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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

HIGHLIGHTS

For the six months ended 30 June 2016, the revenue of the Group amounted to RMB871.03 million, which represents a decrease of approximately 20.65% as compared with the corresponding period of last year.

Profit attributable to shareholders of the Company amounted to RMB6.04 million, which represents a decrease of approximately 41.44% as compared with the corresponding period of last year.

Earnings per share of the Group amounted to RMB0.0076, which represents a decrease of approximately 24% as compared with the corresponding period of last year.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016.

The board of directors (the "**Board**") of Shandong Molong Petroleum Machinery Company Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2016.

The financial information set out in this announcement does not constitute the Group's financial statements as required by statue, but represents an extract from such financial statements. The financial information for the six months ended 30 June 2016 is compiled in accordance with the "Accounting Standards for Enterprises" issued by the Ministry of Finance of the People's Republic of China (the "**PRC Accounting Standards**") and other relevant provisions, and has been reviewed by the audit committee of the Company (the "**Audit Committee**") but has not been reviewed by the Group's external auditors.

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

UNAUDITED CONSOLIDATED INCOME STATEMENTS

For the six months ended 30 June 2016

	Note	2016 (unaudited)	2015 (unaudited)
Total revenue from operations	*3&4*	871,031,873.22	1,097,649,636.91
Total costs of operations		884,253,677.09	1,116,139,349.13
Operating cost		770,746,262.83	909,522,428.13
Business tax and surcharges		3,829,733.61	7,768,756.07
Selling expenses		31,878,686.17	122,469,789.17
Administrative expenses		55,144,229.18	62,563,240.66
Finance costs	*5*	22,630,322.40	13,815,135.10
Asset impairment losses	*6*	24,442.90	
Gains from changes in fair value			
Investment income			1,326,825.71
Including: Gains from investment in associates and joint ventures			1,326,825.71
Operating profit		（13,221,803.87）	（17,162,886.51）
Add: Non-operating income	*7*	10,391,479.11	23,740,893.66
Less: Non-operating expenses		87,883.59	67,851.83
Total profit	*8*	（2,918,208.35）	6,510,155.32
Less: Income tax expenses	*9*	7,568,697.95	7,501,818.28
Net profit		（10,486,906.30）	（991,662.96）
Other comprehensive income		(610,579.43)	26,563.42
Total comprehensive income		(11,097,485.73)	（965,099.54）
Net profit attributable to			
Shareholders of the Company		6,039,585.20	10,313,286.91
Minority interests		(16,526,491.50)	（11,304,949.87）
Total comprehensive income attributable to			
Shareholders of the Company		5,460,891.39	10,338,342.23
Minority interests		(16,558,377.12)	（11,303,441.77）
Earnings per share:	*10*		
Basic earnings per share		0.0076	0.01
Diluted earnings per share		N/A	N/A
Dividends	*11*	N/A	N/A

UNAUDITED CONSOLIDATED BALANCE SHEETS

As at 30 June 2016

	Note	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)
Current assets			
Cash and bank balances		830,671,642.64	349,815,773.50
Bills receivable		48,126,912.60	46,101,762.76
Accounts receivable	*12*	610,397,174.57	497,239,999.28
Loans and advances		166,260,375.78	136,329,884.59
Prepayments		22,981,261.73	12,063,262.16
Interest receivable		11,832,482.79	4,594,396.68
Dividends receivable			
Other receivable		85,114,679.68	87,823,154.76
Inventory		870,243,999.49	903,784,288.00
Other current assets		83,508,691.55	79,270,918.94
Total current assets		2,729,137,220.83	2,117,023,440.67
Non-current assets			
Available-for-sale financial assets		10,030,000.00	10,030,000.00
Long-term equity investment		2,783,902.87	2,783,902.87
Fixed assets		1,596,617,398.59	1,291,476,197.17
Construction in progress		1,412,801,714.31	1,710,795,797.18
Construction materials			
Intangible assets		499,086,549.41	468,806,719.84
Goodwill		68,483,383.21	68,483,383.21
Deferred income tax assets		56,806,335.21	60,918,666.99
Research and Development expense		15,182,330.53	
Long-term deferred expenses			
Gains and losses from assets to be processed			
Other non-current assets		70,552,820.44	120,862,615.68
Total non-current assets		3,732,344,434.57	3,734,157,282.94
Total assets		6,461,481,655.40	5,851,180,723.61
Current liabilities			
Short-term borrowings		1,671,431,287.68	1,469,055,063.41
Bills payable		1,019,689,868.24	304,242,384.43
Accounts payable	*13*	855,912,570.56	904,789,898.53
Advance receipts		41,111,917.57	43,005,331.88
Salaries payable		34,703,979.71	26,953,318.48
Taxes payable		20,676,111.88	7,387,844.14
Interests payable		2,382,495.72	17,853,069.32
Other payables		128,974,895.46	23,979,858.24
Other current liability			1,808,000.00
Non-current liabilities due within 1 year			499,444,444.41
Total current liabilities		3,774,883,126.82	3,298,519,212.84
Net current assets		(1,045,745,905.99)	(1,181,495,772.17)
Total assets less current liabilities		2,686,598,528.58	2,552,661,510.77
Non-current liabilities			
Bonds payable			

Deferred income tax liabilities		14,611,418.41	14,576,914.87
Other non-current liabilities			
Total non-current liabilities		14,611,418.41	14,576,914.87
Total liabilities		3,934,494,545.23	3,313,096,127.71
Shareholders' equity			
Share capital		797,848,400.00	797,848,400.00
Capital reserve		849,500,658.42	849,500,658.42
Surplus reserve		176,686,903.51	176,686,903.51
General risk reserve		11,236.91	11,236.91
Undistributed profit		616,411,788.32	610,372,203.12
Other comprehensive income		(1,840,869.56)	(1,262,175.75)
Total equity attributable to shareholders of the Company		2,438,618,117.60	2,433,157,226.21
Minority interests		88,368,992.57	104,927,369.69
Total shareholders' equity		2,526,987,110.17	2,538,084,595.90

UNAUDITED CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2016

	2016							
	Attributable to the shareholders of the Company						Minority interests	Total equity
	Share capital	Capital reserve	Surplus reserve	Undistributed profit	Retained profits	Other comprehensive income		
As at 1 Jan 2016(audited)	797,848,400.00	849,500,658.42	176,686,903.51	11,236.91	610,372,203.12	(1,262,175.75)	104,927,369.69	2,538,084,595.90
Net profit					6,039,585.20		(16,526,491.50)	(10,486,906.30)
Other comprehensive income						(578,693.81)	(31,885.62)	(610,579.43)
Total comprehensive income								
Capital injection from shareholders								
Equity settled share expenses charged to equity								
Others								
Profit distribution								
Transfer to surplus reserves								
Distribution to shareholders								
Others								
Transfer of shareholders' equity								
Transfer of capital reserve to share capital								
Transfer of surplus reserves to share capital								
Surplus reserves making up of losses								
Others								
As at 30 June 2015 (unaudited)	797,848,400.00	849,500,658.42	176,686,903.51	11,236.91	616,411,788.32	(1,840,869.56)	88,368,992.57	2,526,987,110.17

	2015						
	Attributable to the shareholders of the Company					**Minority interests**	**Total equity**
	Share capital	**Capital reserve**	**Surplus reserve**	**Undistributed profit**	**Other comprehensive income**		
As at 1 Jan 2015(audited)	797,848,400.00	849,500,658.42	176,686,903.51	869,937,207.44	312,161.80	55,962,144.43	2,750,247,475.60
Net profit				10,313,286.91		(11,304,949.87)	(991,662.96)
Other comprehensive income					25,055.32	1,508.10	26,563.42
Total comprehensive income							
Capital injection from shareholders							
Equity settled share expenses charged to equity							
Others							
Profit distribution							
Transfer to surplus reserves							
Distribution to shareholders							
Others							

Transfer of shareholders' equity							
Transfer of capital reserve to share capital							
Transfer of surplus reserves to share capital							
Surplus reserves making up of losses							
Others							
As at 30 June 2015 (unaudited)	797,848,400.00	849,500,658.42	176,686,903.51	880,250,494.35	337,217.12	44,658,702.66	2,749,282,376.06

NOTES TO THE UNAUDITED CONSOLIDATED FINACIAL STATEMENTS

1. General

The Company was established in the People's Republic of China ("**PRC**" or "**China**") with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**HKEx**") and the Small and Medium-sized Enterprises Board of Shenzhen Stock Exchange. The registered office address of the Company is No.999 Wensheng Street, Shouguang City, Shandong province, PRC, and the principal place of business of the Company in Hong Kong is Suite A, 11th Floor, Ho Lee Commercial Building, 38-44 D'Aguilar Street Central, Hong Kong.

The unaudited consolidated financial statements are presented in RMB, and RMB is also the functional currency of the Company.

During the six months ended 30 June 2016, the Group is principally engaged in the design, manufacture and sale of petroleum extraction machinery and related accessories including oil well pipes, oil well sucker rods, oil well pumps and oil well pumping machines.

2. Basis for preparation of the financial statements

The financial statements have been prepared on the going-concern basis and transactions and events actually occurred in accordance with the "Accounting Standard for Business Enterprises" promulgated by the Ministry of Finance of the People's Republic of China and relevant requirements (Collectively "Accounting Standard for Business Enterprises"), and China Securities Regulatory Commission's "Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15-General Provisions on Financial Reports (2014 Revision)" and the provisions regarding disclosure pursuant to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies Ordinance of Hong Kong, as well as the accounting policies and estimation as stated in "Significant Accounting Policies and Accounting Estimation".

3. Total operating revenue

Total operating revenue includes the operating revenue and income from other business. Operating revenue only represents the net amounts received and receivables from customers outside the Group for goods sold and services rendered by the Group less trade discounts.

Analysis of the Group's operating revenue during the six months ended 30 June 2016 is as follows:

For the six months ended 30 June (unaudited):

	2016	2015
Casing and Tubing	**743,070,420.47**	1,002,014,064.10
Three kinds of pumping units	**16,890,016.87**	22,556,421.78
Petroleum machinery	**8,899,062.96**	61,180,702.89
Trade	**45,174,407.89**	0
Others	**41,554,899.92**	791,430.32
Total	**855,588,808.11**	1,086,542,619.09

4. Segment information

（1）Confirmation basis and accounting policy of the segment reporting

Confirmation basis of the segment reporting

According to the internal organizational structure, management requirements and internal reporting system of the Group, the Group's operating segments are divided into 4 reporting segments. The Group's management regularly evaluates the operating results of these reporting segments to determine the resources to be allocated and to evaluate its results. The main products of each of the Group's reporting segments include casing and tubing, three kinds of pumping units, petroleum machinery and others.

Accounting policy of the segment reporting

The information from the reporting segments are disclosed in accordance with the accounting policies and measurement standards adopted when reporting to the management of the Group, which are consistent with the accounting policies and measurement standards adopted in the preparation of the financial statements.

Information from reporting segment - for the six months ended 30 June 2016 (unaudited)

	Casing and Tubing	Three kinds of pumping units	Petroleum machinery	Trade	Other	Unallocated items	Inter-segment elimination	Total
Operation Revenue	781,668,830.03	16,890,016.87	8,899,062.96	45,174,407.89	18,399,555.47			871,031,873.22
External transaction income								
Income for inter-segment transaction								
Total segment operation revenue	781,668,830.03	16,890,016.87	8,899,062.96	45,174,407.89	18,399,555.47			871,031,873.22
Total operation revenue presented	781,668,830.03	16,890,016.87	8,899,062.96	45,174,407.89	18,399,555.47			871,031,873.22
Segment costs	730,822,484.64	12,571,603.07	10,114,830.94	43,798,678.37	9,171,528.49			806,479,125.51
Segment operating profit	50,846,345.39	4,318,413.80	(1,215,767.98)	1,375,729.52	9,228,026.98			64,552,747.71
Adjustment items:								
Administrative expenses						55,144,229.18		55,144,229.18
Finance expenses						22,630,322.40		22,630,322.40
Investment income								
Operation profit presented	50,846,345.39	4,318,413.80	(1,215,767.98)	1,375,729.52	9,228,026.98	(77,774,551.58)		(13,221,803.87)
Non-operation income						10,391,479.11		10,391,479.11
Non-operation expenditure						87,883.59		87,883.59
Total Profit	50,846,345.39	4,318,413.80	(1,215,767.98)	1,375,729.52	9,228,026.98	(67,470,956.06)		(2,918,208.35)
Income tax						7,568,697.95		7,568,697.95
Net profit	50,846,345.39	4,318,413.80	(1,215,767.98)	1,375,729.52	9,228,026.98	(75,039,654.01)		(10,486,906.30)
Total segment assets	5,232,442,305.26	104,264,332.65	163,359,906.16	89,716,700.52	17,240,443.49	854,457,967.32		6,461,481,655.40
Total segment liabilities	2,095,329,868.79	21,688,014.60	85,480,222.70	78,238,855.50	4,233,452.43	1,649,524,131.21		3,934,494,545.23

Supplementary Information：								
Depreciation	79,961,247.88	2,980,544.61	2,905,701.80		4,637,512.52			90,485,006.81
Amortize	15,870,976.02	390.00	1,102,510.26			2,298,179.15		19,272,055.43
Interest Income						(9,420,595.66)		(9,420,595.66)
Interest cost						32,050,918.06		32,050,918.06
Impairment losses recognized in previous year:	24,442.90							24,442.90
Non-current assets other than long-term equity investment	3,060,288,182.39	69,560,458.34	36,650,223.80		357,189,128.31	205,872,538.86		3,729,560,531.70
Capital expenditure	90,661,746.50	43,038.42	17,487.18		116,032.88			90,838,304.98
Consist of：Expenses on construction in progress	89,095,482.79							89,095,482.79
Expenses on purchase of fixed assets	1,566,263.71	43,038.42	17,487.18		116,032.88			1,742,822.19
Expenses on purchase of intangible assets								
Non-cash expenses other than depreciation and amortization								

Information from reporting segment - for the six months ended 30 June 2015 (unaudited)

	Casing and Tubing	Three kinds of pumping units	Petroleum machinery	Other	Unallocated items	Inter-segment elimination	Total
Operation Revenue							
External transaction income	1,001,170,579.14	22,556,421.79	61,180,702.89	12,741,933.09			1,097,649,636.91
Income for inter-segment transaction							-
Total segment operation revenue	1,001,170,579.14	22,556,421.79	61,180,702.89	12,741,933.09			1,097,649,636.91
Total operation revenue presented							-
Segment costs	945,465,583.57	16,781,353.73	54,316,932.31	23,197,103.76			1,039,760,973.37
Segment operating profit	55,704,995.57	5,775,068.06	6,863,770.58	(10,455,170.67)			57,888,663.54
Adjustment items:					75,051,550.05		75,051,550.04
Administrative expenses					62,563,240.66		62,563,240.66
Finance expenses					13,815,135.10		13,815,135.10
Investment income					1,326,825.71		1,326,825.71
Operation profit presented	55,704,995.57	5,775,068.06	6,863,770.58	(10,455,170.67)	(75,051,550.05)		(17,162,886.51)
Non-operation income					23,740,893.66		23,740,893.66
Non-operation expenditure					67,851.83		67,851.83
Total Profit	55,704,995.57	5,775,068.06	6,863,770.58	(10,455,170.67)	(51,378,508.22)		6,510,155.32
Income tax					7,501,818.28		7,501,818.28
Net profit	55,704,995.57	5,775,068.06	6,863,770.58	(10,455,170.67)	(58,880,326.50)		(991,662.96)
Total segment assets	4,959,024,534.02	106,698,324.30	249,069,732.30	38,667,694.26	573,515,933.36		5,926,976,218.24
Total segment liabilities	1,229,551,210.57	21,783,654.50	101,456,302.30	814,590.94	1,824,088,083.87		3,177,693,842.18
Supplementary Information：							
Depreciation	86,564,594.83	2,976,119.05	3,891,828.46	3,251,814.89	1,493,134.11		98,177,491.34
Amortize	22,691,842.69	6,486.66	1,177,075.04		1,438,431.16		25,313,835.55
Interest Income					(9,328,891.00)		(9,328,891.00)
Interest cost					23,144,026.10		23,144,026.10

Impairment losses recognized in previous year:							
Non-current assets other than long-term equity investment	2,814,159,002.25	83,409,135.59	112,263,704.20	32,045,857.66	500,462,777.18		3,542,340,476.88
Capital expenditure	66,843,311.50			403,711.38			67,247,022.88
Consist of：Expenses on construction in progress	63,023,306.32			150,779.34			63,174,085.66
Expenses on purchase of fixed assets	3,820,005.18			252,932.04			4,072,937.22
Expenses on purchase of intangible assets							
Non-cash expenses other than depreciation and amortization							

(2) External transaction income by location of income source and non-current assets by location of assets

All of the Group’s external transaction income came from China and overseas, while all of the Group's assets were located in China, hence the external transaction income by location of income source is disclosed as follows:

For the six months ended 30 June (unaudited)

	2016	2015
Domestic external transaction income	712,374,641.00	560,412,631.44
Foreign external transaction income	143,214,167.11	526,129,987.65
Total	855,588,808.11	1,086,542,619.09

5. Finance costs

For the six months ended 30 June (unaudited)

	2016	2015
Interest expenses	40,997,581.13	41,653,998.56
Less：Capitalized interest expenses	23,050,200.37	20,157,475.19
Less：Interest income	9,420,595.66	9,328,890.99
Foreign exchange difference	(11,610,293.59)	(5,679,564.59)
Other	25,713,830.89	7,327,067.31
Total	22,630,322.40	13,815,135.10

6. Assets impairment losses

For the six months ended 30 June (unaudited)

	2016	2015
Provision of bad debt	24,442.90	0
Including: Accounts receivable	24,442.90	0
Other accounts receivable		
Provision of allowance for inventory		
Including：Raw materials		
Entrusted processing materials		
Finished product		
Work-in-progress		

Total	24,442.90	0

7. Non-operating income

For the six months ended 30 June (unaudited)

	2016	2015
Total income on disposal of non-current assets		
Of which: Income on disposal of fixed assets		
Government grants	10,131,155.00	23,150,709.22
Income from penalty	260,324.11	590,184.44
Others		
Total	10,391,479.11	23,740,893.66

8. Total profit

For the six months ended 30 June (unaudited)

	2016	2015
Total profit is calculated after charging/(crediting):		
Staff costs (including director's remuneration)	59,630,163.71	64,110,969.87
Amortization of intangible assets	19,272,055.43	24,941,953.50
Auditors remuneration (included (in administrative expenses)	1,132,075.44	1,037,735.82
Recognized cost of inventories	770,746,262.83	909,522,428.13
Depreciation on fixed assets	90,485,006.81	98,086,059.69
Research and development expenses (Included in administrative expenses)	1,397,712.32	2,889,404.59
Loss(Gain) on disposal of fixed assets	63,847.59	41,384.21

9. Income tax expenses

For the six months ended 30 June (unaudited)

	2016	2015
Current income tax	3,421,862.63	9,252,946.59
— PRC		
Deferred tax expenses	4,146,835.32	(1,751,128.31)
Total	7,568,697.95	7,501,818.28

The Company is subject to the PRC enterprise income tax at a rate of 15% (2015: 15%) as the Company is classified as a new technology enterprise.

The Company is a subsidiary in Hong Kong and is subject to Hong Kong profits tax at a rate of 16.5% on its estimated assessable profits.

10. Earnings per share

For the six months ended 30 June (unaudited)

	2016	2015
Calculated based on net profits attributable to the equity holders of the Company:	6,039,585.20	10,313,286.91
Basic earnings per share	0.0076	0.01
Diluted earnings per share	N/A	N/A
Calculated based on net profits attributable to equity holders of the Company on the going concern basis:	6,039,585.20	10,313,286.91
Basic earnings per share	0.0076	0.01
Diluted earnings per share	N/A	N/A

11. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016.

12. Accounts receivables

	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)
Accounts receivables	635,915,501.07	522,733,882.88
Less: Provision for bad debts	25,518,326.50	25,493,883.60
Total	610,397,174.57	497,239,999.28

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 limits. Apart from requiring new customers to pay in advance, the Group formulates different credit policies according to different customers. The credit period is generally three months, but can be extended to six months for major customers.

The aging analysis of accounts receivables (net of provision for bad debts) is as follows:

	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)
Within 1 year	463,695,011.46	348,177,426.95
1 to 2 years	119,835,442.40	129,100,380.57
2 to 3 years	26,448,242.70	19,960,595.76
Over 3 years	418,478.01	1,596.00
Total	610,397,174.57	497,239,999.28

13. Accounts payables

The aging analysis of accounts payables is as follows:

	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)
Within 1 year	678,441,435.03	710,217,948.35
1 to 2 years	130,569,413.52	147,796,667.79
2 to 3 years	24,580,263.25	23,762,226.63
Over 3 years	22,321,458.76	23,013,055.76
Total	855,912,570.56	904,789,898.53

14. Capital Commitment

As at 30 June 2015, the capital expenditure commitment of the Group is as follows:

	As at 30 June 2016 (unaudited)	As at 31 December 2015(audited)
Contracted but not recognized in financial statements - Commitment on acquisition and construction of long-term assets	36,601,677.00	87,943,027.50

15. Contingent liabilities

During the six months ended 30 June 2016, the Company did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results

During the six months ended 30 June 2016, the Group's unaudited revenue reached RMB871.03 million, representing a decrease of approximately 20.65% as compared with the corresponding period of last year; the unaudited total loss was RMB 2.92 million, representing a decrease of approximately of 144.83% compared with the corresponding period of last year; the unaudited profit attributable to shareholders of the Company was RMB6.04 million, representing a decrease of 41.44% compared with the corresponding period of last year; and the unaudited net loss after extraordinary items was RMB 1.97 million, representing an increase of approximately 80%, as compared with the corresponding period of last year.

Business Review

In the domestic market, the major customers of the Group's oil well tubes are PetroChina, Sinopec, CNOOC and Yanchang oil fields. The Group has been expanding its scope of business. Tubes manufactured by the Group are now used for machining and shipbuilding. They are also used for the manufacturing of high-pressure boilers, gas cylinders and pipes used in cars.

For overseas market, the Group continued to develop its business in South America, Middle East, Africa and Central Asia during the reporting period and develop new customers relationship by mainly selling casing and tubing, line pipe products, subsea pipeline products and sucker rods. In addition, the Group has obtained certificates for its products in many national oil companies during the reporting period. With the new customers' development and obtaining the production certificates from national oil companies, the Group has further increased its market shares in the overseas market and popularity in the international oil drilling equipment market. Currently, the Group has established and maintained good and long-term cooperative relationships with many overseas oil suppliers and oil field service companies, which results in raising the sales in the overseas markets. During the reporting period, the Group's revenue from exports accounted for approximately 16.74% of the Group's total sales revenue.

As for new products development, with the scientific research advantages of "Province-level Enterprise Technical Center of Shandong Province" and "Shandong Molong post-doctoral research station", the Group continued to strengthen its technological cooperation with research institutes to increase its efforts to develop high-end products, expand product structures and enrich product categories. The Group has successfully developed products including ML-IJ flush joint connection tubing, P11 American Standard alloy pipe, high pressure straight pipe, anti-corrosion tubes premium connections, anti-corrosion suspension-type sucker rod pump were supplied to domestic and overseas customers on a large scale. Continuous development and introduction of new products to the market enables the Company to respond swiftly, thus enhancing our resistance to risk.

Prospects

Looking ahead to 2016, international oil price has been keeping low overall, and supply exceeds demand. Other than the United States of America, the rest of the developed countries have shown poor economic performance. Developing countries, such as China, face the problem of slow economic growth, which leads to a weak demand for crude oil. Though wind power, nuclear power and the photovoltaic industry will gradually take up a larger share in the energy structure, the percentage contributed by crude oil is not expected to fall swiftly. In addition, in the 13th Five-year Plan, the Chinese government made clear its intention to expand the room for industry development, to support the development of high-end equipment industry and new energy industry, and to back up the transformation and upgrading of traditional industries. 2016 marks the beginning of the 13th Five Year Plan. It is also a crucial year to boost structural reform. We expect the petroleum market to grow steadily. Having regard to the national policies, energy industry will maintain steady growth, and the Company will surely benefit from these policies. The Company will exert more research and development efforts to develop high-end products, to research production technologies that will enhance product quality, to build a reserve of advance technologies and to enhance accessory production capacity. We also strive to expand our reach in the international market while maintaining our market share in the domestic market.

Significant Investments

During the six months ended 30 June 2016, the Group did not have any major investment projects.

Acquisition and Disposals during the six months ended 30 June 2016 and Future Investment Plans

During the six months ended 30 June 2016, the Group did not have other relevant acquisitions, disposals or significant investment plans.

Corporate Governance

The Company is committed to establishing good corporate governance. The principles of corporate governance adopted by the Company emphasize a high quality Board, sound internal control, and transparency and accountability to relevant parties of the business. During the six months ended 30 June 2016, the Company has complied with all the code provisions, and where applicable, adopted the recommended best practices of the "Corporate Governance Code and Corporate Governance Report" as set out in Appendix 14 of the Rules Governing the Listing of Securities on the HKEx (the "**Listing Rules**").. None of the directors of the Company (the "**Directors**") are aware of any information that would reasonably suggest that the Company is not or was not in compliance with the code provisions at any time during the six months ended 30 June 2016.

Audit Committee

The Audit Committee (its members include three independent non-executive Directors) held one meeting during the six months ended 30 June 2016 to discuss matters, such as the accounting standards and practices adopted by the Group, internal control and financial reporting matters, and review the interim results for the six months ended 30 June 2016. Based on the discussions in the meeting, the Audit Committee was satisfied that the financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2016. The interim results have not been reviewed by the auditors of the Company.

Director's 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 management. The Company has made specific enquiries to all Directors and has confirmed that all of the Directors have complied with the required standard of securities transactions by the Directors as set out in the Model Code for the six months ended 30 June 2016.

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 six months ended 30 June 2016.

Publication of the Results Announcement and the Interim Report on the website of the HKEx

This announcement is published on the website of the HKEx. The interim report for the six months ended 30 June 2016 will be dispatched to shareholders at the appropriate time and will be available on the Company's website at http://www.molonggroup.com and the website of the HKEx and Shenzhen Stock Exchange in due course.

By order of the Board of Directors

Zhang En Rong

Chairman

Shandong, the PRC

19 August 2016

As at the date of this announcement, the Board is comprised of Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Guo Huan Ran and Mr. Yang Jin as executive Directors, Mr. Guo Hong Li and Ms. Wang Chun Hua as non-executive Directors and Mr. Qin Xue Chang, Mr. Ji Yan Song and Ms. Quan Yu Hua as independent non-executive Directors.

* *For identification purpose only*