

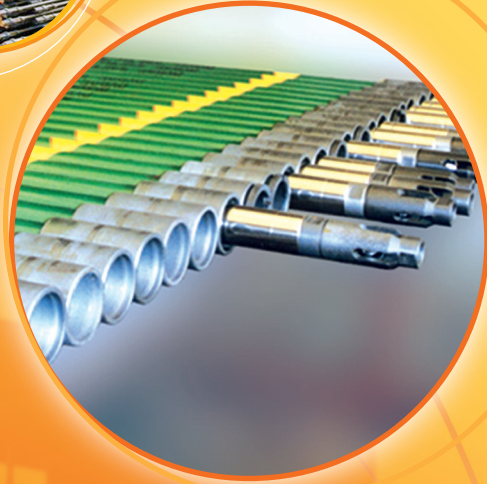
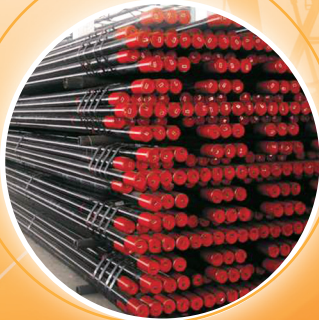


山東墨龍石油機械股份有限公司

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)



2018
Interim
Report

* For identification purpose only

I. IMPORTANT REMINDER/ INFORMATION/ NOTIFICATION/ CONTENTS AND DEFINITIONS

The board of directors (the “Board”), the supervisory committee (the “Supervisory Committee”) and the directors (the “Directors”), supervisors (the “Supervisors”) and senior management (the “Senior Management”) of the Company hereby warrant that there are no false representations, misleading statements or material omissions contained in this interim report (the “Report”), and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of its contents.

The person-in-charge of the Company, Mr. Guo Huan Ran, person-in-charge of accounting, Mr. Liu Min 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.

All Directors attended the Board meeting for considering this Report.

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

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Definitions

Item	Content
"Company", "Parent Company", "the Company" and "Shandong Molong"	Shandong Molong Petroleum Machinery Company Limited
"Group"	collectively, the Company and its subsidiaries
"SZSE"	The Shenzhen Stock Exchange
"SEHK"	The Stock Exchange of Hong Kong Limited
"Listing Rules of SZSE"	the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange
"Listing Rules of SEHK"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Renminbi" or "RMB"	Renminbi, the lawful currency of the People's Republic of China
"HKD"	Hong Kong dollar, the lawful currency of Hong Kong Special Administrative Region of the People's Republic of China
"EUR"	Euro, the lawful currency of Euro zone member states
"USD"	U.S. Dollar, the lawful currency of the United States of America
"Director(s)"	the director(s) of the Company, including all executive, non-executive and independent non-executive directors
"Supervisor(s)"	the members of the supervisory committee of the Company
"Board"	the Company's board of directors
"reporting period"	from 1 January 2018 to 30 June 2018
"2017 annual report"	The Company's annual report for the year ended 31 December 2017 published on 30 April 2018
"%"	percent

II. COMPANY PROFILE AND KEY FINANCIAL INDICATORS

I. Company Profile

Stock abbreviation	Shandong Molong	Stock Code	002490
Changed stock abbreviation (if any)	Not applicable		
Stock exchange on which securities are listed	Shenzhen Stock Exchange		
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		
English name of the Company (if any)	Shandong Molong Petroleum Machinery Co., Ltd*		
Legal representative of the Company	Guo Huan Ran		

II. Contact Information

	Secretary to the Board	Securities Affairs Representative
Name	Liu Min	Wang Jian Lei
Contact Address	No. 999 Wen Sheng Street, Shouguang City, Shandong Province	No. 999 Wen Sheng Street, Shouguang City, Shandong Province
Telephone	0536-5100890	0536-5100083
Facsimile	0536-5100888	0536-5100888
Email Address	lm@molonggroup.com	dsh@molonggroup.com

III. Other Information

1. Company Contact Information

Any changes in the registered address, office address and zip code, web address, e-mail address of the Company during the reporting period

Applicable Not applicable

The registered address, office address and zip code, web address and e-mail address had no changes during the reporting period. For details, please see 2017 annual report.

2. Information Disclosure and Place for Inspection

Any changes in the information disclosure and place for inspection during the reporting period

Applicable Not applicable

The designated newspaper for information disclosure, the designated domestic website for the publication of interim report as approved by China Securities Regulatory Commission and the place for inspection of the interim report of the Company had no changes during the reporting period. For details, please see 2017 annual report.

IV. Major Accounting Data and Financial Indicators

Whether the Company should make retroactive adjustment to or restate accounting data for prior years

Yes No

	The reporting period	Same period of last year	Period-on-period increase/decrease (%)
Operating revenue (RMB)	2,000,081,569.83	1,222,828,645.65	63.56%
Net profit attributable to shareholders of listed company (RMB)	32,575,294.80	7,020,723.65	363.99%
Net profit after extraordinary gains or losses attributable to shareholders of listed company (RMB)	23,983,016.25	(166,395,975.54)	114.41%
Net cash flows from operating activities (RMB)	(145,339,448.51)	41,393,771.56	-451.11%
Basic earnings per Share (RMB)	0.0408	0.0088	363.64%
Diluted earnings per Share (RMB)	0.0408	0.0088	363.64%
Weighted average rate of return on net assets (%)	1.73%	0.39%	1.34%
	As at the end of the reporting period	As at the end of last year	Period-on-period increase/decrease (%)
Total assets (RMB)	6,320,490,940.90	6,222,802,967.54	1.57%
Net assets attributable to shareholders of listed company (RMB)	1,903,800,223.22	1,869,595,561.71	1.83%

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

1. *Differences in net profits and net assets in the financial statements as disclosed under the International Accounting Standards (“IASs”) and PRC Generally Accepted Accounting Principles (“PRC GAAP”)*

Applicable Not applicable

During the reporting period, there were no differences in net profit and net assets in the financial statements as disclosed under the IASs and PRC GAAP.

2. *Differences in net profit and net assets in the financial statements as disclosed under the overseas accounting standards and PRC GAAP*

Applicable Not applicable

During the reporting period, there were no differences in net profit and net assets in the financial statements as disclosed under the overseas accounting standards and PRC GAAP.

VI. Extraordinary gain or loss items and amounts

Applicable Not applicable

Unit: RMB

Item	Amount	Note
Gains or losses arising from the disposal of non-current assets (including the written-offs that have been provided for impairment of assets)	1,172,390.42	—
Tax rebate or tax concessions from unauthorised approval or non-official approved documents	5,756,761.96	—
Fund occupation fees from non-financial enterprises included in current profit and loss	220,668.30	—
Non-operating income and loss other than the above items	2,126,805.51	—
Less: Effect on income tax	551,078.29	—
Effect on minority interests (after tax)	133,269.35	—
Total	8,592,278.55	—

Reasons should be given if the Company has classified any extraordinary gain or loss items pursuant to the “Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — Extraordinary Profit and Loss” and has classified any extraordinary gain or loss items listed therein as recurring gain and loss items.

Applicable Not applicable

No extraordinary gain or loss items as defined or listed in the “Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — Extraordinary Profit and Loss” were classified by the Company as recurring gain or loss items during the reporting period.

III. COMPANY BUSINESS PROFILE

I. The main business during the reporting period

Whether the Company needs to comply with the disclosure requirements for special industry

No

During the reporting period, the Company was mainly engaged in energy equipment industry for product research and development, production and sales. The main products included tube for oil and gas exploitation, fluid and structural tube, pumping unit, oil well pump, sucker rod, cylinder sleeve for drilling machine, valve parts and components, heavy casting and forging. These products are mainly used for the drilling and production of oil, natural gas, coalbed methane and shale gas, machining and city pipe network. Pipe products account for more than 80% of sales, and is the main source of income and profit of the Company. The structure of the Company's principal business did not have any material change during the reporting period.

The Company's business model is to make production plans according to customers' order requirements. The Company's products, especially pipe products, are divided into API standard products and non-standard products (i.e. special customised products). Generally, product specification, model and order quantity are determined by customers based on their own needs. The Company's production system organises production and delivery according to customer orders.

The Company operates in the energy equipment industry which covers oil, natural gas, shale gas, coal and coalbed methane. In the medium and long run, it is expected that demand for oil and coal will reach to peak and demand for natural gas will become stronger. As a result, there will be greater potential for market development. The industry is susceptible to, among other factors, the changes of economic development cycle, market consumption demand, crude oil price cycle and raw material prices cycle. In the first half of 2018, due to the increase in crude oil prices and changes in the economic situation, the market for pipe products performed better. Compared to the same period of last year, demand for and price of major oil products had increased to different extents. During the reporting period, the Company worked more closely with domestic and international oil companies as evidenced by the increase in order volume. It saw a continuous improvement in operating results.

II. Significant changes in major assets

1. Significant changes in major assets

Major assets	Description of significant changes
Equity assets	No significant changes
Fixed assets	No significant changes
Intangible assets	No significant changes
Construction-in-progress	Decreased by 56.32% from the beginning of the year, primarily attributable to the completion and transfer to fixed assets of the construction of phase 2 of electric arc furnace during the period.

2. Major overseas assets

Applicable Not applicable

III. Analysis of core competitiveness

Whether the Company needs to comply with the disclosure requirements for special industry

No

In the domestic market, the major customers of the Group's oil well tube products are PetroChina, Sinopec, CNOOC and Yanchang oil fields. Customers for other social pipes engage in sectors including machining, shipbuilding, high-pressure boilers, gas cylinder tubes and automotive pipes. The Group has been extending its market reach. During the reporting period, the Molong special buckle anti-corrosion oil casings have been used in large quantities in the Yanchang oil field, and the Group's eco-blowout pump, offset feedback pump, high-efficiency wear-resistant anti-corrosion pump, boronizing pump casting and forging products have been gradually introduced into the oil field market.

In the overseas market, during the reporting period, the Company continued to consolidate its presence in the developed markets and its relationship with customers, and focused its effort on promoting its new products and boosting sales of oil casing, line pipe, sucker rod, casting and forging and other products. During the reporting period, the Group's export business accounted for approximately 11.66% of its revenue from principal business.

As for the development of new products, during the reporting period, the Group successfully developed and sold new products such as the Molong special buckle anti-corrosion oil casings, various types of special oil pumps and drill rod materials. At the same time, the Company continued to increase the number of filings and registrations for technological innovation projects and the protection of intellectual property rights at provincial level. During the reporting period, the Company had 2 products that were recognised as Shandong provincial technological innovation projects, 2 new patent applications and 3 newly granted patents.

The Company will continue to implement its established business strategy, deepen internal tapping and increase internal technology upgrade, with a view to further optimising its internal control, and thereby continuously enhancing its core competitiveness.

IV. DISCUSSION AND ANALYSIS OF OPERATIONS

I. Overview

During the reporting period, due to the increase in crude oil prices and changes in the economic situation, the market for pipe products performed better. Compared to the same period of last year, demand for and price of major oil products had increased to different extents. During the reporting period, the Company worked more closely with domestic and international oil companies as evidenced by the increase in order volume. It saw a continuous improvement in operating results.

During the reporting period, the Group achieved an operating revenue of RMB2 billion, representing a period-on-period increase of 63.56%. Net profit attributable to shareholders of listed company amounted to RMB32.5753 million, representing a period-on-period increase of 363.99%. Basic earnings per Share was RMB0.0408, representing a period-on-period increase of 363.64%.

II. Analysis of principal business

Overview

See "I. Overview" under "Discussion and Analysis of Operations" for details.

Period-on-period changes in key financial data

Unit: RMB

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	The reporting period	Same period of last year	Period-on-period increase/decrease (%)	Reasons for the change
Operating revenue	2,000,081,569.83	1,222,828,645.65	63.56%	The increase in operating revenue was primarily attributable to the better performance of the domestic market and the Group's increased sales efforts.
Operating costs	1,716,855,589.44	1,263,983,647.32	35.83%	The costs increased in line with the growth in the Group's revenue for the period.
Selling expenses	56,820,233.83	28,949,992.97	96.27%	It was primarily attributable to the significant increase in revenue for the period, which resulted in a higher freight cost borne by the Group accordingly.
Administrative expenses	83,584,807.81	40,253,706.72	107.64%	It was primarily attributable to the fact that Shouguang Maolong New Materials, a subsidiary, suspended its production for overhaul during the period and incurred maintenance expenses, depreciation charge, power expenses and others, which were all transferred to the management fees.

Unit: RMB

	The reporting period	Same period of last year	Period-on-period increase/decrease (%)	Reasons for the change
Finance costs	105,796,355.30	62,349,474.80	69.68%	The increase in finance costs was primarily attributable to the fact that the Group's financing amount for the period was higher than that of the same period of last year.
Income tax expense	1,872,724.25	589,327.01	217.77%	It was primarily attributable to the increase in the Group's profit.
R&D expenditures	29,556,801.17	21,124,836.01	39.91%	It was primarily attributable to the Group's greater commitment to R&D activities during the period.
Net cash flows from operating activities	(145,339,448.51)	41,393,771.56	-451.11%	It was primarily attributable to the larger volume of shipments for the period, most of them were ordered by oil field customers who have a longer credit period and the related accounts receivable had not yet become due for settlement.
Net cash flows from investing activities	(97,536,341.81)	18,513,505.35	-626.84%	It was primarily attributable to the proceeds from disposal of idle land upon relocation from urban site to industrial zone during the same period of last year.
Net cash flows from financing activities	(45,760,615.27)	(133,649,795.47)	65.76%	It was primarily attributable to the fact that the financing scale has not been reduced during the period.
Net increase in cash and cash equivalents	(286,375,649.62)	(70,856,371.86)	-304.16%	It was primarily attributable to the larger volume of shipments for the period, most of them were ordered by oil field customers who have a longer credit period and the related accounts receivable had not yet become due for settlement.
Monetary funds	585,823,445.02	879,371,103.17	-33.38%	It was primarily attributable to the larger volume of shipments for the period, most of them were ordered by oil field customers who have a longer credit period and the related accounts receivable had not yet become due for settlement.
Bills receivable	235,127,211.53	94,525,409.69	148.74%	It was primarily attributable to the significant increase in the Group's pledged bills receivable during the period.

Unit: RMB

	The reporting period	Same period of last year	Period-on-period increase/decrease (%)	Reasons for the change
Accounts receivable	620,515,641.27	378,729,615.88	63.84%	It was primarily attributable to the considerable growth in revenue for the period when compared with same period of last year, as well as the Group's focus on oil field market, in which customers have a longer credit period and the related accounts receivable had not yet become due for settlement.
Interest receivables	1,484,318.49	4,220,913.66	-64.83%	It was primarily attributable to the reduction of acceptance deposit during the period which resulted in a decrease in interests of placements and withdrawals.
Construction-in-progress	74,635,586.99	170,880,899.68	-56.32%	It was primarily attributable to the completion and transfer to fixed assets of the construction of phase 2 of electric arc furnace during the period.
Bills payable	97,930,005.57	213,984,811.00	-54.24%	It was primarily attributable to the decrease in the Group's acceptance payments.
Receipts in advance	38,423,368.51	68,937,156.42	-44.26%	It was primarily attributable to the change of the Group's sales structure whereby volume of standard pipe sales, which require payment before delivery, was decreased.
Interest payables	20,555,152.01	5,458,818.99	276.55%	It was primarily attributable to the fact that the interests provided by the Group for long term borrowings had not yet become due for settlement.
Other payables	58,989,459.97	32,518,520.13	81.40%	It was primarily attributable to the increased provision for power expenses for the period.
Non-current liabilities due within one year	73,347,657.04	155,946,611.23	-52.97%	It was primarily attributable to the due settlement of the "non-current liabilities due within one year" as at the beginning of the year.
Proceeds from disposal of assets	1,172,390.42	59,382,050.06	-98.03%	It was primarily attributable to the proceeds from disposal of idle land upon relocation from urban site to industrial zone during the same period of last year.

Unit: RMB

	The reporting period	Same period of last year	Period-on-period increase/decrease (%)	Reasons for the change
Other income	5,977,430.26	150,118,600.00	-96.02%	It was primarily attributable to the decrease in receipts of government grants during the period.
Non-operating expenses	232,946.57	7,559,785.19	-96.92%	It was primarily attributable to the loss on the disposal of creditor's right arising from the conversion by Petroamazonas EP, a customer, of receivables to bonds during the same period of last year.

Significant change in composition or sources of the Group's profit during the reporting period

Applicable Not applicable

There were no significant change in the composition or sources of Group's profit during the reporting period.

Composition of operating revenue

Unit: RMB

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	The reporting period		Same period of last year		Period-on-period increase/decrease (%)
	Amount	Percentage of operating revenue	Amount	Percentage of operating revenue	
Total operating revenue	2,000,081,569.83	100.00%	1,222,828,645.65	100.00%	63.56%
By industry					
Special equipment manufacturing	2,000,081,569.83	100.00%	1,222,828,645.65	100.00%	63.56%
By product					
Pipe products	1,793,866,689.50	89.69%	1,156,069,300.42	94.54%	55.17%
Three kinds of pumping units	25,393,192.95	1.27%	14,862,925.06	1.22%	70.85%
Petroleum machinery parts	22,258,061.24	1.11%	24,865,181.48	2.03%	-10.49%
Others	158,563,626.14	7.93%	27,031,238.69	2.21%	486.59%
By region					
Domestic	1,770,628,086.11	88.53%	1,075,795,340.32	87.98%	64.59%
Overseas	229,453,483.72	11.47%	147,033,305.33	12.02%	56.06%

Industry, products or regions accounting for more than 10% of the Group's operating revenue or operating profit

Applicable Not applicable

Unit: RMB

	Operating revenue	Operating costs	Gross profit margin	Period-on-period increase/decrease in operating revenue (%)	Period-on-period increase/decrease in operating costs (%)	Period-on-period increase/decrease in gross profit margin (%)
By industry						
Pipe products	1,793,866,689.50	1,513,409,637.50	15.63%	55.17%	25.98%	19.00%
By product						
Pipe products	1,793,866,689.50	1,513,409,637.50	15.63%	55.17%	25.98%	19.00%
By region						
Domestic	1,770,628,086.11	1,490,127,666.36	15.84%	64.59%	29.79%	22.56%
Overseas	229,453,483.72	226,727,923.08	1.19%	56.06%	95.72%	-20.02%

Due to adjustments to the statistical criteria for the Company's principal business during the reporting period, the data on the Company's principal business in the recent period after making adjustments to the statistical criteria at the end of the reporting period

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Applicable Not applicable

Reasons for more than 30% period-on-period changes in the relevant data

Applicable Not applicable

Revenue from special equipment manufacturing industry increased by 63.56% period-on-period, primarily attributable to the better performance of the domestic market and the Group's increased sales efforts during the period, which drove the growth of operating revenue.

Compared to the same period of last year, operating revenue from pipe products increased by 55.17% and operating costs therefrom increased by 25.98%, primarily attributable to the stronger demand for products in the improving oil casing market during the period, which drove growth of both operating revenue and operating costs.

Operating revenue from three kinds of pumping units increased by 70.85% period-on-period, primarily attributable to the stronger demand for products in the improving domestic and overseas markets during the period, which drove the growth of revenue from products such as sucker rods and oil well pumps.

Operating revenue from other products increased by 486.59% period-on-period, primarily attributable to the increase in sales volume of the Group's add-on products, which resulted in the growth of operating revenue.

III. Analysis of non-principal business

Applicable Not applicable

IV. Analysis of assets and liabilities

1. Significant changes in the composition of assets

Unit: RMB

	As at the end of reporting period		As at the end of same period of last year		Increase/decrease in percentage (%)	Description of the significant changes
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Monetary funds	585,823,445.02	9.27%	879,371,103.17	14.13%	-4.86%	Monetary funds decreased by 33.38% from the beginning of the year, primarily attributable to the larger volume of shipments for the period, most of them were ordered by oil field customers who have a longer credit period and the related accounts receivable had not yet become due for settlement.
Accounts receivable	620,515,641.27	9.82%	378,729,615.88	6.09%	3.73%	Accounts receivable increased by 63.84% from the beginning of the year, primarily attributable to the considerable growth in revenue for the period when compared with same period of last year, as well as the Group's focus on oil field customers who have a longer credit period and the related accounts receivable had not yet become due for settlement.
Inventories	1,003,367,373.02	15.87%	925,772,719.28	14.88%	0.99%	—
Long-term equity investments	2,639,321.48	0.04%	2,639,321.48	0.04%	0.00%	—
Fixed assets	2,932,436,754.21	46.40%	2,891,875,882.19	46.47%	-0.07%	—
Construction-in-progress	74,635,586.99	1.18%	170,880,899.68	2.75%	-1.57%	Decreased by 56.32% from the beginning of the year, primarily attributable to the completion and transfer to fixed assets of the construction of phase 2 of electric arc furnace during the period.
Short-term borrowings	2,394,142,000.02	37.88%	2,141,086,600.02	34.41%	3.47%	—
Long-term borrowings	605,275,520.50	9.58%	737,259,900.98	11.85%	-2.27%	—
Non-current liabilities due within one year	73,347,657.04	1.16%	155,946,611.23	2.51%	-1.35%	Decreased by 52.97% from the beginning of the year, primarily attributable to the due settlement of the "non-current liabilities due within one year" as at the beginning of the year.

2. *Assets and liabilities measured at fair value*

Applicable Not applicable

3. *Restrictions on asset rights as at the end of the reporting period*

Item	Book value as at the end of the period	Reasons for the restriction
Monetary funds	210,300,000.00	Security deposits maturing after three months
Bills receivable	191,346,080.50	Pledge of bills
Fixed assets	128,755,824.78	Charge for borrowings
Intangible assets	159,192,563.15	Pledge/charge for borrowings
<hr/>		
Total	689,594,468.43	—

V. Analysis of investments

1. *General*

Applicable Not applicable

2. *Significant equity investments acquired during the reporting period*

Applicable Not applicable

3. *Significant non-equity investments in progress during the reporting period*

Applicable Not applicable

4. *Financial assets measured at fair value*

Applicable Not applicable

5. *Investments in securities*

Applicable Not applicable

The Company did not hold any investments in securities during the reporting period.

6. *Investments in derivatives*

Applicable Not applicable

The Company did not hold any investments in derivatives during the reporting period.

7. *Use of raised funds*

Applicable Not applicable

The Company did not use any raised funds during the reporting period.

8. Major projects invested with non-raised funds

Applicable Not applicable

The Company did not invest in any major projects with non-raised funds during the reporting period.

VI. Material disposals of assets and equities

1. Disposal of major assets

Applicable Not applicable

Counterparty	Asset disposed of	Disposal Date (RMB'0,000)	Transaction price (RMB'0,000)	Net profit of the listed company attributable to the asset from the beginning of the period up to the disposal date (RMB'0,000)	Effect of disposal on the Company (Note 3)	Percentage of the net profit attributable to the asset disposal in Company's total net profit (%)	Pricing basis of asset disposal	Connected transaction or not	Relationship with counterparty (applicable to connected transaction)	Title of relevant asset fully transferred or not	Liabilities of relevant debts fully transferred or not	Carried out as planned and scheduled or not, if not, the reasons and measures taken by the Company	Disclosure date	Disclosure index
Shouguang Xin Yuan Property Company Limited	Land and the fixture erected thereon	2018-6-25	1,434.01	110.82	None	3.41%	Market price	No	None	Yes	Yes	Yes	—	—

2. Disposal of major equities

Applicable Not applicable

VII. Analysis of major controlled and invested companies

Applicable Not applicable

Major subsidiaries and invested companies having impact on the Company's net profit by more than 10%

Unit: RMB

Company name	Type	Principal business	Registered		Net assets	Operating revenue	Operating profit	Net Profit
			capital	Total assets				
Shouguang Baolong Petroleum Equipment Company Limited (壽光寶隆石油器材有限公司)	Subsidiary	Production and sales of oil equipment	RMB150 million	1,679,402,453.85	4,160,605.80	953,967,324.81	(31,125,914.61)	(30,968,154.76)
Weihai Baolong Special Petroleum Materials Co., Ltd (威海市寶隆石油專材有限公司)	Subsidiary	Manufacture and sales of special oil metal materials	RMB26 million	258,277,081.76	180,596,546.62	345,767,629.85	10,000,648.38	10,071,959.82
Shouguang Maolong New Materials Technology Development Company Limited (壽光懋隆新材料技術開發有限公司)	Subsidiary	Research on new materials for energy equipment; production and sales of metal casting and forging; sea water desalination; waste heat and gas power generation.	RMB712.38 million	1,607,120,786.01	558,966,699.94	497,127,304.93	(15,849,303.10)	(14,999,149.92)

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Acquisition and disposal of subsidiaries during the reporting period

Applicable Not applicable

Description of major controlled and invested companies

Applicable Not applicable

VIII. Structured entities controlled by the Company

Applicable Not applicable

IX. Forecast of the operating results from January to September 2018

Forecasted operating results for the period from January to September 2018: Positive net profit attributable to shareholders of listed company but not turning around from loss to profit

Positive net profit attributable to shareholders of listed company but not turning around from loss to profit

Change in net profit (in percentage) attributable to shareholders of listed company for the period from January to September 2018 (%)	391.80% to 637.70%
Change in net profit (in range) attributable to shareholders of listed company for the period from January to September 2018 (RMB'0,000)	5,000 to 7,500
Net profit attributable to shareholders of listed company for the period from January to September 2017 (RMB'0,000)	1,016.66

Reasons for the change in results

Since the second half of 2017, the rising crude oil prices and economic changes increased the demand of oil well pipes. The strong demand trend was especially evident during the reporting period as the Company recorded an increase in order volume and a substantial increase in product prices. It showed a clear improvement in the Company's operating results.

X. Risk exposures and contingency measures of the Company

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- (1) The current global political and economic instability and the resulting fluctuation of investment and demand in oil drilling industry will directly lead to the movement of product demand. We will adjust our product mix and market layout according to market changes in a timely manner;
- (2) Under the current landscape of environmental protection, prices of bulk commodities, in particular of the raw materials that the Company needs, are increasingly volatile, which will have direct impact on the production cost of products and in turn the operating results of the Company;
- (3) Due to the current global political and economic environment, exports of the Company's products decline when compared to previous years. The Company will closely monitor the political changes of major oil producing countries and obtain favourable information in a timely manner, in order to increase exports of its oil well pipe products.

XI. Disclosures in accordance with the Listing Rules of SEHK

1. Results

The revenue of the Group and the financial position of the Group and of the Company for the first half of 2018 are set out in the section titled "X. Financial Report" of this interim report.

2. Financial Highlights

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

Results

	For the half year ended 30 June	
	2018	2017
	RMB'0,000	RMB'0,000
Total operating revenue	200,008.16	122,282.86
Operating profit	2,043.09	1,143.01
Total profit	2,255.77	594.37
Net profit	2,068.50	535.44
Minority interests	(1,189.03)	(166.63)
Net profit attributable to shareholders of the Parent Company	3,257.53	702.07
Basic earnings per share (RMB)	0.0408	0.0088

Assets and Liabilities

	For the half year ended 30 June	
	2018	2017
	RMB'0,000	RMB'0,000
Total assets	632,049.09	622,280.30
Total liabilities	436,686.34	429,146.99
Net assets	195,362.75	193,133.31

3. Changes in Share Capital

Details of changes in the share capital of the Company for the first half of 2018 are set out in note VII.33 to the section titled "X. Financial Report".

4. Reserves and Distributable Reserves

Details of changes in the reserves and distributable reserves of the Group for the first half of 2018 are set out in note VII.39 to the section titled "X. Financial Report".

5. Property, Plant and Equipment

Details of changes in the property, plant and equipment of the Group for the first half of 2018 are set out in note VII.13 to the section titled "X. Financial Report".

6. Capitalised Interest

During the first half of 2018, the Group capitalised interest of RMB0.00.

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

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

8. Continuing Connected Transactions

During the first half of 2018, the Company has entered into continuing connected transactions with Yalong Oil Well Pump and other subsidiaries, details of which are set out in "XII. Connected Persons and Connected Transactions" under section X "Financial Report". These related party transactions do not constitute "connected transactions" under Chapter 14A of Listing Rules of SEHK.

9. Directors', Supervisors' and Chief Executive's Interests in Securities under the Securities and Futures Ordinance of Hong Kong

As at 30 June 2018, interests of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules, to be notified to the Company and to the SEHK, were as follows:

Long positions in the Shares of the Company

Name	Type of interest	Number of A shares	Percentage of A shares	Percentage of total registered share capital
Zhang En Rong	Beneficial	235,617,000	43.49%	29.53%
Zhang Yun San	Beneficial	23,108,000	4.27%	2.90%

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%

Saved as disclosed above, to the best knowledge of the Directors, Supervisors and chief executive, none of the Directors, the Supervisors or chief executive had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the SEHK under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under the SFO) or were required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules, to be notified to the Company and the SEHK.

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

None of the Directors or Supervisors of the Company or any of their respective associates (as defined under the Rule 1.01 of the Listing Rules) was granted by the Company or its subsidiaries any right to acquire benefits by means of the acquisition of shares in or debentures of the Company or had exercised any such right to the first half of 2017.

11. Share Option Scheme

The Company does not operate any share option scheme.

12. Substantial Shareholders

Details are set out in section VI "Changes in Share Capital and Shareholders" of this interim report.

13. Directors' and Supervisors' Interests in Contracts

There were no contracts of significance to the business of the Group and in which any of the Directors or Supervisors had a material interest, whether directly or indirectly, subsisted at 30 June 2018 or at any time in the first half of 2018.

14. Material Contracts

No contract of significance has been entered into between the Company (or any of its subsidiaries) and the controlling shareholders of the Company (or any of their subsidiaries), and no contract of significance for the provision of services to the Company (or any of its subsidiaries) by any of the controlling shareholders of the Company (or any of their subsidiaries) has been entered.

15. Purchase, Sale or Redemption of Securities

None of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the first half of 2018.

16. Pre-emptive Rights

There is no provision for pre-emptive rights under the articles of association of the Company 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 Code of Corporate Governance of Listed Companies and the Guidelines for Articles of Association of Listed Companies since its establishment and continued to raise its corporate governance standards. During the reporting period, the Company continued to enhance its governance system and operation procedures in accordance with the work plan 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 under the CSRC's related laws and regulations. The Company has adopted all code provisions set out in the Corporate Governance Code of Appendix 14 of the Listing Rules of the SEHK of Hong Kong.

During the reporting period, the Company has complied with the code provisions set out in the Corporate Governance Code (the “Code”) as contained in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited without any deviation. None of the Directors of the Company was aware of any information that would reasonably indicate that the Company was not in compliance with the Code at any time during the reporting period.

18. Sufficiency of Public Float

According to public information of the Company and to the best knowledge of the Directors of the Company, the Directors confirmed that the Company has maintained a sufficient public float as stipulated in the SEHK Listing Rules throughout the current half year and up to the date of this interim report.

19. Substantial Shareholders’ and other persons’ Interests in Shares or Debentures

As at 30 June 2018, so far as it is known to the Directors, Supervisors or chief executives of the Company, the following persons (other than a Director, Supervisor or chief executive of the Company) had 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 SEHK under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the “SFO”) and which were required to be recorded in the register to be kept under section 336 of the SFO:

Long positions in the H Shares of the Company

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

Save as disclosed above, no persons (other than being a Director, Supervisor or chief executive of the Company) had any 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 SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO and which were required to be recorded in the register to be kept under section 336 of the SFO.

20. Liquidity and financial resources

As at 30 June 2018, the Group recorded a current ratio of 74.27%, quick ratio of 47.44%, receivable turnover ratio of 800.64% and inventory turnover ratio of 355.98%. The main source of the Group’s capital is the cash inflow from operating activities, borrowings from financial institutions and others. The Group’s capital needs do not have obvious seasonal pattern.

As at 30 June 2018, the Group had total borrowings of RMB3.073 billion (as at the end of last year, the Group had total borrowings of RMB3.034 billion). As at 30 June 2018, the Group had monetary funds of RMB586 million (as at the end of last year: RMB879 million).

21. Gearing ratio

The Group's gearing ratio was approximately 69.09% (2017: approximately 68.96%) which is calculated based on the Group's total liabilities of approximately 4,366.8634 million (2017: approximately RMB4,291.4699 million) and total assets of approximately RMB6,320.4909 million (2017: approximately RMB6,222.8030 million).

22. Treasury Policy

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

23. Restricted Assets

As at 30 June 2018, the Group had restricted assets as follows:

Item	Book value as at the end of the period	Reasons for the restriction
Monetary funds	210,300,000.00	Security deposits maturing after three months
Bills receivable	191,346,080.50	Pledge of bills
Fixed assets	128,755,824.78	Charge for borrowings
Intangible assets	159,192,563.15	Pledge/charge for borrowings
Total	689,594,468.43	—

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24. Contingent Liabilities

As at 30 June 2018, the Group did not have any discloseable contingent liabilities.

25. Business Review

Key financial and business performance indicators

Key financial and business performance indicators comprise profitability growth, return on equity and gearing ratio. Details of the analysis are set out in the section titled "Discussion and Analysis of Operations" of this report.

Risk Management

It is a development strategy of the Group to establish a risk management system covering all the business segments that monitors, assesses and manages various risks in the Group's activities. The management has identified the major risks of the Group and regularly reviews its exposure to industry, policy, operational and currency risks.

Sustainable Development Plan

The Group is always committed to contributing to the environmental sustainability and maintaining a high standard of corporate governance. To achieve this, the Group has created a good framework for encouraging staff members to maintain, and facilitating sustainable relationship with customers, suppliers, service providers, regulators and shareholders. The Group also makes contributions to the community development in the course of businesses for creating a sustainable return to the Group. The Group has implemented energy saving practices in offices and branch premises where applicable.

The Group has put in place compliance and risk management policies and procedures. Members of the senior management are delegated with the continuing responsibility to closely monitor the compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. So far as the Company is aware, it has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries.

V. MATERIAL MATTERS

I. Annual general meeting and extraordinary general meeting convened in the reporting period

1. General meetings during the reporting period

Session	Type	Attendance	Convening date	Disclosure date	Disclosure index
		rate of investors			
2017 Annual General Meeting	Annual general meeting	29.67%	29 June 2018	30 June 2018	http://www.cninfo.com.cn

2. Extraordinary general meeting requested by preferred shareholders with voting rights restored

Applicable Not applicable

II. Proposals for profit distribution or conversion of capital reserves into share capital during the reporting period

Applicable Not applicable

The Company did not propose to distribute cash dividend or bonus share, or convert capital reserves into share capital for the interim period.

III. Undertakings fulfilled by the Company's de facto controllers, shareholders, connected persons, purchasers, the Company and other relevant parties during the reporting period and the outstanding undertakings as at the end of the reporting period

Applicable Not applicable

There was no undertaking fulfilled by the Company's de facto controllers, shareholders, connected persons, purchasers, the Company and other relevant parties during the reporting period, or outstanding undertakings as at the end of the reporting period.

IV. Appointment and dismissal of accounting firm

Whether the interim financial report has been audited

Yes No

The Company's interim financial report is unaudited.

V. Opinions of the Board and the Supervisory Committee regarding the "modified auditor's report" for the reporting period issued by accounting firm

Applicable Not applicable

VI. Opinions of the Board regarding the “modified auditor’s report” for the prior year

Applicable Not applicable

VII. Matters related to bankruptcy and reorganisation

Applicable Not applicable

There was no matter related to bankruptcy and reorganisation during the reporting period.

VIII. Litigation

Significant litigations and arbitrations

Applicable Not applicable

Basic information of litigation (arbitration)	Amount involved (RMB'0,000)	Provision	Progress of litigation (arbitration)	Hearing Result and impact of litigation (arbitration)	Judgment execution of litigation (arbitration)	Disclosure date	Disclosure index
Investor lawsuit	1,637	Yes	19 cases have been heard and are pending for judgment in the first instance	As no effective judgment has been awarded, it was not yet in the position to assess the hearing result and impact.	Not yet executed	—	—

Other litigations

Applicable Not applicable

IX. Media Allegations

Applicable Not applicable

The Company was not involved in any media allegations during the reporting period.

X. Punishment and rectification

Applicable Not applicable

There was no punishment or rectification during the reporting period.

XI. Integrity of the Company and its controlling shareholders and de facto controllers

Applicable Not applicable

During the reporting period, the Company and its controlling shareholders and de facto controllers were in good credit standing, and there were no failure to execute an effective court judgment, or any large amount of outstanding debts.

XII. Implementation of the stock incentive plan, employee shareholding plan or other employee incentive measure of the Company

Applicable Not applicable

There was no stock incentive plan, employee shareholding plan or other employee incentive measure and its implementation during the reporting period.

XIII. Significant related party transactions

1. Related party transactions associated with the day-to-day operations

Applicable Not applicable

Related party	Relationship	Type	Subject matter	Pricing basis	Transaction price	Amount (RMB'0,000)	Percentage	Whether the	Market	Disclosure date	Disclosure index		
							to the total amount of transaction	Approved transaction amount	approved cap has been exceeded			price of similar transaction available	
Karamay Yalong Petroleum Machinery	Joint venture	Sale of goods	Oil well pumps and parts	Market price	Market price	230.32	9.07%	1,000	No	Cash or acceptance	Yes	—	—
Total				—	—	230.32	—	1,000	—	—	—	—	—

Details of bulk sales returns: No

Do the prediction for total amount of daily related party transaction which will happen in the reporting period by category. Actual performance in the reporting period (if any): No

Reasons for significant difference between the transaction price and market reference price (if applicable): Not applicable

2. Related party transaction in connection with purchase or sale of assets or equity interests

Applicable Not applicable

There was no related party transaction in connection with purchase or sale of assets or equity interest during the reporting period.

3. *Related party transaction in connection with joint external investment*

Applicable Not applicable

There was no related party transaction in connection with joint external investment during the reporting period.

4. *Amounts due from/to related parties*

Applicable Not applicable

Any non-trade amounts due from/to related parties

Yes No

5. *Other significant related party transaction*

Applicable Not applicable

There was no other significant related party transaction during the reporting period.

XIV. Significant contracts and their implementation

1. *Entrustment, Contracting and leasing*

(1) **Entrustment**

Applicable Not applicable

The Company had no entrustment during the reporting period.

(2) **Contracting**

Applicable Not applicable

The Company had no contracting during the reporting period.

(3) **Leasing**

Applicable Not applicable

The Company had no leasing during the reporting period.

2. *Significant guarantee*

Applicable Not applicable

The Company had no guarantee during the reporting period.

3. *Other significant contracts*

Applicable Not applicable

The Company had no other significant contracts during the reporting period.

XV. Social Responsibility

1. Major environmental issues

Whether the listed company and its subsidiaries are listed by the environmental authorities as a critical pollutant discharging entity

Yes

The Company or name of subsidiary	Major pollutants and name of		Discharge outlet(s)	Distribution of discharge outlets	Discharge concentration	Implemented standard of pollutant discharge	Total discharge volume	Approved total	
	characteristic pollutants	Discharge method						discharge volume	Substandard discharge
Shandong Molong Petroleum Machinery Company Limited	Sulphur dioxide (SO ₂)	Organised	1	No. 999 Wen Sheng Street, Shouguang City	7mg/m ³	100 mg/m ³	1.3 tonnes	—	No
Shandong Molong Petroleum Machinery Company Limited	Nitrogen dioxide (NO ₂)	Organised	1	No. 999 Wen Sheng Street, Shouguang City	37.7 mg/m ³	150 mg/m ³	3.5 tonnes	—	No
Shandong Molong Petroleum Machinery Company Limited	Fine dust	Organised	1	No. 999 Wen Sheng Street, Shouguang City	6.9 mg/m ³	15 mg/m ³	1.28 tonnes	—	No
Shandong Molong Petroleum Machinery Company Limited	Sulphur dioxide (SO ₂)	Organised	3	Xing Shang Road East, Gucheng Street Area, Shouguang City	8 mg/m ³	100 mg/m ³	4 tonnes	—	No
Shandong Molong Petroleum Machinery Company Limited	Nitrogen dioxide (NO ₂)	Organised	3	Xing Shang Road East, Gucheng Street Area, Shouguang City	60 mg/m ³	150 mg/m ³	24 tonnes	—	No
Shandong Molong Petroleum Machinery Company Limited	Fine dust	Organised	3	Xing Shang Road East, Gucheng Street Area, Shouguang City	7 mg/m ³	15 mg/m ³	3 tonnes	—	No
Shouguang Maolong New Materials Technology Development Company Limited	Sulphur dioxide (SO ₂)	Organised	1	Southwestern Corner, Conjunction of Sheng Hai East Road and Hai Gang Road, Yangkou Town, Shouguang City	6 mg/m ³	80 mg/m ³	2.7 tonnes	—	No
Shouguang Maolong New Materials Technology Development Company Limited	Nitrogen dioxide (NO ₂)	Organised	1	Southwestern Corner, Conjunction of Sheng Hai East Road and Hai Gang Road, Yangkou Town, Shouguang City	9 mg/m ³	300 mg/m ³	5 tonnes	—	No
Shouguang Maolong New Materials Technology Development Company Limited	Fine dust	Organised	1	Southwestern Corner, Conjunction of Sheng Hai East Road and Hai Gang Road, Yangkou Town, Shouguang City	8.5 mg/m ³	15 mg/m ³	5 tonnes	—	No

Construction and operation of pollution prevention and control facilities

Wastewater treatment facilities: The Company has equipped all production plants with integrated sewage treatment facilities which have been in normal operation. Wastewater discharged from production process are treated and recycled without outward discharge;

Exhaust treatment facilities: The Company has equipped all production lines with de-nitration and electrostatic/electric precipitator and fabric filter, to ensure effective treatment and discharge of exhausts and fine dusts generated from the production process.

Environmental Impact Assessment of Construction Projects and Other Administrative Permissions for Environmental Protection

The Company has strictly complied with the requirements of the environmental laws and regulations to carry out environmental impact assessment of contraction project. The construction projects have all passed the environmental impact assessment procedures and been accepted by the relevant competent authorities, where filing procedures have been carried out. The Company's pollutants discharge permits were all valid.

Emergency Plans for Sudden Environmental Incidents

Each of the Company and its subsidiaries has engaged a qualified firm to prepare its emergency plans for sudden environmental incidents, which have been filed to environment authorities after reviewed by experts. The Company and its subsidiaries has also organised trainings and drills to rectify the problems in the area of emergency management, so as to strengthen the control of environmental risks.

Environmental Self-monitoring Program

During the reporting period, the Company and its subsidiaries worked closely with local environmental inspection departments on periodic supervisory inspections, and engaged third party inspection firms to monitor their discharge statistics on an irregular basis, with an aim to meet industry standards and requirements of local environmental authorities. Monthly sample testing on the related environmental statistics, supervision on stable operation of wastewater and exhaust treatment facilities are conducted to effectively ensure sound management of internal discharge of wastewater and exhaust.

Other environmental information that needs to be disclosed

The Company had no other environmental information that needs to be disclosed.

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Other environmentally related information

The Company had no other environmentally related information.

2. *Commitments to targeted poverty alleviation*

During the reporting period, the Company have not yet commenced any targeted poverty alleviation activity, and had no subsequent targeted poverty alleviation plan.

XVI. Other significant events

Applicable Not applicable

During the reporting period, the Company had no significant events that need to be disclosed.

XVII. Significant events of subsidiaries of the Company

Applicable Not applicable

VI. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. Changes in Share Capital

1. Changes in Shares

Unit: share

	Before change		Increase/decrease (+, -) upon change					After change	
	Number of shares	Percentage	New issue	Bonus issue	Conversion of capital reserves into share capital	Others	Sub-total	Number of shares	Percentage
I. Locked-up shares	235,401,750	29.50%	0	0	0	17,546,250	17,546,250	252,948,000	31.70%
1. State-owned shares	0	0.00%	0	0	0	0	0	0	0.00%
2. State-owned legal person shares	0	0.00%	0	0	0	0	0	0	0.00%
3. Other domestic shares	235,401,750	29.50%	0	0	0	17,546,250	17,546,250	252,948,000	31.70%
Including: Domestic legal person shares	0	0.00%	0	0	0	0	0	0	0.00%
Domestic natural person shares	235,401,750	29.50%	0	0	0	17,546,250	17,546,250	252,984,000	31.70%
4. Foreign Shares	0	0.00%	0	0	0	0	0	0	0.00%
Including: Overseas legal person shares	0	0.00%	0	0	0	0	0	0	0.00%
Overseas natural person shares	0	0.00%	0	0	0	0	0	0	0.00%
II. Non-locked up shares	562,446,650	70.50%	0	0	0	(17,546,250)	(17,546,250)	544,900,400	68.30%
1. RMB ordinary shares	306,320,250	38.40%	0	0	0	(17,546,250)	(17,546,250)	288,774,000	36.20%
2. Domestic listed foreign shares	0	0.00%	0	0	0	0	0	0	0.00%
3. Overseas listed foreign shares	256,126,400	32.10%	0	0	0	0	0	256,126,400	32.10%
4. Others	0	0.00%	0	0	0	0	0	0	0.00%
III. Total number of shares	797,848,400	100.00%	0	0	0	0	0	797,848,400	100.00%

Reasons for the change in shares

Applicable Not applicable

On 25 June 2018, Zhang En Rong, an executive Director and the chairman of the Company, resigned. All his shares were locked-up for half year from the date of his resignation pursuant to the requirements of the Listing Rules.

Approval for the change in shares

Applicable Not applicable

Transfer for the change in shares

Applicable Not applicable

Effects of the change in shares on financial indicators such as basic earnings per share, diluted earnings per share and net assets attributable to ordinary shareholders of the Company per Share for the most recent year and period

Applicable Not applicable

Other disclosures where were considered necessary by the Company or required by securities regulatory authorities

Applicable Not applicable

2. *Changes in locked-up shares*

Applicable Not applicable

Unit: share

Name of shareholder	Number of locked-up shares at the beginning of the period	Number of locked-up shares released during the period	Number of locked-up shares increased during the period	Number of locked-up shares at the end of the period	Reasons for the lock-up	Date of lock-up release
Zhang En Rong	199,212,750	58,904,250	176,712,750	235,617,000	Resigned from directorship, shares are thus locked up for half year	2018/12/25
Total	199,212,750	58,904,250	176,712,750	235,617,000	—	—

3. *Issue and listing of securities*

No securities were issued or listed during the reporting period.

II. Number of shareholders and their shareholdings

Unit: share

Total number of ordinary shareholders as at the end of the reporting period 43,831

Total number of preferred shareholders with restored voting right as at the end of the reporting period (if any) (see note 8) 0

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

Name of shareholder	Nature of shareholder	Percentage of shareholding	Number of ordinary shares held as at the end of the reporting period	Change (increase or decrease) during the reporting period	Number of locked-up ordinary shares held	Number of non-locked-up ordinary shares held	Shares pledged or locked	
							Status	Shares
HKSCC Nominees Limited	Overseas legal person	32.06%	255,822,590	0	0	255,822,590	—	—
Zhang En Rong	Domestic natural person	29.53%	235,617,000	0	235,617,000	0	pledged	85,000,000
Zhang Yun San	Domestic natural person	4.03%	32,168,400	0	17,331,000	14,837,400	—	—
Lin Fu Long	Domestic natural person	3.28%	26,162,000	0	0	26,162,000	—	—
Central Huijin Asset Management Co., Ltd.	State-owned legal person	1.70%	13,536,100	0	0	13,536,100	—	—
Shenzhen Qianhai Jingwei Ronghe Asset Management Co., Ltd. (深圳前海經緯融和資產管理有限公司) — Ronghe Phase II Private Securities Investment Fund	Domestic non-state owned legal person	0.48%	3,821,452	0	0	3,821,452	—	—
Wang Hai Bo	Domestic natural person	0.38%	3,052,008	0	0	3,052,008	—	—
Yu Zhao Gang	Domestic natural person	0.16%	1,295,000	0	0	1,295,000	—	—
Li Guang Ming	Domestic natural person	0.13%	1,038,600	0	0	1,038,600	—	—
Li Xing Yuan	Domestic natural person	0.13%	1,024,900	0	0	1,024,900	—	—

Strategic investors or ordinary legal person becoming top 10 ordinary shareholders upon placing of new shares (if any) (see note 3) Not applicable

Connected relationship or acting in concert among the above shareholders Zhang En Rong is the father of Zhang Yun San. The Company is not aware of any connected relationships or acting in concert among other shareholders.

Shareholdings of top 10 ordinary shareholders holding non-locked up shares

Name of shareholder	Number of non-locked up shares held as at the end of the reporting period	Type of shares	
		Type	Shares
HKSCC Nominees Limited	255,822,590	Overseas listed foreign shares	255,822,590
Lin Fu Long	26,162,000	RMB ordinary shares	26,162,000
Zhan Yun San	14,837,400	RMB ordinary shares	5,777,000
		Overseas listed foreign shares	9,060,400
Central Huijin Asset Management Co., Ltd.	13,536,100	RMB ordinary shares	13,536,100
Shenzhen Qianhai Jingwei Ronghe Asset Management Co., Ltd. (深圳前海經緯融和資產管理有限公司) — Ronghe Phase II Private Securities Investment Fund	3,821,452	RMB ordinary shares	3,821,452
Wang Hai Bo	3,052,008	RMB ordinary shares	3,052,008
Yu Zhao Gang	1,295,000	RMB ordinary shares	1,295,000
Li Guang Ming	1,038,600	RMB ordinary shares	1,038,600
Li Xing Yuan	1,024,900	RMB ordinary shares	1,024,900
Wang Hui	1,020,000	RMB ordinary shares	1,020,000

Connected relationships or acting in concert among the top 10 non-locked up ordinary shareholders and between the top 10 non-locked up ordinary shareholders and the top 10 ordinary shareholders

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Zhang En Rong is the father of Zhang Yun San. The Company is not aware of any connected relationships or acting in concert among other shareholders.

Involvement in securities margin trading by the top 10 ordinary shareholders (if any) (see note 4)

Not applicable

Any contracted repurchase transactions were entered into by the top 10 ordinary shareholders and the top 10 non-locked up ordinary shareholders during the reporting period

Yes No

The top 10 ordinary shareholders and the top 10 non-locked up ordinary shareholders did not enter any contracted repurchase transactions during the reporting period.

III. Change of controlling shareholders or de facto controllers

Change of controlling shareholders during the reporting period

Applicable Not applicable

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

Change of de facto controllers during the reporting period

Applicable Not applicable

There was no change of de facto controllers of the Company during the reporting period.

VII.PREFERRED SHARES

Applicable Not applicable

The Company did not have any preferred shares during the reporting period.

VIII. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. Changes in Shareholdings of the Directors, Supervisors and Senior Management

Applicable Not applicable

There was no change in shareholdings of the Company's Directors, Supervisors and senior management during the reporting period. Details can be found in 2017 annual report.

II. Change of Directors, Supervisors and Senior Management

Applicable Not applicable

Name	Position	Type	Date	Reasons
Zhao Hong Feng	Secretary to the Board	Dismissal	8 February 2018	The Rules Governing the Listing of Stocks on Shenzhen Stock Exchange provides that any person who has been publicly reprimanded by the stock exchange in the recent three years shall not serve as a secretary of a listed company.
Liu Min	Secretary to the Board	Appointment	21 April 2018	Appointed by the Company
Zhang En Rong	Executive director, chairman	Resignation	26 June 2018	Resigned from office
Yang Jin	Executive director, deputy general manager	Resignation	26 June 2018	Resigned from office

IX. CORPORATE BONDS

Whether the Company had any corporate bonds publicly issued and listed on a stock exchange which have not yet become due or has become due but not fully redeemed as at the date of approval of the interim report.

No

X. FINANCIAL REPORT

I. Auditor's Report

Whether the interim report has been audited

Yes No

The Company's interim financial report is unaudited.

II. Financial Statements

Unit in the financial statements of the financial report: RMB

1. Consolidated Balance Sheet

Prepared by: Shandong Molong Petroleum Machinery Company Limited

Unit: RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	585,823,445.02	879,371,103.17
Settlement Deposits	—	—
Lending funds	—	—
Financial assets at fair value through profit or loss	—	—
Derivative financial assets	—	—
Bills receivable	235,127,211.53	94,525,409.69
Accounts receivable	620,515,641.27	378,729,615.88
Loans and advances to customers	81,428,314.30	88,102,411.40
Prepayments	75,726,024.67	91,643,819.19
Insurance receivables	—	—
Reinsurance receivables	—	—
Reinsurance contract reserves receivable	—	—
Interest receivables	1,484,318.49	4,220,913.66
Dividend receivables	—	—
Other receivables	47,235,389.86	44,428,243.02
Purchases of sell-back financial assets	—	—
Inventories	1,003,367,373.02	925,772,719.28
Assets held for sale	—	—
Non-current assets due within one year	—	—
Other current assets	126,604,160.40	118,436,141.88
Total current assets	2,777,311,878.56	2,625,230,377.17

Unit: RMB

Item	Closing balance	Opening balance
Non-current assets:		
Loans and advances to customers	—	—
Available-for-sales financial assets	20,000.00	20,000.00
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investments	2,639,321.48	2,639,321.48
Investment properties	—	—
Fixed assets	2,932,436,754.21	2,891,875,882.19
Construction-in-progress	74,635,586.99	170,880,899.68
Construction materials	—	—
Disposal of fixed assets	—	—
Productive biological assets	—	—
Oil and gas assets	—	—
Intangible assets	441,369,347.81	443,968,124.33
Development expenditure	8,859,929.76	—
Goodwill	26,683,383.21	26,683,383.21
Long-term deferred expenses	—	—
Deferred income tax assets	4,337,401.13	4,391,835.90
Other non-current assets	52,197,337.75	57,113,143.58
Total non-current assets	3,543,179,062.34	3,597,572,590.37
Total assets	6,320,490,940.90	6,222,802,967.54

Unit: RMB

Item	Closing balance	Opening balance
Current liabilities:		
Short-term borrowings	2,394,142,000.02	2,141,086,600.02
Borrowings from the central bank	—	—
Customer bank deposits and due to banks and other financial institutions	—	—
Placements	—	—
Financial liabilities at fair value through profit or loss	—	—
Derivative financial liabilities	—	—
Bills payable	97,930,005.57	213,984,811.00
Accounts payable	981,299,622.19	843,834,731.51
Receipts in advance	38,423,368.51	68,937,156.42
Proceeds from disposal of buy-back financial assets	—	—
Brokerage and commission payable	—	—
Salaries payable	46,353,539.21	51,245,591.21
Taxes payable	28,418,997.46	18,916,357.37
Interests payable	20,555,152.01	5,458,818.99
Dividend payable	—	—
Other payables	58,989,459.97	32,518,520.13
Reinsurance payable	—	—
Insurance contract reserves	—	—
Securities brokerage deposits	—	—
Securities underwriting brokerage deposits	—	—
Liabilities held for sale	—	—
Non-current liabilities due within one year	73,347,657.04	155,946,611.23
Other current liabilities	—	—
Total current liabilities	3,739,459,801.98	3,531,929,197.88

Unit: RMB

Item	Closing balance	Opening balance
Non-current liabilities:		
Long-term borrowings	605,275,520.50	737,259,900.98
Bonds payable	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Long-term payables	—	—
Long-term salaries payable	—	—
Specific payables	—	—
Provisions	8,000,000.00	8,000,000.00
Deferred revenue	6,954,855.00	6,954,855.00
Deferred income tax liabilities	7,173,307.29	7,325,919.30
Other non-current liabilities	—	—
Total non-current liabilities	627,403,682.79	759,540,675.28
Total liabilities	4,366,863,484.77	4,291,469,873.16
Owners' equity:		
Share capital	797,848,400.00	797,848,400.00
Other equity instruments	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Capital reserve	862,497,658.42	860,517,458.42
Less: Treasury shares	—	—
Other comprehensive income	(1,753,581.54)	(1,402,748.25)
Special reserve	—	—
Surplus reserve	176,686,903.51	176,686,903.51
General risk provision	11,236.91	11,236.91
Undistributed profits	68,509,605.92	35,934,311.12
Total equity attributable to owners of the Parent Company	1,903,800,223.22	1,869,595,561.71
Minority interests	49,827,232.91	61,737,532.67
Total owners' equity	1,953,627,456.13	1,931,333,094.38
Total liabilities and owners' equity	6,320,490,940.90	6,222,802,967.54

Legal representative: Guo Huan Ran Accountant-in-charge: Liu Min Partner-in-charge: Ding Zhi Shui

2. Balance Sheet of the Parent Company

Unit: RMB

Item	Closing balance	Opening balance
Current assets:		
Monetary funds	491,514,987.42	773,947,067.08
Financial assets at fair value through profit or loss	—	—
Derivative financial assets	—	—
Bills receivables	193,138,111.53	72,924,479.69
Accounts receivable	860,793,891.50	471,120,191.29
Prepayments	546,691,915.20	505,965,265.70
Interest receivables	1,484,318.49	4,220,913.66
Dividend receivables	—	—
Other receivables	360,798,606.85	523,913,640.90
Inventories	738,906,413.22	695,259,975.82
Assets held for sale	—	—
Non-current assets due within one year	—	—
Other current assets	—	—
Total current assets	3,193,328,244.21	3,047,351,534.14
Non-current assets:		
Available-for-sales financial assets	20,000.00	20,000.00
Held-to-maturity investments	—	—
Long-term receivables	—	—
Long-term equity investments	1,144,069,921.73	1,144,069,921.73
Investment properties	—	—
Fixed assets	1,163,565,601.01	1,220,914,534.22
Construction-in-progress	7,487,753.15	—
Construction materials	—	—
Disposal of fixed assets	—	—
Productive biological assets	—	—
Oil and gas assets	—	—
Intangible assets	151,370,632.04	145,039,514.50
Development expenditure	8,859,929.76	—
Goodwill	—	—
Long-term deferred expenses	—	—
Deferred income tax assets	—	—
Other non-current assets	—	2,922,972.59
Total non-current assets	2,475,373,837.69	2,512,966,943.04
Total assets	5,668,702,081.90	5,560,318,477.18

Unit: RMB

Item	Closing balance	Opening balance
Current liabilities:		
Short-term borrowings	1,606,142,000.02	1,254,744,600.02
Financial liabilities at fair value through profit or loss	—	—
Derivative financial liabilities	—	—
Bills payable	766,580,005.57	1,042,444,811.00
Accounts payable	392,212,305.42	302,549,838.78
Receipts in advance	20,627,090.83	62,536,928.81
Salaries payable	28,953,162.17	33,949,349.08
Taxes payable	21,176,862.01	9,956,505.15
Interests payable	4,105,152.01	2,704,194.54
Dividend payable	—	—
Other payables	152,465,550.27	26,825,514.17
Liabilities held for sale	—	—
Non-current liabilities due within one year	—	148,403,413.66
Other current liabilities	—	—
Total current liabilities	2,992,262,128.30	2,884,115,155.21
Non-current liabilities:		
Long-term borrowings	378,623,177.54	444,803,098.55
Bonds payable	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Long-term payables	—	—
Long-term salaries payable	—	—
Specific payables	—	—
Provisions	8,000,000.00	8,000,000.00
Deferred revenue	—	—
Deferred income tax liabilities	—	—
Other non-current liabilities	—	—
Total non-current liabilities	386,623,177.54	452,803,098.55
Total liabilities	3,378,885,305.84	3,336,918,253.76

Unit: RMB

Item	Closing balance	Opening balance
Owners' equity:		
Share capital	797,848,400.00	797,848,400.00
Other equity instruments	—	—
Including: Preferred shares	—	—
Perpetual bonds	—	—
Capital reserve	862,478,990.92	860,498,790.92
Less: Treasury shares	—	—
Other comprehensive income	—	—
Special reserve	—	—
Surplus reserve	176,686,903.51	176,686,903.51
Undistributed profits	452,802,481.63	388,366,128.99
Total owners' equity	2,289,816,776.06	2,223,400,223.42
Total liabilities and owners' equity	5,668,702,081.90	5,560,318,477.18

3. Consolidated Income Statement

Unit: RMB

Item	Amount for current period	Amount for last period
I. Total operating revenue	2,000,081,569.83	1,222,828,645.65
Including: Operating revenue	2,000,081,569.83	1,222,828,645.65
Interest income	—	—
Insurance premium earned	—	—
Brokerage and commission income	—	—
II. Total operating costs	1,986,800,451.58	1,420,899,148.93
Including: Operating costs	1,716,855,589.44	1,263,983,647.32
Interest expenses	—	—
Brokerage and commission expenses	—	—
Surrenders	—	—
Net amount of compensation paid	—	—
Net amount of reserves for reinsurance contract	—	—
Insurance dividend payments	—	—
Reinsurance premium	—	—
Taxes and surcharges	13,951,014.16	12,341,043.15
Selling expenses	56,820,233.83	28,949,992.97
Administrative expenses	83,584,807.81	40,253,706.72
Finance costs	105,796,355.30	62,349,474.80
Loss on impairment of assets	9,792,451.04	13,021,283.97
Add: Gain on changes in fair value	—	—
Investment income	—	—
Including: Gains on investment in associates and joint ventures	—	—
Exchange gains	—	—
Gains on disposal of assets	1,172,390.42	59,382,050.06
Other revenue	5,977,430.26	150,118,600.00

Unit: RMB

Item	Amount for current period	Amount for last period
III. Operating profit	20,430,938.93	11,430,146.78
Add: Non-operating income	2,359,752.08	2,073,385.33
Less: Non-operating expenses	232,946.57	7,559,785.19
IV. Total profit	22,557,744.44	5,943,746.92
Less: Income tax expenses	1,872,724.25	589,327.01
V. Net profit	20,685,020.19	5,354,419.91
(I) Net profit from continuing operations	—	—
(II) Net profit from discontinued operations	—	—
Net profit attributable to the owners of the Parent Company	32,575,294.80	7,020,723.65
Minority shareholders	(11,890,274.61)	(1,666,303.74)
VI. Other comprehensive income, net of tax	(370,858.44)	718,071.37
Other comprehensive income attributable to the owners of the Parent Company, net of tax	(350,833.29)	679,812.09
(I) Other comprehensive income that will not be subsequently reclassified to profit or loss	—	—
1. Changes in net liabilities or net assets arising from the remeasurement of defined benefit plans	—	—
2. Share of other comprehensive income of the investees which cannot be reclassified into profit or loss under equity method	—	—
(II) Other comprehensive income that will subsequently be reclassified into profit or loss	(350,833.29)	679,812.09
1. Share of other comprehensive income of the investees which will subsequently be reclassified into profit or loss under equity method	—	—
2. Gain or loss on changes in fair value of available-for-sale financial assets	—	—
3. Gain or loss on reclassification of held-to-maturity investments to available-for-sale financial assets	—	—
4. Effective portion of profit or loss from cash flows hedges	—	—
5. Exchange differences on translation of financial statements	(350,833.29)	679,812.09
6. Others	—	—
Other comprehensive income attributable to minority shareholders, net of tax	(20,025.15)	38,259.28
VII. Total comprehensive income	20,314,161.75	6,072,491.28
Total comprehensive income attributable to owners of the Parent Company	32,224,461.51	7,700,535.74
Total comprehensive income attributable to minority shareholders	(11,910,299.76)	(1,628,044.46)
VIII. Earnings per share:		
(I) Basic earnings per share	0.0408	0.0088
(II) Diluted earnings per share	0.0408	0.0088

For the business combination under common control during the current period, net profit of the acquiree realised before business combination was RMB0.00. Net profit of the acquiree realised after business combination was RMB0.00.

Legal representative: Guo Huan Ran Accountant-in-charge: Liu Min Partner-in-charge: Ding Zhi Shui

4. Income Statement of the Parent Company

Unit: RMB

Item	Amount for current period	Amount for last period
I. Operating revenue	1,842,276,536.34	1,087,759,522.64
Less: Operating costs	1,602,417,015.44	1,018,429,302.20
Taxes and surcharges	9,058,622.50	7,208,091.21
Selling expenses	48,030,758.62	26,200,302.10
Administrative expenses	50,202,812.97	26,965,283.64
Finance costs	59,246,173.35	39,738,312.56
Loss on impairment of assets	9,818,353.94	12,955,015.45
Add: Gain on changes in fair value	—	—
Gains on investments	—	—
Including: Gains on investments in associates and joint ventures	—	—
Gains on disposal of assets	(310,091.77)	59,261,500.12
Other gains	204,906.28	150,118,600.00
II. Operating profit	63,397,614.03	165,643,315.60
Add: Non-operating income	1,107,638.61	1,871,869.33
Less: Non-operating expenses	68,900.00	7,498,751.73
III. Total profit	64,436,352.64	160,016,433.20
Less: Income tax expenses	—	—
IV. Net profit	64,436,352.64	160,016,433.20
(I) Net profit from continuing operations	—	—
(II) Net profit from discontinued operations	—	—
V. Other comprehensive income, net of tax	—	—
(I) Other comprehensive income that will not be subsequently reclassified to profit or loss	—	—
1. Changes in net liabilities or net assets arising from the remeasurement of defined benefit plans	—	—
2. Share of other comprehensive income of the investees which cannot be reclassified into profit or loss under equity method	—	—
(II) Other comprehensive income that will subsequently be reclassified into profit or loss	—	—
1. Share of other comprehensive income of the investees which will subsequently be reclassified into profit or loss under equity method	—	—
2. Gain or loss on changes in fair value of available-for-sale financial assets	—	—
3. Gain or loss on reclassification of held-to-maturity investments to available-for-sale financial assets	—	—
4. Effective portion of profit or loss from cash flows hedges	—	—
5. Exchange differences on translation of financial statements	—	—
6. Others	—	—
VII. Total comprehensive income	64,436,352.64	160,016,433.20
VII. Earnings per share:		
(I) Basic earnings per share	—	—
(II) Diluted earnings per share	—	—

5. Consolidated Statement of Cash Flows

Unit: RMB

Item	Amount for current period	Amount for last period
I. CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales of goods and rendering of services	1,863,107,078.91	1,321,013,372.12
Net increase in customer bank deposits and due to banks and other financial institutions	—	—
Net increase in borrowings from the central bank	—	—
Net increase in placements from other financial institutions	—	—
Cash received from receiving insurance premium of original insurance contract	—	—
Net cash received from reinsurance business	—	—
Net increase in deposits from policyholders	—	—
Net increase from disposal of financial assets at fair value through profit or loss	—	—
Cash received from interest, fees and commissions	—	3,477,891.54
Net increase in placements from banks and other financial institutions	—	—
Net increase in repurchase business capital	—	—
Refunds of taxes received	2,819,202.82	3,227,383.92
Other cash received relating operating activities	20,394,740.11	157,673,288.29
Sub-total of cash inflows from operating activities	1,886,321,021.84	1,485,391,935.87
Cash paid for purchasing goods and receiving services	1,767,567,693.50	1,202,910,393.17
Net increase in loans and advances to customers	(6,700,000.00)	(16,657,778.71)
Net increase in deposits with central bank and other financial institutions	—	—
Cash paid for indemnity of original insurance contract	—	—
Cash paid for interests, fees and commissions	—	—
Cash paid for policy dividends	—	—
Cash paid to and on behalf of employees	124,320,666.80	63,379,231.24
Cash paid for taxes	43,229,583.83	13,545,096.45
Other cash paid relating to operating activities	103,242,526.22	180,821,222.16
Sub-total of cash outflows from operating activities	2,031,660,470.35	1,443,998,164.31
NET CASH FLOWS FROM OPERATING ACTIVITIES	(145,339,448.51)	41,393,771.56

Unit: RMB

Item	Amount for current period	Amount for last period
II. CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from disposal of investments	—	—
Cash received from gains on investments	—	—
Net cash from disposal of fixed assets, intangible assets and other long-term assets	14,340,051.00	70,000,000.00
Net cash received from disposal of subsidiaries and other business units	—	—
Other cash received relating to investing activities	—	—
Sub-total of cash inflows from investing activities	14,340,051.00	70,000,000.00
Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets	111,876,392.81	51,486,494.65
Cash paid for acquisition of investments	—	—
Net increase in pledge loans	—	—
Net cash paid for acquisition of subsidiaries and other business units	—	—
Other cash paid relating to investing activities	—	—
Sub-total of cash outflows from investing activities	111,876,392.81	51,486,494.65
Net cash flows from investing activities	(97,536,341.81)	18,513,505.35
III. Cash flows from financing activities:		
Cash received from capital contributions	—	—
Including: Cash received from minority shareholder investment by subsidiary	—	—
Borrowings received	2,981,703,700.00	1,857,226,447.93
Cash received from bond issue	—	—
Other cash received relating to financing activities	—	210,000,000.00
Sub-total of cash inflows from financing activities	2,981,703,700.00	2,067,226,447.93
Cash repayments of amounts borrowed	2,872,472,300.00	2,139,733,765.21
Cash paid for dividend and profit distribution or interest payment	84,992,015.27	61,142,478.19
Including: Dividend and profit paid to minority shareholders by subsidiary	—	—
Other cash paid relating to financing activities	70,000,000.00	—
Sub-total of cash outflows from financing activities	3,027,464,315.27	2,200,876,243.40
Net cash flows from financing activities	(45,760,615.27)	(133,649,795.47)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	2,260,755.97	2,886,146.70
V. Net increase in cash and cash equivalents	(286,375,649.62)	(70,856,371.86)
Add: Balance of cash and cash equivalents at the beginning of the period	661,899,094.64	508,498,755.91
VI. Balance of cash and cash equivalents at the end of the period	375,523,445.02	437,642,384.05

6. Statement of Cash Flow of the Parent Company

Unit: RMB

Item	Amount for current period	Amount for last period
I. CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales of goods and rendering of services	1,537,168,297.40	1,284,257,288.76
Refunds of taxes received	2,819,202.82	3,227,383.92
Cash received relating to other operating activities	31,861,917.87	156,762,157.39
Sub-total of cash inflows from operating activities	1,571,849,418.09	1,444,246,830.07
Cash paid for purchasing goods and receiving services	1,723,218,519.11	1,110,516,660.39
Cash paid to and on behalf of employees	75,462,830.46	41,103,324.80
Cash paid for taxes	20,267,981.84	7,610,543.34
Other cash paid relating to operating activities	80,520,917.31	173,454,263.41
Sub-total of cash outflows from operating activities	1,899,470,248.72	1,332,684,791.94
NET CASH FLOWS FROM OPERATING ACTIVITIES	(327,620,830.63)	111,562,038.13
II. CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from disposal of investments	—	—
Cash received from gains on investments	—	—
Net cash from disposal of fixed assets, intangible assets and other long-term assets	—	70,000,000.00
Net cash received from disposal of subsidiaries and other business units	—	—
Cash received relating to other investing activities	—	—
Sub-total of cash inflows from investing activities	—	70,000,000.00
Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets	13,791,167.61	11,502,764.65
Cash paid for acquisition of investments	—	—
Net cash paid for acquisition of subsidiaries and other business units	—	—
Other cash paid relating to investing activities	—	—
Sub-total of cash outflows from investing activities	13,791,167.61	11,502,764.65
Net cash flows from investing activities	(13,791,167.61)	58,497,235.35
III. Cash flows from financing activities:		
Cash received from capital contributions	—	—
Borrowings received	2,255,203,700.00	1,928,382,447.93
Cash received from bond issue	—	—
Cash received relating to other financing activities	—	—
Sub-total of cash inflows from financing activities	2,255,203,700.00	1,928,382,447.93
Cash repayments of amounts borrowed	2,048,806,300.00	2,093,389,765.21
Cash paid for dividend and profit distribution or interest payment	52,003,237.39	36,095,163.84
Other cash paid relating to financing activities	70,000,000.00	—
Sub-total of cash outflows from financing activities	2,170,809,537.39	2,129,484,929.05
Net cash flows from financing activities	84,394,162.61	(201,102,481.12)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		
	2,260,755.97	4,549,445.89
V. Net increase in cash and cash equivalents		
	(254,757,079.66)	(26,493,761.75)
Add: Balance of cash and cash equivalents at the beginning of the period	555,972,067.08	428,147,430.73
VI. Balance of cash and cash equivalents at the end of the period		
	301,214,987.42	401,653,668.98

7. Consolidated Statement of Changes in Owners' Equity

Amounts for the current period

Unit: RMB

Item	The current period												
	Equity attributable to owners of the Parent Company												Total owners' equity
	Other equity instruments				Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Minority interests		
Share capital	Preferred shares	Perpetual bonds	Others	Capital reserve									
I. Balance at the end of the previous period	797,848,400.00	—	—	—	860,517,458.42	—	(1,402,748.25)	—	176,686,903.51	11,236.91	35,934,311.12	61,737,532.67	1,931,333,094.38
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of the correction of prior period accounting errors	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	860,517,458.42	—	(1,402,748.25)	—	176,686,903.51	11,236.91	35,934,311.12	61,737,532.67	1,931,333,094.38
III. Changes in the current period	—	—	—	—	1,980,200.00	—	(350,833.29)	—	—	—	32,575,294.80	(11,910,299.76)	22,294,361.75
(i) Total comprehensive income	—	—	—	—	—	—	(350,833.29)	—	—	—	32,575,294.80	(11,910,299.76)	20,314,161.75
(ii) Owners' capital contribution and reduction	—	—	—	—	1,980,200.00	—	—	—	—	—	—	—	1,980,200.00
1. Ordinary shares contributed by shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital contributed by other equity instruments holders	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	1,980,200.00	—	—	—	—	—	—	—	1,980,200.00
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Appropriations to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Charge for the period	—	—	—	—	—	—	7,586,725.93	—	—	—	1,095,120.00	—	8,681,845.93
2. Utilised during the period	—	—	—	—	—	—	7,586,725.93	—	—	—	1,095,120.00	—	8,681,845.93
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	862,497,658.42	—	(1,753,581.54)	—	176,686,903.51	11,236.91	68,509,605.92	49,827,232.91	1,953,627,456.13

Amounts for the prior period

Unit: RMB

Item	The prior period												
	Equity attributable to owners of the Parent Company												
	Other equity instruments				Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Minority interests	Total owners' equity
Share capital	Preferred shares	Perpetual bonds	Others										
I. Balance at the end of the previous period	797,848,400.00	—	—	—	849,718,158.42	—	(3,092,433.84)	—	176,686,903.51	11,236.91	(2,104,173.06)	66,599,133.45	1,885,667,225.39
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of the correction of prior period accounting errors	—	—	—	—	—	—	—	—	—	—	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	849,718,158.42	—	(3,092,433.84)	—	176,686,903.51	11,236.91	(2,104,173.06)	66,599,133.45	1,885,667,225.39
III. Changes in the current period	—	—	—	—	—	—	679,812.09	—	—	—	7,020,723.65	(1,628,044.46)	6,072,491.28
(i) Total comprehensive income	—	—	—	—	—	—	679,812.09	—	—	—	7,020,723.65	(1,628,044.46)	6,072,491.28
(ii) Owners' capital contribution and reduction	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Ordinary shares contributed by shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Capital contributed by other equity instruments holders	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Appropriations to general risk provision	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserve to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Charge for the period	—	—	—	—	—	—	—	6,517,390.75	—	—	—	318,794.59	6,836,185.34
2. Utilised during the period	—	—	—	—	—	—	—	6,517,390.75	—	—	—	318,794.59	6,836,185.34
(vi) Others	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	849,718,158.42	—	(2,412,621.75)	—	176,686,903.51	11,236.91	4,916,550.59	64,971,088.99	1,891,739,716.67

8. Statement of Changes in Owners' Equity of the Parent Company

Amounts for the current period

Unit: RMB

Item	The current period										
	Other equity instruments				Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total owners' equity
Share capital	Preferred shares	Perpetual bonds	Others								
I. Balance at the end of the previous period	797,848,400.00	—	—	—	860,498,790.92	—	—	—	176,686,903.51	388,366,128.99	2,223,400,223.42
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Effects of the correction of prior period accounting errors	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	860,498,790.92	—	—	—	176,686,903.51	388,366,128.99	2,223,400,223.42
III. Changes in the current period	—	—	—	—	1,980,200.00	—	—	—	—	64,436,352.64	66,416,552.64
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	64,436,352.64	64,436,352.64
(ii) Owners' capital contribution and reduction	—	—	—	—	1,980,200.00	—	—	—	—	—	1,980,200.00
1. Ordinary shares contributed by shareholders	—	—	—	—	—	—	—	—	—	—	0.00
2. Capital contributed by other equity instruments holders	—	—	—	—	—	—	—	—	—	—	0.00
3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	0.00
4. Others	—	—	—	—	1,980,200.00	—	—	—	—	—	1,980,200.00
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	0.00
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—
2. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of owners' equity	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserve to share capital	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—
1. Charge for the period	—	—	—	—	—	—	—	1,276,385.58	—	—	1,276,385.58
2. Utilised during the period	—	—	—	—	—	—	—	1,276,385.58	—	—	1,276,385.58
(vi) Others	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	862,478,990.92	—	—	—	176,686,903.51	452,802,481.63	2,289,816,776.06

Amounts for the prior period

Unit: RMB

Item	The prior period										
	Other equity instruments				Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Total owners' equity
	Share capital	Preferred shares	Perpetual bonds	Others							
I. Balance at the end of the previous period	797,848,400.00	—	—	—	849,699,490.92	—	—	—	176,686,903.51	180,604,797.37	2,004,839,591.80
Add: Effects of the changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Effects of the correction of prior period accounting errors	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the current year	797,848,400.00	—	—	—	849,699,490.92	—	—	—	176,686,903.51	180,604,797.37	2,004,839,591.80
III. Changes in the current period	—	—	—	—	—	—	—	—	—	160,016,433.20	160,016,433.20
(i) Total comprehensive income	—	—	—	—	—	—	—	—	—	—	—
(ii) Owners' capital contribution and reduction	—	—	—	—	—	—	—	—	—	—	—
1. Ordinary shares contributed by shareholders	—	—	—	—	—	—	—	—	—	—	—
2. Capital contributed by other equity instruments holders	—	—	—	—	—	—	—	—	—	—	—
3. Amounts of share-based payments recognised in owners' equity	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(iii) Profit distribution	—	—	—	—	—	—	—	—	—	—	—
1. Appropriations to surplus reserve	—	—	—	—	—	—	—	—	—	—	—
2. Distribution to the owners (or shareholders)	—	—	—	—	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—	—	—	—	—
(iv) Transfer of owners' equity	—	—	—	—	—	—	—	—	—	—	—
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserve to share capital	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—
(v) Special reserve	—	—	—	—	—	—	—	—	—	—	—
1. Charge for the period	—	—	—	—	—	—	—	2,625,554.32	—	—	2,625,554.32
2. Utilised during the period	—	—	—	—	—	—	—	2,625,554.32	—	—	2,625,554.32
(vi) Others	—	—	—	—	—	—	—	—	—	—	—
IV. Balance at the end of the current period	797,848,400.00	—	—	—	849,699,490.92	—	—	—	176,686,903.51	340,621,230.57	2,164,856,025.00

III. General Information of the Company

Shandong Molong Petroleum Machinery Company Limited (hereinafter the “Company”) is a joint stock limited company registered in the People’s Republic of China. The Company’s predecessor company is Shandong Molong Holdings Company (山東墨龍集團總公司), which was established jointly by Zhang En Rong, Lin Fu Long, Zhang Yun San, Xie Xin Cang, Liu Yun Long, Cui Huan You, Liang Yong Qiang, Shengli Oil Field Kaiyuan Oil Exploitation Company Limited (勝利油田凱源石油開發有限責任公司) and Gansu Industrial University Alloy Materials Factory (甘肅工業大學合金材料總廠) on 27 December 2001 with the approval from Office for Restructuring the Economic System of Shandong Province (山東省經濟體制改革辦公室) with the Document 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 legal 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 the Document 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) allocated 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 Document 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 total number of its shares changed to 405,000,000 shares.

Upon the approval by China Securities Regulatory Commission with Document 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 additional overseas listed foreign shares (H Shares) at the issue price of HKD0.70 per share with a nominal value of RMB0.10 each, which were listed on GEM of the Stock Exchange of Hong Kong.

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Upon the approval by China Securities Regulatory Commission with Document 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 HKD0.92 per share with a nominal value of RMB0.10 each. The Company’s registered capital changed to RMB64,799,800.00, and the total number of shares changed to 647,998,000 shares.

Upon receiving the Document Zheng Jian Guo He Zi [2007] No. 2 (證監國合字[2007]2號文) issued by China Securities Regulatory Commission on 26 January 2007 and the approval document issued by the Stock Exchange of Hong Kong on 6 February 2007, the listing of the Company’s overseas listed foreign shares (H Shares) on GEM of the Stock Exchange of Hong Kong was cancelled on 7 February 2007, and transferred to the Main Board of the Stock Exchange of Hong Kong.

Pursuant to a resolution 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 by capitalising its undistributed profit with bonus issue of 2 shares for every 1 share and increased its share capital by capitalising its capital reserve with 2 bonus shares for every 1 share, adding 2,591,992,000 shares in aggregate. The effective date was 18 July 2007. Upon the capitalisation, the Company’s registered capital changed to RMB323,999,000.00, and the total number of shares changed to 3,239,990,000 shares.

Upon the approval by China Securities Regulatory Commission with Document 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 HKD\$1.70 per share with a nominal value of RMB0.10 each. The Company’s registered capital changed to RMB328,924,200.00, and the total number of shares changed to 3,289,242,000 shares.

On 29 December 2009, the board (the “Board”) of directors of the Company resolved to implement share consolidation, whereby every 10 issued shares with a nominal value of RMB0.10 each were consolidated into 1 share with a nominal value of RMB1.00. Such share consolidation has been completed on 7 January 2010.

Upon the approval by China Securities Regulatory Commission with Document Zheng Jian Xu Ke [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 a nominal value of RMB1 each at the issue price of RMB18 per share. The Company’s registered capital changed to RMB398,924,200.00, and the total number of shares changed to 398,942,200 shares.

Pursuant to a resolution 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 increased its share capital by capitalising its capital reserve in the proportion of 1 share for each existing share, which involved 398,924,200 shares in aggregate. The effective date was 19 July 2012. Upon the capitalisation, the Company’s registered capital changed to RMB797,848,400.00, and the total number of shares changed to 797,848,400 shares.

The Company’s place of registration and place of business are both at No. 999 Wen Sheng Street, Shouguang City, Shandong Province.

The Company and its subsidiaries (hereinafter the “Group”) operate in the machinery manufacturing industry and are mainly engaged in the manufacture of special equipment for petroleum machinery. The scope of business mainly covers the production and sales of oil pump, sucker rod, pumping unit, pumping tubing, petroleum machinery and textile machinery; the development of petroleum machinery and related products; the provision of commodity information services (excluding intermediaries) (projects requiring statutory approval may only be carried out with the approval of the relevant authorities for a term as specified in the licence).

The controlling shareholder and the ultimate controlling person of the Company is Zhang En Rong, a natural person.

The Group’s consolidated financial statements incorporates the financial statements of 10 companies such as Shouguang Baolong Petroleum Equipment Company Limited (壽光寶隆石油器材有限公司), Shouguang Maolong New Materials Technology Development Company Limited (壽光懋隆新材料技術開發有限公司) and Weihai Baolong Special Petroleum Materials Company Limited (威海市寶隆石油專材有限公司). The scope of consolidation did not have any change from last year.

Information on the subsidiaries of the Group is detailed in sections titled “VIII. Changes in the scope of consolidation” and “IX. Interests in other entities” of these notes.

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IV. Basis of Preparation of the Financial Statements

1. Basis of preparation

The financial statements have been prepared on the going-concern basis and transactions and events actually occurred in accordance with the Accounting Standards for Business Enterprises as promulgated by the Ministry of Finance of the PRC and the relevant requirements (collectively, the “ASBEs”), and the “Rules for the Information Disclosure and Compilation of Companies Publicly Issuing Securities No. 15 — General Provisions on Financial Reports (2014 Revision)”, the Companies Ordinance of Hong Kong and the disclosure requirements of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong, as well as the accounting policies and accounting estimates as stated in “V. Significant Accounting Policies and Accounting Estimates” under these notes.

2. Going concern

The Group has a plenty of sales orders. Revenue increased by 63.56% from the same period last year, registering a net profit of RMB32.58 million. The Group has stable cash flows, and is able to obtain financial resources to support the production. The Group also has a large number of outstanding orders, and therefore, it operates as a going concern.

V. Significant Accounting Policies and Accounting Estimates

Specific accounting policies and accounting estimates: the Group has adopted the accounting policies and accounting estimates specific to the characteristics of its actual production and operation, including the business cycle, recognition and measurement of the bad debts provision for receivables, measurement of inventory dispatched, classification and depreciation of fixed assets, amortisation of intangible assets, criteria for capitalisation of research and development expenditures, recognition and measurement of revenue and others.

1. *Statement of compliance with the ASBEs*

The financial statements of the Company for the first half of 2018 have complied with the requirements of the ASBEs and gives a true and complete view on the financial position of the Company and the Group as at 30 June 2018 and their operating results and cash flows for the half period of 2018 and other information.

2. *Accounting period*

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

3. *Business cycle*

The Group's business cycle is 12 months. The period from 1 January to 31 December every year is regarded as a business cycle, which is used for determining the classification of the liquidity of assets and liabilities.

4. *Reporting currency*

The functional currency of the Company and its domestic subsidiaries is Renminbi ("RMB"). The functional currency of its overseas subsidiaries is United States dollars ("USD").

In preparing these financial statements, the Group adopts RMB as its presentation currency.

5. *Accounting for business combinations under common and uncommon control*

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

The identifiable assets, liabilities and contingent liabilities acquired from the acquiree in a business combination under uncommon control are 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 share of the fair value of the acquiree's identifiable net assets acquired in the business combination is recognised as goodwill. If the combination costs are less than the share of the fair value of the acquiree's identifiable net assets in the business combination, the fair value of the identifiable assets, liabilities and contingent liabilities acquired in the business combination as well as the fair value of the non-cash assets or the equity securities issued for paying the consideration will first be reviewed. If the combination costs are still less than the share of the fair value of the acquiree's identifiable net assets after review, the difference is accounted for as a non-operating income for the period.

6. *Basis of preparation of consolidated financial statements*

The Group incorporates all the controlled subsidiaries and structured entities into the consolidated financial statements.

When preparing the consolidated financial statements, if the accounting policy or the accounting period adopted by the subsidiaries and the Company is inconsistent, necessary adjustments are made to the financial statements of subsidiaries according to the accounting policy or the accounting period of the Company.

All significant intra-group transactions, current balances and unrealised profits within the scope of combination are offset when preparing the consolidated statements. The owners' equity in subsidiaries not attributable to the parent company and the net profit or loss for the period, other comprehensive income and total comprehensive income attributable to minority interests are stated 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 a business combination under common control are included in the consolidated financial statements from the beginning of the period of the combination. When preparing the comparative consolidated financial statements, relevant items in the financial statements of the prior year are 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 under uncommon control unit is included in the consolidated financial statements since the Group gains control. When preparing the consolidated financial statements, the financial statements of the subsidiary are 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 under uncommon 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 the loss of control over an investee due to disposal of a portion of the equity investment or other reasons, when preparing the consolidated financial statements, the remaining equity is re-measured at fair value on the date when the control is lost. The difference arising from the sum of consideration received for disposal of equity interest and the fair value of remaining equity interest over the share of net assets of the former subsidiary calculated continuously since the purchase date or consolidation date based on the shareholding percentage before disposal are recognised as investment income in the period when the control is lost, with goodwill offset simultaneously. Other comprehensive incomes relating to the equity investment of the original subsidiaries shall be transferred to the investment income for the period when control is lost.

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. *Classification of joint arrangements and accounting for joint operations*

The joint arrangements of the Group consist of joint operations and joint ventures. For joint operation projects, the Group, as a party to the joint operation, recognises assets held and liabilities assumed individually, recognises other assets held and liabilities assumed on a pro-rata basis, and recognises related income and expenses individually or on a pro-rata 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 recognised.

8. *Criteria for the recognition of cash and cash equivalents*

Cash in the statement of cash flow of the Group represents the cash on hand and the deposits readily available for payments. Cash equivalents in the statement of cash flow refer to the investment with a term less than 3 months and high liquidity that are easily convertible to known amounts of cash and subject to an insignificant risk of change in value.

9. *Foreign currency operations and translation of foreign currency statements*

(1) Foreign currency transactions

For foreign currency transactions, the Group translate the foreign currency amounts into RMB amounts at the spot rates of exchanges on a trade-date basis.

On balance sheet date, foreign currency monetary items are translated into RMB at the prevailing 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 in foreign currency measured at historical cost shall continue to be measured at the functional currency at the spot exchange rate prevailing at the date of transaction. Non-monetary items in foreign currencies measured at fair value are translated at the spot exchange rate prevailing at the fair value determination date. Translation difference arising thereon are treated as changes in fair value and included in profit or loss for the current period or recognised as other comprehensive income.

(2) Translation of foreign currency financial statements

Assets and liabilities in foreign currency balance sheet are translated at the spot rate prevailing at the balance sheet date. Except for “undistributed profits”, items under the owners' equity are translated at the spot exchange rate when they occur. Income and expenses in income statement are translated at the spot exchange rate on a trade-date basis. The resulting differences are presented under other comprehensive income. Cash flow dominated in foreign currency 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 instruments

1. Financial assets and financial liabilities

Financial asset or financial liability is recognised when the Group becomes a contractual party of a financial instrument.

(1) Financial assets

1) Classification of financial assets

The Group's financial assets are categorised into financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income (FVTOCI) and financial assets measured at fair value through profit or loss (FVTPL) according to its business model for managing financial assets and the characteristic of the contractual cash flows from the financial assets.

2) Recognition of financial assets

A financial asset is classified as measured at amortised cost when all of the following criteria are met: ① the business model of managing the financial asset is for collecting contractual cash flows. ② the contractual terms of the financial asset provides that the cash flows generated at a particular date solely represents payments for principal and interest on the outstanding principal.

A financial asset is classified as measured at FVTOCI when all of the following criteria are met: ① the business model of managing the financial asset is for collecting contractual cash flows and for sale. ② the contractual terms of the financial asset provides that the cash flows generated at a particular date solely represents payments for principal and interest on the outstanding principal.

Financial assets measured at FVTPL is the financial assets other than those measured at amortised cost and those measured at FVTOCI.

3) Measurement of financial assets

All financial assets and financial liabilities are initially measured at their fair values. For financial assets and financial liabilities that are measured at FVTPL, the related transaction costs are directly accounted for in the profit or loss of the period. For other types of financial assets or financial liabilities, the related transaction costs are directly accounted for in the amount initially recognised.

Financial assets measured at amortised cost (not a part of any hedge relationship) are subsequently measured at amortised cost and the gain or loss arising from amortisation using effective interest method, impairment and derecognition are accounted for in the profit or loss of the period.

For financial assets measured at FVTOCI (other than the investments in equity instruments not held for trading designated as measured at FVTOCI by the Group), except for the gain or loss on impairment, exchange gain or loss and interest on the financial assets calculated using effective interest method which are accounted for in the profit or loss, other gains or losses are accounted for in other comprehensive income. Any changes in fair value of the investments in equity instruments not held for trading designated as measured at FVTOCI by the Group are accounted for in other comprehensive income.

Changes in fair value of financial assets measured at FVTPL are accounted for in the profit or loss of the period.

Interest income from financial assets are recognised according to article 39 of ASBE 22 "Recognition and Measurement of Financial Instruments".

Dividend income from financial assets are recognised according to article 65 of ASBE 22 "Recognition and Measurement of Financial Instruments".

4) Derecognition of financial assets

A financial asset is derecognised when any one of the following criteria is met: ① the contractual right to collect cash flows from the financial asset has terminated; ② the financial asset is being transferred and the Group transfers substantially all the risks and returns of the ownership of the financial asset; and ③ the financial asset is being transferred and the Group does not either transfer or retain substantially all the risks and returns of the ownership of the financial asset and does not retain the control on the financial asset.

When the financial asset is being transferred and the entity does not either transfer or retain substantially all the risks and returns of the ownership of the financial asset but retains the control on such financial asset, the financial asset is recognised according to the extent of its continuous involvement in the financial asset being transferred, with the related liability recognised accordingly.

If the entire transfer of the financial asset meets the criteria for derecognition, the difference between the carrying amount of the financial asset being transferred and the sum of the consideration received from the transfer and the accumulated changes in fair value originally included in other comprehensive income (the contractual terms of the financial asset provides that the cash flows generated at a particular date solely represents payments for principal and interest on the outstanding principal) is accounted for in the profit or loss for the period.

In the case where only part of the financial asset meets the criteria for derecognition, the carrying amount of financial asset being transferred is allocated between the portions that to be derecognised and the portion that continued to be recognised according to their relative fair value. The difference between the consideration received from the transfer and the accumulated changes in fair value originally included in other comprehensive income of the part qualifies for derecognition (the contractual terms of the financial asset provides that the cash flows generated at a particular date solely represents payments for principal and interest on the outstanding principal) and the above-mentioned allocated carrying amount of the financial asset is charged to profit or loss for the period.

Where an investment in equity instruments not held for trading designated as measured at FVTOCI is derecognised, the accumulated gain or loss previously included in other comprehensive income is transferred from other comprehensive income and credited in retained earnings.

5) Testing and accounting for impairment of financial assets

For the following items, the Group consistently provides for their impairment losses based on the amount equivalent to the lifetime expected credit losses (ECL):

For accounts receivable or contract assets as recognised according to the regulated transactions under ASBE 14 “Revenue”, the initial measurement does not include any material financing portion and does not take into account of the financing portion not exceeding one year in the contract.

Financial assets and financial assets measured at FVTOCI (other than those equity instruments not held for trading that are designated as measured at FVOCI) are subject to impairment accounting treatment and recognition of provision for loss as follows:

- ① If there has been a significant increase in credit risk of the financial asset since its initial recognition, the Group measures its provision for losses according to the amount of the lifetime ECLs of the financial asset.
- ② If there has been no significant increase in credit risk of the financial asset since its initial recognition, the Group measures its provision for losses according to the amount of the next 12-month ECLs of the financial asset.
- ③ If the Group has measured the provision for losses according to the amount of the lifetime ECLs of the financial asset in prior accounting period, but at the balance sheet date, there is longer a significant increase in credit risk of the financial asset, the Group measures the provision for losses according to the amount of the 12-month ECLs at the balance sheet date.

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(2) *Financial liabilities*

1) Classification and reclassification of financial liabilities

The Group's financial liabilities are classified as financial liabilities measured at amortised cost except: ① financial liabilities measured at FVTPL, including financial liabilities held for trading (inclusive of derivatives comprising financial liabilities) and financial liabilities designated as measured at FVTCI; ② financial liabilities arising from the transfer of financial assets that do not qualify for the recognition criteria or continue to be involved in the financial assets being transferred. These financial liabilities are measured according to the requirements under ASBE 23 “Transfer of financial assets; ③ financial guarantee contracts that are not classified as ① or ② and loan commitments with a lower-than-market interest rate that are not classified as ①. The Group, as the issuer of these financial liabilities, measures that financial liabilities according to the amount for impairment of losses as determined pursuant to Chapter VIII of the standard and the amount initially recognised (after deducting the balance of accumulated impairment amount as determined pursuant to ASBE 14 “Revenue”), whichever is the higher.

2) Derecognition of financial liabilities

A financial liability or a part of the financial liability is derecognised when the existing obligation is fully or partly discharged. An agreement between the Company and a creditor to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. As for substantive changes made to the contract terms (whole or in part) of the existing financial liabilities, the existing financial liabilities (or part of it) will be derecognised. And financial liabilities after term revision will be recognised as a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss for the period.

During the period, the Group did not have any financial assets and financial liabilities that are measured at mortgaged cost, financial assets measured at FVTOI, and financial assets and financial liabilities measured at FVTPL.

11. Accounts receivable

(1) Accounts receivable that are individually significant and are individually provided for bad debts

The basis or standard for determining the significant level of individual receivable	The Group recognizes accounts receivable of over RMB3.00 million and other receivables of over RMB2.00 million as receivables that are individually significant.
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Provision-making method on individual receivables above significant level	The Group conducts impairment test for receivables that are individually significant separately, and tests financial assets without impairment separately, including conducting impairment test on financial asset groups with similar credit risk characteristics. For accounts receivable with impairment loss recognised in single item test, they ceased to be included in accounts receivable portfolio with similar risk characteristics for impairment test.
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(2) Accounts receivable that are collectively provided for bad debts by credit risk characteristics

Name of portfolio	Method of provision for bad debts
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Receivables that are individually insignificant and those that are individually significant but impaired and are not impaired after impairment testing	Other method
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Provided for bad debts by aging analyses of accounts of portfolio:

Applicable Not applicable

Provided for bad debts by balance fraction of portfolio:

Applicable Not applicable

Provided for bad debts by other methods of portfolio:

Applicable Not applicable

(3) Accounts receivable that are individually insignificant but are individually provided for bad debts

Reason for being individually provided for bad debts	If there is an evidence indicating that the credit risk of certain receivables is significant, the receivables will be individually provided for bad debts.
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Method of bad debt provision	Individual determination method
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12. Loans and Provision for loan losses

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

Pass loans: 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 loans: 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 loans: 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 loans: 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 loans: 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 loans and advances to customers 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 realisation, 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 present value of the expected future cash flows and the carrying amount.

13. Inventories

Whether the Company needs to comply with the disclosure requirements for special industry

No

Inventories of the Group mainly include raw materials, entrusted processed materials, work-in-progress 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. Low-value consumable and packaging materials are amortised by one-time written-off.

At the end of the reporting period, inventories are calculated at the lower of cost and net realisable value. If the net realisable value of the inventories are lower than the cost, provision for impairment is recognised. The provisions for goods-in-stock 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. The provisions for other inventories items shall be made according to their category.

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 realisable value of held-for-production raw materials are determined by their estimated sales price of finished products less the production cost, related selling expenses and taxes.

14. Assets held for sale

- (1) The Group classifies non-current assets or disposal group that meet the following criteria as held for sale: (1) can immediately be disposed of under the current conditions based on cases of disposals of such assets or disposal groups in similar transactions; (2) the disposal is highly probable that a decision has been made on a plan for the disposal and an undertaking to purchase has been obtained, and the disposal is expected to be completed within a year. Relevant approval is required for disposals requiring approval from the relevant authorities or regulators as required by the relevant regulations. Before the Group first classifies a non-current asset or disposal group as held for sale, the book value of the non-current asset or each asset and liability in the disposal group is measured according to the requirements of the relevant accounting standards. On initial measurement or remeasurement on the balance sheet date of a non-current asset or a disposal group held for sale, where the book value is higher than the fair value less cost of disposal, the book value is written down to the fair value less disposal. The amount of write-down is recognised as an impairment loss of the asset and charged to profit and loss of the period. At the same time, provision is made for impairment of assets held for sale.

- (2) Non-current assets or disposal groups which the Group acquired specifically for disposal, satisfy the criterion of “disposal is expected to be completed within one year” on the date of acquisition, and is probable to satisfy other criteria of classifying as held for sale shortly (usually within 3 months), are classified as held for sale on the date of acquisition. At initial measurement, the amount initially measured assuming it is not classified as held for sale and the fair value less cost of disposal are compared, and the lower of the two is measured. Other than non-current assets or disposal groups acquired in a business combination, the difference arising from recognising the fair value less cost of disposal of non-current assets or disposal groups as initial measurement is recognised in profit and loss in the period.
- (3) Where the Group has lost control of a subsidiary due to reasons such as disposal of investment in the subsidiary, regardless of the Group retains any part of equity investment after disposal, upon the investment in the subsidiary intended to be disposed satisfying the criterion for classification as held for sale, the investment in the subsidiary will be entirely classified as held for sale in the separate financial statements of the parent company, and all assets and liabilities of the subsidiary are classified as held for sale in the consolidated financial statements.
- (4) Where there is an increase in fair value less cost of disposal of a non-current asset held for sale on subsequent balance sheet dates, the amount previously written down should be recovered and reversed in the impairment loss of assets recognised after classification as held for sale, with the reversed amount recognised in profit and loss of the period. Asset impairment loss recognised before classification as held for sale is not reversible.
- (5) Asset impairment loss recognised for disposal groups held for sale is first offset against the book value of goodwill of disposal groups, and then offset against the book values proportionally according to the share of book value of each non-current asset.

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Where there is an increase in fair value less cost of disposal of a disposal group held for sale in subsequent balance sheet dates, the amount previously written down should be recovered and reversed in asset impairment loss of non-current assets recognised as required by the appropriate relevant measurement after classification as held for sale, with the reversed amount recognised in profit and loss of the period. The book value of the offset goodwill and impairment loss of non-current assets recognised before classification as held as for sale are not reversible.

Reversed amount after the recognition of asset impairment loss of the disposal group held for sale should be added proportionally to the book value share according to the share of the book value of each non-current asset in the disposal group other than goodwill.

- (6) No provision for depreciation or amortisation of non-current assets or non-current assets in disposal groups held for sale is made, and the interest on liabilities and other expenses of disposal groups held for sale continues to be recognised.
- (7) When a non-current asset or a disposal group held for sale no longer satisfies the criteria of classification as held for sale and ceases to be classified as held for sale, or a non-current asset is removed from the disposal group held for sale, it is measured is based on the lower of the following: ① the book value before classification as held for sale adjusted by recognition of depreciation, amortisation or impairment assuming there was no classification as held for sale; ② the recoverable amount.
- (8) Upon derecognition of a non-current asset or a disposal group held for sale, the unrecognised gain or loss is accounted for in profit or loss of the period.

15. Long-term equity investments

Long-term equity investments include the Group's investments in subsidiaries, investments in associates and jointly ventures.

Our judgement of joint control is based on the fact of arrangements that all participants involved or groups of participants jointly control 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 significant 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 consolidated party in the book value of net assets in the financial statements of the ultimate controlling party on the date of consolidation. If the book value of net assets of the consolidated party at the date of consolidation is negative, long-term equity investment cost is recognized as nil.

For shareholding which obtained by different transactions in stages and become business combination finally, if it belongs to package transaction, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to package transaction, according to proportion of fair value of net assets of acquiree after the combination in the consolidated financial statements, and accounted as the initial investment cost of long-term investment. Difference between initial investment cost and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust share premium. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

For long-term equity investment acquired through business combination under uncommon control, consolidation cost will be treated as the initial investment cost.

For shareholding which obtained by different transactions in stages and become business combination finally, if it belongs to package transaction, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to package transaction, Initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will change to cost method. For shareholding which it holds before the date of acquisition which uses equity method, other related comprehensive income which use equity method for accounting shall not be adjusted, such investment shall use the same accounting basis as the invested company when it directly dispose related assets or liabilities upon disposal. For shareholding which it holds before acquisition and accounted for under fair value method in the available-for-sale financial assets, the accumulated change in fair value which is originally included in other comprehensive income shall be change to profit or loss for the current period on the date of combination.

Apart 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.

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.

For long-term equity investments for which the subsequent measure is accounted for using cost method, when making additional investment, carrying value of the long-term equity investments will be added according to the fair value of cost of additional investment and the related expenses incurred by related transactions. For cash dividend or profit paid by the invested company, it shall be recognized as investment income for the current period using the amount which it entitles.

For long-term equity investment for which the subsequent measurement is accounted for under equity method, carrying value of long-term equity investment shall be increased or decreased accordingly according to the change in the shareholders equity of the invested company. When determining the amount of proportion of net profit or loss in the invested company which it entitles, fair value of each identifiable assets of the invested company at the time when the investment is obtained shall be used as basis, and according to the accounting policies and accounting period of the Group, and after offsetting profit or loss incurred in internal transaction between associates and joint ventures, and calculate the proportion which is attributable to the investing company according to the shareholding, and recognized after adjustment is made to the net profit of the investees.

On disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognized as investment income for the period. For long-term investments accounted for under equity method, the movements of shareholder's equity, other than the net profit or loss, of the investee company, previously recorded in the shareholder's equity of the Company are recycled to investment income for the period on disposal.

When the Company ceases to have control or significant influence on the invested company due to the reasons such as disposal of part of its equity investment, the remaining shareholding after disposal shall be accounted for under available-for-sale financial assets, and the difference between fair value and the carry value on the date of loss of common control or significant influence will be included in the profit or loss for the current period. Other comprehensive income recognized in the original equity investment which is accounted for using equity method, upon it will no longer be accounted for under equity method it shall be using the same accounting basis as the invested company directly disposing related assets or liabilities.

For loss of control in the invested company due to partly disposed long-term equity investment, for remaining shareholding which can apply common control or impose significant influence to the invested company after disposal, shall be accounted for under equity method. Difference between the carrying value of equity disposal and the disposal consideration shall be included as investment income. Such remaining shareholding shall be treated as accounting for under equity method since the shareholding is obtained and make adjustment. For remaining shareholding which cannot apply common control or impose significant influence after disposal, it can be accounted as under available-for sale financial assets, and difference between carrying value of equity disposal and the disposal consideration shall be included as investment income, difference between fair value and the carrying value of remaining shareholding on the date loss of control shall be included in the investment profit or loss for such period.

For each transaction which equity are disposed in stages until loss of control, which does not belong to package transaction, the accounting for each transaction shall be conducted separately. For the package transaction, the accounting for each transaction shall be treated as disposing subsidiary and loss of its control. However, the difference between each disposal price before loss of control and the carrying value of the corresponding long-term investment of the equity disposed, shall be recognized as other comprehensive income, and shall be transfer to the profit or loss for the current period upon loss of control.

16. *Investment Properties*

Measurement model of investment properties

Measured at cost method

Methods of depreciation or amortisation

Investment properties include leased land use rights, land use rights held for sale after appreciation and leased buildings.

Investment properties are initially measured at cost. The cost of purchased investment properties includes purchasing price, taxes, and other expenses directly attributable to the assets. The cost of self-built investment properties comprises the expenses of construction incurred to bring the assets to their intended usage condition. Subsequent expenditures related to an investment property shall be included in cost of the investment property only when the economic benefits associated with the asset will probably flow to the Group and its cost can be measured reliably. Otherwise, all other expenditures are included in profit or loss of the period when they are incurred.

The Group adopts the cost method for subsequent measurement of investment properties, which are depreciated or amortised using the policy consistent to that of buildings or land use rights.

The Group reassesses and adjusts, if appropriate, the estimated useful life, estimated residual value and depreciation (amortisation) rates of investment properties at the end of each year.

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 transfer, the carrying amount before transfer is taken as the cost of the asset.

An investment property is derecognised upon disposal or when it is permanently withdrawn from use and no further economic benefits are expected from its disposals. When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of proceeds from disposal net of the carrying amount and related taxes in profit or loss of the period.

17. *Fixed assets*

(1) **Criteria for recognition**

Fixed assets are tangible assets with significant value and useful lives for more than one year, and held for use in the production goods, renting of services, for rental, or for administrative purposes. Fixed assets are recognised when it is highly probable of economic benefits inflow to the Group and their costs can be measured reliably. The Group's fixed assets include buildings, machinery, vehicles, electronic equipment and other equipment.

(2) Depreciation method

Category	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 equipment	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) Basis, pricing and depreciation method for the recognition of finance leased fixed assets

The book value of finance leased fixed assets is initially measured at lower of their fair value and the present value of the minimum lease payment. The difference between the book value and the minimum lease payment of leased assets is taken as the unrecognised finance cost. The depreciation policy of the finance leased fixed asset is consistent with that of its own fixed assets. When a leased asset can be reasonably determined that its ownership will be transferred at the end of the lease term, it is depreciated over the period of expected use; 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 costs 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 when the assets are ready for their intended use at an estimated value based on the construction budget, construction price or actual cost of construction. Depreciation is charged from the next month after it is put into use. The value of the asset will be adjusted when the budgeted procedures are completed based on actual costs. However, it is not necessary to adjust the depreciation or amortisation amount originally provided.

19. Borrowing costs

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

In terms of the borrowing costs involving fixed assets, investment real estate and inventory 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 capitalisation of the borrowing costs shall be ceased. The amount of other borrowing costs shall be recognised in profits of losses in the current period. If the qualified asset is interrupted abnormally during construction or production, and interruption has lasted for three consecutive months, the capitalisation of the borrowing costs shall be suspended until the construction or production of a fixed assets is resumed.

The amount of interest of specific borrowings occurred for the period shall be capitalised after deducting any interest earned from depositing the unused specific borrowings in the bank or any investment income arising on the temporary investment of those borrowings during the capitalisation period. The capitalised amount of general borrowings shall be determined on the basis that the weighted average (of the excess amounts of cumulative assets expenditures over the specific borrowings) times capitalisation rate (of used general borrowings). The rate of capitalisation is determined by the weighted average interest rate of general borrowing.

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 of the period.

20. Intangible Assets

(1) Measurement method, useful life and impairment test

The Group's intangible assets mainly include land use rights (maritime use rights), patented technology, non-patented technology and software, etc. Intangible assets are measured at the actual costs at acquisition. For purchased intangible assets, actual paid cost and other relevant expenses are taken as the actual cost. For intangible assets contributed by investors, the actual cost is determined according to the values specified in the investment contract or agreement, while for any unfair agreed value in contract or agreement, the actual cost is determined at the fair value. The intangible asset, which is owned by the acquiree in a business combination under different control but has not been recognised in its financial statement, shall be recognised as an intangible asset at its fair value upon the initial recognition on the acquiree's assets.

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For intangible assets with definite useful lives, the Group adopts straight line method for amortisation at the month of acquisition. The Group amortises land use rights (maritime use rights) on the basis of their useful life by straight line method since they are acquired. Patent technology, non-patent technology and other intangible assets are amortised evenly on the basis of shorter of estimated useful life, contractual beneficial life, and statutory useful life. The amortisation amount is accounted for in profit and loss of the period. The Group makes the assessment on the estimated useful life and amortisation method of intangible assets with definite useful life at the end of each 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) Accounting policy regarding the expenditure on the internal research and development

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.

From early investigations to the applications after maturity, the new product R&D projects of the Group shall undergo the two phases of research and development: the phase of research includes such stages as investigation, substantiation, the initiation and approval of annual new product R&D plans, early researches (including formula design, process design, equipment selection, formulation of technical standards, etc.), the preparation and approval of monthly new product R&D plans and so on, among which the completion of approval of monthly new product R&D plans symbolises the end of the phase of research for a new product. The phase of development includes specifically such stages as trial production of the new product, project acceptance, etc., the latter of which symbolises the end of the phase of development for a new product.

Start time of the phase of development: the point when the approval of monthly new product R&D plans is completed, the early researches are completed and the formula, production process and technical standards for the product are finalised.

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

Expenditure on the development phase is recognised as an intangible asset when all of the following criteria are met:

- (1) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (2) the management's intention to complete, use or sell the intangible asset;
- (3) the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- (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 criteria is included in profit or loss of 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 asset in subsequent period. The capitalised expenditures in development phase are presented as development expenditure in the balance sheet and it is carried down into the intangible asset since the date when the asset is ready for its intended use.

21. Impairment of long term assets

The Company assesses items such as long term equity investments, investment properties, fixed assets, construction in progress measured by cost model, intangible assets with definite life, the Company conducts impairment test where there is any indication of impairment. Intangible assets with indefinite goodwill and useful life are tested at the end of each year for impairment, whether indication of impairment exist or not.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but the asset is traded in an active market, fair value shall be determined based on the bid price. If there is neither sale agreement nor active market for an asset, fair value shall be based on the best available information. Costs of disposal are expenses attributable to disposal of the asset, including legal fee, relevant tax and surcharges, transportation fee and direct expenses incurred to prepare the asset for its intended sale. The present value of the future cash flows expected to be derived from the asset over the course of continued use and final disposal is determined as the amount discounted using an appropriately selected discount rate. Provisions for assets impairment shall be made and recognised for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the asset group to which the asset belongs. The asset group is the smallest group of assets capable of generating cash flows independently.

When performing impairment test on goodwill that is separately presented in the financial statements, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

If the carrying amount of such asset exceeds its recoverable amount after impairment test, the difference is recognised as impairment losses. The above impairment losses is irreversible in the subsequent accounting period once recognised.

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22. Long term prepayments

The Group's long term prepayments are amortised evenly during their respective beneficial period. If the long term prepayments are no longer beneficial to the subsequent accounting periods, the unamortized balance is then fully transferred to profit or loss for the current period.

23. Employee compensations

(1) Accounting for short-term employee compensations

The Group's employee compensations include short-term compensation, post-employment benefits, termination benefits and other long-term benefits.

Short-term employee compensation includes staff salaries, bonuses, allowances and subsidies, employee welfare expenditures, social security contributions (e.g. compensation insurance, work injury insurance and maternity insurance), housing funds, union running costs, employee education funds, short-term paid leaves, short-term profit sharing schemes, non-monetary benefits and other short-term salaries. The Group recognises Short-term employee compensation actually incurred as liabilities during the accounting period in which employees render their services and included in profits or losses of the period or related cost of assets based on the beneficiaries of the services.

(2) Accounting for post-employment benefits

Post-employment benefits mainly include basic pension insurance, unemployment insurance and others. Based on the Company's risks and obligations, they are classified as defined contribution plans and defined benefit plans. As for the defined contribution plans, the contributions which are made for individual subjects in exchange for the staff's services rendered in the accounting period shall be recognised as liabilities on the balance sheet date and included in profit or loss of the period or relevant asset costs according to the beneficiaries. The Group has currently no defined benefit plan.

(3) Accounting for termination benefits

The Group has currently no termination benefits.

(4) Accounting for other long-term compensations

The Group has currently no other long-term compensations.

24. Provisions

A provision is recognised as a liability 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 provisions 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 provisions.

The Group reviews the carrying amount of provisions at the balance sheet date and makes appropriate adjustments to reflect the current best estimate.

25. Production Safety Fee

The Group collects, utilises 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 safe production conditions of enterprises or projects.

- (1) Operating income of RMB10 million and below, accrued in accordance with 2%;
- (2) Operating income of RMB10 million to RMB100 million (inclusive), accrued in accordance with 1%;
- (3) Operating income of RMB100 million to RMB1,000 million (inclusive), accrued in accordance with 0.2%;
- (4) Operating income of RMB1,000 million to RMB5,000 million (inclusive), accrued in accordance with 0.1%;
- (5) Operating 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 current period and "special reserve" account shown separately under owner's equity. When using the reserve for maintaining production safety fee, the amount will be debited from the "special reserve" if the fee is expenses nature. When using the reserve for maintaining production safety fee of fixed asset, the amount will be debited from the "construction-in-progress" item for the amount recorded in the cost of related assets. When the status of the project is ready for intended use, the costs of such production safety fee should be recognised as fixed assets. Meanwhile, "special reserve" will be offset by the cost forming fixed asset. If the balance of "special reserve" is inadequate for offsetting purpose, the production safety fee will be recognised in profit and loss for the current period.

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26. Revenue

Whether the Company needs to comply with the disclosure requirements for special industry

No

The Group's operating revenue mainly consists revenue from sales of good. The Group recognises revenue when it has fulfilled the performance obligations in a contract, ie the customer take control of the relevant goods. When the following criteria for a contract between the Group and the customer are met, revenue is recognised upon the customer obtains the control of the relevant goods:

- (i) parties to the contract has approved the contract and undertaken to perform their respective obligations;
- (ii) the contract specifies the rights and obligations of the parties regarding the goods being transferred;
- (iii) the contract specifies the payment terms regarding the goods being transferred;
- (iv) the contract has commercial substances, that is performing the contract will change the risks time, time allocation or amount of the Group's future cash flows;
- (v) it is probable for the Group to recover the consideration it is entitled to for transferring the goods to the customer.

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.

27. Government grants

(1) Judgment basis and accounting for government grants related to the assets

The Group's government grants include financial funding, interest subsidy for loans and tax rebates, of which government grants related to assets represent the government grants obtained by the Group and applied towards acquiring and constructing or otherwise develop long-term assets. Government grants related to income represent the government grants other than those related to assets. If no grantee is specified in the government documents, the Group shall determine based on the above classification principles, otherwise, it is classified as a government grant related to income in its entirety.

If a government grant is a monetary asset, it is measured at the amount actually received. For the grants being allocated in accordance with fixed quotas, or if there is sufficient evidence at end of the year to show that the entity complies with the conditions of financial policies and is expected to receive supporting funds, the grants shall be measured at receivable amount. If a government grant is a nonmonetary asset, it is measured at its fair value, and in the event the fair value cannot be acquired in a reliable way, it is measured at its nominal amount (RMB1).

Government grants related to assets are recognised as deferred income and are allocated evenly to profit or loss for the period over the useful life of the relevant asset. The balance of undistributed deferred income of a related asset which is disposed, transferred, retired or damaged before the end of its useful life is transferred to gain or loss of disposal of assets for the period.

(2) Judgment basis and accounting for government grants related to income

If a government grant related to income is to compensate the related cost, expenses or losses to be incurred in subsequent periods, it are recognised as deferred income, and is recognised in profit or loss for the period when the related cost, expenses or losses incurred. If a government grant is related to the ordinary activities, it is included in other income based on the economic substance of the business. Government grants not related to the ordinary activities are include in non-operating income or expenses.

Interest subsidies for policy-related preferential loans obtained by the Group are classified as interest subsidy funds paid to lending banks or interest subsidy funds directly paid to the Group, which are accounted for based on the following principles:

- (1) for interest subsidy funds paid to lending banks, the lending banks provide loans to the Group at policy-related preferential rates, and the Group recognises the borrowing amount actually received as the book value of the borrowing, and calculates the relevant borrowing expenses based on the principal and the policy-related preferential rate of the borrowing.
- (2) For interest subsidy funds paid directly to the Group, the Group will offset the corresponding interest subsidy against the relevant borrowing expenses.

For government grants recognised that needs to be returned, the Group accounts the returning amount in the period according to the following:

- (1) Where it has been offset against the carrying value of the relevant asset on initial recognition, the carrying value of the asset is adjusted.
- (2) Where relevant deferred income exists, the balance of the carrying amount of the relevant deferred income is offset and the excess is recognised in profit or loss for the period.
- (3) In other cases, it is directly recognised in profit or loss for the period.

28. *Deferred income tax assets/deferred income tax liabilities*

Deferred income tax assets and deferred income tax liabilities are calculated and recognised based on the difference between tax bases and carrying amounts of assets and liabilities (temporary differences). Deferred income tax asset is recognized for the deductible losses and tax credit that are deductible against taxable profit in subsequent years in accordance with the requirements under tax laws. No deferred tax liability is recognized for temporary difference arising from initial recognition of goodwill. No deferred income tax asset or deferred income tax liability is recognized for a temporary difference arising from initial recognition of asset or liability due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). On the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the applicable tax rates for the period when the asset is expected to be realised or the liability is expected to be settled.

Deferred income tax assets arising from deductible temporary difference are recognised to the extent that it is probable that taxable profit will be available to deduct from the deductible temporary difference.

29. *Leases*

(1) Accounting for operating leases

(1) Leased-in assets under operating leases

Rental expense for leased-in assets under operating leases is recognised as related asset cost or profit or loss for the period using the straight-line method over the lease term. The initial direct cost is directly accounted for in profit or loss for the period. Contingent rentals are recognised in profit or loss for the period in which it is incurred.

(2) *Leased-out assets under operating leases*

Rental income from leased-out assets under operating leases is recognised as income for the 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 in profit or loss for the period on the same basis as recognition of rental income over lease period. Otherwise, the costs are charged to profit or loss for the period immediately. Contingent rentals are accounted for in profit or loss for the period in which it is incurred.

(2) Accounting for finance leases

(1) *Leased-in assets under finance leases*

At the inception of a lease, the fair value and the present value of the minimum lease payment, whichever is lower, of a leased asset at inception is taken as the book value of the leased-in asset under a finance lease. The difference between the book value and the minimum lease payment of the leased-in asset is taken as the unrecognised finance expenses and is amortised over the lease period using the effective interest method. The remaining balance of the minimum lease payment after deducting the unrecognised finance expenses is presented as a long-term liability and a long-term liability due within one year, respectively.

A leased-in asset is depreciated over its useful lives when the ownership of the leased-in asset is reasonable confirmed before expiration. Otherwise, the lease asset is depreciated over the lease term and the useful life of the lease asset, whichever is shorter.

(2) *Leased-out assets under finance assets*

At the inception of a lease, the book value of receivable financing lease is the sum of the minimum lease payment and the initial direct expenses, and the unguaranteed residual value would be accounted; the balance of the total value of minimum lease payment, initial direct expenses and unguaranteed residual value and the sum of the present value is recognised as unrealised financing income, and distributed during the lease term. The current financing income is calculated by effective interest rate 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. The caused decrease of net value of lease investment is accounted to profit or loss for the current period; the financing revenue would be recognised according to modified net value of lease investment and the lease implicit interest rate. The net value of lease investment refers to the balance of the minimum lease payment and unguaranteed residual value and 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 profit or loss for the current period when the contingent rental actual occurs.

30. Accounting for income tax

Income tax is accounted for using liability method. Income tax expenses represent the sum of current tax and deferred tax. Current tax and deferred tax relating to the transactions or matters that are directly recorded in shareholders' equity are dealt with in shareholders' equity. Deferred tax arising from business combination is adjusted to the carrying value of goodwill. All other current tax and deferred tax are recognised in profit or loss for the period.

The tax currently payable is the amount of tax payable to taxation bureau by the enterprises in respect of the transactions and matters of the current period calculated according to the taxation regulations. The deferred income tax is the difference between the balances of the deferred income tax assets and deferred tax liabilities that should be recognised using the balance sheet liabilities approach at the end of period and their balances originally recognised.

31. Other Significant Accounting Policies and Accounting Estimates

In preparation of the financial statements, the management of the Company need to use estimation and assumptions in accordance with historical experience and other factors, including rational expectations of future events. These estimations and assumptions may affect the application of accounting policy, assets, liabilities, revenue and expenses. Actual results may differ from these estimates. The management continues to evaluate the uncertain factors and key assumptions that affect estimates. The effects of changes on accounting estimates should be recognised in the current year or carry forward.

(1) Impairment loss of accounts receivable

Based on the current market conditions, the Group made an estimation on the aging of accounts receivable, financial situation of customers, and the historical experiences of guarantees (if any) provided by customers. The Group has conducted reassessment regularly to find whether the bad-debt provision for accounts receivable is sufficient. If all assumptions and estimation in the process of reviewing have changed, the change will affect bad-debt provision of accounts receivable in the changing process of assumptions.

(2) Provision for impairment of inventories

The Group estimates the net realisable value of inventory regularly and recognises any excess of cost of inventories over the net realisable value as a decrease in inventories.

The Group can estimate the net realisable value of inventory of raw materials, products and goods based on the amount obtained after the estimated selling price of similar goods is deducted by the costs, selling expenses and relevant taxes to be paid during completion. When the actual selling price or costs are different from the estimated ones, the management personnel shall perform corresponding adjustment on net realisable value. Therefore, the estimated results based on existing experience may be different from later actual results, and the book value of inventory in the balance sheet shall be adjusted. The amount for provision for decline in inventory may vary with the above-mentioned causes. The adjustment of inventory falling price reserves will affect the profits and losses within the estimated current period of change.

(3) Provisions for impairment of long-term assets

When the Group carries out an impairment test on goodwill, fixed assets, intangible assets and other long-term assets, it shall calculate the recoverable amount of the portfolio of asset groups, asset group or assets (hereinafter collectively referred to as assets), and the present value of the assets' expected future cash flow shall be calculated using basic assumptions and the accounting estimation. When estimating the present value of assets' expected future cash flow, it mainly involves in estimates of assets' expected future cash flow, service life and discount rate. Therefore, the estimated results based on existing experience may be different from later actual results, and this difference may affect the profits and losses of current period of change.

(4) Estimation on recognition of deferred tax assets

For the estimation on deferred income tax assets, it is necessary to estimate on the taxable income and applicable tax rates in each future year. The achievement of deferred tax assets depends on whether the Company will obtain enough taxable income in the future or not. The withdrawing time of temporary difference and the change of future tax rate may also affect the income tax expense (revenue) and the balance of deferred income taxes. The change of abovementioned estimation may lead to a material adjustment to the deferred income tax.

(5) Useful life of fixed assets and intangible assets

The Group reviews the useful life of fixed assets and intangible assets at the end of the year. The estimation of the useful lives involves management's estimation based on their historical experience on the similar assets and the industrial benchmark with expected renovation of technology. When the past estimates have been materially changed, the depreciation cost and amortisation cost for future period shall be adjusted accordingly.

32. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

Applicable Not applicable

Description of and reasons for the change of accounting policy	Approval procedure	Remark
In 2017, the Ministry of Finance revised ASBE 14 "Revenue", requiring enterprises listed domestically and overseas and enterprises listed overseas and applying the International Financial Reporting Standards (IFRSs) or ASBE to prepare financial statements, to apply the revised standard from 1 January 2018. The standard changed the criteria for recognition of revenue.	The change in the relevant accounting policies has been approved by the 9th meeting of the 5th session of the Board of the Company.	The application of this policy has no material impact to the financial statement of the Group for the interim period of 2018.
In 2017, the Ministry of Finance revised ASBE 22 "Recognition and Measurement of Financial Instruments", ASBE 23 "Transfer of Financial Assets", ASBE 24 "Hedge Accounting", ASBE 37 "Presentation of Financial Statements" and other standards, requiring enterprises listed domestically and overseas and enterprises listed overseas and applying the IFRSs or ASBE to prepare financial statements, to apply the revised standards from 1 January 2018. These standards changed the classification, basis for recognition and measurement of financial assets and financial liabilities.	The changes in the relevant accounting policies have been approved by the 9th meeting of the 5th session of the Board of the Company.	The application of this policy has no material impact to the financial statement of the Group for the interim period of 2018.

(2) Changes in significant accounting estimates

Applicable Not applicable

33. Others

The Group's operating segments are identified based on internal organisation structure, management requirements and internal reporting system. The reportable segments are determined and disclosed based on the operating segments.

Operating segment is a component of the Group that satisfies the following criteria simultaneously: the component can generate revenue and expenses in business activities; the management of the Group can assess the operating performance of the component in order to allocate resources and assess performance; and the Group can acquire accounting information such as the financial position, operating performance and cash flow of the component. If two or more operating segments carry similar economic characteristics, and satisfy certain criteria, they are combined as one operating segment.

VI. Taxation

1. Main tax types and tax rates

Type	Calculation basis	Rate
Value-added tax	Value-added tax payable is the result of output tax minus deductible input tax. For January to May this period, output tax is calculated at 17% of the sales amount as determined under requirements of relevant tax laws. For June and onwards, output tax is calculated at 16% of the sales amount as determined under requirements of relevant tax laws. Export goods are subject to measures for tax exemption, reduction and rebate.	16%
Urban maintenance and construction tax	Value-added tax and business tax payable	7%
Enterprise income tax	Taxable income	15%–25%
Education surcharge	Value-added tax and business tax payable	3%
Local education surcharge	Value-added tax and business tax payable	2%

Disclosures regarding taxpaying entities with different enterprise income tax rates

Name of taxpaying entity	Income tax rate
The Company	15%
Shouguang Molong Logistic Company Limited (壽光墨龍物流有限公司)	25%
MPM International Limited	16.5%
Shouguang Baolong Petroleum Material Company Limited (壽光寶隆石油器材有限公司)	25%
Shouguang Baolong Petroleum Equipment Company Limited (壽光懋隆新材料技術開發有限公司)	25%
Shouguang Molong Electro-mechanical Equipment Company Limited (壽光墨龍機電設備有限公司)	25%
Shouguang Maolong Old Metals Recycle Company Limited (壽光市懋隆廢舊金屬回收有限公司)	25%
Weihai Baolong Special Petroleum Materials Company Limited (威海市寶隆石油專材有限公司)	25%
Wendeng Baolong Recyclable Resource Company Limited (文登市寶隆再生資源有限公司)	25%
Shouguang Maolong Microcredit Loan Company Limited (壽光市懋隆小額貸款股份有限公司)	25%
Shandong Molong Import & Export Company Limited (山東墨龍進出口有限公司)	25%

2. *Tax incentives*

According to the Document Lu Ke Zi [2018] No. 37 (魯科字[2018]37號文件) of “Notice regarding the recognition of 2078 enterprises including Weihai TuoZhan Fibre Co., Ltd as high-tech enterprises in 2017” (《關於認定威海拓展纖維有限公司等2078家企業為2017年度高新技術企業的通知》) issued by the Technology Office of Shandong Province, Finance Office of Shandong Province, State Administration of Taxation of Shandong Province and Local Taxation Bureau of Shandong Province, the Company has been recognised as a high-tech enterprise with the certificate of high-tech enterprise No. GR201737001253 dated on 28 December 2017 for a term of 3 years. The Company is enjoyed a preferential enterprise income tax rate for high-tech enterprises of 15% in the period between 1 January 2017 to 31 December 2019.

VII. Notes to the Consolidated Financial Statements

1. Monetary funds

Item	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Cash on hand	66,827.89	80,063.78
Cash at banks	178,581,575.64	358,337,889.58
Other monetary funds	407,175,041.49	520,953,149.81
Total	585,823,445.02	879,371,103.17
Including: total deposits overseas	2,440,615.22	39,886,422.23

Other information:

- (1) The Group's deposits overseas represented the monetary funds of MPM, a Hong Kong-based subsidiary.
- (2) The Group's other monetary funds as at the end of the period included bank acceptance security deposits of RMB347,175,041.49 (as at the beginning of the year: RMB498,553,149.81), security deposits for letters of credit of RMB60,000,000 (as at the beginning of the year: RMB nil) and security deposits for letters of guarantee of RMB nil (as at the beginning of the year: RMB22,400,000.00).
- (3) The Group had security deposits for bank acceptance bills with maturity date over 3 months of RMB150,300,000.00 (as at the beginning of the year: RMB216,175,000.00), and security deposits for letters of credit with maturity date over 3 months of RMB60,000,000.00 (as at the beginning of the year: RMB nil).

2. Derivative financial assets

Applicable Not applicable

3. Bills receivable

(1) Classification of bills receivable

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	129,634,122.66	63,760,928.69
Trade acceptance bills	105,493,088.87	30,764,481.00
Total	235,127,211.53	94,525,409.69

(2) Pledged bills receivable of the Company as at the end of the period

Unit: RMB

Item	Pledged amount as at the end of the period
Bank acceptance bills	85,970,000.00
Trade acceptance bills	105,376,080.50
Total	191,346,080.50

(3) Bills receivable that have been endorsed or discounted as at the end of the period and have not yet expired as at the balance sheet date

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	788,000,000.00	—
Total	788,000,000.00	—

4. Accounts Receivable

(1) Disclosure of accounts receivable by category

Unit: RMB

Category	Balance at the end of the period					Balance at the beginning of the period				
	Book balance		Provision for bad debts		Book value	Carrying amount		Provision for bad debts		Book value
	Amount	Percentage	Amount	Rate		Amount	Percentage	Amount	Rate	
Accounts receivable that are individually significant and are individually provided for bad debts	142,499,203.98	19.98%	86,858,303.92	60.95%	55,640,900.06	142,754,267.39	30.73%	80,798,083.62	56.60%	61,956,183.77
Accounts receivable that are collectively provided for bad debts by credit risk characteristics	561,373,219.42	78.72%	—	—	561,373,219.42	311,733,795.79	67.09%	—	—	311,733,795.79
Accounts receivable that are individually insignificant but are individually provided for bad debts	9,221,915.54	1.30%	5,720,393.75	62.03%	3,501,521.79	10,132,417.11	2.18%	5,092,780.79	50.26%	5,039,636.32
Total	713,094,338.94	100.00%	92,578,697.67	—	620,515,641.27	464,620,480.29	100.00%	85,890,864.41	—	378,729,615.88

Accounts receivable that are individually significant and are individually provided for bad debts as at the end of the period:

Applicable Not applicable

Unit: RMB

Accounts Receivable (by company)	Balance at the end of the period				Reason for the provision
	Amount	Provision for bad debts	Rate		
Peak Pipe and Supply, LLC	43,929,912.03	25,757,036.86	58.63%		Long outstanding and less repayment with the higher risk in recoverability
Shandong New Coal Machinery & Equipment Co., Ltd.	25,411,133.71	25,411,133.71	100.00%		Long outstanding with lower possibility of recoverability
Fairmont International Oil Company	15,869,422.76	12,459,173.36	78.51%		Long outstanding and slow repayment with higher risk in recoverability
Wenlai Jinlong Investment Company Limited, Beijing Office	7,875,892.29	7,875,892.29	100.00%		Long outstanding with difficulty in recoverability
Unix Techno Plus Ltd	12,927,307.11	6,185,788.55	47.85%		Long outstanding and slow repayment with higher risk in recoverability
SBI Company (USA)	4,117,457.05	4,117,457.05	100.00%		Long outstanding and lower possibility of recoverability
Samasu International Oil Corporation	3,201,822.10	3,201,822.10	100.00%		Long outstanding with lower possibility of recoverability
Hebei Zhongtai Steel Pipe Manufacture Company Limited	29,166,256.93	1,850,000.00	6.34%		Long outstanding, and the pledged debt and guarantees can't ensure the possibility of recovery
Total	142,499,203.98	86,858,303.92	—	—	

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Accounts receivable that are provided for bad debts by aging analysis in the portfolio:

Applicable Not applicable

Accounts receivable that are provided for bad debts by balance percentage in the portfolio:

Applicable Not applicable

Accounts receivable that are provided for bad debts by other methods in the portfolio:

Accounts receivable that are individually insignificant but are individually provided for bad debts as at the end of the period:

Accounts Receivable (by company)	Balance at the end of the period			
	Amount	Provision for bad debts	Rate	Reason for the provision
Hubei Maikaeqi New Energy Technology Company Limited	1,306,390.07	1,166,748.47	89.31%	Long aging and slow repayment with higher risk in recoverability
South China Petrochemical Group	1,085,040.62	1,085,040.62	100.00%	Long aging with lower possibility of recoverability
Metal One Corporation	1,082,804.14	1,082,804.14	100.00%	Long aging with lower possibility of recoverability
Linyi Zhongkuang Jinding Electromechanical Manufacturing Co., Ltd.	1,252,000.20	645,219.10	51.54%	Long aging and slow repayment, with certain risks in recoverability
China Petroleum Technology Development Corporation	594,152.90	594,152.90	100.00%	Long aging with lower possibility of recoverability
Zhucheng Chuanghui Container Technology Co., Ltd.	1,178,226.00	353,467.80	30.00%	Outstanding of aging with certain risks in recoverability
Shandong Fenglong High Pressure Gas Bottle Co., Ltd.	911,138.60	273,341.58	30.00%	Long aging and slow repayment with higher risk in recoverability
Amy, Canadian companies	172,031.60	172,031.60	100.00%	Long aging with lower possibility of recoverability
Hanting Energy Resource Private Service Company Limited	96,893.49	96,893.49	100.00%	Long aging with lower possibility of recoverability
Liaocheng Development Zone Yongfa Materials Co., Ltd.	1,298,442.41	5,898.54	0.45%	Partial overdue and slow repayment with certain risks
Zibo Qilin Electrical and Logistics Company Limited	244,795.51	244,795.51	100.00%	Long outstanding with lower possibility of recovery
Total	9,221,915.54	5,720,393.75	—	—

(2) Provision, recovery or reversal of provision for bad debts for the period

Provision for bad debts for the period amounted to RMB6,687,833.26. Recovery or reversal of provision for bad debts for the period amounted to RMB44,574.00.

Of which, amounts of significant recovery or reversal of provision for bad debts for the period were:

Unit: RMB

Name of entity	Recovered or reversed amount	Recovery method
PetroChina Company Limited Huabei Oil Field Branch Company	44,574.00	Cash
Total	44,574.00	—

(3) Five largest balances of accounts receivable by debtor as at the end of the period

Five largest balances of accounts receivable by debtor as at the end of the period was RMB318,581,118.88, which accounted for 44.68% of the total balances of accounts receivable for the period. The total amount of the corresponding provision for bad debts as at the end of the period amounted to RMB27,607,036.86.

(4) Account receivables that were derecognised due to transfer of financial assets

No

(5) Aging analysis of accounts receivable

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Age	Amount as at the end of the period	Amount as at the beginning of the year
Within 1 year	585,313,321.69	310,075,287.59
1–2 years	9,669,992.32	16,652,830.97
2–3 years	22,122,077.86	38,424,632.23
Over 3 years	3,410,249.40	13,576,865.09
Net amount	620,515,641.27	378,729,615.88

5. Loans and advances to customers

(1) Breakdown of loans and advances to customers

Item	Amount as at the end of the period	Amount as at the beginning of the year
Loans and advances to customers	102,271,810.00	108,971,810.00
Less: Provision for loan losses	20,843,495.70	20,869,398.60
Loans and advances to customers, net	81,428,314.30	88,102,411.40

(2) Loans and advances to customers by guarantee type are shown as follows:

Type	Amount as at the end of the period	Amount as at the beginning of the year
Pledged loans	16,205,324.00	16,205,324.00
Secured loans	9,586,045.00	9,586,045.00
Guaranteed loans	55,636,945.30	62,311,042.40
Total	81,428,314.30	88,102,411.40

(3) Five-categorised loans and advances to customers and their provision for loan losses are shown as follows:

Category	Amount as at the end of the period						Total amount of loan losses
	Book balance		General provision for loan losses		Special provision for loan losses		
	Amount	Percentage (%)	Amount	Rate (%)	Amount	Rate (%)	
Pass	6,000,000.00	5.87%	90,000.00	1.50%	—	—	90,000.00
Special mention	26,898,500.00	26.30%	403,477.50	1.50%	537,970.00	2.00%	941,447.50
Substandard	63,653,123.00	62.24%	954,796.85	1.50%	15,913,280.75	25.00%	16,868,077.60
Doubtful	5,720,187.00	5.59%	85,802.81	1.50%	2,860,093.50	50.00%	2,945,896.31
Loss	—	—	—	—	—	—	—
Total	102,271,810.00	100	1,534,077.15	—	19,311,344.25	—	20,843,495.70

Continued

Category	Amount as at the beginning of the year						Total amount of loan losses
	Book balance		General provision for loan losses		Special provision for loan losses		
	Amount	Percentage (%)	Amount	Rate (%)	Amount	Rate (%)	
Pass	6,000,000.00	5.51%	60,000.00	1.00	—	—	60,000.00
Special mention	32,148,500.00	29.50%	321,485.00	1.00	642,970.00	2.00	964,455.00
Substandard	65,103,123.00	59.74%	651,031.23	1.00	16,276,617.00	25.00	16,927,648.23
Doubtful	5,720,187.00	5.25%	57,201.87	1.00	2,860,093.50	50.00	2,917,295.37
Loss	—	—	—	—	—	—	—
Total	108,971,810.00	100	1,089,718.10	—	19,779,680.50	—	20,869,398.60

(4) Loans and advances to customers by category of borrowers

Category	Amount as at the end of the year				Net amount of loans
	Book balance		Provision for loan losses		
	Amount	Percentage (%)	Amount	Rate (%)	
Corporate loans	59,546,810.00	58.22%	13,540,745.70	20.48	46,006,064.30
Personal loans	42,725,000.00	41.78%	7,302,750.00	17.09	35,422,250.00
Total	102,271,810.00	100.00%	20,843,495.70	—	81,428,314.30

Continued

Category	Amount as at the beginning of the year				Net amount of loans
	Book balance		Provision for loan losses		
	Amount	Percentage (%)	Amount	Rate (%)	
Corporate loans	66,246,810.00	60.79	13,566,648.60	20.48	52,680,161.40
Personal loans	42,725,000.00	39.21	7,302,750.00	17.09	35,422,250.00
Total	108,971,810.00	100	20,869,398.60	—	88,102,411.40

(5) As at 30 June 2018, the Group had a total of overdue loans to customers amounting RMB85,371,810.00, details of which are as follows:

Overdue time	Amount	Percentage of total loans to customers (%)	Balance of provision for loan losses as at the end of the period
More than 360 days	70,301,810.00	82.35%	18,316,995.70
180 to 360 days	9,070,000.00	10.62%	2,267,500.00
90 to 180 days	—	—	—
Less than 90 days	6,000,000.00	7.03%	90,000.00
Total	85,371,810.00	100.00%	20,674,495.70

6. Prepayments

(1) Aging analysis of prepayments

Unit: RMB

Age	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Percentage	Amount	Percentage
Within 1 year	71,137,387.77	93.94%	79,154,406.20	86.37%
1 to 2 years	4,577,947.89	6.05%	12,478,729.38	13.62%
2 to 3 years	5.40	0.00%	—	—
Over 3 years	10,683.61	0.01%	10,683.61	0.01%
Total	75,726,024.67	—	91,643,819.19	—

Reasons for significant prepayments with age over 1 year not settled in time:

Nil

(2) Five largest balances of prepayments by payees as at the end of the period

Name of entity	Balance at the end of the period	Age	Percentage of total balance of prepayments as at the end of the period (%)
Entity I	12,753,493.23	Within 1 year	16.84%
Entity II	12,431,637.02	Within 1 year	16.42%
Entity III	9,844,213.55	Within 1 year	13.00%
Entity IV	4,290,498.91	1 to 2 years	5.67%
Entity V	2,411,604.00	Within 1 year	3.18%
Total	41,731,446.71		55.11%

7. Interest receivables

(1) Category of interest receivables

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Security deposit interest	1,484,318.49	4,220,913.66
Total	1,484,318.49	4,220,913.66

(2) Significant overdue interests

None of the above interests were overdue.

8. Other receivables

(1) Disclosure of other receivables by category

Unit: RMB

Category	Balance at the end of the period					Balance at the beginning of the period				
	Book balance		Provision for bad debts			Carrying amount		Provision for bad debts		
	Amount	Percentage	Amount	Rate	Book value	Amount	Percentage	Amount	Rate	Book value
Other receivables that are individually significant and are individually provided for bad debts	33,757,175.89	46.90%	24,365,613.86	72.18%	9,391,562.03	33,336,780.03	50.47%	21,235,093.18	63.70%	12,101,686.85
Other receivables that are collectively provided for bad debts by credit risk characteristics	37,843,827.83	52.57%	0.00	—	37,843,827.83	32,326,556.17	48.95%	—	—	32,326,556.17
Other receivables that are individually insignificant but are individually provided for bad debts	381,919.25	0.53%	381,919.25	100.00%	0.00	381,919.25	0.58%	381,919.25	100.00%	—
Total	71,982,922.97	100.00%	24,747,533.11	—	47,235,389.86	66,045,255.45	100.00%	21,617,012.43	—	44,428,243.02

Other receivables that are individually significant and are individually provided for bad debts as at the end of the period:

Applicable Not applicable

Unit: RMB

Other Receivables (by entity)	Amount	Balance at the end of the period		Reason for the provision
		Provision for bad debts	Rate	
JESORO OIL LTD	33,757,175.89	24,365,613.86	72.18%	Overdue with certain risks in recoverability
Total	33,757,175.89	24,365,613.86	—	

Other receivables that are provided for bad debts by aging analysis in the portfolio:

Applicable Not applicable

Other receivables that are provided for bad debts by balance percentage in the portfolio:

Applicable Not applicable

Other receivables that are provided for bad debts by other methods in the portfolio:

Applicable Not applicable

Other receivables that are individually insignificant but are individually provided for bad debts as at the end of the period:

Name of entity	Book balance	Amount	Rate (%)	Reasons for the provision
Wang Li Xue	40,000.00	40,000.00	100.00	Not recoverable due to long outstanding
Other entities	274,020.00	274,020.00	100.00	Not recoverable due to long outstanding
Other individuals	67,899.25	67,899.25	100.00	Not recoverable due to long outstanding
Total	381,919.25	381,919.25	—	

(2) **Provision, recovery or reversal of provision for bad debts for the period**

Provision for bad debts for the period amounted to RMB3,130,520.68. Recovery or reversal of provision for bad debts for the period amounted to RMB0.00.

(3) **Other receivables actually written off for the period**

The Group had no other receivables written off for the period.

(4) Other receivables by nature

Unit: RMB

Nature of payment	Book balance at the end of the period	Book balance at the beginning of the period
Business dealings	48,482,437.77	48,381,978.29
Personal dealings	1,041,664.00	818,444.00
Security deposits and deposits	22,458,821.20	16,844,833.16
Total	71,982,922.97	66,045,255.45

(5) Five largest balances of other receivables by debtor as at the end of the period

Unit: RMB

Name of entity	Nature of payment	Book balance at the end of the period	Age	Percentage of the total book balance of other receivables as at the end of the period	Book balance of provision for bad debts as at the end of the period
JESORO OIL LTD	Current account	33,757,175.89	2 to 3 years	46.90%	24,365,613.86
Shouguang City Yang Kou Town Office of Finance	Project construction deposit	14,530,000.00	Over 5 years	20.19%	—
Shougang City Yang Kou Town Statistic Center of Finance, Political, Economic and Management Affairs	Current account	7,250,941.48	3 to 4 years	10.07%	—
Shougang City Shang Kou Town Statistic Station of Finance, Political, Economic and Management Affairs	Current account	2,425,146.96	Within 1 year	3.37%	—
Shaanxi Yanchang Petroleum Materials Group (Jiangsu) Co., Ltd.	Contract performance deposit	2,000,000.00	Within 1 year	2.78%	—
Total	—	59,963,264.33	—	—	24,365,613.86

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(6) Government grant receivables

Nil

(7) Other receivables derecognised due to transfer of financial assets

Nil

(8) Assets or liabilities formed by transfer of other receivables and continued involvement

Nil

Other information:

The Group's other receivables as at the end of the period did not include any amount which was borrowed by staff for the purpose of acquiring any equity interest in the Company.

9. Inventories

(1) Category of inventories

Unit: RMB

Item	Book balance at the end of the period			Book balance at the beginning of the period		
	Book balance	Allowances	Book value	Book balance	Allowances	Book value
Raw materials	389,797,939.93	7,307,395.94	382,490,314.27	364,667,996.09	7,307,395.94	357,360,600.15
Work-in-progress	232,731,672.09	3,106,326.25	229,914,377.61	189,262,234.99	5,120,938.40	184,141,296.59
Finished goods	364,249,755.72	6,433,884.19	357,527,069.48	371,508,759.21	10,488,448.82	361,020,310.39
Materials for outsourced processing	33,435,611.66	—	33,435,611.66	23,250,512.15	—	23,250,512.15
Total	1,020,214,979.40	16,847,606.38	1,003,367,373.02	948,689,502.44	22,916,783.16	925,772,719.28

Whether the Company needs to comply with the disclosure requirements of the Guidelines of the Shenzhen Stock Exchange for Industrial Information Disclosure No.4 — Listed Companies' Engagement in the Seeds and Planting Businesses

No

(2) Allowance for impairment of inventories

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period		Decrease during the period		Balance at the end of the period
		Allowances	Others	Reversal or Write-off	Others	
Raw materials	7,307,395.94	—	—	—	—	7,307,395.94
Work-in-progress	5,120,938.40	—	—	2,014,612.15	—	3,106,326.25
Finished goods	10,488,448.82	—	—	4,054,564.63	—	6,433,884.19
Total	22,916,783.16	—	—	6,069,176.78	—	16,847,606.38

Included in the decrease in allowances for impairment of inventories for the year was a write-off amounting RMB6,069,176.78.

Allowances for impairment of inventories

Item	Specific basis for determining the net realisable value	Reasons for reversal or write-off during the year
Raw materials	Selling price of the products produced using the materials and work-in-progress minus costs of further processing and related sales expenses and related tax expenses	Production requisition and price movement
Work-in-progress		Production requisition and price movement
Materials for outsourced processing		Production requisition and price movement
Finished goods	Selling price minus selling expenses and related tax expenses	External sales and price movement
(3) Capitalised amount of borrowing expenses included in the balance of inventories as at the end of the period		
Nil		
(4) Completed but unsettled assets formed by construction contract as at the end of the period		
Nil		

10. Other current assets

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Item	Balance at the end of the period	Unit: RMB
		Balance at the beginning of the period
Deductible input tax	123,054,031.18	115,388,999.62
Prepaid income tax	2,681,173.51	2,178,186.55
Other tax prepayments	868,955.71	868,955.71
Total	126,604,160.40	118,436,141.88

11. Available-for-sale financial assets

(1) Details of available-for-sale financial assets

Unit: RMB

Item	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Available-for-sale equity instruments:						
Measured at cost	20,000.00	—	20,000.00	20,000.00	—	20,000.00
Total	20,000.00	—	20,000.00	20,000.00	—	20,000.00

(2) Available-for-sale financial assets measured at cost as at the end of the period

Unit: RMB

Investee	Book balance			Provision for impairment				Shareholding in investee	Cash dividend for the period
	At the beginning of the period	Increase during the period	Decrease during the period	At the beginning of the period	Increase during the period	Decrease during the period	At the end of the period		
Shouguang Association of Environmental Protection (壽光市環境保護協會)	20,000.00	—	—	20,000.00	—	—	—	—	—
Total	20,000.00	—	—	20,000.00	—	—	—	—	—

(3) No provision for impairment in respect of the significant decline or non-temporary decline in the fair value of available-for-sale equity as at the end of the period

The Group's available-for-sales financial assets represent investments in external entities. As there was no indication of impairment on these investees, no provision for impairment has been made for available-for-sales financial assets.

12. Long-term equity investments

Unit: RMB

Investee	Movement during the period									Balance at the end of the period	Balance of provision for impairment at the end of the period
	Balance at the beginning of the period	Additions	Reductions	Gain or loss recognised under the equity method	Adjustment to other comprehensive income	Other changes in equity	Distribution of cash dividend or profits declared	Provision for impairment	Others		
I. Joint-venture											
II. Associate											
Karamay Yalong Oil Pump Company Limited (克拉玛依亚龙石油机械有限公司)	2,639,321.48	—	—	—	—	—	—	—	—	2,639,321.48	—
Subtotal	2,639,321.48	—	—	—	—	—	—	—	—	2,639,321.48	—
Total	2,639,321.48	—	—	—	—	—	—	—	—	2,639,321.48	—

Other information

There was no impairment on the Group's long-term equity investments and therefore, no provision for impairment has been made for long-term investments.

There was no restriction on the ability of transferring capital to the Company of the investees under the long-term equity investments held by the Group as at 30 June 2018.

13. Fixed Assets

(1) Details of fixed assets

Unit: RMB

Item	Buildings	Machinery and equipment	Electronic and other equipment	Vehicles	Total
I. Original book value:					
1. Balance at the beginning of the period	1,093,119,547.64	3,152,358,153.61	120,896,489.31	12,422,660.18	4,378,796,850.74
2. Additions during the period	827,365.37	164,297,941.19	2,653,439.89	2,106,667.10	169,885,413.55
(1) Acquisitions	827,365.37	4,889,674.21	2,653,439.89	783,480.63	9,153,960.10
(2) Transfer from construction-in-progress	—	159,408,266.98	—	1,323,186.47	160,731,453.45
(3) Additions from business combinations	—	—	—	—	—
3. Reductions during the period	8,663,106.83	74,040,463.58	825,061.69	561,064.09	84,089,696.19
(1) Disposals or retirement	8,663,106.83	38,827,250.96	825,061.69	561,064.09	48,876,483.57
(2) Other reductions	—	35,213,212.62	—	—	35,213,212.62
4. Balance at the end of the period	1,085,283,806.18	3,242,615,631.22	122,724,867.51	13,968,263.19	4,464,592,568.10
II. Accumulated depreciation					
1. Balance at the beginning of the period	223,087,596.03	1,090,022,143.09	88,240,375.10	8,718,457.02	1,410,068,571.24
2. Additions during the period	25,126,870.09	74,987,903.24	2,425,502.83	665,252.80	103,205,528.96
(1) Provision	25,126,870.09	74,987,903.24	2,425,502.83	665,252.80	103,205,528.96
3. Reductions during the period	5,000,916.73	43,963,100.00	757,614.41	477,376.95	50,199,008.09
(1) Disposals or retirement	5,000,916.73	30,169,609.64	757,614.41	477,376.95	36,405,517.73
(2) Other reductions	—	13,793,490.36	—	—	13,793,490.36
4. Balance at the end of the period	243,213,549.39	1,121,046,946.33	89,908,263.52	8,906,332.87	1,463,075,092.11
III. Provision for impairment					
1. Balance at the beginning of the period	4,986,478.28	71,865,919.03	—	—	76,852,397.31
2. Additions during the period	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions during the period	—	7,771,675.53	—	—	7,771,675.53
(1) Disposals or retirement	—	7,771,675.53	—	—	7,771,675.53
4. Balance at the end of the period	4,986,478.28	64,094,243.50	—	—	69,080,721.78
IV. Book value					
1. Book value at the end of the period	837,083,778.51	2,057,474,441.39	32,816,603.99	5,061,930.32	2,932,436,754.21
2. Book value at the beginning of the period	865,045,473.33	1,990,470,091.49	32,656,114.21	3,704,203.16	2,891,875,882.19

(2) Fixed assets with pending certificates of ownership

Unit: RMB

Item	Book value	Pending reasons
140 main workshops in rolled tube factory	4,948,222.27	Application in process
New dormitory building and staff dining hall in Weihai	4,598,462.34	Application in process
Factory in logistics park	8,438,546.90	Application in process
Street apartment No. 12 in Block 4 of Molong Garden	3,149,920.59	Application in process
Main electric-arc furnace plant and steel scrap plant in Beiluo	66,257,597.31	Application in process
New material workshop plant, office building and staff dining hall of Maolong	269,018,250.58	Not yet filed

14. Construction in progress

(1) Details of construction in progress

Unit: RMB

Item	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Employee technical development and training centre	21,541,097.42	—	21,541,097.42	21,541,097.42	—	21,541,097.42
90-tonne electric-arc furnace project II	—	—	—	130,136,869.43	—	130,136,869.43
Relocation project of Molong	16,420,689.23	—	16,420,689.23	10,931,962.65	—	10,931,962.65
Electromechanical Upgrade of workshops and equipment	24,459,547.43	—	24,459,547.43	—	—	—
Other miscellaneous projects	12,214,252.91	—	12,214,252.91	8,270,970.18	—	8,270,970.18
Total	74,635,586.99	—	74,635,586.99	170,880,899.68	—	170,880,899.68

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(2) Changes of major construction-in-progress projects during the period

Unit: RMB

Project name	Budget amount	Balance at the beginning of the period	Additions during the period	Transfer to fixed assets during the period	Other reductions during the period	Balance at the end of the period	Percentage of		Accumulated interest capitalised	Including: Interest capitalised during the period	Capitalisation Rate for the period	Source of funding
							accumulated contribution to budget	Percentage to completion				
Employee technical development and training centre	26,000,000.00	21,541,097.42	—	—	—	21,541,097.42	82.85%	55%	—	—	—	Other
90-tonne electric-arc furnace project II	100,000,000.00	130,136,869.43	48,881,641.21	179,018,510.64	—	0.00	179.02%	100%	—	—	—	Other
Relocation project of Molong	20,570,000.00	10,931,962.65	5,488,726.58	—	—	16,420,689.23	79.83%	80%	—	—	—	Other
Electromechanical Upgrade of workshops and equipment	30,000,000.00	—	24,459,547.43	—	—	24,459,547.43	81.53%	55%	—	—	—	Other
Total	176,570,000.00	162,609,929.50	78,829,915.22	179,018,510.64	0.00	62,421,334.08	—	—	—	—	—	—

(3) Provision for impairment of construction in progress during the period

As there was no indication of impairment of construction in progress as at the end of the year, no provision for impairment has been made for construction in progress.

There was no restriction on the right to own or use of the construction in progress as at the end of the period for any reason of pledge, guarantee or otherwise.

15. Intangible assets

(1) Details of intangible assets

Unit: RMB

Item	Land use rights	Patent rights	Non-patented technology	Software	Total
I. Original book value					
1. Balance at the beginning of the period	469,328,716.49	2,541,868.11	376,674,716.65	770,036.72	849,315,337.97
2. Additions during the period	538,245.00	356,217.48	14,269,611.24	—	15,164,073.72
(1) Acquisitions	538,245.00	356,217.48	—	—	894,462.48
(2) Internal development	—	—	14,269,611.24	—	14,269,611.24
(3) Additions from business combinations	—	—	—	—	—
3. Reductions during the period	8,144,378.85	—	—	—	8,144,378.85
(1) Disposals	8,144,378.85	—	—	—	8,144,378.85
4. Balance at the end of the period	461,722,582.64	2,898,085.59	390,944,327.89	770,036.72	856,335,032.84
II. Accumulated amortisation					
1. Balance at the beginning of the period	57,022,631.40	2,404,681.06	311,181,489.01	770,036.72	371,378,838.19
2. Additions during the period	4,599,530.13	77,114.63	6,873,017.31	—	11,549,662.07
(1) Provision	4,599,530.13	77,114.63	6,873,017.31	—	11,549,662.07
3. Reductions during the period	1,931,190.68	—	—	—	1,931,190.68
(1) Disposals	1,931,190.68	—	—	—	1,931,190.68
4. Balance at the end of the period	59,690,970.85	2,481,795.69	318,054,506.32	770,036.72	380,997,309.58
III. Provision for Impairment					
1. Balance at the beginning of the period	—	—	33,968,375.45	—	33,968,375.45
2. Additions during the period	—	—	—	—	—
(1) Provision	—	—	—	—	—
3. Reductions during the period	—	—	—	—	—
(1) Disposals	—	—	—	—	—
4. Balance at the end of the period	—	—	33,968,375.45	—	33,968,375.45
IV. Book value					
1. Book value at the end of the period	402,031,611.79	416,289.90	38,921,446.12	—	441,369,347.81
2. Book value at the beginning of the period	412,306,085.09	137,187.05	31,524,852.19	—	443,968,124.33

As at the end of the period, the internally-generated intangible assets accounted for 8.82% of the balance of intangible assets.

16. Research and development expenditure

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period		Decrease during the period		Balance at the end of the period
		Expenditures for internal development	Others	Recognition as intangible assets	Transfer to profit or loss for the period	
New model of casing pipe	—	35,901,719.74	—	14,087,273.88	12,954,516.10	8,859,929.76
New model of oil tube	—	6,209,029.24	—	—	6,209,029.24	—
Total	—	42,110,748.98	—	14,087,273.88	19,163,545.34	8,859,929.76

Other information

The Company's research and development expenditures by research phase and development phase, and the point of time and basis for capitalisation of development phase are detailed in V.20 of these notes.

Up to 30 June 2018, all the research and development works of new products have not yet been completed.

17. Goodwill

(1) Original book value of goodwill

Unit: RMB

Name of investee or event generating goodwill	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
A group of assets of Weihai Baolong	100,078,074.85	—	—	100,078,074.85
A group of assets of Molong				
Electromechanical	27,895,308.36	—	—	27,895,308.36
A group of assets of Maolong New Materials	15,000,000.00	—	—	15,000,000.00
Total	142,973,383.21	—	—	142,973,383.21

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(2) Provision for impairment of goodwill

Unit: RMB

Name of investee or event generating goodwill	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
A group of assets of Weihai Baolong	82,790,000.00	—	—	82,790,000.00
A group of assets of Molong Electromechanical	21,500,000.00	—	—	21,500,000.00
A group of assets of Maolong New Materials	12,000,000.00	—	—	12,000,000.00
Total	116,290,000.00	—	—	116,290,000.00

Process of goodwill impairment test, parameters and recognition of goodwill impairment:

(1) The Group's goodwill was generated from its acquisition of shares in Maolong New Materials, a company under uncommon control in 2007. The acquisition constituted a business combination under uncommon control.

(2) The Group performed the impairment test on goodwill as stated in V.21 of these notes.

18. *Deferred income tax assets/deferred income tax liabilities*

(1) Deferred income tax assets before offsetting

Unit: RMB

Item	Balance at the end of the period		Balance at the beginning of the period	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Deductible losses	17,429,811.93	3,682,919.26	17,693,205.19	3,737,354.03
Unrealised profits from intra-group transactions	2,617,927.46	654,481.87	2,617,927.46	654,481.87
Total	20,047,739.39	4,337,401.13	20,311,132.65	4,391,835.90

(2) Deferred income tax liabilities before offsetting

Unit: RMB

Item	Balance at the end of the period		Balance at the beginning of the period	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Long-term equity investments	15,237.51	3,809.38	15,237.51	3,809.38
Fixed assets	1,742,333.24	435,583.30	1,779,420.98	444,855.25
Intangible assets	26,935,658.44	6,733,914.61	27,509,018.73	6,877,254.67
Total	28,693,229.19	7,173,307.29	29,303,677.22	7,325,919.30

(3) Deferred income tax assets or liabilities presented on a net basis after offsetting

Unit: RMB

Item	Offsetting amount between deferred income tax assets and liabilities at the end of the period	Balance of deferred income tax assets and liabilities after offsetting at the end of the period	Offsetting amount between deferred income tax assets and liabilities at the beginning of the period	Balance of deferred income tax assets and liabilities after offsetting at the beginning of the period
Deferred income tax assets	—	4,337,401.13	—	4,391,835.90
Deferred income tax liabilities	—	7,173,307.29	—	7,325,919.30

(4) Breakdown of unrecognised deferred income tax assets

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Deductible temporary differences	430,361,385.13	426,612,207.97
Deductible losses	742,490,670.39	771,031,678.17
Total	1,172,852,055.52	1,197,643,886.14

- (5) Deductible losses of unrecognised deferred income tax assets will be expired by the year as specified below

Unit: RMB

Year	Amount at the end of the period	Amount at the beginning of the period	Remark
2019	39,934,368.36	50,006,328.18	—
2020	14,231,115.45	135,433,959.60	—
2021	291,468,269.58	385,442,052.02	—
2022	178,744,173.53	178,817,258.25	—
2023	45,931,547.60	—	—
Total	570,309,474.52	749,699,598.05	—

19. Other non-current assets

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Prepayments for land premiums	45,485,934.15	45,485,934.15
Prepayments for equipment	—	7,919,009.43
Prepayments for construction	6,711,403.60	3,708,200.00
Total	52,197,337.75	57,113,143.58

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20. Short-term borrowings

- (1) Category of short-term borrowings

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Pledged borrowings	161,010,000.00	28,000,000.00
Guaranteed borrowings	703,083,000.00	585,342,000.00
Credit borrowings	742,049,000.02	706,744,600.02
Bills discounting and borrowings from letters of credit	788,000,000.00	821,000,000.00
Total	2,394,142,000.02	2,141,086,600.02

Information on the category of short-term borrowings:

Interest rate: The Group's short-term borrowings for the half year of 2018 had a weighted average interest rate of 5.36% (2017: 5.003%).

Included in the pledged borrowings were the borrowings pledged by trade bills of RMB117,010,000.00, and the borrowing pledged by certificates of deposit of RMB44,000,000.00.

Included in the guaranteed borrowings were the guarantee provided by Maolong New Materials, a subsidiary, in respect of borrowings granted to the Company of RMB663,083,000.00, and the guarantee provided by Shouguang Baolong, a subsidiary, in respect of borrowings granted to the Company of RMB40,000,000.00.

(2) Overdue and unpaid short-term borrowings

The Group had no overdue and unpaid short-term borrowings as at the end of the Group.

Since the end of last year and up to the date of this financial report, the Group has repaid borrowings denominated in renminbi amounting RMB163 million out of its short-term borrowings at the end of the period.

21. Derivative financial liabilities

Applicable Not applicable

22. Bills payable

Unit: RMB

Type	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	97,930,005.57	213,984,811.00
Total	97,930,005.57	213,984,811.00

At as the end of the period, the due and unpaid bills payable amounted to RMB0.00.

23. Accounts payable

(1) Presentation of accounts payable

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Amounts due to suppliers	981,299,622.19	843,834,731.51
Total	981,299,622.19	843,834,731.51

(2) Significant accounts payable aging over one year

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Entity 1	18,495,797.69	Delivery fees
Entity 2	17,234,675.00	Payments for equipment
Entity 3	12,098,438.06	Payments for construction
Entity 4	11,043,843.00	Payments for construction
Entity 5	3,906,684.00	Payments for construction
Total	62,779,437.75	—

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

Item	Balance at the end of the period	Balance at the beginning of the period
Within two months	453,711,169.54	281,923,087.32
2 – 3 months	93,161,483.19	45,823,044.32
3 – 4 months	35,783,507.97	58,391,569.44
4 months – 1 year	203,696,612.78	125,996,973.86
1 – 2 years	62,010,403.68	136,440,231.05
2 – 3 years	80,616,865.93	127,134,872.00
Over 3 years	52,319,579.10	68,124,953.52
Total	981,299,622.19	843,834,731.51

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24. Receipts in Advance

(1) Presentation of receipts in advance

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Payments for sales of goods	38,423,368.51	68,937,156.42
Total	38,423,368.51	68,937,156.42

(2) Significant receipts in advance aging over one year

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Entity 1	1,315,470.73	Not yet delivered
Total	1,315,470.73	—

25. Salaries payable

(1) Presentation of salaries payable

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
I. Short-term salaries	51,245,591.21	121,008,867.28	125,900,919.28	46,353,539.21
II. Post-employment benefits				
— defined contribution plans	—	7,642,371.90	7,642,371.90	—
Total	51,245,591.21	128,651,239.18	133,543,291.18	46,353,539.21

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(2) Presentation of short-term salaries

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
1. Wages, bonuses, allowance and subsidies	39,297,070.14	99,978,661.91	106,276,145.23	32,999,586.82
2. Staff welfare	—	5,205,966.82	5,205,966.82	—
3. Social security fees	—	11,381,390.28	11,381,390.28	—
Including: Medical insurance	—	2,812,259.46	2,812,259.46	—
Work injury insurance	—	586,337.82	586,337.82	—
Maternity insurance	—	343,703.84	343,703.84	—
4. Housing provident fund	—	2,492,502.96	2,492,502.96	—
5. Contributions to union fund and staff education fund	11,948,521.07	1,950,345.31	544,913.99	13,353,952.39
Total	51,245,591.21	121,008,867.28	125,900,919.28	46,353,539.21

(3) Presentation of defined contribution schemes

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
1. Basic pension insurance	—	7,363,490.40	7,363,490.40	—
2. Unemployment insurance fees	—	278,881.50	278,881.50	—
Total	—	7,642,371.90	7,642,371.90	—

Other information:

The Group participates in the social insurance schemes established by government agencies. According to the schemes, the Group makes contributions to the schemes as required by the local governments. Apart from the above contributions, the Group does not have further payment obligations. The corresponding expenses are charged to profit and loss for the period or cost of related asset as incurred.

26. Taxes Payable

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Value-added tax	19,607,216.40	9,474,251.14
Consumption tax	0.00	—
Enterprise income tax	3,378,902.40	2,103,702.96
Individual income tax	618,546.79	819,448.82
Urban maintenance and construction tax	281,959.42	827,699.15
Property tax	1,305,565.84	1,452,796.67
Land use tax	2,420,696.00	2,435,727.50
Education surcharge	201,399.59	591,213.72
Local irrigation fund	20,139.96	59,058.29
Stamp duty	451,021.33	862,723.35
Others	133,549.73	289,735.77
Total	28,418,997.46	18,916,357.37

Other information:

At as the end of the year, taxes payable did not included Hong Kong profits tax payable.

27. Interests Payable

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Interests of long-term borrowings with fixed term of repayment and interests payable in instalments	17,186,388.89	3,100,384.51
Interests payable for short-term borrowings	3,368,763.12	2,358,434.48
Total	20,555,152.01	5,458,818.99

Details of significant overdue and unpaid interests:

As at 30 June 2018, the Group had no overdue and unpaid interests.

28. Other payables

(1) Presentation of other payables by nature

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Accrued power expenses	41,185,194.02	20,395,174.98
Delivery fees	6,584,664.97	2,330,016.95
Deposits	7,620,897.55	5,603,591.64
Others	3,598,703.43	4,189,736.56
Total	58,989,459.97	32,518,520.13

(2) Significant other payables aging over one year

The Group had no significant other payables aging over one year.

29. Non-current liabilities due within one year

Unit: RMB

Item	Balance at the end of the period	Balance at the beginning of the period
Long-term borrowings due within one year	73,347,657.04	155,946,611.23
Total	73,347,657.04	155,946,611.23

30. Long-term borrowings

(1) Category of Long-term borrowings

Item	Balance at the end of the period	Unit: RMB	
		Balance at the beginning of the period	
Secured borrowings	515,275,520.50	577,259,900.98	
Borrowings from shareholders	90,000,000.00	160,000,000.00	
Total	605,275,520.50	737,259,900.98	

Information on the classification of long-term borrowings:

Long-term borrowings due within one year have been reclassified to "Non-current liabilities due within one year".

Other information including interest rate intervals:

Details of secured borrowings are set out in XVI.2 of these notes.

Interest rate: The interest rate of the Group's long-term borrowings for 2017 ranged between 4.988% and 9.398%.

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31. Provisions

Item	Balance at the end of the period	Unit: RMB	
		Balance at the beginning of the period	Cause
Pending litigations	8,000,000.00	8,000,000.00	—
Total	8,000,000.00	8,000,000.00	—

Other information including the material assumptions, estimation for the significant provisions:

As at 30 June 2018, 53 cases have been filed for disputes regarding the claims on false statement about the securities of Shandong Molong. The amount involved was approximately RMB16.37 million. 19 of these cases have been heard and all of them are pending for effective judgment. Based on the cases already heard, as the court has not yet determined the disclosure date and the risk factors of the system, the investor's compensation range has not yet decided. Furthermore, the trading record submitted by the investors is not complete. Therefore, the Company is of the view that it is less possible for the court to judge the Company's full compensation according to the claimed amount of the investors. With a reference to other types of cases and taking into accounting of common reasons for defences, based on the prudent principle, the Company made a provision of RMB8 million.

32. Deferred income

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Cause
Government grants	6,954,855.00	—	—	6,954,855.00	—
Total	6,954,855.00	—	—	6,954,855.00	—

Projects related to the government grants:

Unit: RMB

Liability item	Balance at the beginning of the period	New grants for the period	Amounts recognised in non-operating income during the period	Amount recognised in other income during the period	Amount charged against costs and expenses during the period	Other changes	Balance at the end of the period	Related to assets/related to revenue
Government grants	6,954,855.00	—	—	—	—	—	6,954,855.00	Related to assets
Total	6,954,855.00	—	—	—	—	—	6,954,855.00	—

Other information:

According to the Notice on Granting Subsidy Funds to Finance the Ancillary Infrastructure of Shouguang Molong Logistic Company Limited (Shang Zheng Fa [2016] No. 3) (《關於撥付壽光墨龍物流有限公司基礎設施配套補助資金的通知》(上政發[2016] 3號)) issued by the People's Government of Shangkou Town, the Group received a subsidy fund for the ancillary infrastructure of RMB6,954,855.00 on 24 February 2016, and also recognised the government grant as the government grant related to assets. As the construction is still in progress, no amortisation has been made for the relevant infrastructure for the period.

33. Share Capital

Unit: RMB

	Balance at the beginning of the period	Movement for the period (increase/decrease) (+, -)					Sub-total	Balance at the end of the period
		Issue of new shares	Bonus issue	Capitalisation of reserve	Others			
Total number of shares	797,848,400.00	—	—	—	—	—	797,848,400.00	

34. Capital Reserves

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Capital premium (share capital premium)	849,481,990.92	—	—	849,481,990.92
Other capital reserves	11,035,467.50	1,980,200.00	—	13,015,667.50
Total	860,517,458.42	1,980,200.00	—	862,497,658.42

Other information including the details of and reasons for changes during the period:

Zhang En Rong, the former chairman of the Company, waived his remuneration for the year and provided an interest-free borrowing to the Company. Pursuant to the relevant regulations, the related remuneration and interest of the borrowing have been recognised to the capital reserve.

35. Other comprehensive income

Unit: RMB

Item	Balance at the beginning of the period	Amount for the current period					Balance at the end of the period
		Amount before income tax during the period	Less: Transfer of amount previously recognised as other comprehensive income in prior years to profit or loss for the period	Less: Income tax expense	Attributable to the parent company after tax	Attributable to minority shareholders after tax	
II. Other comprehensive income to be reclassified into profit and loss subsequently	(1,402,748.25)	(370,858.44)	—	—	(350,833.29)	(20,025.15)	(1,753,581.54)
Difference on the translation of foreign currency financial statements	(1,402,748.25)	(370,858.44)	—	—	(350,833.29)	(20,025.15)	(1,753,581.54)
Total other comprehensive income	(1,402,748.25)	(370,858.44)	—	—	(350,833.29)	(20,025.15)	(1,753,581.54)

36. Special Reserve

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Safety production fee	—	7,586,725.93	7,586,725.93	—
Total	—	7,586,725.93	7,586,725.93	—

Other information including the details of and reasons for changes during the period:

According to the Measures on the Withholding and Usage of Safety Production Fees of Enterprises (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)) jointly issued by the Ministry of Finance and the State Administration of Work Safety, the Group provides for the safety production fee in accordance with the relevant requirements.

37. Surplus Reserve

Unit: RMB

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	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

38. General risk provision

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
General risk provision	11,236.91	—	—	11,236.91
Total	11,236.91	—	—	11,236.91

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The Company's subsidiary, Shouguang Maolong Microcredit, makes general risk provision pursuant to the relevant requirements of the Notice on Issues Regarding the Strengthening the Management of Loan Classification of Micro-Credit Companies for Risk Provision Improvement (Lu Jin Ban Fa [2013] No.11) (魯金辦發[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》) jointly issued by the Finance Bureau of Shandong Province and the Office of Shandong Province Finance Affairs on 15 March 2013.

39. Undistributed profit

Unit: RMB

Item	Current period	Prior period
Undistributed profit before adjustment as at the end of prior period	35,934,311.12	(2,104,173.06)
Undistributed profits after adjustment at the beginning of the period	35,934,311.12	(2,104,173.06)
Add: Net profit attributable to the owners of the Parent Company for the period	32,575,294.80	7,020,723.65
Undistributed profit as at the end of the period	68,509,605.92	4,916,550.59

Breakdown of adjustments for undistributed profit at the beginning of the period:

- (1) The effect of the retrospective adjustments arising from ASBEs and the related new requirements on the undistributed profits as at the beginning of the period amounted to RMB0.00.
- (2) The effect of the changes in accounting policies on the undistributed profits as at the beginning of the period amounted to RMB0.00.
- (3) The effect of the corrections to significant accounting errors on the undistributed profits as at the beginning of the period amounted to RMB0.00.
- (4) The effect of the change of the scope of combination under common control on the undistributed profits as at the beginning of the period amounted to RMB0.00.
- (5) The effect of other adjustments on the undistributed profits as at the beginning of the period amounted to RMB0.00.

40. Operating revenue and operating Costs

Unit: RMB

Item	Amount for the current period		Amount for the prior period	
	Revenue	Cost	Revenue	Cost
Main operations	1,968,240,807.49	1,681,174,651.71	1,208,356,543.99	1,243,972,365.46
Other operations	31,840,762.34	35,680,937.73	14,472,101.66	20,011,281.86
Total	2,000,081,569.83	1,716,855,589.44	1,222,828,645.65	1,263,983,647.32

41. Taxes and Surcharges

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Urban maintenance and construction tax	2,971,047.06	1,433,344.83
Education surcharge	1,273,305.87	1,023,817.73
Resource tax	95,187.00	—
Property tax	2,315,481.96	4,268,743.12
Land use tax	4,856,423.52	4,871,454.96
Vehicle and vessel use tax	10,432.76	10,725.44
Stamp duty	1,182,527.38	468,025.86
Business tax	—	152,531.18
Local irrigation funds	212,217.67	85,372.03
Other taxes	1,034,390.94	27,028.00
Total	13,951,014.16	12,341,043.15

42. Selling expenses

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Delivery fees	49,347,230.32	23,227,037.44
Agency fees	331,676.17	478,009.67
Wages	1,791,673.85	1,786,193.62
Travelling expenses	249,633.20	349,884.53
Entertainment expenses	1,985,268.72	1,214,653.03
Office expenses	95,198.58	117,797.69
Commissions	671,551.39	397,652.85
Depreciation charges	661,534.33	645,878.63
Bidding service charges	922,481.48	—
Others	763,985.79	732,885.51
Total	56,820,233.83	28,949,992.97

43. Administrative expenses

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Amortisation of intangible assets	10,907,374.71	12,108,626.74
Wages and staff welfare expenses	12,608,120.62	9,030,773.36
Depreciation charges	10,313,078.60	5,502,807.36
Machinery material consumables	1,005,285.75	1,295,838.48
R&D expenditures for new products	20,919,065.04	1,286,004.58
Commissions	2,081,255.92	5,047,414.80
Electricity expenses	1,790,621.67	566,443.73
Entertainment expenses	934,106.88	640,578.40
Environmental expenses	337,995.21	25,644.91
Board of directors' expenses	1,766,109.99	711,134.52
Transportation fees	433,519.42	262,281.71
Repair charges	13,105,978.33	344,896.79
Delivery fees	373,530.37	87,662.16
Premiums for property insurance	100,943.41	93,440.36
Travelling expenses	266,810.51	212,736.44
Publicity expenses	39,523.31	15,562.75
Water charges	522,467.81	391,513.66
Safety production fees	748,343.66	1,157,901.35
Natural gas charges	1,418,966.17	—
Others	3,911,710.43	1,472,444.62
Total	83,584,807.81	40,253,706.72

44. Finance costs

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Interest expenses	69,901,060.19	36,348,364.53
Interest income	(3,038,609.18)	(3,621,643.53)
Foreign exchange loss	2,198,589.55	4,549,473.06
Other expenses	36,735,314.74	25,073,280.74
Total	105,796,355.30	62,349,474.80

45. *Impairment loss on assets*

	Unit: RMB	
Item	Amount for the current period	Amount for the prior period
I. Losses on bad debts	9,818,353.94	12,955,015.45
XIV. Others	(25,902.90)	66,268.52
	<hr/>	
Total	9,792,451.04	13,021,283.97
	<hr/>	

46. *Gain on disposal of assets*

	Unit: RMB	
Source of gain on disposal of assets	Amount for the current period	Amount for the prior period
Gain on disposal of fixed assets	(305,188.61)	120,549.94
Gain on disposal of intangible assets	1,477,579.03	59,261,500.12
	<hr/>	
Total	1,172,390.42	59,382,050.06
	<hr/>	

47. *Other income*

	Unit: RMB	
Source of other income	Amount for the current period	Amount for the prior period
Value-added tax rebates	5,756,761.96	—
Subsidies for stable employment and social security	220,668.30	—
Incentives and subsidies of patented technology and intellectual properties	—	118,600.00
	<hr/>	
Total	5,977,430.26	150,118,600.00
	<hr/>	

48. Non-operating income

Unit: RMB

Item	Amount for the current period	Amount for the prior period	Amount recognised in the extraordinary gain or loss in the current period
Punishment income	2,359,752.08	2,073,385.33	—
Total	2,359,752.08	2,073,385.33	—

49. Non-operating expenses

Unit: RMB

Item	Amount for the current period	Amount for the prior period	Amount recognised in the extraordinary gain or loss in the current period
Loss on disposal of debt investments	—	7,400,012.25	—
Others	232,946.57	159,772.94	—
Total	232,946.57	7,559,785.19	—

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50. Income tax expenses

(1) List of income tax expenses

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Current income tax expenses	1,872,724.25	741,928.20
Deferred income tax expenses	—	(152,601.19)
Total	1,872,724.25	589,327.01

(2) Reconciliations between accounting profit and income tax expenses

Unit: RMB

Item	Amount for the current period
Total profit	22,557,744.44
Income tax expenses calculated at statutory/applicable tax rate	3,386,331.67
Effect of different tax rates applicable to subsidiaries	778,559.08
Effect of utilisation of previously unrecognised deductible losses on deferred income tax assets	8,799,888.28
Effect of deductible temporary differences or deductible losses on deferred income tax assets unrecognised in the period	(9,520,454.90)
Effect of additional deductions in R&D expenditures	(1,568,929.88)
Income tax expenses	1,872,724.25

51. *Other comprehensive income*

Refer to note VII.35 for details.

52. *Items of statement of cash flows*

(1) Other cash received relating to operating activities

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Government grants	5,977,430.26	150,118,600.00
Interest income	3,038,609.18	3,621,643.53
Decrease in security deposits for acceptance bills	7,675,000.00	—
Decrease in restricted time deposits	—	1,450,000.00
Others	3,703,700.67	2,483,044.76
Total	20,394,740.11	157,673,288.29

(2) Other cash paid relating to operating activities

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Delivery fees	49,720,760.69	25,413,022.56
R&D expenditures for new products	20,696,871.41	1,504,625.36
Consumables	1,257,437.81	1,603,208.00
Agency fees	331,676.17	491,161.95
Travelling expenses	516,443.71	1,020,009.82
Commissions	4,324,742.54	6,525,574.30
Repair charges	9,133,181.85	406,709.83
Utilities	3,732,055.65	1,120,810.15
Entertainment expenses	2,919,375.60	1,855,231.43
Increase in security deposits for acceptance bills	—	127,050,000.00
Increase in restricted time deposits	—	—
Others	10,609,980.79	13,830,868.76
Total	103,242,526.22	180,821,222.16

(3) Other cash received relating to financing activities

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Borrowings from shareholders	—	210,000,000.00
Total	—	210,000,000.00

(4) Other cash paid relating to financing activities

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Borrowings from shareholders	70,000,000.00	—
Total	70,000,000.00	—

53. Supplemental information for statement of cash flows

(1) Supplemental information for statement of cash flows

	Unit: RMB	
Supplemental information	Amount for the current period	Amount for the prior period
1. Reconciliations of net profit to cash flows from operating activities:	—	—
Net profit	20,685,020.19	5,354,419.91
Add: Provision for impairment of assets	9,792,451.04	13,021,283.97
Depreciation of fixed assets, oil and gas assets and productive biological assets	110,366,138.38	112,705,983.16
Amortisation of intangible assets	10,782,794.77	12,108,626.74
Loss on disposal of fixed assets, intangible assets and other long-term assets	(5,226,431.57)	(59,465,670.89)
Loss on retirement of fixed assets	333,066.74	83,620.83
Finance costs	104,680,058.18	61,172,484.71
Decrease in inventories	(71,525,476.96)	8,770,509.03
Decrease in trade receivables	(401,928,699.86)	(281,939,406.37)
Increase in trade payables	76,701,630.58	169,581,920.47
Net cash flows generated from operating activities	(145,339,448.51)	41,393,771.56
2. Significant investing and financing activities not involving cash receipt or payment:	—	—
3. Net changes in cash and cash equivalents:	—	—
Balance of cash at the end of the period	375,523,445.02	437,642,384.05
Less: Balance of cash at the beginning of the period	661,899,094.64	508,498,755.91
Net increase in cash and cash equivalents	(286,375,649.62)	(70,856,371.86)

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(2) Composition of cash and cash equivalents

	Unit: RMB	
Item	Amount for the current period	Amount for the prior period
I. Cash	375,523,445.02	661,899,094.64
Including: Cash on hand	66,827.89	80,063.78
Bank deposits readily available for payments.	178,581,575.64	358,337,889.58
Other monetary funds readily available for payments	196,875,041.49	302,978,149.81
III. Balance of cash and cash equivalents at the end of the period	375,523,445.02	661,899,094.64
Including: Cash and cash equivalents restricted for the use of the Parent Company and subsidiaries of the Group	210,300,000.00	217,975,000.00

54. Assets with ownership or right to use restrictions

Unit: RMB

Item	Book value at the end of period	Reasons for restriction
Monetary funds	210,300,000.00	Security deposits maturing after three months
Bills receivable	191,346,080.50	Pledge of bills
Fixed assets	128,755,824.78	Charge for borrowings
Intangible assets	159,192,563.15	Pledge/charge for borrowings
Total	689,594,468.43	—

55. Foreign currency monetary items

(1) Foreign currency monetary items

Unit: RMB

Item	Balance in foreign currency at the end of the period	Exchange rate	Balance converted in RMB at the end of the period
Including: USD	2,032,339.16	6.6166	13,447,175.29
EUR	1,775.13	7.6515	13,582.41
HKD	1,423.99	0.8431	1,200.57
Including: USD	22,425,790.92	6.6166	148,382,488.20
EUR	228,263.45	7.6515	1,746,557.79
Other receivables			
Including: USD	5,101,891.59	6.6166	33,757,175.89
Short-term borrowings			
Including: USD	20,000,000.00	6.6166	132,332,000.00
Accounts payables			
Including: USD	2,466,366.86	6.6166	16,318,962.97
Receipts in advance			
Including: USD	1,417,975.75	6.6166	9,382,178.35
Other payables			
Including: USD	25,230.08	6.6166	166,937.35
Interests payable			
Including: USD	20,911.53	6.6166	138,363.23

- (2) Information on foreign operating entities including (in case of significant foreign operating entities) the disclosures of their overseas principal place of business, reporting currency and basis for selection, and reasons for changes of the reporting currency.

✓ Applicable □ Not applicable

MPM, a controlled subsidiary of the Company (having 90% of its shareholdings and voting rights) is domiciled and principally operated in Hong Kong and its reporting currency is USD.

VIII. Changes in the scope of consolidation

1. Others

The scope of consolidation of the year did not have any changes from last year.

IX. Interests in other entities

1. Interests in subsidiaries

(1) Structure of the business group

Name of subsidiary	Principal place of operation	Place of registration	Business nature	Percentage of shareholding		Method of acquisition
				Direct	Indirect	
MPM	Hong Kong	Hong Kong	Trading	90.00%	0.00%	Business consolidation under uncommon control
Maolong New Materials	Shouguang	Shouguang	Manufacturing	100.00%	0.00%	Business consolidation under uncommon control
Molong Electro-mechanical	Shouguang	Shouguang	Manufacturing	0.00%	100.00%	Business consolidation under uncommon control
Baolong Resource	Weihai	Weihai	Trading	0.00%	100.00%	Business consolidation under uncommon control
Maolong Recycle	Shouguang	Shouguang	Trading	10.00%	90.00%	Business consolidation under uncommon control
Shouguang Baolong	Shouguang	Shouguang	Manufacturing	70.00%	0.00%	Establishment by investment
Weihai Baolong	Weihai	Weihai	Manufacturing	61.54%	38.46%	Business consolidation under uncommon control
Molong Logistic	Shouguang	Shouguang	Service	100.00%	0.00%	Establishment by investment
Molong Import & Export	Shouguang	Shouguang	Import and export	100.00%	0.00%	Establishment by investment
Maolong Microcredit	Shouguang	Shouguang	Finance	0.00%	50.00%	Business consolidation under uncommon control

Information on the differences between percentage of shareholdings and percentage of voting rights in subsidiaries:

The Company holds equity interest of 50% in Maolong Microcredit as the largest shareholder. Other six shareholders hold 10% and 6.67% equity, respectively. The Company is able to control the production and operation of Maolong Microcredit, and therefore, it is included in the scope of consolidation.

(2) Significant non-wholly owned subsidiaries

Unit: RMB

Name of subsidiary	Shareholdings of minority shareholders	Profit and loss attributable to minority shareholders for the period	Dividends declared to minority shareholders for the period	Balance of minority shareholders at the end of the period
Shouguang Baolong	30.00%	(11,963,099.17)	—	(25,178,801.38)
Maolong Microcredit	50.00%	(35,757.09)	—	75,097,551.78

2. *Transactions with changes in share of owners' equity but retain control over subsidiary*

(1) Details of the change in owners' equities of the subsidiary

Nil

3. *Interests in joint venture arrangement or associate*

(1) Significant joint venture or associate

Name of joint venture or associate	Principal place of business	Place of registration	Business nature	Percentage of shareholding		Accounting treatment for investment of joint venture or associate
				Direct	Indirect	
Karamay Yalong Petroleum Machinery Co., Ltd	Karamay	Karamay	Manufacturing	0.00%	30.00%	Equity method

(2) Key financial information of the significant associate

Unit: RMB

	Balance at the end of the period/ Amount for the current period Karamay Yalong Petroleum Machinery Co., Ltd	Balance at the beginning of the period/ Amount for the prior period Karamay Yalong Petroleum Machinery Co., Ltd
Current assets	8,037,295.51	14,522,917.91
Non-current assets	9,761,102.21	9,615,398.80
Total assets	17,798,397.72	24,138,316.71
Current liabilities	3,397,263.29	8,752,753.95
Non-current liabilities	6,716,731.88	6,716,731.88
Total liabilities	10,113,995.17	15,469,485.83
Equity attributable to shareholders of the Parent Company	7,684,402.55	8,668,830.88
Share of net assets in proportion to shareholdings	2,305,320.77	2,600,649.26
Book value of equity investment in associates	2,639,321.48	2,639,321.48
Operating revenue	1,173,681.89	1,080,182.92
Net profit	(984,428.33)	(594,246.37)
Total comprehensive income	(984,428.33)	(594,246.37)
Dividends from associates received during the year	—	87,000.00

(3) **Major restrictions on the ability of transferring funds to the Company of joint venture or associate**

There is no major restriction on the ability of transferring funds to the Company of the associate.

(4) **Excessive losses incurred by joint venture or associate**

The associate did not incur any excessive losses.

(5) **Unrecognised commitment relating to investment in joint venture**

The Group had no unrecognised commitment relating to investment in joint venture.

(6) **Contingent liabilities relating to investment of joint venture or associate**

The Group had no contingent liabilities relating to investment of joint venture.

4. ***Interest in structured entity that is not included in the scope of consolidated financial statements***

The Group had no structured entity that is not included in the scope of consolidated financial statements.

X. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group's major financial instruments include borrowings, accounts receivable, accounts payable and others. Risks associated with these financial instruments and the risk management policies adopted by the Group to mitigate such risks are described below. The management of the Group manages and monitors these risk exposures to ensure such risks are contained within a prescribed scope.

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1. Objectives and policies of risk management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and revenue, where the negative effects of risks against the Group's operating results are minimised, with a view to maximise the benefits of shareholders and other stakeholders. Based on such objective of risk management, the underlying strategy of the Group's risk management is to ascertain and analyse 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 risk

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 EUR, except for the parent company and its subsidiaries MPM of the Group which entered purchases and sales in USD, EUR and HKD, other principal operating activities of the Group are settled in RMB. As at 30 June 2018, except for the USD balances in assets and liabilities, odd monies in EUR and HKD balances as set out below, all balances of assets and liabilities of the Group were denominated in RMB. The foreign exchange risk arising from these assets and liabilities in USD balances may affect the operating results of the Group.

Item	30 June 2018	31 December 2017
Monetary funds — USD	13,447,175.29	104,403,990.13
Monetary funds — EUR	13,582.41	13,850.25
Monetary funds — HKD	1,200.57	2,343.75
Accounts receivable — USD	148,382,488.20	123,399,359.09
Accounts receivable — EUR	1,746,557.79	1,780,979.92
Other receivables — USD	33,757,175.89	33,336,780.03
Short-term borrowings — USD	132,332,000.00	150,286,600.00
Accounts payable — USD	16,318,962.97	6,966,274.43
Other payables — USD	166,937.35	164,858.39
Receipts in advance — USD	9,382,178.35	13,300,654.28
Interests payable — USD	138,363.23	404,624.45

The Group closely monitors the effect of changes in foreign exchange rates to the Group.

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

(2) *Interest rate risk*

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate because of the changes in market interest rate. The Group's interest rate risk arises from interest-bearing liabilities such as bank borrowings. Financial liabilities issued at floating rate expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions.

The Company designs rationally credit lines, various credit types and the term of credit lines through the establishment of good relations between banks and enterprise to ensure sufficient bank line of credit and meet the Company's various types of needs for short-term financing. Meanwhile, the Company reduce rationally risk of interest rate fluctuations by shortening the duration of a single borrowing and special agreement on early repayment terms.

(3) *Price risk*

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

(2) **Credit risk**

As at 30 June 2018, the biggest credit risk exposure that may cause financial loss to the Group mainly derived 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 minimise 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 has adopted necessary policies to ensure that all the trade customers have good credit history. Apart from the top five accounts receivable, the Group has no other significant concentration of credit risk. The five largest account receivables amounted to RMB238,681,133.11 in aggregate.

(3) Liquidity risk

Liquidity risk refers to the risk that the Group is unable to fulfill 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 Group analyse regularly the structure and term of liabilities to ensure sufficient capital. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants. 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.

The Group regards bank loans as its main source of capital. As at 30 June 2018, the Group had unutilised bank loan facilities of RMB773,500,000.00 (31 December 2017: RMB668,500,000). Among which, unutilised short-term bank loan facilities amounted to RMB 773,500,000.00 (as at 31 December 2017: RMB668,500,000).

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

Amount as at 30 June 2018

Item	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial assets					
Monetary funds	585,823,445.02	—	—	—	585,823,445.02
Bills receivable	235,127,211.53	—	—	—	235,127,211.53
Accounts receivable	620,515,641.27	—	—	—	620,515,641.27
Loans and advances					
to customers	81,428,314.30	—	—	—	81,428,314.30
Interests receivable	1,484,318.49	—	—	—	1,484,318.49
Other receivables	47,235,389.86	—	—	—	47,235,389.86
Financial liabilities	—	—	—	—	—
Short-term borrowings	2,394,142,000.02	—	—	—	2,394,142,000.02
Bills payable	97,930,005.57	—	—	—	97,930,005.57
Accounts payable	981,299,622.19	—	—	—	981,299,622.19
Other payables	58,989,459.97	—	—	—	58,989,459.97
Interests payable	20,555,152.01	—	—	—	20,555,152.01
Long-term borrowings	73,347,657.04	331,000,000.00	274,275,520.50	—	678,623,177.54

Amount as at 31 December 2017

Item	Within 1 year	1–2 years	2–5 years	Over 5 years	Total
Financial assets					
Monetary funds	879,371,103.17	—	—	—	879,371,103.17
Bills receivable	94,525,409.69	—	—	—	94,525,409.69
Accounts receivable	378,729,615.88	—	—	—	378,729,615.88
Loans and advances					
to customers	88,102,411.40	—	—	—	88,102,411.40
Interests receivable	4,220,913.66	—	—	—	4,220,913.66
Other receivables	44,428,243.02	—	—	—	44,428,243.02
Financial liabilities	—	—	—	—	—
Short-term borrowings	2,141,086,600.02	—	—	—	2,141,086,600.02
Bills payable	213,984,811.00	—	—	—	213,984,811.00
Accounts payable	843,834,731.51	—	—	—	843,834,731.51
Other payables	32,518,520.13	—	—	—	32,518,520.13
Interests payable	5,458,818.99	—	—	—	5,458,818.99
Long-term borrowings	155,946,611.23	402,166,596.40	335,093,304.58	—	893,206,512.21

2. Sensitivity analysis

The Group applies sensitivity analysis to technically analyse the effects of reasonable and possible changes in risk variables on profit and loss for the period or owner's equity. As a risk variable seldom varies individually, and the correlation among variables significantly changes the affected amount of a particular risk variable, the following information is based on the assumption that each variable changes independently.

(1) Sensitivity analysis of foreign exchange risk

Sensitivity analysis of foreign exchange risk assumes that all net investment hedges and cash flow hedges of foreign operations are highly effective.

Based on the above assumption, with other variables held constant, the reasonably possible changes in exchange rates would have the following post-tax impact to the profit or loss and equity for the period:

Item	Change in exchange rate	30 June 2018		2017	
		Effect to owners' equity	Effect to net profit	Effect to net profit	Effect to owners' equity
All foreign currencies	5% appreciation against RMB	1,862,419.87	1,862,419.87	3,910,710.62	3,910,710.62
All foreign currencies	5% depreciation against RMB	(1,862,419.87)	(1,862,419.87)	(3,910,710.62)	(3,910,710.62)

XI. Fair value disclosures

1. Others

The Group had no assets and liabilities measured at fair value during the reporting period.

XII. Related Party and Related Party Transactions

1. Parent company of the Company

The ultimate controlling party of the Company is Zhang En Rong.

As at 30 June 2018, Mr. Zhang En Rong owned 29.53% voting shares in the Company, and was the controlling shareholder and the ultimate controlling party of the Company.

2. Subsidiaries of the Company

Subsidiaries of the Company is detailed in note IX.1.

3. Joint ventures and associates of the Company

Major joint ventures or associates of the Company are detailed in note IX.3.

The following joint venture or associate entered into related transactions with the Company during the period or had balances from related transactions with the Company for the prior period:

Name of joint venture or associate	Relationship with the Company
Shouguang Molong Cultural Communication Company Limited	Under common control of the controlling shareholder

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4. Related party transactions

(1) Related party transactions regarding the purchase and sale of goods and provision and receipt of services

Sale of goods/rendering of services

Unit: RMB

Related party	Description of the related party transaction	Amount for the current period	Amount for the prior period
Karamay Yalong Petroleum Machinery Co., Ltd	Oil well pumps and accessories	2,303,204.88	612,386.42

(2) Related party guarantees

The Company as guarantee

Unit: RMB

Guarantor	Amount guaranteed	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fulfilled
Zhang En Rong	50,011,900.00	9 October 2017	8 October 2020	No
Zhang En Rong	300,000,000.00	30 November 2017	29 December 2020	No
Shouguang Baolong	40,000,000.00	13 March 2018	13 March 2019	No
Maolong New Materials	30,000,000.00	24 July 2017	23 July 2018	No
Maolong New Materials	30,000,000.00	24 July 2017	23 July 2018	No
Maolong New Materials	36,000,000.00	15 September 2017	13 September 2018	No
Maolong New Materials	64,000,000.00	31 October 2017	30 October 2018	No
Maolong New Materials	50,000,000.00	23 March 2018	21 March 2019	No
Maolong New Materials	60,000,000.00	20 April 2018	9 April 2019	No
Maolong New Materials	70,000,000.00	25 April 2018	23 April 2019	No
Maolong New Materials	80,000,000.00	27 April 2018	1 April 2019	No
Maolong New Materials	30,000,000.00	7 May 2018	6 May 2019	No
Maolong New Materials	80,000,000.00	8 June 2018	4 June 2019	No
Maolong New Materials	100,000,000.00	14 February 2018	14 February 2019	No
Maolong New Materials	33,083,000.00	28 March 2018	27 March 2019	No

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(3) Borrowings with related parties

Unit: RMB

Related party	Amount borrowed/lent	Commencement date	Maturity date	Description
Borrowed from				
Zhang En Rong	30,000,000.00	18 January 2017	18 January 2020	Interest free
Zhang En Rong	60,000,000.00	5 April 2017	18 January 2020	Interest free
Lent to				

(4) Compensation of key management personnel

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Zhang En Rong	260,000.00	260,000.00
Guo Huan Ran	257,239.54	254,667.90
Yang Jin	170,261.66	200,339.14
Zhao Hong Feng	126,893.50	128,928.64
Liu Min	191,648.54	0.00
Zhang Yu Zhi	194,637.28	72,130.09
Guo Hong Li	17,493.34	17,493.34
Wang Chun Hua	17,493.34	17,493.34
Qin Xue Chang	37,493.34	37,493.34
Ji Yan Song	37,493.34	37,493.34
Quan Yu Hua	37,493.34	37,493.34
Hao Liang	47,568.76	42,135.51
Zheng Jian Guo	5,050.00	5,050.00
Zhang Jiu Li	5,050.00	5,050.00

(5) Other related party transactions

Nil

5. Amounts due from and due to related parties

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(1) Amounts due from related parties

Unit: RMB

Item	Related party	Balance at the end of the period		Balance at the beginning of the period	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable	Karamay Yalong Petroleum Machinery Co., Ltd	2,146,696.33	—	1,943,491.45	—

(2) Amounts due to related parties

Unit: RMB

Item	Related party	Book balance at the end of the period	Book balance at the beginning of the period
Long-term borrowings	Zhang En Rong	90,000,000.00	160,000,000.00

6. *Related party commitments*

Nil

XIII. Share-based payments

1. *Share-based payments*

Applicable Not applicable

2. *Equity-settled share-based payments*

Applicable Not applicable

3. *Cash-settled share-based payments*

Applicable Not applicable

XIV. Commitments and contingencies

1. *Major commitments*

Capital expenditure commitments contracted but not provided for in the financial statements

Item	Amount at the end of the year	Amount at the beginning of the year
Commitment for acquisition and construction of long-term assets contracted but not provided for in the financial statements	0.00	1,416,467.48
Total	0.00	1,416,467.48

2. Contingencies

(1) Material contingencies at the balance sheet date

1. Jinan Water Treatment Equipment Factory Co., Ltd. (濟南市水處理設備廠有限公司) (hereinafter referred to as “Jinan Water Treatment”) has entered into a contract with and Mao Long New Materials for the supply of seawater desalination equipment, but failed to perform delivery and installation works as stipulated in the contract. As dispute arose between the two parties in terminating the contract and admitting the liability for breach of contract, Jinan Water Treatment initiated a lawsuit against Maolong New Materials, claiming payments for goods amounting RMB6,715,700 together with a compensation for related losses amounting RMB508,100. Maolong New Materials and the Company counterclaimed Jinan Water Treatment, demanding a refund for excess payment for goods and a compensation for the losses. In November 2017, the People’s Court of Shouguang made the first-instance judgment that, the two parties shall terminate the contract; that Jinan Water Treatment shall issue a special value-added tax invoice according to the amount already paid; and that other lawsuit requests are declined. In December 2017, Jinan Water Treatment filed an appeal against the first-instance ruling. The second instance is still ongoing. The Company determined that it is remotely probable for the court the grant a judgment in favour of Jinan Water Treatment. Therefore, the Company did not make any provision.
2. DR.AZ Group Co., Ltd. (hereinafter referred to as “DR.AZ”) and Maolong New Materials entered into a contract in respect of the construction of a waste heat power generation installation project. DR.AZ failed to perform the contract as scheduled, and there was a blast accident when Maolong New Materials conducted hot commissioning, which led to damages of its equipment and the buildings as well as a delay of the whole project. Therefore, Maolong New Materials initiated legal proceedings to People’s Court of Shouguang, requesting a termination of the contract between the parties and a compensation for the related losses. DR.AZ counterclaimed to Intermediate People’s Court of Weifang, requesting Maolong New Materials to settle the construction payment of RMB5,989,300 plus interest, and to compensate for loss due to the delay of the project with an amount of RMB25,269,100. To date, Intermediate People’s Court of Weifang ruled in favour of Maolong New Materials and rebutted all requests of DR.AZ in the first instance.
3. As at 30 June 2018, 53 cases have been filed for disputes regarding the claims on false statement about the securities of Shandong Molong. The amount involved was approximately RMB16.37 million. 19 of these cases have been heard and all of them are pending for effective judgment. Based on the cases already heard, as the court has not yet determined the disclosure date and the risk factors of the system, the investor’s compensation range has not yet decided. Furthermore, the trading record submitted by the investors is not complete. Therefore, the Company is of the view that it is less possible for the court to judge the Company’s full compensation according to the claimed amount of the investors. With a reference to other types of cases and taking into accounting of common reasons for defences, based on the prudent principle, the Company made a provision of RMB8 million.

(2) To state that the company has no material contingency that needs to be disclosed

The Company has no material contingency that needs to be disclosed.

XV. Events subsequent to balance sheet date

1. Profit Distribution

Unit: RMB

Proposed profit distribution and dividend	0.00
Considered and approved profit distribution and dividend	0.00

2. *Sales returns*

Nil

3. *Other events subsequent to balance sheet date*

(1) **Subsequent borrowings**

Up to the issuance date of these financial statements, the Group had bank borrowings of RMB191.46 million.

XVI. Other significant events

1. *Segment information*

(1) **Basis for determining reportable segments and accounting policies**

(1) *Basis for determining reportable segments*

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

(2) *Accounting policies of reportable segments*

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

(2) Financial information of reportable segments

Unit: RMB

Item	Casing and Tubing	Three kinds of pumping units	Petroleum machinery parts	Others	Unallocated items	Inter-segment elimination	Total
Operation revenue							
External revenue	1,793,866,689.50	25,393,192.95	22,258,061.24	158,563,626.14	—	—	2,000,081,569.83
Inter-segment revenue							
Total segment operating revenue	1,793,866,689.50	25,393,192.95	22,258,061.24	158,563,626.14	—	—	2,000,081,569.83
Total operating revenue in financial statements	1,793,866,689.50	25,393,192.95	22,258,061.24	158,563,626.14	—	—	2,000,081,569.83
Segment expenses	1,586,676,591.90	24,154,357.49	20,367,220.26	166,221,118.82	—	—	1,797,419,288.47
Segment operating profit	207,190,097.60	1,238,835.46	1,890,840.98	(7,657,492.68)	—	—	202,662,281.36
Adjusted for:							
Administrative expenses	—	—	—	—	83,584,807.81	—	83,584,807.81
Finance costs	—	—	—	—	105,796,355.30	—	105,796,355.30
Investment income	—	—	—	—	—	—	—
Gain on disposal of assets	—	—	—	—	5,977,430.26	—	5,977,430.26
Other income	—	—	—	—	1,172,390.42	—	1,172,390.42
Operating profit in financial statements	207,190,097.60	1,238,835.46	1,890,840.98	(7,657,492.68)	(182,231,342.43)	—	20,430,938.93
Non-operating income	—	—	—	—	2,359,752.08	—	2,359,752.08
Non-operating expenses	—	—	—	—	232,946.57	—	232,946.57
Total profit	207,190,097.60	1,238,835.46	1,890,840.98	(7,657,492.68)	(180,104,536.92)	—	22,557,744.44
Income tax	—	—	—	—	1,872,724.25	—	1,872,724.25
Net profit	207,190,097.60	1,238,835.46	1,890,840.98	(7,657,492.68)	(181,977,261.17)	—	20,685,020.19
Total segment assets	5,340,035,209.69	98,218,437.14	150,745,938.41	279,659,947.66	451,831,408.00	—	6,320,490,940.90
Total segment liabilities	2,909,858,940.87	19,747,962.87	45,028,080.71	76,834,863.46	1,315,393,636.86	—	4,366,863,484.77

2. Other significant transactions and items affecting decision-making of investors

(1) Presentation of total external revenue in the PRC and other countries and regions

In the half year of 2018 and half year of 2017, the Group derived all external revenue from the PRC and overseas. As all assets were located in the PRC, external revenue by location of income source is disclosed as follows:

External revenue	Amount for the current period	Amount for the prior period
PRC (except Hong Kong)	1,770,628,086.12	1,075,795,340.32
Hong Kong	—	—
Other overseas regions	229,453,483.71	147,033,305.33
Total	2,000,081,569.83	1,222,828,645.65

(2) Pledge of assets

- (1) Pursuant to the relevant loan agreements and pledge agreements entered into between the Company and Hengfeng Bank Weifang Branch Shouguang Sub-branch (恒豐銀行濰坊分行壽光支行), the Company pledged its self-owned land use rights (certificate number: Shou Guo Yong (2009) No. 0203 , Shou Guo Yong (2009) No. 0204, Shou Guo Yong (2010) No. 0082 and Shou Guo Yong (2010) No. 0083) and the structures erected thereon to secure the long-term borrowing granted to the Company by Hengfeng Bank Weifang Branch Shouguang Sub-branch (恒豐銀行濰坊分行壽光支行). As at 30 June 2018, the book value of the above pledged land use rights was RMB71.0834 million and the book value of the structures was RMB65.17 million. The Company received borrowings under the relevant contract of RMB241 million. The due date of asset pledge is 14 April 2019.
- (2) Pursuant to the financing agreement and the relevant pledge contract entered into between the Company together with its related subsidiaries and China Great Wall Asset Management Co., Ltd. Shandong Branch (中國長城資產管理股份有限公司山東省分公司) (hereinafter referred to as Great Wall Asset Management), the Company's subsidiaries, Shouguang Baolong and Molong Logistic pledged its own land use rights (certificate number Shou Guo Yong (2007) No. 02704 and Shou Guo Yong (2013) No. 00354 and the structures erected thereon, and the sea area use right (certificate number Guo Hai Zheng No. 2016B37078313748), respectively, to secure the financing facilities granted by Great Wall Asset Management to the Company. As at 30 June 2018, the book value of the above pledged land use rights and sea area use right was RMB85.7775 million and the book value of the structures was RMB22.8999 million. The Company received facilities under the relevant contracts of RMB50.0119 million. Meanwhile, Zhang En Rong, the controlling shareholder of the Company, signed the Joint Liability Guarantee Contract (《連帶責任擔保合同》) with Great Wall Asset Management, to provide joint liability guarantee for the facilities. The due date of the above mortgage and guarantee is 8 October 2020.
- (3) Pursuant to the financing agreement and the relevant mortgage contract entered into among the Company, Maolong New Materials (a subsidiary of the Company) and Great Wall Asset Management, the Company pledged its own land use rights (certificate number Shou Guo Yong (2005) No. 1027) and the structures erected thereon to secure the financing facilities granted by Great Wall Asset Management to the Company and its subsidiary, Maolong New Material. As at 30 June 2018, the book value of the above pledged land use rights was RMB9.8045 million and the book value of the structures was RMB40.6859 million. The Company received financing facilities under the relevant contracts of RMB300 million. Meanwhile, Zhang En Rong, the controlling shareholder of the Company, entered into the Contract on Pledge of the Listed Shares (《上市公司股票質押合同》) with Great Wall Asset Management, to pledge 85 million shares of the Company held by him to secure the financing agreement. Zhang En Rong, the controlling shareholder of the Company, also signed the Joint Liability Guarantee Contract (《連帶責任擔保合同》) with Great Wall Asset Management, to provide joint liability guarantee for the financing agreement. The due date of the above mortgage, pledge and guarantee is 29 December 2020.

XVII. Notes to key items in the financial statements of the Parent Company

1. Accounts receivable

(1) Category of accounts receivable

Unit: RMB

Category	Balance at the end of the period					Balance at the beginning of the period				
	Book balance		Provision for bad debts			Book balance		Provision for bad debts		
	Amount	Percentage	Amount	Rate	Book value	Amount	Percentage	Amount	Rate	Book value
Accounts receivable that are individually significant and are individually provided for bad debts	142,499,203.98	14.95%	86,858,303.92	60.95%	55,640,900.06	142,754,267.39	25.64%	80,798,083.62	56.60%	61,956,183.77
Accounts receivable that are collectively provided for bad debts by credit risk characteristics	801,651,469.65	84.11%	—	—	801,651,469.65	404,124,371.20	72.58%	—	—	404,124,371.20
Accounts receivable that are individually insignificant but are individually provided for bad debts	8,977,120.03	0.94%	5,475,598.24	61.00%	3,501,521.79	9,887,621.60	1.78%	4,847,985.28	49.03%	5,039,636.32
Total	953,127,793.66	100.00%	92,333,902.16	—	860,793,891.50	556,766,260.19	100.00%	85,646,068.90	—	471,120,191.29

Accounts receivable that are individually significant and are individually provided for bad debts as at the end of the period:

Applicable Not applicable

Unit: RMB

Account receivables (by company)	Amount	Balance at the end of the period		
		Provision for bad debts	Rate of provision	Reasons for the provision
Peak Pipe and Supply, LLC	43,929,912.03	25,757,036.86	58.63%	Long outstanding and less repayment with the higher risk in recoverability
Shandong New Coal Machinery & Equipment Co., Ltd. (山東新煤機械裝備股份有限公司)	25,411,133.71	25,411,133.71	100.00%	Long outstanding with lower possibility of recoverability
Fairmont International Oil Company	15,869,422.76	12,459,173.36	78.51%	Long outstanding and slow repayment with higher risk in recoverability
Wenlai Jinlong Investment Company Limited, Beijing Office (文萊金龍投資有限公司北京辦事處)	7,875,892.29	7,875,892.29	100.00%	Long outstanding with difficulty in recoverability
Unix Techno Plus Ltd	12,927,307.11	6,185,788.55	47.85%	Long outstanding and slower repayment with higher risk in recoverability
SBI Company (USA)	4,117,457.05	4,117,457.05	100.00%	Long outstanding and lower possibility of recoverability
Samasu International Oil Corporation	3,201,822.10	3,201,822.10	100.00%	Long outstanding with lower possibility of recoverability
Hebei Zhongtai Steel Pipe Manufacture Company Limited (河北中泰鋼管製造有限公司)	29,166,256.93	1,850,000.00	6.34%	Long outstanding, and the pledged debt and guarantees can't ensure the possibility of recovery
Total	142,499,203.98	86,858,303.92	—	

Accounts receivable that are provided for bad debts by aging analysis in the portfolio:

Applicable Not applicable

Accounts receivable that are provided for bad debts by balance percentage in the portfolio:

Applicable Not applicable

Accounts receivable that are provided for bad debts by other methods in the portfolio:

Accounts receivable that are individually insignificant but are individually provided for bad debts as at the end of the period:

Account receivables (by company)	Amount	Balance at the end of the period		
		Provision for bad debts	Rate of provision	Reasons for the provision
Hubei Maikaeqi New Energy Technology Company Limited	1,306,390.07	1,166,748.47	89.31%	Long aging and slow repayment with higher risk in recoverability
South China Petrochemical Group	1,085,040.62	1,085,040.62	100.00%	Long aging with lower possibility of recoverability
Metal One Corporation	1,082,804.14	1,082,804.14	100.00%	Long aging with lower possibility of recoverability
Linyi Zhongkuang Jinding Electromechanical Manufacturing Co., Ltd.	1,252,000.20	645,219.10	51.54%	Longer aging and slow repayment, with certain risks in recoverability
China Petroleum Technology Development Corporation	594,152.90	594,152.90	100.00%	Long aging with lower possibility of recoverability
Zhucheng Chuanghui Container Technology Co., Ltd.	1,178,226.00	353,467.80	30.00%	Outstanding of aging with certain risks in recoverability
Shandong Fenglong High Pressure Gas Bottle Co., Ltd.	911,138.60	273,341.58	30.00%	Long aging and slow repayment with higher risk in recoverability
Amy, Canadian companies	172,031.60	172,031.60	100.00%	Long aging with lower possibility of recoverability
Hanting Energy Resource Private Service Company Limited	96,893.49	96,893.49	100.00%	Long aging with lower possibility of recoverability
Liaocheng Development Zone Yongfa Materials Co., Ltd.	1,298,442.41	5,898.54	0.45%	Partial overdue and slow repayment with certain risks
Total	8,977,120.03	5,475,598.24	—	

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(2) Provision, recovery or reversal of provision for bad debts for the period

Provision for bad debts for the period amounted to RMB6,687,833.26. Recovery or reversal of provision for bad debts for the period amounted to RMB0.00.

(3) Accounts receivable actually written off for the period

The Group had no accounts receivable written off for the period.

(4) Five largest balances of accounts receivable by debtor as at the end of the period

Five largest balances of accounts receivable by debtor as at the end of the period was RMB501,363,825.86 in aggregate, which accounted for 52.60% of the total balances of accounts receivable for the period. The total amount of the corresponding provision for bad debts as at the end of the period amounted to RMB27,607,036.86.

(5) Account receivables that were derecognised due to transfer of financial assets

The Company had no account receivables that were derecognised due to transfer of financial assets during the period.

(6) Assets or liabilities formed by transfer of accounts receivable and continued involvement

Nil

2. Other receivables

(1) Category of other receivables

Unit: RMB

Category	Balance at the end of the period				Book value	Balance at the beginning of the period				Book value
	Book balance Amount	Percentage	Provision for bad debts Amount	Rate		Book balance Amount	Percentage	Provision for bad debts Amount	Rate	
Other receivables that are individually significant and are individually provided for bad debts	33,757,175.89	8.76%	24,365,613.86	72.18%	9,391,562.03	33,336,780.03	6.11%	21,235,093.18	63.70%	12,101,686.85
Other receivables that are collectively provided for bad debts by credit risk characteristics	351,407,044.82	91.21%	—	—	351,407,044.82	511,811,954.05	93.86%	—	—	511,811,954.05
Other receivables that are individually insignificant but are individually provided for bad debts	122,119.25	0.03%	122,119.25	100.00%	0.00	122,119.25	0.02%	122,119.25	100.00%	—
Total	385,286,339.96	100.00%	24,487,733.11	—	360,798,606.85	545,270,853.33	100.00%	21,357,212.43	—	523,913,640.90

Other receivables that are individually significant and are individually provided for bad debts as at the end of the period:

Applicable Not applicable

Unit: RMB

Account receivables (by company)	Amount	Provision for bad debts	Rate of provision	Reasons for the provision
JESORO OIL LTD	33,757,175.89	24,365,613.86	72.18%	Overdue with certain risks in Recoverability
Total	33,757,175.89	24,365,613.86	—	

Other receivables that are provided for bad debts by aging analysis in the portfolio:

Applicable Not applicable

Other receivables that are provided for bad debts by balance percentage in the portfolio:

Applicable Not applicable

Other receivables that are provided for bad debts by other methods in the portfolio:

Applicable Not applicable

Other receivables that are individually insignificant but are individually provided for bad debts as at the end of the period:

Name of entity	Book balance	Amount	Rate (%)	Reasons for the provision
Wang Li Xue	40,000.00	40,000.00	100.00	Not recoverable due to long outstanding
Other entities	14,220.00	14,220.00	100.00	Not recoverable due to long outstanding
Other individuals	67,899.25	67,899.25	100.00	Not recoverable due to long outstanding
Total	122,119.25	122,119.25	—	

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(2) Provision, recovery or reversal of provision for bad debts for the period

Provision for bad debts for the period amounted to RMB3,130,520.68. Recovery or reversal of provision for bad debts for the period amounted to RMB0.00.

(3) Other receivables actually written off for the period

The Company had no other receivables written off for the period.

(4) Other receivables by nature

Unit: RMB

Nature of payment	Book balance at the end of the period	Book balance at the beginning of the period
Business dealings	362,041,930.90	527,685,255.19
Security deposits and deposits	22,213,377.06	16,768,786.14
Personal dealings	1,031,032.00	816,812.00
Total	385,286,339.96	545,270,853.33

(5) Five largest balances of other receivables by debtor as at the end of the period

Unit: RMB

Name of entity	Nature of payment	Book balance at the end of the period		Age	Percentage of the total book balance of other receivables as at the end of the period	Book balance of provision for bad debts as at the end of the period
		Book balance	Book value			
Shouguang Maolong New Materials Company Limited	Current account	174,207,682.78		Within 1 year	45.22%	—
Shouguang Molong Logistic Company Limited	Current account	87,426,960.75		Within 1 year	22.69%	—
Shouguang Molong Logistic Company Limited	Current account	910,000.00		1 to 2 years	0.24%	—
Shouguang Molong Logistic Company Limited	Current account	29,624,190.10		2 to 3 years	7.69%	—
Shouguang Baolong Petroleum Material Company Limited	Current account	34,097,512.00		Within 1 year	8.85%	—
JESORO OIL LTD	Current account	33,757,175.89		2 to 3 years	8.76%	24,365,613.86
Shouguang City Yang Kou Town Office of Finance	Project construction deposit	14,530,000.00		Over 5 years	3.77%	—
Total		374,553,521.52	—		97.22%	24,365,613.86

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(6) Government grant receivables

Nil

(7) Other receivables derecognised due to transfer of financial assets

Nil

(8) Assets or liabilities formed transfer of accounts receivable and continued involvement

Nil

3. Long-term equity investments

Unit: RMB

Item	Balance at the end of the period			Balance at the beginning of the period		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	1,352,069,921.73	208,000,000.00	1,144,069,921.73	1,352,069,921.73	208,000,000.00	1,144,069,921.73
Total	1,352,069,921.73	208,000,000.00	1,144,069,921.73	1,352,069,921.73	208,000,000.00	1,144,069,921.73

(1) Investment in subsidiaries

Unit: RMB

Investee	Balance at the	Additions	Reductions	Balance at the	Provision for	Balance of
	beginning of the			end of the period	impairment	provision for
	period				for the period	impairment at
						the end of the
						period
Maolong New						
Materials	1,006,743,691.73	—	—	1,006,743,691.73	—	—
Weihai Baolong	220,000,000.00	—	—	220,000,000.00	—	103,000,000.00
MPM	7,276,230.00	—	—	7,276,230.00	—	—
Shouguang Baolong	105,000,000.00	—	—	105,000,000.00	—	105,000,000.00
Molong Logistic	3,000,000.00	—	—	3,000,000.00	—	—
Maolong Recycle	50,000.00	—	—	50,000.00	—	—
Molong Import and						
Export	10,000,000.00	—	—	10,000,000.00	—	—
Total	1,352,069,921.73	—	—	1,352,069,921.73	—	208,000,000.00

(2) Other description

Due to the normal operation to subsidiaries' production at the end of the year, it was not necessary to increase the provision for impairment, and thus no further provision for impairment has been made for long-term equity investments.

There is no restriction on the ability of the investees of long-term equity investments held by the Company as at 30 June 2018 of transferring capital to the investing companies.

4. Operating revenue and operating costs

Unit: RMB

Item	Amount for the current period		Amount for the prior period	
	Revenue	Cost	Revenue	Cost
Principal businesses	1,762,891,860.58	1,525,735,593.12	1,008,487,016.42	940,514,900.71
Other businesses	79,384,675.76	76,681,422.32	79,272,506.22	77,914,401.49
Total	1,842,276,536.34	1,602,417,015.44	1,087,759,522.64	1,018,429,302.20

XVIII. Supplementary information

1. Statement of extraordinary profit or loss for the period

Applicable Not applicable

Unit: RMB

Item	Amount	Description
Gain or loss on disposal of non-current assets	1,172,390.42	—
Tax rebate or tax concessions from unauthorised approval or non-official approved documents	5,756,761.96	—
Fund occupation fees from non-financial enterprises included in current profit and loss	220,668.30	—
Non-operating income and loss other than the above items	2,126,805.51	—
Less: Effect on income tax	551,078.29	—
Effect on minority interests	133,269.35	—
Total	8,592,278.55	—

Reasons should be given if the Company has classified any extraordinary gain or loss items pursuant to the “Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — Extraordinary Profit and Loss” and has classified any extraordinary gain or loss items listed therein as recurring gain and loss items.

Applicable Not applicable

2. Return on net assets and earnings per share

Profit for the reporting period	Weighted average return on net assets	Earnings per share	
		Basic (RMB/Share)	Diluted (RMB/Share)
Net profit attributable to ordinary shareholders of the Company	1.73%	0.0408	0.0408
Net profit attributable to ordinary shareholders of the Company after extraordinary profit or loss	0.63%	0.015	0.015

3. *Difference in accounting data under domestic and overseas accounting standards*

- (1) Difference in net profit and net assets in financial statements as disclosed in accordance with IASs and PRC GAAP

Applicable Not applicable

- (2) Difference in net profit and net assets in the financial statements as disclosed under the overseas accounting standards and PRC GAAP

Applicable Not applicable

XI. DOCUMENTS AVAILABLE FOR INSPECTION

- I. The financial statements sealed and signed by the legal representative, accountant-in-charge and partner-in-charge.
- II. The originals and master copies of all the documents and announcements of the Company disclosed in the designated newspapers as approved by CSRC during the reporting period.
- III. The interim report of the Company disclosed at The Stock Exchange of Hong Kong Limited.

