704.74
Materials in storage	47,181,129.41	—	—	20,810,562.36	—	26,370,567.05
Entrusted processing materials	161,309.79	—	—	—	—	161,309.79
Total	76,906,735.14	—	—	20,810,562.36	—	56,096,172.78

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

9. Other current assets

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Stay to deduct input tax	81,317,059.51	76,941,169.12
Prepaid income tax	1,322,771.55	2,178,186.58
Other prepaid taxes	868,860.49	151,563.24
Total	83,508,691.55	79,270,918.94

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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	10,030,000.00	—	10,030,000.00	10,030,000.00	—	10,030,000.00
Total	10,030,000.00	—	10,030,000.00	10,030,000.00	—	10,030,000.00

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

Unit: RMB

Investee	Carrying value			Impairment loss			Shareholding	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
Shouguang Mihe Water Company Limited	10,000,000.00	—	—	10,000,000.00	—	—	—	—	9.73%	—
Shouguang Hand-in-hand Private Lending Service	30,000.00	—	—	30,000.00	—	—	—	—	10.00%	—
Total	10,030,000.00	—	—	10,030,000.00	—	—	—	—	—	—

11. Long-term Equity Investment

Unit: RMB

Investee	Movement of the period										
	Balance at the beginning 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	Balance at the end of the period	Provision of impairment at the end of the period
1. Joint-venture											
2. Associate											
Yalong Oil Pump Company Limited	2,783,902.87	—	—	—	—	—	—	—	—	2,783,902.87	—
Subtotal	2,783,902.87	—	—	—	—	—	—	—	—	2,783,902.87	—
Total	2,783,902.87	—	—	—	—	—	—	—	—	2,783,902.87	—

- (1) There is no impairment indicators and the Group does not provide impairment loss for long-term equity investment.
- (2) As at 30 June 2016, there is no restriction on the Group of transferring capital from investee companies which the Group had long-term equity investment.

12. Fixed Assets

(1) Details of fixed assets

Unit: RMB

Items	Buildings	Machinery and equipment	Electronic and other equipment	Vehicles	Total
A. Costs:					
1. Balance at the beginning of the period	632,630,602.70	1,594,250,535.60	101,283,154.54	15,929,944.97	2,344,094,237.81
2. Additions for the period	122,700.00	395,394,696.54	185,118.51	0.00	395,702,515.05
(1) Additions	122,700.00	1,408,263.64	185,118.51	—	1,716,082.15
(2) Transferred from construction in progress	—	393,986,432.90	—	—	393,986,432.90
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the period	—	233,821.76	301,509.76	156,600.00	691,931.52
(1) Disposal or retirement	—	233,821.76	301,509.76	156,600.00	691,931.52
4. Balance at the end of the period	632,753,302.70	1,989,411,410.38	101,166,763.29	15,773,344.97	2,739,104,821.34
B. Accumulated depreciation					
1. Balance at the beginning of the period	154,530,710.62	791,528,064.81	77,843,727.35	12,673,140.55	1,036,575,643.33
2. Additions for the period	14,530,117.12	71,958,134.75	3,347,087.54	649,667.40	90,485,006.81
(1) Provision	14,530,117.12	71,958,134.75	3,347,087.54	649,667.40	90,485,006.81
3. Reductions for the period	—	186,036.73	284,367.97	145,220.00	615,624.70
(1) Disposal or retirement	—	186,036.73	284,367.97	145,220.00	615,624.70
4. Balance at the end of the period	169,060,827.74	863,300,162.83	80,906,446.92	13,177,587.95	1,126,445,025.44
C. Impairment					
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
D. Carrying values					
1. At the end of the period	458,705,996.68	1,115,055,328.52	20,260,316.37	2,595,757.02	1,596,617,398.59
2. At the beginning of the period	473,113,413.80	791,666,551.76	23,439,427.19	3,256,804.42	1,291,476,197.17

(2) Fixed assets without certificate of ownership

Unit: RMB

Items	Carrying value	Reasons
140 rolled tube main workshop	9,651,174.86	Application in process
New dormitory building	4,598,462.34	Application in process
Molong Garden 7th floor	8,572,500.00	Application in process
Logistics Park Plant	9,495,521.54	Application in process
Molong Garden 4th floor NO. 12 house down the street	3,552,500.04	Application in process
Electric-arc furnace main plant	66,581,315.10	Application in process
Steel scrap plant	7,350,304.77	Application in process
	109,801,778.65	

(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 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	1,117,262,088.10	—	1,117,262,088.10	1,087,442,447.70	—	1,087,442,447.70
Seawater Desalination Project	90,112,816.18	—	90,112,816.18	43,655,564.46	—	43,655,564.46
Heat and Gas Utilisation Project	88,249,857.71	—	88,249,857.71	73,882,929.92	—	73,882,929.92
Oxygen Station Project	98,447,992.22	—	98,447,992.22	98,222,793.86	—	98,222,793.86
Employee technical development training centre	13,164,217.01	—	13,164,217.01	13,126,858.52	—	13,126,858.52
Φ180 petroleum dedicated pipe plant stop production and remould	—	—	—	390,866,271.60	—	390,866,271.60
Others	5,564,743.09	—	5,564,743.09	3,598,931.12	—	3,598,931.12
Total	1,412,801,714.31	—	1,412,801,714.31	1,710,795,797.18	—	1,710,795,797.18

(2) Major changes in construction projects

Unit: RMB

Projects	Budget amount	Balance at the beginning of the period	Additions	Other reduction 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
Casting Plant Relocation and Technological Improvement Project	800,000,000.00	1,087,442,447.70	29,819,640.40	—	—	1,117,262,088.10	139.66%	97%	88,706,683.56	16,696,074.51	4.57%	Others
Seawater Desalination Project	150,000,000.00	43,655,564.46	46,457,251.72	—	—	90,112,816.18	60.08%	97%	4,347,378.34	2,652,628.50	4.57%	Others
Heat and Gas Utilisation Project	120,000,000.00	73,882,929.92	14,366,927.79	—	—	88,249,857.71	73.54%	97%	6,255,323.94	3,644,372.64	4.57%	Others
Oxygen Station Project	100,000,000.00	98,222,793.86	225,198.36	—	—	98,447,992.22	98.45%	97%	2,255,639.90	57,124.72	4.57%	Others
Employee technical development training centre	26,000,000.00	13,126,858.52	37,338.49	—	—	13,164,217.01	50.63%	55%	—	—	—	Others
φ180 petroleum dedicated pipe plant stop production and remould	10,000,000.00	390,866,271.60	3,120,161.30	393,986,432.90	—	0.00	94.93%	100%	—	—	—	Others
Total	1,206,000,000.00	1,707,196,866.06	94,026,538.06	393,986,432.90	—	1,407,236,971.22	—	—	101,565,025.74	23,050,200.37	—	

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

- (1) During this year, interest capitalization rate is 4.57% and 4.57% for the Company and Maolong New Material respectively (previous year: 4.64% and 4.64% respectively for the Company and Shouguang Baolong).
- (2) The Group's construction in progress does not have any impairment indicators, no provision is provided.
- (3) 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. Intangible assets

(1) Details of Intangible assets

Unit: RMB

Items	Land use rights/ Maritime use rights	Patent technology	Non-patent technology	Software	Total
I. Costs					
1. Balance at the beginning of the period	423,300,278.49	2,541,868.11	354,072,766.18	770,036.72	780,684,949.50
2. Additions for the period	49,551,885.00	—	—	—	49,551,885.00
(1) Acquisition	49,551,885.00	—	—	—	49,551,885.00
(2) Internally generated	—	—	—	—	—
(3) Additions from business combinations	—	—	—	—	—
3. Reductions for the period	—	—	—	—	—
(1) Disposal	—	—	—	—	—
4. Balance at the end of the period	472,852,163.49	2,541,868.11	354,072,766.18	770,036.72	830,236,834.50
II. Accumulated depreciation					
1. Balance at the beginning of the period	40,006,568.55	1,783,444.73	235,355,060.57	764,780.36	277,909,854.21
2. Additions for the period	4,277,874.18	247,559.88	14,742,361.92	4,259.45	19,272,055.43
(1) Provision	4,277,874.18	247,559.88	14,742,361.92	4,259.45	19,272,055.43
3. Reductions	—	—	—	—	—
(1) Disposals	—	—	—	—	—
4. Balance at the end of the period	44,284,442.73	2,031,004.61	250,097,422.49	769,039.81	297,181,909.64
III. Impairment					
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
IV. Carrying values					
1. At the end of the period	428,567,720.76	510,863.50	70,006,968.24	996.91	499,086,549.41
2. At the beginning of the period	383,293,709.94	758,423.38	84,749,330.16	5,256.36	468,806,719.84

The internally generated intangible assets accounted for 14.03% out of the total intangible assets.

15. Research and Development expenditure

Unit: RMB

Item	Balance at the beginning of the period	Additions	Reductions	Balance at the end of the period
New model casing pipe	11,185,706.36	—	—	11,185,706.36
New model oil tube	3,996,624.17	—	—	3,996,624.17
Total	15,182,330.53	—	—	15,182,330.53

The Company's division in research and development phase and capitalization of development expenditure specific basis can be found in Note V.20.

At 30 June 2016, all new product research and development work has been completed.

16. 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
Total	142,973,383.21	—	—	142,973,383.21

(2) 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	74,490,000.00	—	—	74,490,000.00
Total	74,490,000.00	—	—	74,490,000.00

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

- (1) 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.
- (2) The Group performs the impairment review on goodwill as stated in Note V.21.

17. 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 temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Deductible profits arose from intra-group transaction	12,476,820.98	3,019,318.17	12,476,820.98	3,019,318.17
Deductible losses	86,443,382.47	13,255,788.52	100,902,983.99	15,424,728.75
Allowance for doubtful debts	25,613,002.85	3,866,429.98	25,613,002.85	3,866,429.98
Provision for inventories	49,705,670.34	7,555,372.15	63,499,548.87	9,624,453.93
Accumulated amortisation of intangible assets	126,907,988.29	28,373,756.91	123,596,678.83	27,545,929.55
Deferred income	—	—	1,808,000.00	271,200.00
Impairment of intangible assets	4,904,463.11	735,669.48	7,777,377.38	1,166,606.61
Total	306,051,328.04	56,806,335.21	335,674,412.90	60,918,666.99

(2) Recognised deferred tax liabilities

Unit: RMB

Item	Balance at the end of the period		Balance at the beginning of the period	
	Deductible temporary differences	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Long-term investments	15,237.51	3,809.38	15,237.51	3,809.38
Fixed assets	2,098,677.32	524,669.33	2,386,740.22	596,685.06
Intangible assets	28,996,546.95	7,249,136.74	29,368,429.00	7,342,107.25
Interests receivable	2,697,635.46	404,645.32	1,367,703.59	205,155.54
Deductible losses arose from intra-group transaction	42,861,050.97	6,429,157.64	42,861,050.97	6,429,157.64
Total	76,669,148.21	14,611,418.41	75,999,161.29	14,576,914.87

(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	—	56,806,335.21	—	60,918,666.99
Deferred income tax liabilities	—	14,611,418.41	—	14,576,914.87

(4) 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 temporary differences	33,443,153.93	33,443,153.93
Deductible losses	339,200,478.90	258,026,813.62
Total	372,643,632.83	291,469,967.55

(5) 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	3,514,811.37	3,514,811.37	
2018	42,072,215.21	42,072,215.21	
2019	72,439,584.00	72,439,584.00	
2020	140,000,203.04	140,000,203.04	
2021	81,173,665.28	—	
Total	339,200,478.90	258,026,813.62	

The deductible tax in certain subsidiaries assessable to offset against future profits due to the unpredictability of future profit or loss outlook. Hence, in compliance with prudence concept, no deferred tax assets are recognized as at 30 June 2016.

18. 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)	45,637,302.15	87,757,302.15
Prepayments for acquisition of fixed assets (Note 2)	24,915,518.29	24,161,389.80
Prepayments for acquisition of projects	—	8,943,923.73
Total	70,552,820.44	120,862,615.68

Note 1: The Group had prepayments for acquisition for land use rights of RMB45,637,302.15 included in other non-current assets.

Note 2: The Group had prepayments for acquisition of plant, machinery and equipment of RMB24,915,518.29 included in other non-current assets.

19. 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	106,099,200.00	64,936,000.00
Credit loans	1,565,332,087.68	1,404,119,063.41
Total	1,671,431,287.68	1,469,055,063.41

Description of classification of short term borrowings:

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

(2) Details of the outstanding short-term borrowing

The Group's short term borrowings are not expired at the end of the reporting period.

20. Bills payable

Unit: RMB

Nature	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance notes	1,019,689,868.24	304,242,384.43
Total	1,019,689,868.24	304,242,384.43

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

21. 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	485,246,417.99	567,358,760.06
Project equipment	370,666,152.57	337,431,138.47
Total	855,912,570.56	904,789,898.53

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

Company	Balance at the end of the period	Reasons of unpaid and carried-forward
Linqu Tiantai Delong Cast Limited Company	15,422,116.71	Material accounts
Shouguang Housing Construction and Installation Co., Ltd.	6,209,642.28	Project funds
Qingdao Honghan Refractory Matter Limited Company	5,335,810.36	Material accounts
Shandong Space Steel Engineering Limited	3,906,684.00	Project funds
Shouguang Yu Sheng Economic Ltd.	3,710,675.06	Material accounts
Shandong Shouguang First Construction Co., Ltd.	3,113,000.00	Project funds
Qingzhou Tongbao Goods And Materials Limited Company	3,291,561.61	Material accounts
Shandong Luneng Electrical Equipment Limited Company	3,079,107.00	Equipment accounts
Shenyang East Metallurgical Technology Co., Ltd.	3,039,502.04	Material accounts
Total	47,108,099.06	

22. 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	41,111,917.57	43,005,331.88
Total	41,111,917.57	43,005,331.88

(2) Significant Receipts in advance aging over 1 years

Unit: RMB

Company	Balance at the end of the period	Reasons of unpaid and carried-forward
KOC	2,313,196.77	Not yet shipped by contract provision
UMW Oilfield International (L) Ltd	1,038,899.43	Not yet shipped by contract provision
Total	3,352,096.20	

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23. Salaries Payable

(1) Details of salaries payable

Unit: RMB

Item	Balance at the beginning of the period	Additions	Reductions	Balance at the end of the period
I. Short-term salaries	26,858,082.97	54,266,489.70	46,420,592.96	34,703,979.71
II. Retirement Scheme-Defined contribution plan	95,235.51	5,363,674.01	5,458,909.52	0.00
Total	26,953,318.48	59,630,163.71	51,879,502.48	34,703,979.71

(2) Short-term salaries employee benefits

Unit: RMB

Item	Balance at the beginning of this period	Additions	Reductions	Balance at the end of the period
1. Salaries, bonuses, allowance and subsidies	20,692,939.94	44,651,290.77	38,117,360.86	27,226,869.85
2. Staff welfare	—	5,380,026.41	5,380,026.41	—
3. Social insurance premiums	31,113.30	2,714,815.14	2,743,072.69	2,855.75
Including: 1. Medical insurance	24,047.23	2,133,639.40	2,157,686.63	—
2. Injury insurance	3,432.43	311,401.75	311,978.43	2,855.75
3. Birth insurance	3,633.64	269,773.99	273,407.63	—
4. Union fund and staff education fund	6,134,029.73	1,520,357.38	180,133.00	7,474,254.11
Total	26,858,082.97	54,266,489.70	46,420,592.96	34,703,979.71

(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	91,627.96	5,076,083.33	5,167,711.29	—
2. Unemployment insurance	3,607.55	287,590.68	291,198.23	—
Total	95,235.51	5,363,674.01	5,458,909.52	0.00

24. Taxes Payables

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Value added tax	11,730,376.48	517,268.91
Consumption tax	—	—
Sales tax	—	—
Enterprise income tax	3,249,380.49	540,564.30
Individual income tax	1,593,550.12	1,580,077.95
Urban maintenances and construction tax	14,904.83	256,784.87
Property tax	1,476,763.98	1,348,371.23
Land use tax	2,435,816.29	2,435,816.30
Educational surcharges	7,954.70	183,417.77
Local water conservancy construction funds	2,128.95	36,683.55
Stamp duty	28,855.60	365,514.26
Others	136,380.44	123,345.00
Total	20,676,111.88	7,387,844.14

At the end of this period tax payable not include Hong Kong income tax payable.

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25. Interests Payable

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Long-term loan interest of payment of interest by stages and expire to repayment of principal	200,885.42	—
Corporate bond interests	0.00	14,745,205.48
Short-term borrowing interests	2,181,610.30	3,107,863.84
Total	2,382,495.72	17,853,069.32

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

26. 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	25,243,144.82	11,915,078.93
Deposits received	8,174,216.31	9,377,921.34
Others	95,557,534.33	2,686,857.97
Total	128,974,895.46	23,979,858.24

(2) Other payable due over one year

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

27. Non-current liabilities due within one year

Items	Balance at the end of the year	Unit: RMB
		Balance at the beginning of the year
Bond payable due within one year	—	499,444,444.41
Total	—	499,444,444.41

On 7 June 2013, the Group issued a three-year bond in the aggregate nominal amount of RMB500 million with an annual interest rate of 5.20%. Interest payment will be made once a year and the principal amount will be repaid upon maturity. The actual net proceeds received was RMB496,000,000. The bond issued by the Group was due in June 2016 and therefore it was shown in the consolidated balance sheet earlier as non-current liabilities due within one year. On 3 June, the Company repaid the principal which amounted to RMB500 million and the third years' interest which amounted to RMB26 million.

28. Other current liabilities

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Deferred income within one year	—	1,808,000.00
Total	0.00	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 by the Shandong Development and Reform Commission, the Company received RMB9,040,000.00 from Central Government as budget investment, which will be used in building high-end petroleum equipments. When the Company received this government grant, the Company recognised it as deferred income. RMB9,040,000.00 was recognised as income in current year.

29. Long-term loan

(1) Long-term loan classification

Unit: RMB

Items	Balance at the end of the period	Balance at the beginning of the period
Debt of honour	145,000,000.00	—
Total	145,000,000.00	—

30. Share Capital

Unit: RMB

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

The nominal value of the Company's ordinary shares is RMB1 per share.

31. 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

32. 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	
Reclassified into other comprehensive income or loss in the subsequent period	(1,262,175.75)	(610,579.43)	—	—	(578,693.81)	(31,885.62)	(1,840,869.56)
Difference in the translation of foreign currency financial statements	(1,262,175.75)	(610,579.43)	—	—	(578,693.81)	(31,885.62)	(1,840,869.56)
Total	(1,262,175.75)	(610,579.43)	—	—	(578,693.81)	(31,885.62)	(1,840,869.56)

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33. Special reserve

Unit: RMB

Item	Balance at the beginning of the period	Addition	Reduction	Balance at the end of the period
Production safety fee	—	3,448,165.79	3,448,165.79	—
Total	—	3,448,165.79	3,448,165.79	—

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 Ministry of Finance and the State Administration of Work Safety, the Group recorded the related Product safety fee as required by law.

34. 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

The appropriation of statutory reserve in the current period is in accordance with the Articles.

35. General risk reserve

Items	Balance at the beginning of the period	Balance at the end of the period	Proportion
General risk reserve	11,236.91	11,236.91	Note
Total	11,236.91	11,236.91	

As Shouguang Mao Tong Micro-Credit Company is consolidated during this year, the balance as at the beginning of the year is RMB nil. The general risk reserve is provided pursuant to the Notice on Strengthening Loan Classification Management for Small Scale Loan Company to Improve Risk Provision [2013] No. 11 ([2013]11號《關於加強小額貸款公司貸款分類管理提高風險撥備水平有關問題的通知》) enforced by Shandong Province Department of Finance and Financial Affairs Office of Shandong Province on 15 March 2013.

36. Undistributed profit

Unit: RMB

Items	Current period	Last period
Balance at the end of last period	610,372,203.12	869,937,207.44
Adjustment to the undistributed profits at beginning of the period	610,372,203.12	869,937,207.44
Add: Profit attributable to the owners of the Company	6,039,585.20	(259,565,004.32)
Balance at the end of this period	616,411,788.32	610,372,203.12

- (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.

37. Operating Revenue and Operating Costs

Unit: RMB

Items	Incurred during this period		Incurred during the previous period	
	Revenue	Cost	Revenue	Cost
Main operation	855,588,808.11	765,165,251.78	1,086,542,619.09	889,108,777.51
Other operation	15,443,065.11	5,581,011.05	11,107,017.82	20,413,650.62
Total	871,031,873.22	770,746,262.83	1,097,649,636.91	909,522,428.13

38. Tax and Levies on Operations

Unit: RMB

Items	Incurred during this period	Incurred during the previous period
Business tax	262,426.64	111,083.43
Urban maintenances and construction tax	1,921,003.01	4,123,362.20
Educational surcharges	1,371,875.28	2,945,258.69
Resources tax	274,428.68	589,051.75
Total	3,829,733.61	7,768,756.07

39. Selling Expenses

Unit: RMB

Items	Incurred during this period	Incurred during the previous period
Delivery expenses	11,392,246.53	58,323,886.95
Agency fees	630,408.79	8,697,675.59
Salary	1,733,178.31	1,568,190.81
Travelling expenses	183,398.18	412,560.79
Entertainment	1,281,530.66	1,248,919.80
Office expenses	108,010.78	174,001.35
Intermediate fees	13,374,013.90	50,654,083.40
Depreciation charge	648,876.17	644,810.81
Others	2,527,022.85	745,659.67
Total	31,878,686.17	122,469,789.17

40. Administrative expenses

Unit: RMB

Items	Incurred during this period	Incurred during the previous period
Amortisation of intangible assets	19,272,055.43	24,941,953.50
Taxes	7,735,198.68	7,746,959.48
Salary and Staff welfare expenses	8,082,687.82	6,756,143.91
Depreciation expenses	11,025,211.69	13,418,224.55
Machinery material consumption	1,283,451.69	128,514.01
Research and development fees of new products	1,397,712.32	2,889,404.59
Intermediate fees	1,588,724.31	1,347,811.43
Electric charges	481,463.86	537,706.57
Entertainment	662,755.69	644,486.37
Environmental costs	801.02	49,736.76
Board of directors' expenses	641,477.62	1,630,643.57
Transportation fees	152,691.55	223,496.30
Repair charge	652,439.24	354,669.52
Delivery expenses	8,990.16	26,904.01
Premiums for property insurance	71,627.95	75,582.13
Travelling expenses	141,166.81	282,100.60
Publicity expenses	117,405.66	20,380.00
Water charge	152,451.71	163,710.88
Safety production costs	1,027,055.46	866,123.68
Others	648,860.51	458,688.80
Total	55,144,229.18	62,563,240.66

41. Finance Costs

Unit: RMB

Items	Incurred during this period	Incurred during the previous period
Interest expenses	40,997,581.13	41,653,998.56
Less: Capitalized interest expenses	(23,050,200.37)	(20,157,475.19)
Less: Interest income	(9,420,595.66)	(9,328,890.99)
Add: Foreign exchange gain	(11,610,293.59)	(5,679,564.59)
Add: Other expenses	25,713,830.89	7,327,067.31
Total	22,630,322.40	13,815,135.10

42. Loss on impairment of assets

Unit: RMB

Items	Incurred during this period	Incurred during the previous period
I. Provision of allowance for inventory	24,442.90	—
Total	24,442.90	—

43. Investment income

Unit: RMB

Items	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
Total	—	1,326,825.71

44. 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
Government grants	10,131,155.00	23,150,709.22	—
Penalty Income	260,324.11	590,184.44	—
Total	10,391,479.11	23,740,893.66	—

Government grants included in profit and loss:

Unit: RMB

Items	Grantor	Reason	Nature	Whether subsidy influence this year's profit and loss	Special subsidy	Incurred during this period	Incurred during the previous period	Related to assets/ Related to income
Subsidies for stabilizing employment	Shouguang Human Resources Management Service Centre*	Subsidy	Subsidies were granted pursuant to local supportive policies which seek to attract foreign investment	Yes	No	234,600.00	182,449.42	Related to income
Export credit premium subsidy	Shouguang Bureau of Finance*	Subsidy	Subsidies were granted pursuant to local supportive policies which seek to attract foreign investment	Yes	No	479,700.00	235,000.00	Related to income
Anti-dumping subsidy	Shouguang Bureau of Finance*	Subsidy	Subsidies were granted pursuant to local supportive policies which seek to attract foreign investment	Yes	No	50,000.00	—	Related to income
Shandong famous brand award	Shouguang Bureau of Finance*	Subsidy	Subsidies were granted pursuant to local supportive policies which seek to attract foreign investment	Yes	No	300,000.00	—	Related to income
Patent subsidy	Shandong Finance Department*	Subsidy	Subsidies obtained as a result of research & development and technological advancement	Yes	No	4,000.00	71,500.00	Related to income
High-end new type equipment project subsidy	Shandong Finance Department*	Subsidy	Subsidies obtained as a result of safeguarding certain public utilities or providing products that are essential to society or exercising price-controlling function	Yes	No	1,808,000.00	1,808,000.00	Related to income
Infrastructure supporting subsidy	Shangkou People's Government*	Subsidy	Subsidies were granted pursuant to local supportive policies which seek to attract foreign investment	Yes	No	6,954,855.00	—	Related to income
Enterprise technological improvement subsidy	Weihai Wendeng Bureau of Finance*	Subsidy	Subsidies were granted pursuant to local supportive policies which seek to attract foreign investment	Yes	No	300,000.00	—	Related to income
Total	—	—	—	—	—	10,131,155.00	2,296,949.42	—

* for identification purposes only

45. 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	63,847.59	41,384.21	—
Included: Loss on disposal of fixed assets	63,847.59	41,384.21	—
Donation expenses	1,000.00	24,000.00	—
Other	23,036.00	2,467.62	—
Total	87,883.59	67,851.83	—

46. 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	3,421,862.63	9,252,946.59
Deferred income tax	4,146,835.32	(1,751,128.31)
Total	7,568,697.95	7,501,818.28

(2) Accounting profit and income tax expenses adjustment process

Unit: RMB

Items	Incurred during this period
Total Profit	(2,918,208.35)
Tax Expense calculated under statutory/applicable tax rate	(437,731.25)
Effects of different applicable tax rate on subsidiaries	(2,286,519.85)
Effects of non-deductible costs, expenses and loss	109,205.31
Effects of deductible losses using earlier period unconfirmed deferred income tax assets	4,311,821.56
Effects of deductible temporary difference of the deferred tax assets not recognized in this period or deductible loss	8,272,503.46
Effects of deduction in research and development expenses	(634,889.85)
Other effects	(1,765,691.42)
Tax expenses	7,568,697.95

47. Other comprehensive income

Details refer to Note VII.32.

48. 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	10,131,155.00	23,150,709.22
Interest income	9,420,595.66	9,328,891.00
Reduction in bank acceptance note	20,852,603.69	—
Reduction in restricted bank deposits	—	44,974,650.00
Others	15,178,188.33	3,306,453.07
Total	55,582,542.68	80,760,703.29

(2) Other cash payment relating to operating activities

Unit: RMB

Items	Incurred during this period	Incurred during previous period
Delivery expenses	11,401,236.69	58,350,790.96
Development fees for new products	1,397,712.32	2,889,404.59
Consumable	1,496,687.33	287,727.31
Agency fees	1,271,886.41	8,697,675.59
Travelling fees	662,208.92	694,661.39
Intermediary fees	14,962,738.21	53,632,538.40
Repair expenses	665,646.92	354,669.52
Water and electricity expenses	633,915.57	701,417.45
Entertainment	1,944,286.35	1,813,315.32
Increase in foreign exchange guarantees deposit	—	87,504,911.11
Increase in limited fixed time deposit	108,577,550.70	—
Others	16,452,917.45	4,233,497.95
Total	159,466,786.87	219,160,609.59

(3) Other cash receipts relating to investing activities

Unit: RMB

Items	Incurred during this period	Incurred during previous period
Cash paid to associate through an independent third party	—	5,000,000.00
Accept discount	693,033,313.00	—
Domestic letter of credit discount	88,398,000.00	—
Total	781,431,313.00	5,000,000.00

(4) Other cash receipts relating to investing activities

Unit: RMB

Items	Incurred during this period	Incurred during previous period
Increase in security deposit for letter of guarantee	37,350,000.00	20,100,000.00
Cash deposit for note on discount	187,500,000.00	—
Accept discount interest and letter of credit discounted cost	22,119,315.00	—
Total	246,969,315.00	20,100,000.00

49. Additional information for consolidated cash flow statement

(1) Additional information for consolidated cash flow statement

Unit: RMB

Items	Incurred during this period	Incurred during the previous period
1 Reconciliation of net income to cash flow:	—	—
Net (loss) profit	(10,486,906.30)	(991,662.96)
Add: Provision for impairment loss of asset	24,442.90	—
Depreciation of fixed asset, petroleum assets and production assets	90,485,006.81	98,086,059.69
Amortisation of intangible asset	19,272,055.43	24,941,953.50
Amortisation of long-term unamortized expenses	170,940.19	—
Loss on disposal of fixed asset, intangible asset and other long-term asset	—	41,384.21
Fixed asset written off	5,403.92	30,359.70
Finance costs	(13,241,428.50)	15,775,385.29
Investment income	—	(1,326,825.71)
Decrease in deferred tax assets	4,112,331.78	(1,909,855.97)
Increase in deferred tax liabilities	199,489.78	158,727.66
Decrease in inventories	52,730,575.41	141,795,250.10
Decrease in operating receivables	(174,470,999.87)	(95,340,411.54)
Increase in operating payables	(76,258,590.05)	(49,372,356.10)
Others	(1,808,000.00)	(5,129,093.06)
Net cash flows generated from operating activities	(109,265,678.50)	126,758,914.81
2 Significant investing and financing activities not involving cash receipt or payment:	—	—
3 Changes in cash and cash equivalents:	—	—
Balance of cash at the end of the period	386,589,947.64	404,185,041.89
Less: Balance of cash at the beginning of the period	218,309,025.51	496,842,889.68
Net (decrease) increase in cash and cash equivalents	168,280,922.13	(92,657,847.79)

(2) Cash and cash equivalents

Unit: RMB

Items	Balance as at the end of this period	Balance as at the end of previous period
1. Cash	386,589,947.64	218,309,025.51
Including: Cash on hand	15,955.87	82,768.08
Bank deposit available for payments at any moment	184,992,383.93	151,614,579.43
Other funds available for payments at any moment	201,581,607.84	66,611,678.00
2. Cash and cash equivalent at the end of the period	386,589,947.64	218,309,025.51
Including: Cash and cash equivalent that parent company or subsidiary corporation is limited to use.	444,081,695.00	131,506,747.99

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 RMB204,264,380.00 borrowings and deposit for letter of credit with maturity date over 3 months of RMB18,000,000.00; and deposit for letter of guarantee with maturity date over 3 months of RMB21,300,000.00; fixed deposits with maturity date over 3 months of RMB200,517,315.00.

50. Ownership or right to use of assets get limit.

Unit: RMB

Items	Book value at the end of period	Limitation reason
Monetary capital	444,081,695.00	Cash deposit and fixed time deposit
Notes receivable	18,139,179.87	Endorsement for pledge
<hr/>		
Total	462,220,874.87	

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	30,591,160.65	6.6312	202,856,104.50
EUR	8,729,813.42	7.375	64,382,373.97
Yen	1,777,213,766.00	0.0645	114,630,287.91
Include: USD	28,654,771.27	6.6312	190,015,519.25
EUR	228,263.45	7.375	1,683,442.94
Other receivables			
Include: USD	6,158,881.29	6.6312	40,840,773.63
Prepayments			
Include: USD	9,218,923.56	6.6312	61,132,525.91
Short term borrowings			
Include: USD	90,546,400.00	6.6312	600,431,287.68
Accounts payable			
Include: USD	1,032,779.00	6.6312	6,848,564.10
Other accounts payable			
Include: USD	25,230.08	6.6312	167,305.71
Interest payable			
Include: USD	94,943.04	6.6312	629,586.28

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- (2) Descriptions of foreign business entity (including those that are considered important) should include disclosure of: the overseas principal place of business of the foreign business entity; the reporting currency and the basis for using that currency; the reason(s) for the change of reporting currency.

The registered and principal place of business of MPM Limited, a subsidiary which is owned by the Company as to 90% of its issued share capital and voting rights, is in Hong Kong; its reporting currency is USD.

VIII. Change in scope of consolidation

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	Trade	90.00%	0.00%	Subsidiaries acquired through business consolidation not under common control
Maolong New Materials	Shouguang	Shouguang	Manufacturing	100.00%	0.00%	Subsidiaries acquired through business consolidation not under common control
Molong Electromechanical Equipment	Shouguang	Shouguang	Manufacturing	0.00%	100.00%	Subsidiaries acquired through business consolidation not under common control
Baolong Recyclable Resource	Weihai	Weihai	Trade	0.00%	100.00%	Subsidiaries acquired through business consolidation not under common control
Maolong Recycle	Shouguang	Shouguang	Trade	10.00%	90.00%	Subsidiaries acquired through business consolidation not under common control
Shouguang Baolong	Shouguang	Shouguang	Manufacturing	70.00%	0.00%	Subsidiaries acquired through establishment
Weihai Baolong	Weihai	Weihai	Manufacturing	61.54%	38.46%	Subsidiaries acquired through business consolidation not under common control
Molong Logistic Company	Shouguang	Shouguang	Service	100.00%	0.00%	Subsidiaries acquired through establishment
Molong Import and Export	Shouguang	Shouguang	import and export	100.00%	0.00%	Subsidiaries acquired through establishment
Maolong Petty Loan Company	Shouguang	Shouguang	Financial industry	0.00%	50.00%	Subsidiaries acquired through business consolidation not under common control

(2) Significant Non-wholly Owned Subsidiaries

Unit: RMB

Name of subsidiaries	Minority shareholders Proportion (%)	Earnings attributable to minority shareholders	Dividends declared to minority shareholders	Period end balance of earning to minority shareholders
Shouguang Baolong	30.00%	(18,164,254.76)	—	9,791,222.02
Maolong Petty Loan Company	50.00%	1,728,569.21	—	78,765,779.76

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

Unit: RMB

Name of subsidiaries	Current Assets		Non-current Assets		Total Assets		Current Liabilities		Non-current Liabilities		Total Liabilities	
Shouguang Baolong Maolong Petty Loan Company	260,261,604.09	526,546,207.48	786,807,811.57	792,576,369.41	—	792,576,369.41	360,893,408.00	522,440,733.86	883,334,141.86	747,861,955.71	—	747,861,955.71
	177,823,186.93	11,766,678.97	189,589,865.90	32,058,306.38	—	32,058,306.38	144,080,813.49	11,884,427.31	155,965,240.80	1,890,819.69	—	1,890,819.69

Unit: RMB

Name of subsidiaries	Turnover		Profit for the period		Total comprehensive loss		Net income to cash flow		Turnover		Profit for the period		Total comprehensive income (loss)		Net income (loss) to cash flow	
Shouguang Baolong	370,868,492.66	(62,764,418.82)	(62,764,418.82)	14,472,021.97	562,282,358.34	(37,117,973.33)	44,222,867.35	—	—	—	—	—	—	—	—	—
Maolong Petty Loan Company	6,103,658.98	3,457,138.41	3,457,138.41	(26,056,759.64)	—	—	—	—	—	—	—	—	—	—	—	—

Note: Combining date of Maolong Petty Loan company was 1 September 2015.

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

(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 pervious period
	Yalong Oil Pump Company Limited	Yalong Oil Pump Company Limited
Current assets	13,682,818.90	16,735,778.25
Non-current assets	4,256,746.22	3,864,777.53
Total assets	17,939,565.12	20,600,555.78
Current liabilities	2,545,652.46	4,691,408.83
Non-current liabilities	6,716,731.88	6,716,731.88
Total liabilities	9,262,384.34	11,408,140.71
Minority equity	—	0.00
Non-controlling interest Attributable to shareholders of the Company	8,677,180.78	9,192,415.07
Share of net assets on a pro rata basis	2,603,154.23	2,757,724.52
Book value of the investment to associates	2,783,902.87	2,783,902.87
Turnover	1,612,420.48	4,319,810.43
Net profit	(515,234.29)	(780,247.83)
Total comprehensive income	(515,234.29)	(780,247.83)
Dividend received from the associates	0.00	0.00

(3) Description of the major restrictions on the capacity of cooperative enterprises or joint ventures to transfer money to the Company

There does not exist any major restriction on the capacity of cooperative enterprises or joint ventures to transfer money.

(4) **Major losses suffered by cooperative enterprises or joint ventures**

Cooperative enterprises or joint ventures did not suffer any major losses.

(5) **Contingent liabilities relating to the investment of cooperative enterprises or joint ventures**

Cooperative enterprises or joint ventures do not have any investment-related contingent liabilities.

3. ***Rights and interests that have not been incorporated into the main body of the consolidated financial statement***

The Group does not have any rights and interests that have not been incorporated into the main body of the consolidated financial statement.

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 V.10. 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 2016, 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.

Items	30 June 2016	31 December 2015
Monetary capital — USD	30,591,160.65	4,300,221.19
Monetary capital — EUR	8,729,813.42	8,845,007.71
Monetary capital — Yen	1,777,213,766.00	—
Monetary capital — HKD	—	4,374.13
Receivables — USD	28,654,771.27	29,440,564.02
Receivables — EUR	228,263.45	228,263.45
Receivable other — USD	6,158,881.29	7,355,473.80
short-term borrowing — USD	90,546,400.00	80,241,324.29
Receivables — USD	1,032,779.00	1,434,644.38
Other payables — USD	25,230.08	25,230.08
Advance receipt — USD	9,218,923.56	3,563,704.80
Interest payable — USD	94,943.04	224,995.71

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 2016, the biggest credit risk exposure that may cause financial loss to the Group mainly came from the fact that the other party of the contract, to which the Company is also a party, could not fulfil their obligations and caused loss to the Group's financial assets, which includes:

The book value of the financial asset which has been confirmed in the consolidated balance sheet; in respect of 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.

In order to minimize credit risk, our Group carefully assesses and formulates the credit limit of our customers, and executes other monitoring procedures to ensure that necessary measures are taken to recover loans that are overdue. Furthermore, on every balance sheet date, our Group scrutinizes the status of each and every account receivable to ensure that provisions are made for bad debts that cannot be recovered. As a result, the management considers that the credit risk borne by our Group has already been substantially reduced.

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

The aggregate sum of the top five account receivables amounts to RMB256,543,854.98.

(3) Liquidity risk

Liquidity risk refers to the risk that the Group is unable to honour its financial obligation before the due date. The Group manages liquidity risks by ensuring that it has sufficient cash liquidity to meet its debt liabilities so that there would not be unacceptable financial loss or loss of goodwill. The management of the Group closely monitors the utilization of bank borrowings and ensures that the Group abides by the terms of the relevant loan agreements. At the same time, the Group has approached a number of financial institutions in relation to financing options to ensure that the Group maintains a line of credit in order to lower liquidity risk.

Bank loan as the Company's main capital source

Maturity analysis of financial assets and financial liabilities of the Group based on contractual undiscounted cash flow, is set out as follows:

At the end of the year:

Items	Within 1 year	1–2 years	2–5 years	Over 5 years	Total
Financial assets					
Monetary capital	580,181,629.70	—	—	—	580,181,629.70
Bills receivable	74,668,073.14	—	—	—	74,668,073.14
Accounts receivable	634,980,591.35	—	—	—	634,980,591.35
Loans and advances					
Interest receivable	3,728,887.81	—	—	—	3,728,887.81
Other receivables	44,959,979.30	—	—	—	44,959,979.30
Financial liability					
Short-term borrowings	1,379,459,840.30	—	—	—	1,379,459,840.30
Bills payable	487,080,249.79	—	—	—	487,080,249.79
Accounts payable	650,620,192.05	—	—	—	650,620,192.05
Other payables	25,882,039.11	—	—	—	25,882,039.11
Interest payable	7,766,670.60	—	—	—	7,766,670.60
Bonds payable	—	—	—	—	—

At the end of last year:

Items	Within 1 year	1–2 years	2–5 years	Over 5 years	Total
Financial assets					
Monetary capital	349,815,773.50	—	—	—	349,815,773.50
Bills receivable	46,101,762.76	—	—	—	46,101,762.76
Accounts receivable	497,239,999.28	—	—	—	497,239,999.28
Loans and advances	136,329,884.59	—	—	—	136,329,884.59
Interest receivable	4,594,396.68	—	—	—	4,594,396.68
Other receivables	87,823,154.76	—	—	—	87,823,154.76
Financial liability					
Short-term borrowings	1,469,055,063.41	—	—	—	1,469,055,063.41
Bills payable	304,242,384.43	—	—	—	304,242,384.43
Accounts payable	904,789,898.53	—	—	—	904,789,898.53
Other payables	23,979,858.24	—	—	—	23,979,858.24
Interest payable	17,853,069.32	—	—	—	17,853,069.32
Bonds payable	499,444,444.41	—	—	—	499,444,444.41

XI. Fair Value announcement

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

XII. Related Party Relationships and Transactions

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1. Parent company and the ultimate controlling entity

The ultimate controlling party of the Company is Zhang Enrong.

As at 30 June 2016, Mr. Zhang En Rong owned 33.29% voting shares in the Company, and was the controlling shareholder of the Company.

2. Subsidiaries

Details of the subsidiaries are listed on note IX.1.

3. Associates and Joint Ventures of the Company

Details of joint ventures and associates that are important to the Company are listed on note IX.2.

Details of connected transactions entered into between the Company and associates or joint ventures in the reporting period or those that were carried forward from the previous reporting period are as follows:

Name of related party	Relationship with the Company
Yalong Oil Pump Company Limited	Associate

4. Other related party situation

The Company does not have other related parties situation.

5. Related parties transaction

(1) Related party transaction of purchase and sale commodity, offer and accept labour service

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 Company Limited	Oil well pumping and accessories	1,124,953.28	1,402,519.91
Shouguang Molong Cultural Transmission Limited Company*	Casing pipe and parts	28,207.02	395,736.85

* for identification purposes only

6. 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 Company Limited	1,737,637.32	—	3,221,441.98	—
Receivable other	Karamay Yalong Petroleum Machinery Limited Company	480,000.00	—	480,000.00	—

7. *Related party promise*

No

XIII. Share-based payment

1. *Overview of share-based payment*

Applicable Not Applicable

2. *Situation of share-based payment by way of equity settlement*

Applicable Not Applicable

3. *Situation of share-based payment by way of cash settlement*

Applicable Not Applicable

4. *Situation in respect of modification or termination of share-based payment*

No

5. *Other*

No

XIV. Commitment and Contingency

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1. *Capital commitment*

(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	36,601,677.00	87,943,027.50
Total	36,601,677.00	87,943,027.50

(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 2016

2. **Contingency**

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

There is no other material commitment up to 30 June 2016.

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

There is no other material commitment.

XV. 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

2. **Sales Return**

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

3. **Other Events Subsequent to Balance Sheet Date**

Loan condition after date reporting period

As at the date of releasing this interim report, the Group borrowed RMB269,000,000.00 and USD8,000,000.00 from the bank.

The Group has repaid RMB210,000,000.00 and USD16,810,000.00.

XVI. 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.

The unaudited condensed consolidated interim financial information should be read in conjunction with the Group's financial statements for the year ended 31 December 2015.

(2) Segment Reporting Information

Unit: RMB

Items	Casing and Tubing	Three kinds of pumping units	Petroleum machinery plant	Trade	Unallocated Items	Inter-segment elimination	Total	Unallocated Items
Operation revenue	781,668,830.03	16,890,016.87	8,899,062.96	45,174,407.89	18,399,555.47	—	—	871,031,873.22
External income	—	—	—	—	—	—	—	0.00
Inter-segment income	—	—	—	—	—	—	—	0.00
Total segment income	781,668,830.03	16,890,016.87	8,899,062.96	45,174,407.89	18,399,555.47	—	—	871,031,873.22
Total operating income	781,668,830.03	16,890,016.87	8,899,062.96	45,174,407.89	18,399,555.47	—	—	871,031,873.22
Segment cost	730,822,484.64	12,571,603.07	10,114,830.94	43,798,678.37	9,171,528.49	—	—	806,479,125.51
Segment profit	50,846,345.39	4,318,413.80	(1,215,767.98)	1,375,729.52	9,228,026.98	—	—	64,552,747.71
Adjusting items:								
Administrative expenses	—	—	—	—	—	55,144,229.18	—	55,144,229.18
Finance costs	—	—	—	—	—	22,630,322.40	—	22,630,322.40
Investment income	—	—	—	—	—	—	—	0.00
Operating profit (loss)	50,846,345.39	4,318,413.80	(1,215,767.98)	1,375,729.52	9,228,026.98	(77,774,551.58)	—	(13,221,803.87)
Non-operating income	—	—	—	—	—	10,391,479.11	—	10,391,479.11
Non-operating expenses	—	—	—	—	—	87,883.59	—	87,883.59
Total profit (loss)	50,846,345.39	4,318,413.80	(1,215,767.98)	1,375,729.52	9,228,026.98	(67,470,956.06)	—	(2,918,208.35)
Income tax credit	—	—	—	—	—	7,568,697.95	—	7,568,697.95
Net profit (loss)	50,846,345.39	4,318,413.80	(1,215,767.98)	1,375,729.52	9,228,026.98	(75,039,654.01)	—	(10,486,906.30)
Total segment assets	5,232,442,305.26	104,264,332.65	163,359,906.16	89,716,700.52	17,240,443.49	854,457,967.32	—	6,461,481,655.40
Total segment liabilities	2,095,329,868.79	21,688,014.60	85,480,222.70	78,238,855.50	4,233,452.43	1,649,524,131.21	—	3,934,494,545.23
Supplementary Information:	—	—	—	—	—	—	—	0.00
Depreciation	79,961,247.88	2,980,544.61	2,905,701.80	—	4,637,512.52	—	—	90,485,006.81
Amortisation	15,870,976.02	390.00	1,102,510.26	—	—	2,298,179.15	—	19,272,055.43
Interest income	—	—	—	—	—	(9,420,595.66)	—	(9,420,595.66)
Finance cost	—	—	—	—	—	32,050,918.06	—	32,050,918.06
Impairment losses recognized in this period:	24,442.90	—	—	—	—	—	—	24,442.90
Non-current assets other than long-term equity investment	3,060,288,182.39	69,560,458.34	36,650,223.80	—	357,189,128.31	205,872,538.86	—	3,729,560,531.70
Capital expenditure	90,661,746.50	43,038.42	17,487.18	—	116,032.88	0.00	—	90,838,304.98
Including: Construction in progress	89,095,482.79	—	—	—	—	—	—	89,095,482.79
Purchase of fixed assets	1,566,263.71	43,038.42	17,487.18	—	116,032.88	—	—	1,742,822.19
Purchase of intangible assets	—	—	—	—	—	—	—	0.00

XVII. 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	54,084,132.46	6.01%	22,870,194.37	42.29%	31,213,938.09	43,608,469.83	5.78%	22,213,266.98	50.94%	21,395,202.85
Items for which provision for bad debt is recognized by group with distinctive credit risk characteristics	843,153,545.33	93.58%	—	—	843,153,545.33	705,624,300.17	93.50%	—	—	705,624,300.17
Account receivable of insignificant individual amount, individually provided for bad debts	3,772,866.01	0.41%	2,403,336.62	63.70%	1,369,529.39	5,411,284.54	0.72%	3,035,821.11	56.10%	2,375,463.43
Total	901,010,543.80	100.00%	25,273,530.99	—	875,737,012.81	754,644,054.54	100.00%	25,249,088.09	—	729,394,966.45

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

Applicable Not applicable

Unit: RMB

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Account receivables (By Company)	Account receivables	Balancing at the end of the period		Reasons for impairment
		Provision of bad debts	Proportion	
Shandong New Coal Mechanized Equipment Incorporated Company	25,411,133.71	7,426,627.81	29.23%	Recovery has risk
Wenlai Jinlong Investment Company Limited, Beijing Office	7,893,271.00	6,532,536.40	82.76%	Aging over two years, With nondeterminacy of recovery
SBI Company (USA)	4,040,915.14	4,040,915.14	100.00%	Aging over three years, With low possibility of recovery
Shengli Oilfield Highland Petroleum Equipment Co., Ltd	3,284,636.96	3,284,636.96	100.00%	Aging over three years, With low possibility of recovery
Samasu International Oil Corporation	3,208,887.15	928,550.67	28.94%	Recovery has risk
Shandong Kuangji Group Incorporated Company	10,245,288.50	656,927.39	6.41%	Aging over one year, 30% withdrawing
Total	54,084,132.46	22,870,194.37	—	

In portfolio withdrawing bad-debt provision by aging analytical method:

Applicable Not Applicable

In portfolio withdrawing bad-debt provision by balance percentage:

Applicable Not Applicable

In portfolio withdrawing bad-debt provision by other way:

Applicable Not Applicable

Accounts receivable of individual amount is not significant, but individually provided for bad debts.

Companies	Carrying amount	Impairment	Ratio	Reason for impairment
Huanan Petroleum and Chemical Group*	1,149,669.07	1,149,669.07	100.00%	Aging over three years, with low possibility of recovery
Metal One Tube Group*	1,151,505.43	333,209.33	28.94%	Recovery has risk
PT. Dhiva Inter Sarana	782,446.33	231,213.04	29.55%	Recovery has risk
Petrochina Technology Development Company*	594,152.90	594,152.90	100.00%	Aging over one years, with nondeterminacy of recovery
Hanting Energy Personal Service Limited Company*	95,092.28	95,092.28	100.00%	Aging over three years, with low possibility of recovery
Total	3,772,866.01	2,403,336.62	—	

* for identification purposes only

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

The impairment loss on account receivables amounted RMB656,927.39. There is RMB632,484.49 reversal of provision for bad debt or recovery of impaired accounts receivable during the period.

The significant reversal of provision for bad debt or recovery of impaired accounts receivable during the period:

Unit: RMB

Companies	Recovery or reversal amount	Recovery way
Shandong Wantong Hydraumatic Incorporated Company	441,354.95	Receive payment for goods
Huanan Petroleum and Chemical Group	191,129.54	Receive payment for goods
Total	632,484.49	

(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 receivable are as follows:

Companies	Amounts	Aging	Proportion (%)	Bad-debt provision year end balance
Maolong New Materials Company	269,320,402.98	Within one year	30.75%	—
Petroamazonas EP	77,541,622.02	Within one year	8.85%	—
Yanchang Petroleum Co., Ltd	42,218,749.05	Within one year	4.82%	—
	15,107,985.04	1 to 2 years	1.73%	—
Peak Pipe and Supply, LLC	46,422,509.22	1 to 2 years	5.30%	—
China Petroleum and Gas Co., Ltd	39,040,292.92	Within one year	4.46%	—
Total	489,651,561.23		55.91%	—

2. Other receivables

(1) Risk Classification of Other Receivables

Unit: RMB

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Type	Balance at the end of the period				Net amount	Balance at the beginning of the period				Net amount
	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	190,405,994.63	99.94%	—	—	190,405,994.63	577,291,445.12	99.98%	—	—	577,291,445.12
Single item with insignificant other receivables but provided for bad debts separately	119,119.25	0.06%	119,119.25	100.00%	—	119,119.25	0.02%	119,119.25	100.00%	—
Total	190,525,113.88	—	119,119.25	—	190,405,994.63	577,410,564.37	100.00%	119,119.25	—	577,291,445.12

At the end of period receivable other of Amount of single major and bad-debt provision:

Applicable Not Applicable

In portfolio withdrawing bad-debt provision by aging analytical method:

Applicable Not Applicable

In portfolio withdrawing bad-debt provision by balance percentage:

Applicable Not Applicable

In portfolio withdrawing bad-debt provision by other way:

Applicable Not Applicable

Accounts receivable of individual amount is not significant, but individually provided for bad debts.

Companies	Book balance	Bad debt amount	Provision proportion	Provision reason
Wang Li Xue	40,000.00	40,000.00	100.00	Aging is long, cannot recover
Other units	14,220.00	14,220.00	100.00	Aging is long, cannot recover
Other personage	64,899.25	64,899.25	100.00	Aging is long, cannot recover
Total	119,119.25	119,119.25	—	

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

The Group had no other receivables which were 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 were 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 account	170,879,648.63	559,379,895.12
Deposits	18,624,566.00	16,942,090.00
Individuals	1,020,899.25	1,088,579.25
Total	190,525,113.88	577,410,564.37

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

Unit: RMB

Company	Nature	Amount	Aging	Proportion	Bad debts period end balance
Molong Import and Export Company	Current account	57,953,056.88	within 1 year	30.44%	—
JESORO OIL LTD	Current account	39,993,311.56	within 1 year	21.00%	—
Molong Logistic Company	Current account	36,562,971.70	2–3 years	19.20%	—
Shouguang Baolong Machinery Company Limited	Current account	34,248,880.00	2–3 years	17.99%	—
Shouguang City Yangkou Town Finance Department	Construction project deposit	14,530,000.00	2–3 years	7.63%	—
Total		183,288,220.14		96.26%	—

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	1,352,069,921.73	—	1,352,069,921.73	1,052,069,921.73	—	1,052,069,921.73
Total	1,352,069,921.73	—	1,352,069,921.73	1,052,069,921.73	—	1,052,069,921.73

(1) Investment in subsidiaries

Unit: RMB

Investee	Balance at			Balance at the	Provision of	Provision of
	the beginning of	Additions	Reductions	end of the period	impairment for	impairment at
	the period				the period	the end of
						the period
Maolong New Materials Company	706,743,691.73	300,000,000.00	—	1,006,743,691.73	—	—
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	—	—
Molong Import and Export Corporation	10,000,000.00	—	—	10,000,000.00	—	—
Total	1,052,069,921.73	300,000,000.00	—	1,352,069,921.73	—	—

(2) Other description

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

As at 30 June 2016, there is no restriction on the Group of transferring capital from investee companies which the Group had long-term equity investment.

4. Operating Revenue and Operating Costs

Unit: RMB

Items	Incurred during this period		Incurred during previous period	
	Revenue	Cost	Revenue	Cost
Main operation	718,753,316.52	584,702,744.12	1,060,707,024.31	832,507,827.17
Other operation	26,825,998.05	25,522,222.56	52,360,008.55	62,130,181.44
Total	745,579,314.57	610,224,966.68	1,113,067,032.86	894,638,008.61

XVIII. 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	(63,847.59)	
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)	10,131,155.00	
In addition to the above, the non-operating income and expenditure	236,288.11	
Less: Income tax effect	2,284,891.61	
Effect of minority interests (after tax)	13,918.27	
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Total	8,004,785.64	

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	0.25%	0.0076	0.0076
Net profit (loss) attributable to holders of ordinary shares of the Company after deducting the non-recurring gain and loss	-0.08%	(0.0025)	(0.0025)

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X. 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.

