

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibilities 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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

- For the year ended 31 December 2017 in consolidated financial statements, the total revenue from operations of the Group amounted to RMB2,965,216,722.37, which represents an increase of approximately 93.66% as compared with last year of RMB1,531,118,375.18.
- Net loss attributable to the owners of the Company in consolidated financial statement amounted to RMB 38,038,484.18 as compared with the net loss of RMB 612,476,376.18 last year.
- Loss per share of the Company in consolidated financial statements amounted to RMB 0.05 as compared with loss per share of the Company of RMB -0.77 last year.
- The Board does not recommend the payment of final dividend for the year ended 31 December 2017

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 2017.

The financial information set out in this announcement below does not constitute the Group’s statutory financial statements for the year ended 31 December 2017, 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 2017

	Note	2017	2016
Total revenue from operations	4	2,965,216,722.37	1,531,118,375.18
Including: operating revenue		2,965,216,722.37	1,531,118,375.18
Total costs of operations		3,138,440,402.50	2,136,977,077.37
Including: Operating cost		2,736,727,487.28	1,641,800,821.53
Business tax and surcharges		23,421,675.66	17,949,257.54
Selling expenses		65,682,352.59	50,980,617.53
Administrative expenses		162,091,883.83	157,120,673.19
Finance costs	6	131,241,514.49	52,507,807.22
Asset impairment losses	7	19,275,488.65	216,617,900.36
Add: Gains from changes in fair value			
Investment income		447,550.68	50,624.92
Including: Gains from investment in associates and joint ventures		18,748.91	(76,330.30)
Operating (loss) / profit		45,588,021.73	(605,808,077.27)
Add: Non-operating income	8	5,781,343.10	7,342,777.08
Less: Non-operating expenses		16,881,710.08	1,020,719.53
Including: Loss from disposal of non-current assets			88,185.70
Total (loss) / profit	9	34,487,654.75	(599,486,019.72)
Less: Income tax (credit) expenses	10	(593,826.08)	51,219,680.01
Net (loss) / profit		35,081,480.83	(650,705,699.73)
Net (loss) / profit attributable to shareholders of the Company		38,038,484.18	(612,476,376.18)
Net loss attributable to minority interests		(2,957,003.35)	(38,229,323.55)
(Losses) / earnings per share:	11		
Basic (losses) / earnings per share		0.05	(0.77)
Diluted (losses) / earnings per share		0.05	(0.77)
Other comprehensive expense		273,294.90	(1,929,170.78)
Total comprehensive (expense) / income		35,354,775.73	(652,634,870.51)
Total comprehensive (expense) / income attributable to owners of the Company		38,216,376.51	(614,306,634.27)
Total comprehensive expense attributable to minority interests		(2,861,600.78)	(38,328,236.24)
Dividends	12	0.00	0.00

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	2017	2016
Current assets			
Cash and bank balances		879,371,103.17	679,448,755.91
Bills receivable		94,525,409.69	23,403,982.45
Accounts receivable	13	378,729,615.88	304,148,614.98
Loans and advances		88,102,411.40	142,887,708.94
Prepayments		91,643,819.19	37,042,473.89
Interests receivable		4,220,913.66	8,196,910.73
Other receivables		44,428,243.02	55,703,355.24
Inventories		925,772,719.28	768,734,172.36
Assets held for sale			10,765,552.13
Other current assets		118,436,141.88	112,973,607.82
Total current assets		2,625,230,377.17	2,143,305,134.45
Non-current assets			
Available-for-sale financial assets		20,000.00	50,000.00
Long-term equity investment		2,639,321.48	2,707,572.57
Fixed assets		2,891,875,882.19	3,066,573,497.65
Construction-in-progress		170,880,899.68	31,579,353.99
Intangible assets		443,968,124.33	449,212,108.76
Goodwill		26,683,383.21	26,683,383.21
Research and development expenditure			
Long-term deferred expenses			
Deferred income tax assets		4,391,835.90	3,465,431.48
Other non-current assets		57,113,143.58	48,466,358.95
Total non-current assets		3,597,572,590.37	3,628,737,706.61
Total assets		6,222,802,967.54	5,772,042,841.06
Current liabilities			
Short-term borrowings		2,141,086,600.02	2,436,842,117.30
Bills payable		213,984,811.00	241,427,907.86
Accounts payable	14	843,834,731.51	901,601,597.75
Receipts in advance		68,937,156.42	73,674,754.30
Salaries payable		51,245,591.21	30,194,232.47
Taxes payable		18,916,357.37	9,905,721.00
Interests payable		5,458,818.99	3,716,115.91
Dividends payable			
Other payables		32,518,520.13	29,429,211.29
Non current liabilities due within one year		155,946,611.23	
Other current liabilities			
Total current liabilities		3,531,929,197.88	3,726,791,657.88
Non-current liabilities			
Long-term borrowings		737,259,900.98	145,000,000.00
Bonds payable			
Estimated debts	16	8,000,000.00	
Deferred income		6,954,855.00	6,954,855.00
Deferred income tax liabilities		7,325,919.30	7,629,102.79
Other non-current liabilities			

Total non-current liabilities		759,540,675.28	159,583,957.79
Total liabilities		4,291,469,873.16	3,886,375,615.67
Shareholders' equity			
Share capital		797,848,400.00	797,848,400.00
Capital reserve		860,517,458.42	849,718,158.42
Surplus reserve		176,686,903.51	176,686,903.51
General risk reserve		11,236.91	11,236.91
Retained profits		35,934,311.12	(2,104,173.06)
Other comprehensive income		(1,402,748.25)	(3,092,433.84)
Total equity attributable to shareholders of the Company		1,869,595,561.71	1,819,068,091.94
Minority interests		61,737,532.67	66,599,133.45
Total shareholders' equity		1,931,333,094.38	1,885,667,225.39
Total liabilities and shareholders' equity		6,222,802,967.54	5,772,042,841.06

CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

	2017								
	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	849,718,158.42	(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
II. Changes in the current year		10,799,300.00	1,689,685.59				38,038,484.18	(4,861,600.78)	45,665,868.99
(i) Total comprehensive expense for the year			1,689,685.59				38,038,484.18	(2,861,600.78)	36,866,568.99
(ii) Shareholder' capital injection and capital reduction		10,799,300.00							10,799,300.00
1. Capital injection from shareholders									
2. Other equity instruments holders' contributions									
3. Equity settled share expenses charged to equity									
4. Others		10,799,300.00							10,799,300.00
(iii) Profit distribution								(2,000,000.00)	(2,000,000.00)
1. Transfer to surplus reserves									
2. Transfer to general risk provision									
3. Distribution to shareholders								(2,000,000.00)	(2,000,000.00)
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 offsetting against losses									
4. Others									
(v) Special reserve									
1. Provided				9,548,336.43				732,640.56	10,280,976.99
2. Utiliaed				9,548,336.43				732,640.56	10,280,976.99
(vi) Others									
III. Balance at the end of the current year	797,848,400.00	860,517,458.42	(1,402,748.25)		176,686,903.51	11,236.91	35,934,311.12	61,737,532.67	1,931,333,094.38

	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)		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		217,500.00	(1,830,258.09)				(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) Shareholders' capital injection and capital reduction		217,500.00							217,500.00
1. Capital injection from shareholders									
2. Other equity instruments holders' contributions									
3. Equity settled share expenses charged to equity									
4. Others		217,500.00							217,500.00
(iii) Profit distribution									
1. Transfer to surplus reserves									
2. Transfer to general risk provision									
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 offsetting against losses									
4. Others									
(v) Special reserve									
1. Provided				6,782,481.72				806,668.37	7,589,150.09
2. Utilised				6,782,481.72				806,668.37	7,589,150.09
(vi) Others									
III. Balance at the end of the current year	797,848,400.00	849,718,158.42	(3,092,433.84)		176,686,903.51	11,236.91	(2,104,173.06)	66,599,133.45	1,885,667,225.39

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, 11th Floor Ho Lee Commercial Building, 38-44 D’ Aguilar 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 2017, 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

(1) Significant Changes in Accounting Policies

Contents and reasons for the changes in accounting policies	Vetting Process	Remarks
In 2017, the Ministry of Finance revised the No.16 of Accounting Standards for Business Enterprises, which come into force on 12 June 2017. The government grants existing on 1 January 2017 and during 1 January 2017 to 12 June 2017 shall apply the revision. The Group adopted the relevant accounting standards when preparing the Annual Results Announcement for The Year Ended 31 December 2017 following the rules for the transitional period.	The relevant changes in accounting policies have been approved on the 7th meeting of the 5th Board.	Note 1
In 2017, the Ministry of Finance published the No.42 of Accounting Standards for Business Enterprises: Holding Non-current Assets to Be Sold, Disposal Groups and	The relevant changes in accounting policies have been approved on the 8th meeting of the	Note 2

Contents and reasons for the changes in accounting policies	Vetting Process	Remarks
Termination of Business, which come into force 28 May 2017. The non-current assets, disposal groups and termination of business existing on 28 May 2017 shall apply the new published standards. The Group adopted the relevant accounting standards when preparing the Annual Results Announcement for The Year Ended 31 December 2017 following the rules for the transitional period.	5th Board.	
In 2017, the Ministry of Finance published the Notice of the Ministry of Finance on the Revision of The Format for The Issuance of Financial Statements of the General Corporates, which made some revisions on the format of general corporates' financial statements issued during and after the Year 2017. The Group adopted the relevant accounting standards when preparing the Annual Results Announcement for The Year Ended 31 December 2017 following the rules for the transitional period.	The relevant changes in accounting policies have been approved on the 8th meeting of the 5th Board.	Note 3

Note 1: According to the new Standards for Government Grants, the government grants related to the Group's daily operation activities will be accounted in other incomes but no longer in non-operating income, while the comparative data remains unchanged. This policy influenced the Group's other comprehensive income in the Annual Results Announcement for The Year Ended 31 December 2017 with RMB 156,275,852.23.

Note 2: The compliance to the policies does not influence the Annual Results Announcement for The Year Ended 31 December 2017 of the Group.

Note 3: ① The net profits from continuing operations of the Group in 2017 was influenced with RMB 35,081,480.83, comparing to the RMB -650,705,699.73 in 2016, by the Ministry of Finance's Notice on listing out the Net Profits from Continuing Operations and Net Profits from Termination of Operations in the profit table, which drives the adjustment of the comparative data. ② The asset disposal income and non-operating income of the Group in 2017 were influenced with RMB 62,088,298.95, comparing to the RMB 270,348.71 in 2016, and RMB -270,348.71, respectively by the Ministry of Finance's Notice on listing out the Asset Disposal Income in the profit table and re-sorting the items previously listed under Non-operating Income and Non-operating Expenses into the Asset Disposal Income, which drives the adjustment of the comparative data.

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	2017	2016
Casing and Tubing	2,832,615,688.73	1,376,899,726.43
Three kinds of pumping units	33,364,743.00	27,228,938.56
Petroleum machinery parts	45,504,510.14	20,432,578.68
Others	10,375,951.04	94,642,568.30
Total	2,921,860,892.91	1,519,203,811.97

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—2017

	Casing and Tubing	Three kinds of pumping units	Petroleum machinery part	Others	Unallocated items	Inter- segment elimination	Total
Operating revenue							
External income	2,832,615,688.73	33,364,743.00	45,504,510.14	53,731,780.50			2,965,216,722.37
Inter-segment income							
Total segment income	2,832,615,688.73	33,364,743.00	45,504,510.14	53,731,780.50			2,965,216,722.37
Total operating income	2,832,615,688.73	33,364,743.00	45,504,510.14	53,731,780.50			2,965,216,722.37
Segment costs	2,730,273,542.37	30,959,927.17	35,895,716.20	47,977,818.44			2,845,107,004.18
Segment (loss) / profit	102,342,146.36	2,404,815.83	9,608,793.94	5,753,962.06			120,109,718.19
Adjusting items:							
Administrative expenses					162,091,883.83		162,091,883.83
Finance costs					131,241,514.49		131,241,514.49
Investment income					447,550.68		447,550.68
Disposal income					62,088,298.95		62,088,298.95
Other income					156,275,852.23		156,275,852.23
Operating (loss) / profit	102,342,146.36	2,404,815.84	9,608,793.94	5,753,962.05	(74,521,696.46)		45,588,021.73
Non-operating income					5,781,343.10		5,781,343.10
Non-operating expenses					16,881,710.08		16,881,710.08
Total (loss) / profit	102,342,146.36	2,404,815.84	9,608,793.94	5,753,962.05	(85,622,063.44)		34,487,654.75
Income tax credit					(593,826.08)		(593,826.08)

Net (loss) / profit	102,342,146.36	2,404,815.84	9,608,793.94	5,753,962.05	(85,028,237.36)		35,081,480.83
Total segment assets	5,306,811,657.47	99,616,562.19	241,858,587.67	187,516,077.38	387,000,082.83		6,222,802,967.54
Total segment liabilities	2,148,650,899.31	28,208,645.44	25,557,579.07	60,171,523.27	2,028,881,226.07		4,291,469,873.16

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
Disposal income					270, 348. 71		270, 348. 71
Other income							
Operating (loss) / profit	(394,279,938.73)	(4,533,959.27)	127,832.99	2,455,843.23	(209, 307, 506. 78)		(605, 537, 728. 56)
Non-operating income					7, 072, 428. 37		7, 072, 428. 37
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:	(394,279,938.73)	(4,533,959.27)	127,832.99	2,455,843.23	(203,255,797.94)		(599,486,019.72)

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

In 2017 and 2016, 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	2017	2016
Domestic external transaction income	2,629,703,696.31	1,198,770,210.20
Foreign external transaction income	335,513,026.06	332,348,164.98
Total	2,965,216,722.37	1,531,118,375.18

6. Finance costs

Items	2017	2016
Interest expenses (bank borrowings due wholly repayable one year)	126,199,311.38	103,668,010.12
Less: Interest capitalized		47,330,342.17
Less: Interest income	7,998,827.35	10,996,409.07
Foreign exchange difference	8,564,948.50	3,036,452.49
Other	4,476,081.96	4,130,095.85
Total	131,241,514.49	52,507,807.22

There is no capitalized borrowing costs in 2017 (in 2016: 4.175%).

7. Assets impairment losses

Items	2017	2016
Provision of bad debt	19,460,062.58	62,434,811.41
Including: Accounts receivable	8,582,715.99	51,814,264.82
Other receivables	10,877,346.59	10,620,546.59
Provision of allowance for inventory	(4,286,615.76)	47,419,652.59
Including: Raw materials		8,931,833.79
Finished goods		20,372,134.56
Work-in-progress		16,958,416.69
Work in process-outsourced		1,157,267.55
Impairment loss on intangible asset		-
Impairment loss of fixed assets		60,810,000.00
Impairment loss on loans and advances	4,102,041.83	4,153,436.36
Impairment loss on goodwill		41,800,000.00
Total	19,275,488.65	216,617,900.36

8. Non-operating income

Items	2017	2016
Gain on disposal of non-current assets		-
Including: Gain on disposal of fixed assets		-
Government grants		4,188,016.16
Penalty income	493,743.53	733,244.12
Others	5,287,599.57	2,151,168.09
Total	5,781,343.10	7,072,428.37

9. Total (loss) / profit

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

Items	2017	2016
Staff costs (including directors' remuneration)	174,169,614.5	110,932,722.63
Amortization of intangible assets	25,153,652.65	69,663,883.55
Auditor's remuneration (included in administrative expenses)	1,132,075.44	1,132,075.44

Cost of inventories recognized as expenses	2,736,727,487.28	1,641,800,821.53
Depreciation on fixed assets	202,967,201.69	190,934,675.90
Research and development expenses (included in administrative expenses)	29,265,348.19	32,698,570.14
Gain on disposal of fixed assets	62,088,298.95	270,348.71

10. Income tax (credit) expenses

Items	2017	2016
Current income tax expenses	635,761.83	714,256.58
—Hong Kong		(8.46)
—PRC	635,761.83	714,265.04
Deferred income tax	(1,229,587.91)	50,505,423.43
Total	(593,826.08)	51,219,680.01

The Company was subject to the PRC enterprise income tax at a rate of 15% (2016: 15%) pursuant to the Enterprise Income Tax Law of the PRC as the Company was classified as new high-technology enterprise.

Hong Kong Profits Tax has been provided for the subsidiary of the Company incorporated in Hong Kong at 16.5% (2016:16.5%) on the estimated assessable profits.

11.(Losses) / earnings per share

Items	2017	2016
Calculated based on net (loss) / profit attributable to the shareholders of the Company:		
Basic (losses) / earnings per share	0.05	(0.77)
Diluted (losses) / earnings per share	0.05	(0.77)
Calculated based on net profits from continuing operations attributable to shareholders of the Company :		
Basic (losses) / earnings per share	0.05	(0.77)
Diluted (losses) / earnings per share	0.05	(0.77)

12. Dividends

Items	2017	2016
Dividends recognized and distributed during the year	0	0
2017 final dividend: RMB0.00 per ordinary share (2016: final dividend RMB0.00)		

The Board does not recommend any payment of final dividend in respect of the year ended 31 December 2017 (2016: Nil).

13. Accounts receivable

Items	2017	2016
Accounts receivable	464,620,480.29	381,456,763.40
Less: Provision for bad debts	85,890,864.41	77,308,148.42
Total	378,729,615.88	304,148,614.98

Prior to accepting new customers, the Company accesses 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	2017	2016
Within 1 year	310,075,287.59	133,332,880.20
1 to 2 years	16,652,830.97	140,552,467.28
2 to 3 years	38,424,632.23	27,581,981.50
Over 3 years	13,576,865.09	2,681,286.00
Total	378,729,615.88	304,148,614.98

14. Accounts payables

The following is an aging analysis of accounts payables:

Aging	2017	2016
Within 1 year	512,134,674.94	561,050,330.07
1 to 2 years	136,440,231.05	241,559,300.14
2 to 3 years	127,134,872.00	61,737,920.98
Over 3 years	68,124,953.52	37,254,046.56
Total	843,834,731.51	901,601,597.75

15. Commitments

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

Items	2017	2016
Contracted but not provided -Commitment for acquisition and construction of long-term assets	1,416,467.48	0

16. Contingent liabilities

As of 31 December 2017, the Company received an amount of 33 claims on false statement by the investors. The cases have been accepted by the Intermediate People's Court of Jinan City. The amount involved was RMB 13,146,700 million. At present, 9 trials have been held and the amount involved is RMB 1,999,857. No judgment has been issued yet. According to the cases that have already been heard. As the court has not determined the exposing date and systematic risk factors, the investor's compensation scope is not determinable. And as the transaction records provided by the investors are incomplete, the Company believes that it is less possible for the court to judge the Company's full compensation according to the amount of investor prosecution with a reference to other types of cases and considering the usual defense factors. Following the principle of prudence, the Company evaluated an estimated accrued liabilities of RMB 8,000,000.

Annual results

For the year ended 31 December 2017, the Company achieved a total revenue from operations of RMB 2,965,216,722.37, representing an increase of approximately 93.66% as compared with the last year. Over the same period, net profit attributable to shareholders of the Company and earnings per share are RMB 38,038,484.18 and RMB 0.05, respectively.

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 personalized 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 the year 2017, due to the increase in crude oil prices and changes in the economic situation, the market for pipe products has improved. Especially since the second half of the year, comparing to the first half of the year, the demand for major oil products and the price of these products have increased in different extent. The Company has maximized in the sale of oil well pipe, and the business performance has improved significantly.

In the reporting period, the Group realised operating revenue of RMB2,965,216,722.37(2016: RMB 1,531,118,375.18), representing an increase of 93.66% from the previous year. The total profit is RMB 34,487,654.75 (2016: RMB -599,486,019.72). The net profit attributable to shareholders of the Company is RMB 38,038,484.18 (2016: RMB -612,476,376.18). The net profit after deducting the non-operating profit and loss is RMB 178,210,786.99 (2016: RMB -621,542,167.29).

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 "Thirteenth 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 2018

(i) In terms of product research and development, the Company will pay more attention on non-API products with high value and independent property rights. In 2018, the Group will put further efforts on the new products development, such as integral joint tubing, Double steel expansion drive pipe, connecting pipe, large diameter thick wall tube with a pile of legs to be used in marine drilling platform, large diameter tube with high tenacity to be used in ocean earing, cold drawn seamless tube with high tenacity to be used in cylinder, structural tube to be used in low temperature with European standard and etc., to meet all kinds of domestic and foreign customer's special demands 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 have 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 each and every main market 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 audited net profit of the Company attributed to the shareholders of the Company for two consecutive financial years ending 31 December 2016 were negative. In accordance with rule 13.2.1 of the Stock Listing Rules of the Shenzhen Stock Exchange, the Company has received a delisting risk warning on 7 April 2017 from the Shenzhen Stock Exchange. The audited net profit of the Company attributed to the shareholders of the Company for the financial year ending 31 December 2017 was positive and there are no other circumstances that would give rise to delisting risk warning or other risk warning of the Company under the Stock Listing Rules of the Shenzhen Stock Exchange. The Company, while disclosing in this announcement, has made an application to the Shenzhen Stock Exchange for revoking the delisting risk warning, which is pending review and approval by the Shenzhen Stock Exchange.
- (ii) The industry of future energy equipment will continue to develop. When there is any extraordinary fluctuation in global petroleum drilling industry, which directly leads 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.
- (iii) Extraordinary fluctuation in raw material prices will directly affect production cost and result in direct impact on the price of our products. We will monitor the fluctuation in raw material prices and control the manufacturing costs of the products by locking the raw material prices and other ways. We will further adjust our product price and product structure under such circumstances.
- (iv) Extraordinary fluctuation of Renminbi exchange rate will influence the competitiveness of the Company's exported products in the international market. We will keep our eyes on the fluctuation of exchange rate and will adopt various measures to avoid Renminbi fluctuation risks.

Significant investments

For the year ended 31 December 2017, 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 2017, 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 2017, 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 2017.

Audit Committee

The Company's audit committee (including three independent non-executive directors of the Company) had held four meetings in the year of 2017 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 2017.

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 2017.

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 2017.

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 2018 to 28 June 2018 (both days inclusive) during which period no transfer of the H Shares will be processed. In order to be entitled to attend and vote at the forthcoming annual general meeting and the class meetings of the Company, all completed transfer forms accompanied by the relevant share certificates must be lodged with the H Shares Registrar (for holders of H Shares), Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 25 May 2018.

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) and the website of the Company (www.molonggroup.com). The annual report for the year ended 31 December 2017 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

29 March 2018

As at the date of this announcement, the Board comprises Mr. Zhang En Rong, 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*