

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2017

HIGHLIGHTS

- For the six months ended 30 June 2017, the revenue of the Group amounted to RMB1,222.83 million, which represents an increase of approximately 58.60% as compared with the corresponding period of last year.
- Profit attributable to shareholders of the Company amounted to RMB7.02 million, which represents an increase of approximately 104.80% as compared with the corresponding period of last year.
- Earnings per share of the Group amounted to RMB0.0088, which represents an increase of approximately 104.80% 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 2017.

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 2017.

The financial information set out in this announcement does not constitute the Group's financial statements for the six months ended 30 June 2017 as required by statute, but represents an extract from such financial statements. The financial information for the six months ended 30 June 2017 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 2017

		For the six months ended 30 June	
	Notes	2017 (unaudited)	2016 (unaudited)
Total revenue from operations	3&4	1,222,828,645.65	771,031,873.22
Total costs of operations		1,420,899,148.93	942,270,122.30
Operating cost		1,263,983,647.32	828,762,708.04
Business tax and surcharges		12,341,043.15	3,829,733.61
Selling expenses		28,949,992.97	31,878,686.17
Administrative expenses		40,253,706.72	55,144,229.18
Finance costs	5	62,349,474.80	22,630,322.40
Asset impairment losses	6	13,021,283.97	24,442.9
Gains from changes in fair value			
Investment income			
Including: Gains from investment in associates and joint ventures			
Operating profit		(198,070,503.28)	(171,238,249.08)
Add: Non-operating income	7	211,657,656.22	10,391,479.11
Less: Non-operating expenses		7,643,406.02	87,883.59
Total profit	8	5,943,746.92	(160,934,653.56)
Less: Income tax expenses	9	589,327.01	7,568,697.95
Net profit		5,354,419.91	(168,503,351.51)
Other comprehensive income		718,071.37	(610,579.43)
Total comprehensive income		6,072,491.28	(169,113,930.94)
Net profit attributable to			
Shareholders of the Company		7,020,723.65	(146,276,860.01)
Minority interests		(1,666,303.74)	(22,226,491.50)
Total comprehensive income attributable to			
Shareholders of the Company		7,700,535.74	(146,855,553.82)
Minority interests		(1,628,044.46)	(22,258,377.12)
Earnings per share:	10		
Basic earnings per share		0.0088	(0.1833)
Diluted earnings per share		N/A	N/A
Dividends	11	N/A	N/A

UNAUDITED CONSOLIDATED BALANCE SHEETS

As at 30 June 2017

	<i>Note</i>	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)
Current assets			
Cash and bank balances		756,592,384.05	679,448,755.91
Bills receivable		43,675,777.80	23,403,982.45
Accounts receivable	12	265,827,514.25	304,148,614.98
Loans and advances		126,163,661.71	142,887,708.94
Prepayments		65,351,168.38	37,042,473.89
Interest receivable		4,122,875.82	8,196,910.73
Dividends receivable		-	-
Other receivable		56,516,620.76	55,703,355.24
Inventory		764,286,719.34	768,734,172.36
Assets classified as held for sale		-	10,765,552.13
Other current assets		130,710,600.18	112,973,607.82
Total current assets		2,213,247,322.29	2,143,305,134.45
Non-current assets			
Available-for-sale financial assets		50,000.00	50,000.00
Long-term equity investment		2,620,572.57	2,707,572.57
Fixed assets		2,970,897,716.12	3,066,573,497.65
Construction in progress		48,157,787.22	31,579,353.99
Construction materials		-	-
Intangible assets		437,103,482.02	449,212,108.76
Goodwill		26,683,383.21	26,683,383.21
Deferred income tax assets		3,465,431.48	3,465,431.48
Research and Development expense		19,838,831.43	-
Long-term deferred expenses		-	-
Gains and losses from assets to be processed		-	-
Other non-current assets		47,364,108.95	48,466,358.95
Total non-current assets		3,556,181,313.00	3,628,737,706.61
Total assets		5,769,428,635.29	5,772,042,841.06
Current liabilities			
Short-term borrowings		2,422,708,800.02	2,436,842,117.30
Bills payable		202,690,000.00	241,427,907.86
Accounts payable	13	919,572,340.25	901,601,597.75
Advance receipts		82,790,084.84	73,674,754.30
Salaries payable		35,559,607.77	30,194,232.47
Taxes payable		20,285,550.53	9,905,721.00
Interests payable		2,119,684.80	3,716,115.91
Other payables		32,531,493.81	29,429,211.29
Other current liability		-	-
Non-current liabilities due within 1 year		-	-
Total current liabilities		3,718,257,562.02	3,726,791,657.88
Net current assets		(1,505,010,239.73)	(1,583,486,523.43)
Total assets less current liabilities		2,051,171,073.27	2,045,251,183.18
Non-current liabilities			

Long-term borrowing		145,000,000.00	145,000,000.00
Deferred income		6,954,855.00	6,954,855.00
Bonds payable		-	-
Deferred income tax liabilities		7,476,501.60	7,629,102.79
Other non-current liabilities		-	-
Total non-current liabilities		159,431,356.60	159,583,957.79
Total liabilities		3,877,688,918.62	3,886,375,615.67
Shareholders' equity			
Share capital		797,848,400.00	797,848,400.00
Capital reserve		849,718,158.42	849,718,158.42
Surplus reserve		176,686,903.51	176,686,903.51
General risk reserve		11,236.91	11,236.91
Undistributed profit		4,916,550.59	(2,104,173.06)
Other comprehensive income		(2,412,621.75)	(3,092,433.84)
Total equity attributable to shareholders of the Company		1,826,768,627.68	1,819,068,091.94
Minority interests		64,971,088.99	66,599,133.45
Total shareholders' equity		1,891,739,716.67	1,885,667,225.39

UNAUDITED CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2017

	2017								
	Attributable to the shareholders of the Company							Minority interests	Total equity
	Share Capital	Capital Reserve	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit		
I. As at 1 Jan 2017(audited)	797,848,400.00	849,718,158.42	(3,092,433.84)		176,686,903.51	11,236.91	(2,104,173.06)	66,599,133.45	1,885,667,225.39
II. Change amount during the period			679,812.09				7,020,723.65	(1,628,044.46)	6,072,491.28
(I) Total comprehensive income			679,812.09				7,020,723.65	(1,628,044.46)	6,072,491.28
(II) Capital injection from shareholders and capital reduction									
1. ordinary shares by shareholders									
2. injected capital by other interests holders									
3. Equity settled share expenses charged to equity									
4. Others									
(III). Profit distribution									
1. Transfer to surplus reserves									
2. Provision to general risk reserve									
3. Distribution to shareholders.									
4. Others									
(IV) Transfer of shareholders' equity									
1. Transfer of capital reserve to share capital									
2. Transfer of surplus reserves to share capital									
3. Surplus reserves making up of losses									
4. Others									
(V) Special reserve									
1. Extraction from the period				6,517,390.75				318,794.59	6,836,185.34
2. Used during this period				6,517,390.75				318,794.59	6,836,185.34

(VI) Others									
III. As at 30 June 2017 (unaudited)	797,848,400.00	849,718,158.42	(2,412,621.75)		176,686,903.51	11,236.91	4,916,550.59	64,971,088.99	1,891,739,716.67

	2016								
	Attributable to the shareholders of the Company							Minority interests	Total equity
	Share Capital	Capital Reserve	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit		
I. As at 1 Jan 2016 (audited)	797,848,400.00	849,500,658.42	(1,262,175.75)		176,686,903.51	11,236.91	610,372,203.12	104,927,369.69	2,538,084,595.90
II. Change amount during period			(578,693.81)				(146,276,860.01)	(22,258,377.12)	(169,113,930.94)
(I) Total comprehensive income			(578,693.81)				(146,276,860.01)	(22,258,377.12)	(169,113,930.94)
(II) Capital injection from shareholders and capital reduction									
1. ordinary shares by shareholders									
2. injected capital by other interests holders									
3. Equity settled share expenses charged to equity									
4. Others									
(III) Profit distribution									
1. Transfer to surplus reserves									
2. Provision to general risk reserve									
3. Distribution to shareholders									
4. Others									
(IV) Transfer of shareholders' equity									
1. Transfer of capital reserve to share capital									
2. Transfer of surplus reserves to share capital									
3. Surplus reserves making up of losses									
4. Others									
(V) Special reserve									
1. Extraction this year				3,448,165.79				54,562.11	3,502,727.90

2. Used during the period				3,448,165.79				54,562.11	3,502,727.90
(VI) Others									
III. As at 30 June 2016(unaudited)	797,848,400.00	849,500,658.42	(1,840,869.56)		176,686,903.51	11,236.91	464,095,343.11	82,668,992.57	2,368,970,664.96

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 2017, 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 for the six months ended 30 June 2017.

Analysis of the Group's operating revenue during the six months ended 30 June 2017 is as follows:

For the six months ended 30 June (unaudited):

	2017	2016
Pipe products	1,156,069,300.42	681,668,830.03
Three kinds of pumping units	14,862,925.06	16,890,016.87
Petroleum machinery	24,865,181.48	8,899,062.96
Trade	-	45,174,407.89
Others	12,559,137.03	2,956,490.36
Total	1,208,356,543.99	755,588,808.11

4. Segment information

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

1) 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.

2) 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 2017 (unaudited)

	Pipe products	Three kinds of pumping units	Petroleum machinery	Other	Unallocated items	Total
Operation Revenue:						
External transaction income	1,156,069,300.42	14,862,925.06	24,865,181.48	27,031,238.68	-	1,222,828,645.65
Income for inter-segment transaction	-	-	-	-	-	-
Total segment operation revenue	1,156,069,300.42	14,862,925.06	24,865,181.48	27,031,238.68	-	1,222,828,645.65
Total operation revenue presented	1,156,069,300.42	14,862,925.06	24,865,181.48	27,031,238.68	-	1,222,828,645.65
Segment costs	1,253,399,502.42	14,100,350.89	19,710,956.16	31,085,157.93	-	1,318,295,967.41
Segment operating profit	(97,330,202.00)	762,574.17	5,154,225.32	(4,053,919.25)	-	(95,467,321.76)
Adjustment items:						
Administrative expenses	-	-	-	-	40,253,706.72	40,253,706.72
Finance expenses	-	-	-	-	62,349,474.80	62,349,474.80
Investment income	-	-	-	-	-	-
Operation profit presented	(97,330,202.00)	762,574.17	5,154,225.32	(4,053,919.25)	(102,603,181.52)	(198,070,503.28)
Non-operation income	-	-	-	-	211,657,656.22	211,657,656.22
Non-operation expenditure	-	-	-	-	7,643,406.02	7,643,406.02
Total Profit	(97,330,202.00)	762,574.17	5,154,225.32	(4,053,919.25)	101,411,068.68	5,943,746.92
Income tax	-	-	-	-	589,327.01	589,327.01
Net profit	(97,330,202.00)	762,574.17	5,154,225.32	(4,053,919.25)	100,821,741.67	5,354,419.91
Total segment assets	4,732,756,550.47	74,923,790.43	147,363,918.00	134,137,789.37	680,246,587.04	5,769,428,635.30
Total segment liabilities	2,591,377,978.97	19,612,658.31	54,800,638.46	10,203,019.19	1,201,694,623.69	3,877,688,918.62
Supplementary Information :						
Depreciation	92,776,790.43	1,185,044.29	7,745,619.52	2,457,272.56	-	121,247,239.52
Amortize	7,349,906.97	0.00	457,893.07	0.00	4,300,826.70	12,108,626.74
Interest Income	-	-	-	-	(3,621,643.53)	(3,621,643.53)

Interest cost	-	-	-	-	65,971,118.33	65,971,118.33
Impairment losses recognized in previous year:	13,021,283.97	-	-	-	-	13,021,283.97
Non-current assets other than long-term equity investment	3,073,855,289.18	19,347,279.93	38,176,532.62	392,589,851.48	29,591,787.22	3,553,560,740.43
Capital expenditure	50,055,065.55	10,964.11	19,247.01	1,401,217.98	-	51,486,494.65
Consist of : Expenses on construction in progress	17,151,196.97	-	-	701,228.24	-	17,852,425.21
Expenses on purchase of fixed assets	32,903,868.58	10,964.11	19,247.01	699,989.74	-	33,634,069.44
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 2016 (unaudited)

	Pipe products	Three kinds of pumping units	Petroleum machinery	Trade	Other	Unallocated items	Total
Operation Revenue:							
External transaction income	681,668,830.03	16,890,016.87	8,899,062.96	45,174,407.89	18,399,555.47	-	771,031,873.22
Income for inter-segment transaction	-	-	-	-	-	-	-
Total segment operation revenue	681,668,830.03	16,890,016.87	8,899,062.96	45,174,407.89	18,399,555.47	-	771,031,873.22
Total operation revenue presented	681,668,830.03	16,890,016.87	8,899,062.96	45,174,407.89	18,399,555.47	-	771,031,873.22
Segment costs	782,838,929.85	18,571,603.07	10,114,830.94	43,798,678.37	9,171,528.49	-	864,495,570.72
Segment operating profit	(101,170,099.82)	(1,681,586.20)	(1,215,767.98)	1,375,729.52	9,228,026.98	-	(93,463,697.50)
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	(101,170,099.82)	(1,681,586.20)	(1,215,767.98)	1,375,729.52	9,228,026.98	(77,774,551.58)	(171,238,249.08)
Non-operation income	-	-	-	-	-	10,391,479.11	10,391,479.11
Non-operation expenditure	-	-	-	-	-	87,883.59	87,883.59
Total Profit	(101,170,099.82)	(1,681,586.20)	(1,215,767.98)	1,375,729.52	9,228,026.98	(67,470,956.06)	(160,934,653.56)
Income tax	-	-	-	-	-	7,568,697.95	7,568,697.95
Net profit	(101,170,099.82)	(1,681,586.20)	(1,215,767.98)	1,375,729.52	9,228,026.98	(75,039,654.01)	(168,503,351.51)
Total segment assets	5,065,925,860.05	104,264,332.65	163,359,906.16	89,716,700.52	17,240,443.49	854,457,967.32	6,294,965,210.19
Total segment liabilities	2,086,829,868.79	21,688,014.60	85,480,222.70	78,238,855.50	4,233,452.43	1,649,524,131.21	3,925,994,545.23
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	0.00	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	-	-	-	-	-	-	-

(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)

	2017	2016
Domestic external transaction income	1,061,323,238.66	612,374,641.00
Foreign external transaction income	147,033,305.33	143,214,167.11
Total	1,208,356,543.99	755,588,808.11

5. Finance costs

For the six months ended 30 June (unaudited)

	2017	2016
Interest expenses	36,348,364.53	40,997,581.13
Less : Capitalized interest expenses	-	23,050,200.37
Less : Interest income	(3,621,643.53)	9,420,595.66
Foreign exchange difference	4,549,473.06	(11,610,293.59)
Other	25,073,280.74	25,713,830.89
Total	62,349,474.80	22,630,322.40

6. Assets impairment losses

For the six months ended 30 June (unaudited)

	2017	2016
Provision of bad debt	12,955,015.45	24,442.90
Including: Accounts receivable	12,955,015.45	24,442.90
Other accounts receivable	-	-
Provision of allowance for inventory	-	-
Including : Raw materials	-	-
Entrusted processing materials	-	-
Finished product	-	-
Work-in-progress	-	-
Others	66,268.52	-
Total	13,021,283.97	24,442.90

7. Non-operating income

For the six months ended 30 June (unaudited)

	2017	2016
Total income on disposal of non-current assets	59,465,670.89	-
Of which: Gain from disposal of fixed assets	652,261.22	-
Gain from disposal of intangible assets	58,813,409.67	-
Government grants	150,118,600.00	10,131,155.00

Income from penalty	2,073,385.33	260,324.11
Others	-	-
Total	211,657,656.22	10,391,479.11

8. Total profit

For the six months ended 30 June (unaudited)

	2017	2016
Total profit is calculated after charging/(crediting):		
Staff costs (including director's remuneration)	62,424,057.21	59,630,163.71
Amortization of intangible assets	12,108,626.74	19,272,055.43
Auditors remuneration (included in administrative expenses)	1,132,075.44	1,132,075.44
Recognized cost of inventories	1,263,983,647.32	828,762,708.04
Depreciation on fixed assets	121,247,239.52	90,485,006.81
Research and development expenses (included in administrative expenses)	1,286,004.58	1,397,712.32
Loss(gain) from disposal of non-current assets	(59,382,050.06)	63,847.59

9. Income tax expenses

For the six months ended 30 June (unaudited)

	2017	2016
Current income tax	741,928.20	3,421,862.63
— PRC	-	-
Deferred tax expenses	(152,601.19)	4,146,835.32
Total	589,327.01	7,568,697.95

The Company is subject to the PRC enterprise income tax at a rate of 15% (2016: 15%) as the Company is classified as a new technology enterprise.

The Company's subsidiary incorporated in Hong Kong, 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)

	2017	2016
Calculated based on net profits attributable to the equity holders of the Company:	7,020,723.65	(146,276,860.01)
Basic earnings per share	0.0088	(0.1833)
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:	7,020,723.65	(146,276,860.01)
Basic earnings per share	0.0088	(0.1833)
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 2017 (2016: Nil).

12. Accounts receivables

	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)
Accounts receivables	356,090,678.12	381,456,763.40
Less: Provision for bad debts	90,263,163.87	77,308,148.42
Total	265,827,514.25	304,148,614.98

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 normally 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 2017 (unaudited)	As at 31 December 2016 (audited)
Within 1 year	192,806,575.58	133,332,880.20
1 to 2 years	47,245,189.72	140,552,467.28
2 to 3 years	21,646,013.7	27,581,981.50
Over 3 years	4,129,735.25	2,681,286.00
Total	265,827,514.25	304,148,614.98

13. Accounts payables

The aging analysis of accounts payables is as follows:

	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)
Within 1 year	564,618,078.20	561,050,330.07
1 to 2 years	255,461,350.28	241,559,300.14
2 to 3 years	60,258,340.15	61,737,920.98
Over 3 years	39,234,571.62	37,254,046.56
Total	919,572,340.25	901,601,597.75

14. Capital Commitment

As at 30 June 2017, the capital expenditure commitment of the Group is as follows:

	As at 30 June 2017 (unaudited)	As at 31 December 2016(audited)
Contracted but not recognized in financial statements - Commitment on acquisition and construction of long-term assets	52,766,186.46	0.00

15. Contingent liabilities

During the six months ended 30 June 2017, the Company did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results

During the six months ended 30 June 2017, the Group's unaudited revenue reached RMB1,222.83 million, representing a increase of approximately 58.60% as compared with the corresponding period of last year; the unaudited total profit was RMB 5.9437 million, achieving a profit from loss compared to the loss of RMB-160.93 million with the corresponding period of last year; the unaudited profit attributable to shareholders of the Company was RMB7.02 million, achieving a profit from loss compared to the loss of RMB-146.27 million with the corresponding period of last year; and the unaudited net loss after extraordinary items was RMB -166.4 million, representing an decrease of approximately 7.85%, 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. Other customers for social pipes used in a wide range covering machining, shipbuilding, manufacturing of high-pressure boilers, gas cylinders and pipes used in cars. The Group has been expanding its scope of business.

For overseas market, the Group continued to consolidate and develop its business in South America, Middle East and North Africa during the reporting period and kept developing new customers relationship by sales mainly of casing and tubing, line pipe products, sucker rods and casting and forging items. In addition, during the reporting period, the achievements of the Group include that the sales of oil well pipe products of the Group in Canada increased significantly and the Group's casting and forging products entered the Netherlands market for the first time. With the development of new customers' development and obtaining the production certificates from reputable national oil companies and markets, the Company further enlarged its overseas market, the Company has advanced its reputation in the international oil drilling equipment market. During the reporting period, the Group's revenue from exports accounted for approximately 12.17% of the Group's total sales revenue.

As for new products development, during the reporting period, the Group successfully developed and commenced sales of new products including large-diameter casing and tubing and line pipe products, anti-acid line pipe products, high pressure resistance airtight oil casing and tubing products. Moreover, with the continued strengthening of the filing and intellectual property protection of province-level technological innovation projects, during the reporting period 4 product items of the Company were included as technological innovation projects of the Shandong Province, 15 new patent applications were filed by the Company, 2 new patents were registered, including 1 invention patent and 1 utility model patent.

The Company will continue to implement its established strategy, deepen internal tapping, increasing internal technical reformation, to realize the further enhancement of internal control, and improve the core competitiveness of the Company.

Prospects

Looking ahead to the second half of 2017, the international oil price would keep in a low range overall, and its supply would exceed its demand in the Group's opinion. Other than the United States of America, the rest of the developed countries have shown poor economic performance. Developing countries, such as China, would face the problem of slow economic growth, which leads to a weak demand for crude oil. Though wind-energy power, nuclear power and the photovoltaic industry will gradually take up a larger share in the energy structure in long term, 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 with its intention to expand 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. 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 resources and efforts in the research and development for high-end products and production technologies which will enhance product quality, and will establish its core with reserve of advance technologies and enhancement with 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 2017, the Group did not have any major investment projects.

Acquisition and Disposals during the six months ended 30 June 2017 and Future Investment Plans

During the six months ended 30 June 2017, the Group did not have any relevant acquisitions, disposals or significant investment plans.

Charge on Assets

According to the current business and operation need of the Company, the Company has obtained loans of no more than RMB 300 million with security charges on part of the Company's properties and using the land use rights of the Company.

Foreign Exchange Exposure

For the six months ended 30 June 2017, the Group earned revenue in RMB and US\$ and incurred costs in HK\$, RMB and US\$. Although the Group currently does not have any foreign currency hedging policy, it does not foresee any significant currency exposure in the near future. However, any permanent or significant change in RMB against US\$ and RMB against HK\$, may have possible impact on the Group's results and financial positions.

CSRC Investigation and Delisting Risk Warning

On 8 February 2017, the Company's substantial shareholders Mr. Zhang Enrong and the then general manager Mr. Zhang Yunshan received an Investigation Notice (Ref.: Lu Zheng Diao Cha Zi No. [2017] 001 and 002) from China Securities Regulatory Commission (the "CSRC") notifying them that, the CSRC had decided to initiate investigation proceedings against Mr. Zhang Enrong and Mr. Zhang Yunsan in accordance to the relevant provisions of the Securities Law of the People's Republic of China, in view that they might have breached securities rules and regulations.

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.

On 12 May 2017, the Company and the related parties received the Prior Notice of Administrative Penalty (Ref.: Punishment No. [2017] 51 and 52) delivered by the CSRC, which therein stated the decision of imposing administrative penalty on the Company and the related parties. The Company has published the relevant announcements on 16 May 2017.

As at the date of this announcement, the Company and relevant parties have not yet received official decision of administrative penalty from CSRC. The domestic stock of the Company trading in Shenzhen Stock Exchange would be given a delisting risk warning under Section 13.2.1 of the Rules Governing the Listing of Securities on the Shenzhen Stock Exchange if the Company is involved in fraudulent issuance of securities or breaches of material information disclosure requirements. The Company's domestic stock trading in Shenzhen Stock Exchange will be suspended from trading after 30 trading days from the initiation of delisting risk warning until the decision made by the Shenzhen Stock Exchange on whether to suspend listing of the domestic stock of the Company within 15 trading days thereafter.

Corporate Governance

The Company is committed to establishing good corporate governance. The principles of corporate governance adopted by the Company emphasize the Board with high quality, sound internal control, and transparency and accountability to relevant parties of the business. During the six months ended 30 June 2017, the Company has complied with the code provisions, and where applicable, adopted the recommended best practices of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the HKEx (the "**Listing Rules**"), save for the disclosures as below .

Under the code provision C.2.1 of the CG Code, the board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually. The Company has made an announcement regarding the revision of the forecast for the annual results of 2016, and the Board of the Company on 30 March 2017 also resolved to approve the correction and restatement for the first quarterly report, interim report and third quarterly report of 2016. Such situations revealed there were material defects in respect of financial reporting. The Company has taken the following improvement measures: (1) The internal control procedures of the Company are further rationalized with strict implementation of the relevant systems. The deployment of employees is improved with proper adjustments to the senior management personnel; (2) Communication through various channels such as regular meetings and occasional meetings is facilitated. The analysis of and inspection on the business and financial information are strengthened; (3) The financial accounting and the level of expertise of financial personnel are improved through various measures: Firstly, excellent financial personnel are recruited to join the Company and work in management positions so as to optimize and consolidate the financial management and system control. Secondly, a new division of labor among the financial personnel takes place according to their professional skills with regular job rotations. The skills of the internal financial personnel are also enhanced thorough various lectures and training sessions.

Audit Committee

The Audit Committee (its members include three independent non-executive directors) held two meetings during the six months ended 30 June 2017 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 2017. Based on the discussions in the meetings, 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 2017. The interim results for the six months ended 30 June 2017 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 2017. In respect of CSRC's investigation on the Company's director Mr. Zhang Enrong and ex-director Mr. Zhang Yunsan regarding their possible breach of securities rules and regulations, the Company has strengthened the supervision and education of the Model Code regarding securities transactions to all of the directors and senior management of the Company.

Purchase, sale or redemption of listed securities of the Group

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Group during the six months ended 30 June 2017.

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 2017 will be dispatched to shareholders of the Company 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
Shandong Molong Petroleum Machinery Company Limited*

Zhang En Rong
Chairman

Shandong, the PRC

23 August 2017

As at the date of this announcement, the Board is comprised of Mr. Zhang En Rong, 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