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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)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016**

### **HIGHLIGHTS**

- For the year ended 31 December 2016 in consolidated financial statements, the total revenue from operations of the Group amounted to RMB1,531,118,375.18, which represents a decrease of approximately 5.13% as compared with last year of RMB1,613,917,735.08.
- Net loss attributable to the owners of the Company in consolidated financial statement amounted to RMB -612,476,376.18 as compared with the net loss of RMB -259,565,004.32 last year.
- Loss per share of the Company in consolidated financial statements amounted to RMB -0.77 as compared with loss per share of the Company of RMB -0.33 last year.
- The Board does not recommend the payment of final dividend for the year ended 31 December 2016.

The board of directors (the “**Board**”) of Shandong Molong Petroleum Machinery Company Limited (the “**Company**”) announces the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2016.

The financial information set out in this announcement below does not constitute the Group’s statutory financial statements for the year ended 31 December 2016, 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, the People’s Republic of China (the “**PRC**”).

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

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Note	2016	2015
<b>Total revenue from operations</b>	4	<b>1,531,118,375.18</b>	1,613,917,735.08
Including: operating revenue		<b>1,531,118,375.18</b>	1,613,917,735.08
<b>Total costs of operations</b>		<b>2,136,977,077.37</b>	1,936,568,687.67
Including: Operating cost		<b>1,641,800,821.53</b>	1,495,373,781.61
Business tax and surcharges		<b>17,949,257.54</b>	11,261,460.10
Selling expenses		<b>50,980,617.53</b>	124,886,386.85
Administrative expenses		<b>157,120,673.19</b>	175,105,370.71
Finance costs	6	<b>52,507,807.22</b>	49,163,255.55
Asset impairment losses	7	<b>216,617,900.36</b>	80,778,432.85
Add: Gains from changes in fair value			
Investment income		<b>50,624.92</b>	(1,127,461.14)
Including: Gains from investment in associates and joint ventures		<b>(76,330.30 )</b>	(1,127,461.14)
<b>Operating (loss) / profit</b>		<b>(605,808,077.27)</b>	(323,778,413.73)
Add: Non-operating income	8	<b>7,342,777.08</b>	26,700,315.46
Less: Non-operating expenses		<b>1,020,719.53</b>	1,394,815.53
Including: Loss from disposal of non-current assets		<b>88,185.70</b>	86,303.29
<b>Total (loss) / profit</b>	9	<b>(599,486,019.72)</b>	(298,472,913.80)
Less: Income tax (credit) expenses	10	<b>51,219,680.01</b>	(11,973,966.90)
<b>Net (loss) / profit</b>		<b>(650,705,699.73)</b>	(286,498,946.90)
Net (loss) / profit attributable to shareholders of the Company		<b>(612,476,376.18)</b>	(259,565,004.32)
Net loss attributable to minority interests		<b>(38,229,323.55)</b>	(26,933,942.58)
<b>(Losses) / earnings per share:</b>	11		
Basic (losses) / earnings per share		<b>(0.77)</b>	(0.33)
Diluted (losses) / earnings per share		<b>(0.77)</b>	(0.33)
<b>Other comprehensive expense</b>		<b>(1,929,170.78)</b>	(1,660,759.37)
<b>Total comprehensive (expense) / income</b>		<b>(652,634,870.51)</b>	(288,159,706.27)
Total comprehensive (expense) / income attributable to owners of the Company		<b>(614,306,634.27)</b>	(261,139,341.87)
Total comprehensive expense attributable to minority interests		<b>(38,328,236.24)</b>	(27,020,364.40)
<b>Dividends</b>	12	<b>0.00</b>	0.00

# CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Note	2016	2015
<b>Current assets</b>			
Cash and bank balances		679,448,755.91	349,815,773.50
Bills receivable		23,403,982.45	46,101,762.76
Accounts receivable	13	304,148,614.98	497,239,999.28
Loans and advances		142,887,708.94	136,329,884.59
Prepayments		37,042,473.89	12,063,262.16
Interests receivable		8,196,910.73	4,594,396.68
Other receivables		55,703,355.24	87,823,154.76
Inventories		768,734,172.36	903,784,288.00
Assets held for sale		10,765,552.13	-
Other current assets		112,973,607.82	79,270,918.94
<b>Total current assets</b>		<b>2,143,305,134.45</b>	<b>2,117,023,440.67</b>
<b>Non-current assets</b>			
Available-for-sale financial assets		50,000.00	10,030,000.00
Long-term equity investment		2,707,572.57	2,783,902.87
Fixed assets		3,066,573,497.65	1,291,476,197.17
Construction-in-progress		31,579,353.99	1,710,795,797.18
Intangible assets		449,212,108.76	468,806,719.84
Goodwill		26,683,383.21	68,483,383.21
Research and development expenditure		-	-
Long-term deferred expenses		-	-
Deferred income tax assets		3,465,431.48	60,918,666.99
Other non-current assets		48,466,358.95	120,862,615.68
<b>Total non-current assets</b>		<b>3,628,737,706.61</b>	<b>3,734,157,282.94</b>
<b>Total assets</b>		<b>5,772,042,841.06</b>	<b>5,851,180,723.61</b>
<b>Current liabilities</b>			
Short-term borrowings		2,436,842,117.30	1,469,055,063.41
Bills payable		241,427,907.86	304,242,384.43
Accounts payable	14	901,601,597.75	904,789,898.53
Receipts in advance		73,674,754.30	43,005,331.88
Salaries payable		30,194,232.47	26,953,318.48
Taxes payable		9,905,721.00	7,387,844.14
Interests payable		3,716,115.91	17,853,069.32
Dividends payable		-	-
Other payables		29,429,211.29	23,979,858.24
Non current liabilities due within one year		-	499,444,444.41
Other current liabilities		-	1,808,000.00
<b>Total current liabilities</b>		<b>3,726,791,657.88</b>	<b>3,298,519,212.84</b>
<b>Non-current liabilities</b>			
Long-term borrowings		145,000,000.00	-
Bonds payable		-	-
Deferred income		6,954,855.00	-
Deferred income tax liabilities		7,629,102.79	14,576,914.87
Other non-current liabilities		-	-
<b>Total non-current liabilities</b>		<b>159,583,957.79</b>	<b>14,576,914.87</b>

<b>Total liabilities</b>		<b>3,886,375,615.67</b>	3,313,096,127.71
<b>Shareholders' equity</b>			
Share capital		<b>797,848,400.00</b>	797,848,400.00
Capital reserve		<b>849,718,158.42</b>	849,500,658.42
Surplus reserve		<b>176,686,903.51</b>	176,686,903.51
General risk reserve		<b>11,236.91</b>	11,236.91
Retained profits		<b>(2,104,173.06)</b>	610,372,203.12
Other comprehensive income		<b>(3,092,433.84)</b>	(1,262,175.75)
<b>Total equity attributable to shareholders of the Company</b>		<b>1,819,068,091.94</b>	2,433,157,226.21
Minority interests		<b>66,599,133.45</b>	104,927,369.69
<b>Total shareholders' equity</b>		<b>1,885,667,225.39</b>	2,538,084,595.90
<b>Total liabilities and shareholders' equity</b>		<b>5,772,042,841.06</b>	5,851,180,723.61

## CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

*For the year ended 31 December 2016*

	2016								
	Equity attributable to the shareholders of the Company							Minority interests	Total equity
	Share capital	Capital reserve	Other comprehensive income	Appropriative reserve	Surplus reserve	General risk reserve	Retained profits		
I. Balance at the end of the previous year	797,848,400.00	849,500,658.42	(1,262,175.75)	0.00	176,686,903.51	11,236.91	610,372,203.12	104,927,369.69	2,538,084,595.90
II. Changes in the current year	0.00	217,500.00	(1,830,258.09)	0.00	0.00	0.00	(612,476,376.18)	(38,328,236.24)	(652,417,370.51)
(i) Total comprehensive expense for the year			(1,830,258.09)				(612,476,376.18)	(38,328,236.24)	(652,634,870.51)
(ii) Shareholder' capital injection and capital reduction	0.00	217,500.00	0.00	0.00	0.00	0.00	0.00	0.00	217,500.00
1. Capital injection from shareholders									0.00
2. Other equity instruments holders' contributions									0.00
3. Equity settled share expenses charged to equity									0.00
4. Others		217,500.00							217,500.00
(iii) Profit distribution	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer to surplus reserves							0.00		0.00
2. Transfer to general risk provision									0.00
3. Distribution to shareholders									0.00
4. Others									0.00
(iv) Transfer of shareholders' equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer of capital reserve to share capital									0.00
2. Transfer of surplus reserves to share capital									0.00
3. Surplus reserves offsetting against losses									0.00
4. Others									0.00
(v) Special reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Provided				6,782,481.72				806,668.37	7,589,150.09
2. Utiliaed				6,782,481.72				806,668.37	7,589,150.09
(vi) Others									0.00
<b>III. Balance at the end of the current year</b>	797,848,400.00	849,718,158.42	(3,092,433.84)	0.00	176,686,903.51	11,236.91	(2,104,173.06)	66,599,133.45	1,885,667,225.39

	2015								
	Equity attributable to the shareholders of the Company							Minority interests	Total equity
	Share capital	Capital reserve	Other comprehensive income	Appropriative reserve	Surplus reserve	General risk reserve	Retained profits		
I. Balance at the end of the previous year	797,848,400.00	849,500,658.42	312,161.80	0.00	176,686,903.51	0.00	869,937,207.44	55,962,144.43	2,750,247,475.60
II. Changes in the current year	0.00	0.00	(1,574,337.55)	0.00	0.00	11,236.91	(259,565,004.32)	48,965,225.26	(212,162,879.70)
(i) Total comprehensive expense for the year			(1,574,337.55)				(259,565,004.32)	(27,020,364.40)	(288,159,706.27)
(ii) Shareholders' capital injection and capital reduction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	75,964,721.12	75,964,721.12
1. Capital injection from shareholders									0.00
2. Other equity instruments holders' contributions									0.00
3. Equity settled share expenses charged to equity									0.00
4. Others								75,964,721.12	75,964,721.12
(iii) Profit distribution	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer to surplus reserves							0.00		0.00
2. Transfer to general risk provision									0.00
3. Distribution to shareholders									0.00
4. Others									0.00
(iv) Transfer of shareholders' equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Transfer of capital reserve to share capital									0.00
2. Transfer of surplus reserves to share capital									0.00
3. Surplus reserves offsetting against losses									0.00
4. Others									0.00
(v) Special reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Provided				9,312,806.09				996,827.31	10,309,633.40
2. Utilised				9,312,806.09				996,827.31	10,309,633.40
(vi) Others						11,236.91		20,868.54	32,105.45
III. Balance at the end of the current year	797,848,400.00	849,500,658.42	(1,262,175.75)	0.00	176,686,903.51	11,236.91	610,372,203.12	104,927,369.69	2,538,084,595.90

## 1. General

The Company was established in the 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 address of its registered office is No. 999 WenSheng Street, Shouguang City, Shandong Province, PRC and the principal place of business in Hong Kong is Suite A, 11<sup>th</sup> Floor Ho Lee Commercial Building, 38-44 D’Águilar Street, Central, Hong Kong.

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

For the year ended 31 December 2016, 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

There consolidated financial statements for the year ended 31 December 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 the disclosure requirements pursuant to 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)”, 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 Estimates”.

## 3. Changes in accounting policies and its effect

There are no significant changes in accounting policies for the reporting period.

## 4. Total revenue from operations

The total revenue from operations consists of operating revenue and revenue from other operations. 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	2016	2015
Casing and Tubing	1,376,899,726.43	1,455,669,482.04
Three kinds of pumping units	27,228,938.56	44,075,407.13
Petroleum machinery parts	20,432,578.68	80,706,851.84
Others	94,642,568.30	1,7147,878.84
Total	1,519,203,811.97	1,597,599,619.85



## 5. Segment information

According to the internal organization structure, management requirements and internal reporting system of the Group, the Group's operating segments are divided into 4 reportable segments. The Group's management regularly evaluates the operating results of these reportable segments to determine the resources to be allocated and evaluates its results.

### (1) Segment Reporting

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.

#### Segment reporting information–2016

	Casing and Tubing	Three kinds of pumping units	Petroleum machinery part	Others	Unallocated items	Inter-segment elimination	Total
Operating revenue							
External income	1,376,899,726.43	27,228,938.56	20,432,578.68	106,557,131.51			1,531,118,375.18
Inter-segment income							
Total segment income	1,376,899,726.43	27,228,938.56	20,432,578.68	106,557,131.51			1,531,118,375.18
Total operating income	1,376,899,726.43	27,228,938.56	20,432,578.68	106,557,131.51			1,531,118,375.18
Segment costs	1,771,179,665.16	31,762,897.83	20,304,745.69	104,101,288.28			1,927,348,596.96
Segment (loss) / profit	(394,279,938.73)	(4,533,959.27)	127,832.99	2,455,843.23			(396,230,221.78)
Adjusting items:							
Administrative expenses					157,120,673.19		157,120,673.19
Finance costs					52,507,807.22		52,507,807.22
Investment income					50,624.92		50,624.92
Operating (loss) / profit	(394,279,938.73)	(4,533,959.27)	127,832.99	2,455,843.23	(209,577,855.49)		(605,808,077.27)
Non-operating income					7,342,777.08		7,342,777.08
Non-operating expenses					1,020,719.53		1,020,719.53
Total (loss) / profit	(394,279,938.73)	(4,533,959.27)	127,832.99	2,455,843.23	(203,255,797.94)		(599,486,019.72)
Income tax credit					51,219,680.01		51,219,680.01
Net (loss) / profit	(394,279,938.73)	(4,533,959.27)	127,832.99	2,455,843.23	(254,475,477.95)		(650,705,699.73)
Total segment assets	4,929,252,796.06	95,988,897.79	218,942,207.53	177,898,542.26	349,960,397.42		5,772,042,841.06
Total segment liabilities	1,401,705,015.87	27,306,766.13	19,612,567.50	93,280,046.07	2,344,471,220.10		3,886,375,615.67
Supplementary information:							
Depreciation	170,157,746.66	6,001,889.84	5,594,379.52	646,116.88	8,534,543.00		190,934,675.90
Amortization	66,594,131.74	478,178.08	2,586,317.37	5,256.36			69,663,883.55
Interest income					(10,996,409.07)		(10,996,409.07)
Finance cost					63,504,216.29		63,504,216.29

Impairment losses recognised in current year:	216,617,900.36						216,617,900.36
Non-current assets excluding long-term equity investment	3,269,055,595.43	63,646,417.62	45,712,833.80	217,416,472.49	30,198,814.70		3,626,030,134.04
Capital expenditure	304,064,778.46		8,547.01	7,929,369.77	20,000.00		312,022,695.24
including: Construction-in-progress	288,965,471.51			1,452,339.77			290,417,811.28
Purchase of fixed assets	4,705,484.70		8,547.01				4,714,031.71
Purchase of intangible assets	10,393,822.25			6,477,030.00			16,870,852.25
Purchase of stock rights					20,000.00		20,000.00

### Segment reporting information-2015

	Casing and Tubing	Three kinds of pumping units	Petroleum machinery part	Others	Unallocated items	Inter-segment elimination	Total
Operating revenue							
External income	1,455,669,482.04	44,075,407.13	80,706,851.84	33,465,994.07			1,613,917,735.08
Inter-segment income							
Total segment income	1,455,669,482.04	44,075,407.13	80,706,851.84	33,465,994.07			1,613,917,735.08
Total operating income	1,455,669,482.04	44,075,407.13	80,706,851.84	33,465,994.07			1,613,917,735.08
Segment costs	1,553,034,388.85	41,329,369.76	71,562,375.75	46,373,927.05			1,712,300,061.41
Segment (loss) / profit	(97,364,906.81)	2,746,037.37	9,144,476.09	(12,907,932).98			(98,382,326.33)
Adjusting items:							
Administrative expenses					175,105,370.71		175,105,370.71
Finance costs					49,163,255.55		49,163,255.55
Investment income					1,127,461.14		1,127,461.14
Operating (loss) / profit	(97,364,906.81)	2,746,037.37	9,144,476.09	(12,907,932).98	(225,396,087.40)		(323,778,413.73)
Non-operating income					26,700,315.46		26,700,315.46
Non-operating expenses					1,394,815.53		1,394,815.53
Total (loss) / profit	(97,364,906.81)	2,746,037.37	9,144,476.09	(12,907,932).98	(200,090,587.47)		(298,472,913.80)
Income tax credit					(11,973,966.90)		(11,973,966.90)
Net (loss) / profit	(97,364,906.81)	2,746,037.37	9,144,476.09	(12,907,932).98	(188,116,620.57)		(286,498,946.90)
Total segment assets	4,832,069,634.48	115,153,065.83	244,990,477.77	199,613,985.97	459,353,559.57		5,851,180,723.61
Total segment liabilities	1,336,552,214.59	26,453,556.63	150,561,469.96	4,595,463.83	1,794,933,422.69		3,313,096,127.71
Supplementary information:							
Depreciation	178,958,306.95	5,807,021.65	2,213,815.31	2,951,810.42	8,497,416.83		198,428,371.16
Amortization	66,336,911.98	14,434.76	2,205,020.52		8,571,073.26		77,127,440.52

Interest income					(13,376,172.52)		(13,376,172.52)
Finance cost					62,539,428.07		62,539,428.07
Impairment losses recognised in current year:	80,778,432.85						80,778,432.85
Non-current assets excluding long-term equity investment	3,382,683,962.88	46,963,667.26	96,675,900.19	52,751,287.40	152,298,562.34		3,731,373,380.07
Capital expenditure	246,520,711.44	3,987,834.06	123,759.84	5,144,195.00			255,776,500.34
including: Construction-in-progress	200,651,485.77	108,547.01					200,760,032.78
Purchase of fixed assets	15,110,813.92	3,879,287.05	123,759.84				19,113,860.81
Purchase of intangible assets	30,758,411.75						30,758,411.75
Purchase of stock rights				5,144,195.00			5,144,195.00

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

In 2016 and 2015, 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	2016	2015
Domestic external transaction income	1,198,770,210.20	791,549,269.47
Foreign external transaction income	332,348,164.98	822,368,465.61
Total	<b>1,531,118,375.18</b>	1,613,917,735.08

## 6. Finance costs

Items	2016	2015
Interest expenses (bank borrowings due wholly repayable one year)	<b>103,668,010.12</b>	92,927,091.94
Less : Interest capitalized	<b>47,330,342.17</b>	41,375,851.23
Less : Interest income	<b>10,996,409.07</b>	13,376,172.52
Foreign exchange difference	<b>3,036,452.49</b>	9,059,331.49
Other	<b>4,130,095.85</b>	1,928,855.87
Total	<b>52,507,807.22</b>	49,163,255.55

Borrowing cost capitalized during the year is capitalized at a rate of 4.175% (2015: 4.64%) per annum to the qualifying assets.

## 7. Assets impairment losses

Items	2016	2015
Provision of bad debt	<b>62,434,811.41</b>	12,799,423.35
Including: Accounts receivable	<b>51,814,264.82</b>	12,799,423.35
Other receivables	<b>10,620,546.59</b>	-
Provision of allowance for inventory	<b>47,419,652.59</b>	52,575,410.96
Including: Raw materials	<b>8,931,833.79</b>	(4,034,860.58)

Finished goods	<b>20,372,134.56</b>	38,169,685.63
Work-in-progress	<b>16,958,416.69</b>	18,534,047.64
Work in process-outsourced	<b>1,157,267.55</b>	(93,461.73)
Impairment loss on intangible asset	-	-
Impairment loss of fixed assets	<b>60,810,000.00</b>	-
Impairment loss on loans and advances	<b>4,153,436.36</b>	403,598.54
Impairment loss on goodwill	<b>41,800,000.00</b>	15,000,000.00
Total	<b>216,617,900.36</b>	80,778,432.85

## 8. Non-operating income

Items	2016	2015
Gain on disposal of non-current assets	<b>270,348.71</b>	-
Including: Gain on disposal of fixed assets	<b>270,348.71</b>	-
Government grants	<b>4,188,016.16</b>	24,592,306.17
Penalty income	<b>733,244.12</b>	357,108.06
Others	<b>2,151,168.09</b>	1,750,901.23
Total	<b>7,342,777.08</b>	26,700,315.46

## 9. Total (loss) / profit

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

Items	2016	2015
Staff costs (including directors' remuneration)	<b>110,932,722.63</b>	131,469,478.16
Amortization of intangible assets	<b>69,663,883.55</b>	77,127,440.52
Auditor's remuneration (included in administrative expenses)	<b>1,132,075.44</b>	1,132,075.44
Cost of inventories recognized as expenses	<b>1,641,800,821.53</b>	1,495,373,781.61
Depreciation on fixed assets	<b>190,934,675.90</b>	198,428,371.16
Research and development expenses (included in administrative expenses)	<b>32,698,570.14</b>	26,802,633.94
Gain on disposal of fixed assets	<b>270,348.71</b>	-

## 10. Income tax (credit) expenses

Items	2016	2015
Current income tax expenses	<b>714,256.58</b>	105,575.91
—Hong Kong	<b>(8.46)</b>	34,528.35
—PRC	<b>714,265.04</b>	71,047.56
Deferred income tax	<b>50,505,423.43</b>	(12,079,542.81)
Total	<b>51,219,680.01</b>	(11,973,966.90)

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

Hong Kong Profits Tax has been provided for the subsidiary incorporated in Hong Kong at 16.5% (2015:16.5%) on the estimated assessable profits.

## 11.(Losses) / earnings per share

Items	2016	2015
Calculated based on net (loss) / profit attributable to the shareholders of the Company:		
Basic (losses) / earnings per share	<b>(0.77)</b>	(0.33)

Diluted (losses) / earnings per share	(0.77)	(0.33)
Calculated based on net profits from continuing operations attributable to shareholders of the Company :		
Basic (losses) / earnings per share	(0.77)	(0.33)
Diluted (losses) / earnings per share	(0.77)	(0.33)

## 12. Dividends

Items	2016	2015
Dividends recognized and distributed during the year	0	0
2016 final dividend: RMB0.00 per ordinary share (2015: final dividend RMB0.00)		

The Board does not recommend any payment of final dividend in respect of the year ended 31 December 2016 (2015: Nil).

## 13. Accounts receivable

Items	2016	2015
Accounts receivable	381,456,763.40	522,733,882.88
Less: Provision for bad debts	77,308,148.42	25,493,883.60
Total	304,148,614.98	497,239,999.28

Prior to accepting new customers, the Company assesses the credit quality of potential customers and offers credit limit in accordance with internal credit assessment policies. Apart from requiring new customers to pay in advance, the Company offers tailor-made credit policies to individual customers. The Company allows an average credit of 3 to 6 months to general customers and 1 year for major customers. For domestic sales, the Company recognises revenue and accounts receivable when goods are delivered to and accepted by the customers. The inclusion of relevant accounts receivable in aging analysis begins at this date. For export sales, the Company recognises revenue and accounts receivable when risk and rewards of exported goods transferred to customer under “Free on Board” (FOB) and “Carriage and Insurance Paid to” (CIP) arrangement. The inclusion of relevant accounts receivable in aging analysis begins at this date.

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

Aging	2016	2015
Within 1 year	133,332,880.20	348,177,426.95
1 to 2 years	140,552,467.28	129,100,380.57
2 to 3 years	27,581,981.50	19,960,595.76
Over 3 years	2,681,286.00	1,596.00
Total	304,148,614.98	497,239,999.28

## 14. Accounts payables

The following is an aging analysis of accounts payables:

Aging	2016	2015
Within 1 year	561,050,330.07	710,217,948.35
1 to 2 years	241,559,300.14	147,796,667.79
2 to 3 years	61,737,920.98	23,762,226.63

Over 3 years	37,254,046.56	23,013,055.76
Total	<b>901,601,597.75</b>	904,789,898.53

## 15. Commitments

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

Items	2016	2015
Contracted but not provided -Commitment for acquisition and construction of long-term assets	<b>0.00</b>	87,943,027.50

## 16. Contingent liabilities

During the year ended 31 December 2016, the Company did not have any significant contingent liabilities.

## **Annual results**

For the year ended 31 December 2016, the Company achieved a total revenue from operations of RMB1,531,118,375.18, representing a decrease of approximately 5.13% as compared with last year. Over the same period, net loss attributable to shareholders of the Company and loss per share were RMB612,476,376.18 and RMB0.77 respectively, representing a decrease of approximately 135.96% and 133.33% respectively as compared with the net loss of last year.

## **Business review**

During the reporting period, the Company was mainly engaged in the research and development, production and sales of the products needed by the energy equipment industry. The main products include oil and gas pipelines, fluid and structural pipes, pumping units, pumping pumps, sucker rods, valve parts and large castings and so on. The products of the Company were mainly used in energy drilling including oil, natural gas, coalbed methane, shale gas, and other industries like mechanical processing, urban pipe network and so on. More than 80% of the sales of the Company are pipe products, which was the main source of the Company's revenue and profit. During the reporting period, the Company's main business composition did not have any significant changes.

The Company's business model was based on customer orders for production planning arrangements. The Company's products especially tube products, which were divided into API standard products and non-standard products (for special personalised needs), were generally based on customers' own needs to determine the product specifications, model and order quantity. The Company's production system organised production and delivery of products according to customers' orders.

The Company is in the energy equipment industry serving for oil, natural gas, shale gas, coal, coalbed methane, and so on. In the medium and long term, the demand for oil and coal will reach the peak, and the demand for natural gas will also increase sharply. Therefore, the market of the industry is very huge. The industry is more obviously affected by changes in the economic development cycle, changes in market demand for consumption, cycle changes in crude oil prices and cycle changes in raw material prices. In recent years, as affected by the above changes, market demand was in a downturn, with disorderly competition intensified, resulting in a material impact on the Company's operating performance.

In the reporting period, the Group realised operating revenue of RMB1,531,118,375.18 (2015: RMB 1,613,917,735.08), representing a decrease of 5.13% from the previous year. The loss of RMB 599,486,019.72 (2015: RMB 298,472,913.80) represented a further loss of 100.85% from the previous year. The net loss attributable to shareholders of the Company was RMB 612,476,376.18, which is more than the previous year loss of RMB 259,565,004.32 by 135.96%. The net loss after deducting non-operating profit and loss of RMB 618,257,530.33 was 119.65% more than the previous year's loss of RMB 281,74,328.22.

## Prospects

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

According to the "World Energy Outlook 2014" published by the International Energy Agency, the prospects for the global energy to the year of 2040 are as follows: the global demand for primary energy will increase by 37%. Although global population and economy maintains a sustainable growth, it focuses on development towards lower energy intensity comparing to the past. The proportion of oil, natural gas, coal and low carbon energy (nuclear power and renewable energy) will have equal shares in the structure of world's energy supply. The global demand for coal and oil will arrive to peak. The global demand for natural gas will increase by more than 50%, and will be the fastest growing one among fossil fuel. In the long run, the proportion of wind power, nuclear power, photovoltaic industry in the overall energy structure will gradually increase. In this outlook period, although the growth rate of oil is the slowest among fuel, the total global demand for fuel will increase daily by 19 million barrels and reach 109 million barrels in 2035. Therefore, from a medium to long-term analysis, the industry scale of special oil drilling equipment will continue to expand with a wide market.

The Group considers that although the global economy is still being depressed, crude oil demand and its extraction quantity is basically almost steady. And the energy industry as one of the pillar industries of China, is benefit from China government's "Twelfth Five-Year Plan", which expressly encourages the expansion of industrial development to support the development of high-end equipment industry and new energy industry investment. The energy industry will keep a solid growth under the state's policies, and the energy equipment industry in which the Company operates will definitely benefit from these policies. The Company will continue to input more resources into 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 keeping the continuing growth in the domestic market, the Company 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 2017**

(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 non-API products owning exclusive production rights. In 2017, the Group will put further efforts on the new products development such as fast buckle casing, X70QS pipeline for acidic environment, large diameter thick wall drilling platform with a pile of legs, cold drawn high-strength cylinder with a seamless tube, special long-stroke anti-gas sand pump, anti-gas feedback pump, surface spray anti-corrosion sucker rod and other new products development to meet the all kinds of domestic and foreign customer's special demand for oil, natural gas, shale gas, coalbed methane development.

(ii) In respect of new business development, the Group plans to actively research on suitable high level products based on the market special needs and development trend of oil, natural gas, shale gas, coalbed methane, wind power and unclear power. The Group will develop suitable customized, low-cost products based on existing products' supply capacity in order to enhance its competitiveness in the market.

(iii) In respect of domestic market, the Group plans to further consolidate and strengthen the good cooperation relationship with CNPC Group, Sinopec Group, CNOOC, and Yanchang Petroleum and to expand the business of shale gas and coalbed methane equipment, and to



largely explore the markets of coal mining industry safety device and tube for high pressure boiler, mechanical processing and other markets.

(iv) In respect of foreign market, the Group's plans has thoroughly considered the trading policies of various oil producing countries and the development demand of overseas regional markets, in order to further develop our products markets in South America, Middle East, Africa, Russia and West Asia to increase supply and to diversify its overseas markets 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 increase our existing market share.

### **3. Major risk factors for future development strategy and business goals of the Company**

(i) The global economy is still depressed. 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) Extraordinary fluctuation of Renminbi exchange rate will influence the competitiveness of the Company's exported products in the international market. We will keep close eyes on the fluctuation of exchange rate, and will adopt various measures to avoid Renminbi fluctuation risk.

### **Events after the reporting period**

(a) On 8 February 2017, the Company was informed by Mr. Zhang En Rong, the controlling shareholder and the chairman of the Company, and Mr. Zhang Yun San, a person acting in concert with him, that China Securities Regulatory Commission (the "CSRC") has served Notices of Investigation (Lu Zheng Diao Cha Zi No. [2017] 001 and Lu Zheng Diao Cha Zi No. [2017] 002) on them, which stated that the CSRC decided to initiate investigation proceedings against Mr. Zhang En Rong and Mr. Zhang Yun San respectively pursuant to relevant provision of the Securities Law of the Peoples' Republic of China for suspected breaches of securities rules and regulations.

The Company will procure Mr. Zhang En Rong and Mr. Zhang Yun San to fully cooperate with the CSRC during the investigation, and strictly fulfil the obligations of information disclosure in accordance with regulatory requirements.

(b) On 21 March 2017, the Company received an Investigation Notice (Ref.: Lu Zheng Diao Cha Zi No. [2017] 003) from CSRC notifying the Company that, the CSRC had decided to initiate investigation proceedings against the Company in accordance to the relevant provisions of the Securities Law of the People's Republic of China, in view that the Company might have breached securities rules and regulations.

The Company will proactively cooperate with the CSRC in its investigation, and will strictly comply with the information disclosure requirements under relevant rules and regulations. At present, the Company's overall business is under normal operations.

(c) Pursuant to Clause No. 1 of Delisting Risk Warning of Section 2 under Risk Warning of Chapter 13 of the Rules Governing the Listing of Securities on The Stock Exchange of Shenzhen Limited, the shares of the Company listed on the Shenzhen Stock Exchange will

be subject to delisting risk as the Company continued to make losses in 2016.

### **Significant investments**

For the year ended 31 December 2016, 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 2016, 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, sound internal control, and transparency and accountability to all shareholders. For the year ended 31 December 2016, 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 "**HKEx**"). 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 2016.

### **Audit Committee**

The Company's audit committee (including three independent non-executive directors of the Company) had held four meetings in the year of 2016 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 2016.

### **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 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 year ended 31 December 2016.

### **Closure of Register of Members of H Shares**

The register of members of H shares of the Company ("**H Shares**") will be closed from 27 May 2017 to 28 June 2017 (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 26 May 2017.

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

This announcement is published on the website of the HKEx ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.molonggroup.com](http://www.molonggroup.com)). The annual report for the year ended 31 December 2016 will be dispatched to shareholders as soon as possible and will be available on the company's website and the websites of the Stock Exchange and Shenzhen Stock Exchange.

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

Shandong, the PRC

30 March 2017

*As at the date of this announcement, the Board comprises Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Guo Huan Ran and Mr. Yang Jin as executive directors, Mr. Guo Hong Li, 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*