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)**

# ANNUAL RESULT ANNOUNCEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 AND RESUMPTION OF TRADING

**HIGHLIGHTS**

- For the year ended 31 December 2013, the revenue of the Group amounted to RMB2,272,034,335.20, which represents a decrease of approximately 23.04% as compared with last year.
- Loss attributable to equity holders of the Company amounted to RMB 175,722,248.47 as against the profit of RMB134,263,035.30 in last year.
- Loss per share of the Company amounted to RMB0.22 as against earnings per share of the Company of RMB0.17 last year.
- The board of directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2013.

**Shareholders and potential investors are advised to exercise due caution in dealing with the share of the Company**

- At the request of the Company, trading of the shares of the Company on the Stock Exchange were halted with effect from 9:00 a.m. on 31 March 2014 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the shares of the Company from 9:00 a.m. on 1 April 2014.

The board of directors (the “**Board**”) of Shandong Molong Petroleum Machinery Company Limited (the “**Company**”) is pleased to announce the audited results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2013.

The financial information set out in this announcement below does not constitute the Group’s statutory financial statements for the year ended 31 December 2013, but represents an extract from those financial statements. The financial information has been reviewed by the audit committee of the Company (the “**Audit Committee**”) and agreed by the Group’s external auditors, Shinewing Certified Public Accountants Ltd., Certified Public Accountants, PRC.

Unless specified otherwise, the financial information of the Company was stated in Renminbi (RMB).

## CONSOLIDATED INCOME STATEMENTS

*For the year ended 31 December 2013*

| | *Note* | 2013 | 2012 |
|---|---|---|---|
| **Total revenue from operations** | | 2,272,034,335.20 | 2,952,063,832.16 |
| Including: operating revenue | *4* | 2,272,034,335.20 | 2,952,063,832.16 |
| **Total costs of operations** | | 2,491,933,547.21 | 2,836,551,935.91 |
| Including: Operating cost | | 2,076,430,070.86 | 2,624,241,003.24 |
| Business tax and surcharges | | 4,776,682.05 | 1,568,674.39 |
| Selling expenses | | 66,752,048.50 | 67,450,580.50 |
| Administrative expenses | | 160,067,797.95 | 96,130,216.28 |
| Finance costs | *6* | 48,572,195.33 | 37,123,383.67 |
| Asset impairment losses | *7* | 135,334,752.52 | 10,038,077.83 |
| Add:Gains from changes in fair value | | | |
| Investment income | | 2,397,383.87 | 1,203,776.32 |
| Including: Gains from investment in associates and joint ventures | | 2,397,383.87 | 1,203,776.32 |
| **Operating (loss) profit** | | (217,501,828.14) | 116,715,672.57 |
| Add: Non-operating income | *8* | 14,701,734.82 | 49,857,539.87 |
| Less: Non-operating expenses | | 917,267.99 | 718,732.89 |
| Including: Loss from disposal of non-current assets | | 636,246.16 | 296,929.41 |
| **Total (loss) profit** | *9* | (203,717,361.31) | 165,854,479.55 |
| Less: Income tax (credit) expenses | *10* | (26,109,087.98) | 25,688,302.21 |
| **Net (loss) profit** | | (177,608,273.33) | 140,166,177.34 |
| Net (loss) profit attributable to shareholders of the Company | | (175,722,248.47) | 134,263,035.30 |
| Net (loss) profit attributable to minority interests | | (1,886,024.86) | 5,903,142.04 |
| **(Loss) earnings per share:** | *11* | | |
| Basic (loss) earnings per share | | (0.22) | 0.17 |
| Diluted (loss) earnings per share | | (0.22) | 0.17 |
| **Other comprehensive income** | | 335,457.33 | 35,226.82 |
| **Total comprehensive (expense) income** | | (177,272,816.00) | 140,201,404.16 |
| Total comprehensive (expense) income attributable to owners of the Company | | (175,420,336.88) | 134,294,739.43 |
| Total comprehensive (expense) income attributable to minority interests | | (1,852,479.12) | 5,906,664.73 |
| **Dividends** | *12* | - | 0.05 |

# CONSOLIDATED BALANCE SHEETS

*As at 31 December 2013*

| | *Note* | **2013** | 2012 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and bank balances | | 597,770,865.98 | 483,870,151.44 |
| Bills receivable | | 135,159,594.04 | 197,194,589.32 |
| Accounts receivable | *13* | 563,772,597.42 | 455,105,433.22 |
| Prepayments | | 47,775,985.84 | 33,896,626.16 |
| Interests receivable | | 4,606,049.44 | - |
| Other receivables | | 31,160,536.48 | 18,953,847.29 |
| Inventories | | 1,155,180,417.60 | 1,220,618,577.83 |
| Other current assets | | 47,778,203.78 | 41,379,809.50 |
| **Total current assets** | | 2,583,204,250.58 | 2,451,019,034.76 |
| **Non-current assets** | | | |
| Long-term equity investment | | 60,881,784.30 | 58,634,400.43 |
| Fixed assets | | 1,710,839,377.57 | 1,833,866,660.51 |
| Construction in progress | | 442,414,993.81 | 134,351,091.69 |
| Intangible assets | | 486,672,315.83 | 378,586,638.46 |
| Goodwill | | 83,483,383.21 | 132,723,383.21 |
| Research and development expenditure | | | 7,077,238.89 |
| Long-term expenditure | | 159,722.28 | 243,055.56 |
| Deferred income tax assets | | 46,005,562.05 | 19,249,475.31 |
| Other non-current assets | | 379,804,663.05 | 270,000,000.00 |
| **Total non-current assets** | | 3,210,261,802.10 | 2,834,731,944.06 |
| **Total assets** | | 5,793,466,052.68 | 5,285,750,978.82 |
| **Current liabilities** | | | |
| Short-term borrowings | | 1,367,290,846.00 | 1,030,006,883.57 |
| Bills payable | | 427,566,182.16 | 603,403,515.62 |
| Accounts payable | *14* | 548,559,433.90 | 570,841,701.67 |
| Receipts in advance | | 92,679,015.92 | 25,837,981.59 |
| Salaries payable | | 22,842,605.99 | 18,425,303.12 |
| Taxes payable | | 34,382,133.48 | 33,669,386.02 |
| Interests payable | | 24,239,399.58 | 6,968,896.69 |
| Dividends payable | | | |
| Other payables | | 26,790,378.33 | 24,475,042.80 |
| Other current liabilities | | 1,808,000.00 | |
| **Total current liabilities** | | 2,546,157,995.36 | 2,313,628,711.08 |
| **Non-current liabilities** | | | |
| Bonds payable | | 496,777,777.77 | - |
| Deferred income tax liabilities | | 10,792,803.04 | 11,603,555.23 |
| Other non-current liabilities | | 3,616,000.00 | 7,232,000.00 |
| **Total non-current liabilities** | | 511,186,580.81 | 18,835,555.23 |
| **Total liabilities** | | 3,057,344,576.17 | 2,332,464,266.31 |
| **Shareholders' equity** | | | |
| Share capital | | 797,848,400.00 | 797,848,400.00 |
| Capital reserve | | 849,500,658.42 | 849,500,658.42 |
| Surplus reserve | | 168,908,489.86 | 168,908,489.86 |
| Undistributed profits | | 857,482,430.32 | 1,073,097,098.79 |

| | | | |
|---|---|---|---|
| Foreign currency translation differences | | 363,977.13 | 62,065.54 |
| **Total equity attributable to shareholders of the Company** | | 2,674,103,955.73 | 2,889,416,712.61 |
| Minority interests | | 62,017,520.78 | 63,869,999.90 |
| **Total shareholders' equity** | | 2,736,121,476.51 | 2,953,286,712.51 |
| **Total liabilities and shareholders' equity** | | 5,793,466,052.68 | 5,285,750,978.82 |

# CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

*For the year ended 31 December 2013*

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equity attributable to the shareholders of the Company | | | | | Minority interests | Total equity |
| | Share capital | Capital reserve | Surplus reserve | Undistributed profits | Translation differences | | |
| I .Balance at the end of the previous year | 797,848,400.00 | 849,500,658.42 | 168,908,489.86 | 1,073,097,098.79 | 62,065.54 | 63,869,999.90 | 2,953,286,712.51 |
| II. Changes in the current year | - | - | - | (215,614,668.47) | 301,911.59 | (1,852,479.12) | (217,165,236.00) |
| (1)Net profit | - | - | - | (175,722,248.47) | - | (1,886,024.86) | (177,608,273.33) |
| (2) Other comprehensive income | - | - | - | - | 301,911.59 | 33,545.74 | 335,457.33 |
| Sub-total of (1) and (2) | - | - | - | (175,722,248.47) | 301,911.59 | (1,852,479.12) | (177,272,816.00) |
| (3) Shareholder's capital injection and capital reduction | - | - | - | - | - | - | - |
| 1. Capital injection from shareholders | - | - | - | - | - | - | - |
| 2. Equity settled share expenses charged to equity | - | - | - | - | - | - | - |
| 3. Others | - | - | - | - | - | - | - |
| (4 ) Profit distribution | - | - | - | (39,892,420.00) | - | - | (39,892,420.00) |
| 1. Transfer to surplus reserves | - | - | - | - | - | - | - |
| 2. Distribution to shareholders | - | - | - | (39,892,420.00) | - | - | (39,892,420.00) |
| 3. Others | - | - | - | - | - | - | - |
| (5) Transfer of shareholders' equity | - | - | - | - | - | - | - |
| 1. Transfer of capital reserve to share capital | - | - | - | - | - | - | - |
| 2. Transfer of surplus reserves to share capital | - | - | - | - | - | - | - |
| 3. Surplus reserves making up of losses | - | - | - | - | - | - | - |
| 4. Others | - | - | - | - | - | - | - |
| Ⅲ. Balance at the end of the current year | 797,848,400.00 | 849,500,658.42 | 168,908,489.86 | 857,482,430.32 | 363,977.13 | 62,017,520.78 | 2,736,121,476.51 |

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equity attributable to the shareholders of the Company | | | | | Minority interests | Total equity |
| | Share Capital | Capital reserve | Surplus reserve | Undistributed profits | Translation differences | | |
| I. Balance at the end of the previous year | 398,924,200.00 | 1,248,424,858.42 | 157,965,274.48 | 989,669,698.87 | 30,361.41 | 57,963,335.17 | 2,852,977,728.35 |
| II. Changes in the current year | - | - | - | - | - | - | - |
| (1)Net profit | - | - | - | 134,263,035.30 | - | 5,903,142.04 | 140,166,177.34 |
| (2)Other comprehensive income | - | - | - | - | 31,704.13 | 3,522.69 | 35,226.82 |
| Sub-total of (1) and (2) | - | - | - | 134,263,035.30 | 31,704.13 | 5,906,664.73 | 140,201,404.16 |
| (3) Shareholder's capital injection and capital reduction | - | - | - | - | - | - | - |
| 1. Capital injection from shareholders | - | - | - | - | - | - | - |
| 2. Equity settled share expenses charged to equity | - | - | - | - | - | - | - |
| 3. Others | - | - | - | - | - | - | - |
| (4 ) Profit distribution | - | - | - | - | - | - | - |
| 1. Transfer to surplus reserves | - | - | 10,943,215.38 | (10,943,215.38) | - | - | - |
| 2. Distribution to shareholders | - | - | - | (39,892,420.00) | - | - | (39,892,420.00) |
| 3. Others | - | - | - | - | - | - | - |
| (5) Transfer of shareholders' equity | - | - | - | - | - | - | - |
| 1. Transfer of capital reserve to share capital | 398,924,200.00 | (398,924,200.00) | - | - | - | - | - |
| 2. Transfer of surplus reserves to share capital | - | - | - | - | - | - | - |
| 3. Surplus reserves making up of | - | - | - | - | - | - | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| losses | | | | | | | |
| 4. Others | - | - | - | - | - | - | - |
| Ⅲ. Balance at the end of the current year | 797,848,400.00 | 849,500,658.42 | 168,908,489.86 | 1,073,097,098.79 | 62,065.54 | 63,869,999.90 | 2,953,286,712.51 |

## 1. General

The Company was established in the People's Republic of China ("**PRC**") with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and Small and Medium-sized Enterprises Board of Shenzhen Stock Exchange (the "**Shenzhen Stock Exchange**"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

The principal business of the Group is designing, manufacturing and selling petroleum extraction machinery and related accessories, including oil well pipes, oil well sucker rods, oil well pumps, casing and oil well pumping machines.

## 2. Basis for preparation of financial statements

The Group's financial statements have been prepared on a going concern basis, in accordance with the PRC Accounting Standards ("**Accounting Standards**"), Information Disclosure Rule 15 of Public Offerings Company - Financial Reporting General Provisions (2010 Amendments) issued by China Securities Regulatory Commission ("**CSRC**") and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the disclosure requirements of the Hong Kong Companies Ordinance.

## 3. Changes in accounting policies and its effect

| Content and reasons for changes in accounting policies | Items of financial statements | Amounts affected |
|---|---|---|
| The Group adopted the Accounting Standards for enterprises - basic standards and 38 specific accounting standards, accounting standard for business enterprises application guidelines, accounting standards for enterprises to explain announcement explanation and other relevant provisions issued from the Ministry of Finance the People's Republic of China on 15 February 2006. On 26 January 2014, the Ministry of Finance of the People's Republic of China has issued six specific accounting standards, Accounting Standards for enterprises no. 9 - employee compensation and Accounting Standards for enterprises no. 30 - presentation of financial statements, Accounting Standards for enterprises no. 33 - consolidated financial statements and Accounting Standards for enterprises no. 39 - fair value, Accounting Standards for enterprises no. 40 - the joint venture arrangement and Accounting Standards for enterprises no. 2 - long-term equity investment. Since 1 January 2013, the Group began to adopt the above six new or revised accounting standards. | None | Nil |

## 4. Total revenue from operations

The total revenue from operations consists of operating revenue and revenue from other operation, the Group's operating revenue for the year represents the net amounts received, receivables for goods sold and services rendered to the customers, taking into account the amount of any trade discount allowed.

The following is an analysis of the Group's operating revenue during the year is as follows:

| Products | 2013 | 2012 |
|---|---|---|
| Casing and Tubing | 2,010,891,871.31 | 2,598,091,671.18 |
| Three kinds of pumping units | 79,849,248.22 | 83,240,409.14 |
| Petroleum machinery parts | 122,082,387.45 | 173,068,574.45 |
| Others | 15,385,185.25 | 50,947,946.39 |
| Total | 2,228,208,692.23 | 2,905,348,601.16 |

## 5. Segment information

In accordance with the disclosure requirements of 《Enterprise Accounting Standards No. 35 – Segment Reporting 》(企業會計準則第35號－分部報告), operating segments are identified on the basis of internal organization structure, management requirements and internal reporting policies. The reporting segments are determined on the basis of operating segments.

（1）Segment Reporting

The Group identifies an discloses the operating segments, according to the internal organization structure, management requirements and internal reporting system.

An operating segment represents a component of the Group that satisfies both of the following criteria: 1) the business activities are engaged to earn revenue and incur expenses; 2) the related available results are regularly reviewed by the management of the Group operating decision maker for the purposes of resource allocation and assessment of segment performance and 3) the Group is able to obtain financial position, operating results and cash flow of that segments. If two or above segments have similar economic characteristic and fulfill one of the above criteria, those segments will be combined.

Segment reporting information – 2013

| | Casing and Tubing | Three kinds of pumping units | Petroleum machinery part | Others | Unallocated items | Inter-segment elimination | Total |
|---|---|---|---|---|---|---|---|
| Operating revenue | - | - | - | - | - | - | - |
| External income | 2,010,891,871.31 | 79,849,248.22 | 122,082,387.45 | 59,210,828.22 | - | - | 2,272,034,335.20 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Inter-segment income | - | - | - | - | - | - | - |
| Total segment income | 2,010,891,871.31 | 79,849,248.22 | 122,082,387.45 | 59,210,828.22 | - | - | 2,272,034,335.20 |
| Total operating income | 2,010,891,871.31 | 79,849,248.22 | 122,082,387.45 | 59,210,828.22 | - | - | 2,272,034,335.20 |
| Segment costs | 2,037,539,345.55 | 70,615,751.15 | 114,690,841.73 | 60,447,615.50 | - | - | 2,283,293,553.93 |
| Segment (loss) profits | (26,647,474.24) | 9,233,497.07 | 7,391,545.72 | (1,236,787.28) | - | - | (11,259,218.73) |
| Adjusting items: | | | | | | | |
| Administrative expenses | - | - | - | - | 160,067,797.95 | - | 160,067,797.95 |
| Finance costs | - | - | - | - | 48,572,195.33 | - | 48,572,195.33 |
| Investment income | - | - | - | - | (2,397,383.87) | - | (2,397,383.87) |
| Operating (loss) profit | (26,647,474.24) | 9,233,497.07 | 7,391,545.72 | (1,236,787.28) | (206,242,609.41) | - | (217,501,828.14) |
| Non-operating income | - | - | - | - | 14, 701, 734. 82 | - | 14, 701, 734. 82 |
| Non-operating expenses | - | - | - | - | 917, 267. 99 | - | 917, 267. 99 |
| Total (loss) profit | (26,647,474.24) | 9,233,497.07 | 7,391,545.72 | (1,236,787.28) | (192,458,142.58) | - | (203,717,361.31) |
| Income tax credit | - | - | - | - | (26,109,087.98) | - | (26,109,087.98) |
| Net (loss) profit | (26,647,474.24) | 9,233,497.07 | 7,391,545.72 | (1,236,787.28) | (166,349,054.60) | - | (177,608,273.33) |
| Total segment assets | 4,581,204,794.95 | 172,585,504.18 | 315,649,008.83 | 11,498,425.50 | 712,528,319.22 | - | 5,793,466,052.68 |
| Total segment liabilities | 1,214,932,732.26 | 37,322,007.56 | 54,906,647.43 | 3,322,500.68 | 1,746,860,688.24 | - | 3,057,344,576.17 |
| Supplementary information: | - | - | - | - | - | - | - |
| Depreciation | 152,858,105.19 | 10,322,561.75 | 7,510,357.26 | 9,510,716.23 | - | - | 180,201,740.43 |
| Amortisation | 54,736,804.86 | 2,822.48 | 2,284,034.52 | - | - | - | 57,023,661.86 |
| Interest income | - | - | - | - | (16,259,638.69) | - | (16,259,638.69) |
| Finance cost | - | - | - | - | 64,831,834.02 | - | 64,831,834.02 |
| Impairment losses recognised in current year: | 112,439,078.40 | 2,256,124.85 | 20,639,549.27 | - | - | - | 135,334,752.52 |
| Non-current assets excluding long-term equity investment | 2,650,563,185.75 | 63,916,231.65 | 127,021,032.47 | 12,315,245.12 | 295,564,322.81 | - | 3,149,380,017.80 |
| Capital expenditure | 458,615,299.28 | 3,900.00 | - | 1,437,679.51 | - | - | 460,056,878.79 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| including: Construction in progress | 206,355,587.81 | - | - | 464,359.00 | - | - | 206,819,946.81 |
| Purchase of fixed assets | 170,169,616.79 | - | - | 973,320.51 | - | - | 171,142,937.30 |
| Purchase of intangible assets | 82,090,094.68 | 3,900.00 | - | - | - | - | 82,093,994.68 |
| Non-cash items excluding depreciation and amortisation | - | - | - | - | - | - | - |

Segment reporting information - 2012

| | Casing and Tubing | Three kinds of pumping units | Petroleum machinery parts | Others | Unallocated items | Inter-segment elimination | Total |
|---|---|---|---|---|---|---|---|
| Operating revenue | - | - | - | - | - | - | - |
| External income | 2,598,091,671.18 | 83,240,409.14 | 173,068,574.45 | 97,663,177.39 | - | - | 2,952,063,832.16 |
| Inter-segment income | - | - | - | - | - | - | - |
| Total segment income | 2,598,091,671.18 | 83,240,409.14 | 173,068,574.45 | 97,663,177.39 | - | - | 2,952,063,832.16 |
| Total operating income | 2,598,091,671.18 | 83,240,409.14 | 173,068,574.45 | 97,663,177.39 | - | - | 2,952,063,832.16 |
| Segment costs | 2,393,184,938.36 | 70,123,182.16 | 143,691,598.12 | 96,298,617.32 | - | - | 2,703,298,335.96 |
| Segment profit | 204,906,732.82 | 13,117,226.98 | 29,376,976.33 | 1,364,560.07 | - | - | 248,765,496.20 |
| Adjusting items: | | | | | | | |
| Administrative expenses | - | - | - | - | 96,130,216.28 | - | 96,130,216.28 |
| Finance costs | - | - | - | - | 37,123,383.67 | - | 37,123,383.67 |
| Investment income | - | - | - | - | 1,203,776.32 | - | 1,203,776.32 |
| Operating profit | 204,906,732.82 | 13,117,226.98 | 29,376,976.33 | 1,364,560.07 | (132,049,823.63) | - | 116,715,672.57 |
| Non-operating income | - | - | - | - | 49,857,539.87 | - | 49,857,539.87 |
| Non-operating expenses | - | - | - | - | 718,732.89 | - | 718,732.89 |
| Total profit | 204,906,732.82 | 13,117,226.98 | 29,376,976.33 | 1,364,560.07 | (82,911,016.65) | - | 165,854,479.55 |
| Income tax expenses | - | - | - | - | 25,688,302.21 | - | 25,688,302.21 |
| Net profit | 204,906,732.82 | 13,117,226.98 | 29,376,976.33 | 1,364,560.07 | (108,599,318.86) | - | 140,166,177.34 |
| Total segment assets | 3,871,642,444.97 | 179,253,472.12 | 256,359,484.93 | 416,741,549.62 | 561,754,027.18 | - | 5,285,750,978.82 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total segment liabilities | 1,134,162,295.81 | 21,065,646.76 | 69,541,809.50 | 59,115,178.75 | 1,048,579,335.49 | - | 2,332,464,266.31 |
| Supplementary information: | | | | | | | |
| Depreciation | 100,042,110.26 | 6,058,573.01 | 3,265,015.65 | 8,526,522.75 | 56,873,177.77 | - | 174,765,399.44 |
| Amortisation | 35,478,019.65 | 8,545.77 | 1,688.29 | - | 7,488,753.09 | - | 42,977,006.80 |
| Interest income | - | - | - | - | 11,734,207.72 | - | 11,734,207.72 |
| Finance cost | - | - | - | - | 46,970,204.90 | - | 46,970,204.90 |
| Impairment losses recognised in current year: | 10,038,077.83 | - | - | - | - | - | 10,038,077.83 |
| Non-current assets excluding long-term equity investment | 2,246,050,246.04 | 77,794,772.28 | 162,953,510.31 | 270,049,539.69 | 19,249,475.31 | - | 2,776,097,543.63 |
| Capital expenditure | 284,795,959.66 | 10,804,212.48 | 87,641.11 | 22,021,048.34 | - | - | 317,708,861.59 |
| including: Construction in progress | 170,650,752.36 | - | - | 17,955,871.67 | - | - | 188,606,624.03 |
| Purchase of fixed assets | 30,625,194.91 | 5,780,518.64 | 87,641.11 | 4,065,176.67 | - | - | 40,558,531.33 |
| Purchase of intangible assets | 83,520,012.39 | 5,023,693.84 | - | - | - | - | 88,543,706.23 |
| Non-cash items other than depreciation and amortisation | - | - | - | - | - | - | - |

(2) External income and non-current assets based on the geographical location.

In 2013 and 2012, all of the Group's external income was sourced from PRC and overseas, while all assets were located in PRC, hence the external income by location of income source is disclosed as follows:

| Items | 2013 | 2012 |
|---|---|---|
| Domestic external transaction income | 1,547,322,020.24 | 1,801,919,443.99 |
| Foreign external transaction income | 724,712,314.96 | 1,150,144,388.17 |
| Total | 2,272,034,335.20 | 2,952,063,832.16 |

### 6. Finance costs

| Items | 2013 | 2012 |
|---|---|---|
| Interest expenses (bank borrowings due wholly repayable one year) | 79,913,574.87 | 50,655,585.69 |
| Less：Interest capitalized | 17,005,115.35 | 3,685,380.79 |
| Less：Interest income | 16,259,638.69 | 11,734,207.72 |
| Foreign exchange difference | (4,982,594.61) | (4,594,132.74) |
| Other | 6,905,969.11 | 6,481,519.23 |
| Total | 48,572,195.33 | 37,123,383.67 |

Borrowing cost capitalized during the year is capitalized at a rate of 5.23% (2012: 6.48%) per annum to the qualifying assets.

### 7. Assets impairment losses

| Items | 2013 | 2012 |
|---|---|---|
| Provision of bad debt | 5,624,248.70 | (3,709,308.57) |
| Including: Accounts receivable | 5,624,248.70 | (3,709,308.57) |
| Other receivables | - | - |
| Provision of allowance for inventory | 46,502,128.37 | 3,497,386.40 |
| Including: Raw materials | 19,382,171.62 | (55,793.33) |
| Finished goods | 17,786,597.56 | 2,806,551.82 |
| Work-in-progress | 9,134,707.51 | 746,627.91 |
| Work in process-outsourced | 198,651.68 | - |
| Impairment loss on intangible asset | 33,968,375.45 | - |
| Impairment loss on goodwill | 49,240,000.00 | 10,250,000.00 |
| Total | 135,334,752.52 | 10,038,077.83 |

### 8. Non-operating income

| Items | 2013 | 2012 |
|---|---|---|
| Gain on disposal of non-current assets | 266,062.03 | 109,479.26 |
| Including: Gain on disposal of fixed assets | 266,062.03 | 109,479.26 |
| Government grants | 12,615,077.46 | 49,141,000.00 |
| Penalty income | 1,497,174.88 | 364,282.53 |
| Others | 323,420.45 | 242,778.08 |
| Total | 14,701,734.82 | 49,857,539.87 |

### 9. Total (loss) profit

Total (loss) profit has been arrived at after charging (crediting):

| Items | 2013 | 2012 |
|---|---|---|
| Staff costs (including directors; remuneration) | 112,634,128.81 | 107,724,279.18 |
| Amortization of intangible assets | 57,023,661.86 | 42,977,006.80 |
| Auditor’s remuneration (included in administrative expenses) | 900,000.00 | 1,200,000.00 |
| Cost of inventories recognized as expenses | 2,076,430,070.86 | 2,624,241,003.24 |
| Depreciation on fixed assets | 174,839,213.74 | 173,734,066.80 |
| Research and development expenses (Included in administrative expenses) | 54445088.82 | 5,616,345.55 |
| Gain on disposal of fixed assets | (370,184.13) | (187,450.15) |

### 10. Income tax (credit) expenses

| Items | 2013 | 2012 |
|---|---|---|
| Current income tax expenses | 1,457,750.95 | 28,180,149.18 |
| —Hong Kong | - | - |
| —PRC | 1,457,750.95 | 28,180,149.18 |
| Deferred income tax | (27,566,838.93) | (2,491,846.97) |
| Total | (26,109,087.98) | 25,688,302.21 |

The Company was subject to the PRC enterprise income tax at a rate of 15% (2012: 15%) as the Company was classified as new technology enterprise.

Hong Kong Profits Tax has been provided for the subsidiary in Hong Kong at 16.5% on the estimated assessable profits.

### 11. (Loss) earnings per share

| Items | 2013 | 2012 |
|---|---|---|
| Calculated based on net (loss) profit attributable to the shareholders of the Company: | | |
| Basic (loss) earnings per share | (0.22) | 0.17 |
| Diluted (loss) earnings per share | (0.22) | 0.17 |
| Calculated based on net profits from continuing operations attributable to shareholders of the Company : | | |
| Basic (loss) earnings per share | (0.22) | 0.17 |
| Diluted (loss) earnings per share | (0.22) | 0.17 |

### 12. Dividends

| Items | 2013 | 2012 |
|---|---|---|
| Dividends recognized and distributed during the year | | |
| 2013 final dividend: RMB0.00(2012: final dividend RMB0.05 ) per ordinary share(before taxes) | - | 39,892,420.00 |

The Boards does not recommend any payment of final dividend in respect of the year ended 31 December 2013 (2012: final dividend of RMB0.05), which is proposed and is subject to approval by the shareholders in general meeting.

### 13. Accounts receivable

| Items | 2013 | 2012 |
|---|---|---|
| Accounts receivable | 574,636,787.15 | 460,345,374.25 |
| Provision for bad debts | 10,864,189.73 | 5,239,941.03 |
| Total | 563,772,597.42 | 455,105,433.22 |

Prior to the acceptance of new customers, the Group applies internal credit assessment policies to access the credit quality of potential customers and formulates credit limit. Except the receipt in advance from new customers, the Group formulates different credit policies for each different customer. The credit period is generally three months, and can be extended to six months for major customers.

The following is an aged analysis of accounts receivable net of provision for bad debts:

| Aging | 2013 | 2012 |
|---|---|---|
| Within 1 year | 552,166,395.76 | 452,653,405.89 |
| 1 to 2 years | 10,739,610.15 | 1,799,900.20 |
| 2 to 3 years | 700,000.00 | 491,300.86 |
| Over 3 years | 166,591.51 | 160,826.27 |
| Total | 563,772,597.42 | 455,105,433.22 |

## 14. Accounts payables

The following is an aged analysis of accounts payables:

| Aging | 2013 | 2012 |
|---|---|---|
| Within 1 year | 484,005,243.04 | 506,117,449.52 |
| 1 to 2 years | 38,658,781.57 | 44,550,531.57 |
| 2 to 3 years | 10,523,518.57 | 6,823,230.96 |
| Over 3 years | 15,371,890.72 | 13,350,489.62 |
| Total | 548,559,433.90 | 570,841,701.67 |

## 15. Commitments

At the end of the reporting period, the Group had the following capital commitment:

| Items | 2013 | 2012 |
|---|---|---|
| Contracted but not provided<br>-Commitment for acquisition and construction of long-term assets | 269,188,582.67 | 85,892,970.52 |

## 16. Contingent liabilities

During the year ended 31 December 2013 and 2012, the Company did not have any significant contingent liabilities.

**Annual results**

For the year ended 31 December 2013, the Group achieved revenue of RMB2,272,034,335.20, representing a decrease of approximately 23.04% as compared with last year. Over the same period, loss attributable to equity holders of the Company and loss per share were RMB175,722,248.47 and RMB0.22 respectively, representing a decrease of approximately 230.88% and 229.41% respectively as compared with last year.

**Business review**

The Company reported RMB2,272,034,355.20 of operating revenue for the year 2013, representing a decrease of 23.04% compared with last year. Total loss in 2013 is RMB 203,717,361.31 in 2013, representing a 222.83% decrease compared with the previous year and the net profit attributable to shareholders of the Company in 2013 decreased by 230.88% as compared with last year amounted to RMB175,722,248.47. The net loss of the Company after non-recurring profit and loss was RMB196,511,294.56, decreased by 322.05% compared with last year.

(1) In terms of domestic market, the Group's major customers are major oil fields in the PRC, including Daqing Oil Field (大慶油田), Changqing Oil Field (長慶油田), Xinjiang Oil Field (新疆油田), Liaohe Oil Field (遼河油田), Qinghai Oil Field (青海油田), Talimu Oil Field (塔里木油田) , Huabei Oil Field (華北油田), Jidong Oil Field (冀東油田) and Jilin Oil Field (吉林油田), under PetroChina Company Limited and its subsidiaries (collectively, "**PetroChina Group**"), as well as the Shengli Oil Field (勝利油田), Zhongyuan Oil Field (中原油田), Jiangsu Oil Field (江蘇油田) and Jianghan Oil Field (江漢油田), under China Petroleum & Chemical Corporation and its subsidiaries (collectively, "**Sinopec Group**"). During the reporting period, the Group developed closer business cooperation with existing oil field customers and gained positive feedback. The sales to the above oil fields under the PetroChina Group and the Sinopec Group accounted for approximately 25.86% of the Group's main operating revenue.

(2) For overseas market, the Group continued to develop its business in the Middle East, South America, North Africa and Australia, during the reporting period and develop new customers relationship by mainly selling casing and tubing, line pipe products and sucker rods. In addition, the Group has obtained certificates for its products in many national oil companies during the reporting period. With the new customers' development and obtaining the production

certificates from national oil companies, the Group has further increased its market shares in the overseas, and popularity in the international oil drilling equipment market. Currently, the Group has established and maintained good and longterm cooperative relationships with many overseas oil suppliers and oil field service companies, which results in raising the sales in the overseas markets. During the reporting period, the Group's revenue from exports accounted for approximately 32.52% of the Group's total sales revenue.

(3) For new products development, with the scientific research advantages of "Province-level Enterprise Technical Center of Shandong Province" and "Shandong Molong post-doctoral research station", the Group continued to strengthen its technological cooperation with research institutes such as Xi'an Jiaotong University, Northeastern University, and Xi'an Tubular Products Research Institute of CNPC to increase its efforts to develop high-end products, expand product structures and enrich product categories. The Group has successfully developed products including large inner diameter tube, Cr anti-CO2 corrosion casing, and anti-H2S tube, anti-hydrogen sulfide corrosion tube, extra-long and thick tube, suspension pillar tube, thin-walled high-pressure alloy tube, nickel plated anticorrosion sucker rod, acidic line pipe, and other new products which was bulk supplied to domestic and overseas customers. In particular, eight products, namely, level 3 deoxidization smelting clean steel technology, CO2 corrosion resistance of the super 13 Cr, 9 Cr anti-CO2 oil pipe and casing, large diameter tubing, MLC-1 special fastener technology, ML110SS anti-H2S oil pipe and casing, corrosion resistance and anti-wear efficient leaf roller, anticorrosive anti-air anti-decyclising valve pump have passed the Shangdong technology innovation project evaluation.

Moreover, the Group have applied for 10 utility model patents registration in respect of 10 utility models including anti-air and anti-disengagement oil-well tube pump, well bailing tubing connector, lathe rotary tool, heat treatment equipment for casing products, anti-paraffin anti-dust wear-resistant oil-well pump, seamless tube surface oil removal device, automatic oil casing buttress thread deburring equipment, tube-end diameter heat-shrinking mold, a type of sucker rod coupling, a pipe heating anti-oxidation device; 2 invention patents: oil casing twisting machine torque calibration method and its corresponding calibration device, flat gate valve casting method.

**Prospects**

**1. The development trend of the industry to which the Company's industry and the strategic plans for the Company's future development**

According to the "World Energy Outlook" published by the U.S. International Energy Agency, a steady economic growth worldwide is forecasted and the demand for crude oil will keep a growth trend, the demand for crude oil will achieve 110 million barrels daily in 2025 with annual growth for oil consumption of 1.4% from now to 2025 while the annual growth rate for oil production is 1.25%, which is slightly lower than the oil consumption yearly growth. Therefore, from the medium to long terms analysis, the scale of oil exploration and drilling special equipment industry will continue to expand with a prosperous market.

According to the forecast in the "World Energy Outlook" published by the U.S. International Energy Agency, the annual growth rate in oil consumption in China will maintain at 3.5% from now to 2025, which is higher than the global growth rate.

Meanwhile, the U.S. International Energy Agency states in order to avoid the oil crisis, it is necessary to invest intensively in the crude oil production industry, to improve the basic infrastructure and to enhance the oil extraction ability of existing facilities over the next 20 years to deal with the increase in demand and the decline in the output of oil.

The Group considers that with the global economy beginning to recover, and the oil industry as one of the pillar industries of the PRC, with the government of the PRC also expressly encouraging the investment in petroleum industry in its "Twelfth Five-Year Plan", the petroleum industry will keep solid growth under these policies, and the petroleum machinery industry in which the Company operates will definitely benefits from these policies. The Group will continue to input more resources into new projects and research and development of the technology of high end products and the production technology so as to guarantee product quality, reserve high-quality technology and enhance accessory production capacity. Subject to ensuring the continuing growth in the domestic market, the Group will continue to consolidate the overseas markets.

**2. In line with its strategic plans, the work of the Company will focus on the following areas in 2014**

(i) In respect of research and development of products, the Group plans to put further efforts on the research and development of high value-added products and exclusive production rights owned non-API products. The Group will continue to place its focus on the development of new products such as high-end aluminum casing (strong and high bearable), strong anti-pressure+anti-H2S corrosion casing, L80-9Cr anti-CO2 corrosion casing, ultra 13Cr and anti- H2S+CO2 corrosion casing, ML110-9Cr anto-CO2 corrosion casing, API acid conduit pipes, economy special thread casing, and anti-corrosion special casing. This aims at satisfying demand from domestic and foreign customers for the exploration of oil, natural gas, shale gas, and coalbed methane.

(ii) In respect of new product development, the Group plans to actively research on suitable high level products based on the market demand and trend of natural gas, shale gas, and coalbed methane. For shale gas and coalbed methane exploration equipment, the Group will development suitable customized, low-cost products based on existing supply capacity in order to enhance its competitiveness in the market.

(iii) In respect of domestic market, the Group plans to further strengthen the good cooperation relationship with CNPC Group, Sinopec Group, CNOOC, and Yanchang Petroleum, expanded the markets of shale gas and coalbed methane equipment, safety device for coal mining industry, and high-pressure boiler tube.

(iv) In respect of foreign market, the Group plans to thoroughly consider the trading policy of various oil producing countries and the development demand of overseas regional market, and to further develop our products markets in South America, Middle East ,Africa Russia and West Asia to diversify its market concentration. Meanwhile, long-term co-operation with foreign oil supplier with market resources, service advantages and good reputations will also be reinforced, with a view to earning our market share.

**3. Major risk factor for development strategy and business goals of company**

(i) When there is any extraordinary fluctuation in global petroleum drilling industry, which directly lead to the fluctuation of product demand, we will adjust our product structure and market deployment in accordance with changes in market on a timely basis.

(ii) Extraordinary fluctuation in raw material prices will directly affect production cost and result in direct impact on the price of our products.

(iii) Appreciation of RMB will lower the competitiveness of our products in the international market. We will adopt measures to expand our product market coverage to avoid Renminbi fluctuation risk.

## Significant investments

For the year ended 31 December 2013, the Company did not have any significant investments.

## Acquisition and disposals during the year under review and future investment plans

For the year ended 31 December 2013, the Group did not have any acquisition, disposals or significant investment plans.

## Corporate Governance

The Company is committed to the establishment of a good corporate governance standard. The principles of corporate governance adopted by the Company emphasize a high quality board of directors ("**Board**"), sound internal control, and transparency and accountability to all shareholders. For the year ended 31 December 2013, the Company has complied with all the code provisions, and where applicable the recommended best practices in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange (the "**Stock Exchange**"). The Company is adopting and will continue to adopt for the measures on comply with the recent changes to the Listing Rules of corporate governance. Please refer to the corporate governance report in the Company's annual report for the year ended 31 December 2013 for more details.

The Company's audit committee (including three independent non-executive directors of the Company) had held five meetings in the year of 2013 for discussion of matters on the accounting standards and practices adopted by the Group, internal control and financial reporting matters, and reviewed the audited annual results for the year ended 31 December 2013.

## Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules and requires the Directors to follow the Model Code while conducting securities transactions. Such requirements also apply to the Company's senior management. The Company has made specific enquiries to all of the Directors and confirms that all of the Directors have complied with the requirement set out in the Model Code for the year of 2013.

## Purchase, sale or redemption of securities

Neither the Company nor its subsidiary has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2013.

## Closure of Register of Members of H Shares

The register of members of H shares of the Company ("**H Shares**") will be closed from 26 May 2014 to 27 June 2014 (both days inclusive) during which period no transfer of the H Shares will be processed. In order to be entitled to attend and vote at the forthcoming annual general meeting and the class meetings of the Company, all completed transfer forms accompanied by the relevant share certificates must be lodged with the H Shares Registrar (for holders of H Shares), Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 25 May 2014.

## Publication of the results announcement and the annual report on the website of Stock Exchange

This announcement is published on the website of the Stock Exchange. The annual report for the year ended 31 December 2013 will be dispatched to shareholders as soon as possible and will be available on the company's website at http://www.molonggroup.com and the website of the Stock Exchange and Shenzhen Stock Exchange.

## RESUMPTION OF TRADING

At the request of the Company, trading of the shares of the Company on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") were halted with effect from 9:00 a.m. on 31 March 2014 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the shares of the Company from 9:00 a.m. on 1 April 2014.

By order the Board of
**Shandong Molong Petroleum Machinery Company Limited**
**Zhang En Rong**
*Chairman*

Shandong, the PRC

31 March 2014

*As at the date of this announcement, the Board comprises Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long and Mr. Guo Huan Ran as executive directors, Mr. Xiao Qing Zhou and Mr. Guo Hong Li as non-executive directors and Mr. John Paul Cameron, Ms Wang Chun Hua and Mr. Qin Xue Chang as independent non-executive directors.*

* *For identification purpose only*