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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 2018**

### **HIGHLIGHTS**

- For the year ended 31 December 2018 in consolidated financial statements, the total revenue from operations of the Group amounted to RMB4,452,014,810.12, which represents an increase of approximately 50.14% as compared to that of last year of RMB2,965,216,722.37.
- Net profit attributable to the owners of the Company in consolidated financial statement amounted to RMB 92,476,375.01 as compared to that of last year of RMB 38,038,484.18, representing an increase of approximately 143.11%.
- Earnings per share of the Company in consolidated financial statements amounted to RMB 0.12 as compared to earnings per share of the Company of RMB 0.05 last year, representing an increase of approximately 131.81%.
- The Board does not recommend the payment of final dividend for the year ended 31 December 2018.

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 2018.

The financial information set out in this announcement below does not constitute the Group’s statutory financial statements for the year ended 31 December 2018, 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 2018

	Note	2018	2017
<b>Total revenue from operations</b>	4	<b>4,452,014,810.12</b>	2,965,216,722.37
Including: operating revenue		<b>4,452,014,810.12</b>	2,965,216,722.37
<b>Total costs of operations</b>		<b>4,417,221,002.51</b>	3,138,440,402.50
Including: Operating cost		<b>3,760,482,732.11</b>	2,736,727,487.28
Business tax and surcharges		<b>39,442,851.14</b>	23,421,675.66
Selling expenses		<b>113,969,714.60</b>	65,682,352.59
Administrative expenses		<b>178,822,233.92</b>	132,826,535.64
Research and development expenses		<b>71,979,056.24</b>	29,265,348.19
Finance costs	6	<b>204,107,335.81</b>	131,241,514.49
Including: interest costs		<b>203,251,721.32</b>	126,199,311.38
interest income		<b>7,381,164.96</b>	7,998,827.35
Asset impairment losses	7	<b>10,603,105.42</b>	19,275,488.65
Credit impairment losses		<b>37,813,973.27</b>	
Add: Gains from changes in fair value			
Investment income		<b>1,370,779.21</b>	447,550.68
Including: Gains from investment in associates and joint ventures		<b>24,197.42</b>	18,748.91
Asset disposal income (loss is marked with "-")		<b>3,501,489.47</b>	62,088,298.95
Other income		<b>29,456,919.93</b>	156,275,852.23
<b>Operating (loss) / profit</b>		<b>69,122,996.22</b>	45,588,021.73
Add: Non-operating income	8	<b>6,366,554.82</b>	5,781,343.10
Less: Non-operating expenses		<b>14,327,049.92</b>	16,881,710.08
Including: Loss from disposal of non-current assets			
<b>Total (loss) / profit</b>	9	<b>61,162,501.12</b>	34,487,654.75
Less: Income tax (credit) expenses	10	<b>(41,243,965.51)</b>	(593,826.08)
<b>Net (loss) / profit</b>		<b>102,406,466.63</b>	35,081,480.83
Net (loss) / profit attributable to shareholders of the Company		<b>92,476,375.01</b>	38,038,484.18
Net (loss) / profit attributable to minority interests		<b>9,930,091.62</b>	(2,957,003.35)
<b>(Losses) / earnings per share</b>	11		
Basic (losses) / earnings per share		<b>0.12</b>	0.05
Diluted (losses) / earnings per share		<b>0.12</b>	0.05
<b>Other comprehensive (loss) / income</b>		<b>(1,467,938.03)</b>	1,785,088.16
<b>Total comprehensive (expense) / income</b>		<b>100,938,528.60</b>	36,866,568.99
Total comprehensive (expense) / income attributable to owners of the Company		<b>91,087,112.13</b>	39,728,169.77
Total comprehensive expense attributable to minority interests		<b>9,851,416.47</b>	(2,861,600.78)
<b>Dividends</b>	12	<b>0.00</b>	0.00

# CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	31 December 2018	1 January 2018
<b>Current assets</b>			
Cash and bank balances		892,452,274.76	879,371,103.17
Bills receivable and Accounts receivable		919,101,636.26	456,101,710.39
Bills receivable		382,901,696.30	94,525,409.69
Accounts receivable	13	536,199,939.96	361,576,300.70
Loans and advances		38,561,702.67	85,869,407.71
Prepayments		30,978,235.20	91,643,819.19
Other receivables		47,697,703.66	47,271,775.89
Interests receivable		2,710,659.25	4,220,913.66
Inventories		1,042,761,257.01	925,772,719.28
Assets held for sale			
Other current assets		144,802,505.41	118,436,141.88
<b>Total current assets</b>		<b>3,116,355,314.97</b>	<b>2,604,466,677.51</b>
<b>Non-current assets</b>			
Other investments in equity instruments			20,000.00
Long-term equity investment		2,663,518.90	2,639,321.48
Fixed assets		2,915,815,731.99	2,891,875,882.19
Construction-in-progress		35,871,296.86	170,880,899.68
Intangible assets		452,046,844.13	443,968,124.33
Goodwill		23,683,383.21	26,683,383.21
Research and development expenditure			
Long-term deferred expenses			
Deferred income tax assets		47,256,488.04	4,391,835.90
Other non-current assets		13,844,015.27	57,113,143.58
<b>Total non-current assets</b>		<b>3,491,181,278.40</b>	<b>3,597,572,590.37</b>
<b>Total assets</b>		<b>6,607,536,593.37</b>	<b>6,202,039,267.88</b>
<b>Current liabilities</b>			
Short-term borrowings		2,390,918,560.77	2,141,086,600.02
Accounts payable and Receipts in advance		1,100,064,743.60	1,057,819,542.51
Accounts payable	14		
Receipts in advance		57,364,400.72	68,937,156.42
Liability from contracts		57,100,793.80	51,245,591.21
Salaries payable		81,227,045.72	18,916,357.37
Taxes payable		51,344,753.68	37,977,339.12
Other payables		8,691,627.11	5,458,818.99
Interest payable			
Non current liabilities due within one year		308,994,908.08	155,946,611.23
Other current liabilities		94,281,027.25	
<b>Total current liabilities</b>		<b>4,141,296,233.62</b>	<b>3,531,929,197.88</b>
<b>Non-current liabilities</b>			
Long-term borrowings		426,219,050.90	737,259,900.98
Bonds payable			
Estimated debts	16	12,780,330.57	8,000,000.00
Deferred income		6,954,855.00	6,954,855.00
Deferred income tax liabilities		6,126,499.96	7,325,919.30

Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>452,080,736.43</b>	759,540,675.28
<b>Total liabilities</b>		<b>4,593,376,970.05</b>	4,291,469,873.16
<b>Shareholders' equity</b>			
Share capital		<b>797,848,400.00</b>	797,848,400.00
Capital reserve		<b>863,169,158.42</b>	860,517,458.42
Surplus reserve		<b>187,753,923.88</b>	176,686,903.51
General risk reserve		<b>11,236.91</b>	11,236.91
Retained profits		<b>98,100,580.11</b>	16,691,225.47
Other comprehensive income		<b>(2,792,011.13)</b>	(1,402,748.25)
<b>Total equity attributable to shareholders of the Company</b>		<b>1,944,091,288.19</b>	1,850,352,476.06
Minority interests		<b>70,068,335.13</b>	60,216,918.66
<b>Total shareholders' equity</b>		<b>2,014,159,623.32</b>	1,910,569,394.72
<b>Total liabilities and shareholders' equity</b>		<b>6,607,536,593.37</b>	6,202,039,267.88

## CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

*For the year ended 31 December 2018*

Items	2018								
	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	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
Add : Change of accounting policy							-19,243,085.65	-1,520,614.01	-20,763,699.66
II. Opening Balance	797,848,400.00	860,517,458.42	-1,402,748.25		176,686,903.51	11,236.91	16,691,225.47	60,216,918.66	1,910,569,394.72
III. Changes in the current year		2,651,700.00	-1,389,262.88		11,067,020.37		81,409,354.64	9,851,416.47	103,590,228.60
(i) Total comprehensive expense for the year			-1,389,262.88				92,476,375.01	9,851,416.47	100,938,528.60
(ii) Shareholder' capital injection and capital reduction		2,651,700.00							2,651,700.00
1. Capital injection from shareholders									
2. Other equity instruments holders' contributions									
3. Equity settled share expenses charged to equity									
4. Others		2,651,700.00							2,651,700.00
(iii) Profit distribution					11,067,020.37		-11,067,020.37		
1. Transfer to surplus reserves					11,067,020.37		-11,067,020.37		
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				20,348,646.62					20,348,646.62

2.Utilised				20,348,646.62					20,348,646.62
(vi)Others									
<b>IV. Balance at the end of the current year</b>	797,848,400.00	863,169,158.42	-2,792,011.13		187,753,923.88	11,236.91	98,100,580.11	70,068,335.13	2,014,159,623.32

Item	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					9,548,336.43
2. Utilised				9,548,336.43					9,548,336.43
(vi) Others									
<b>IV. Balance at the end of the current year</b>	<b>797,848,400.00</b>	<b>860,517,458.42</b>	<b>(1,402,748.25)</b>		<b>176,686,903.51</b>	<b>11,236.91</b>	<b>35,934,311.12</b>	<b>61,737,532.67</b>	<b>1,931,333,094.38</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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’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 2018, 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

<b>Contents and reasons for the changes in accounting policies</b>	<b>Vetting Process</b>	<b>Remarks</b>
The Ministry of Finance of the PRC announced the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instrument (Cai Kuai [2017] No. 7), Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets (Cai Kuai [2017] No. 8), Accounting Standards for Business Enterprises No. 24 – Hedging Accounting (Cai Kuai [2017] No. 9) on 21 March 2017, and announced the Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instrument (Cai Kuai [2017] No. 14) on 2 May 2017. (the above accounting standards are collectively referred as the “New Financial Instrument Standard”), requiring enterprises which have dual listings in the PRC and overseas or which are listed in the PRC which adopts the International Financial Reporting Standard or corporate accounting standard in composing its financial	The relevant changes in accounting policies have been approved on the 9th meeting of the 5th Board.	Note 1



<b>Contents and reasons for the changes in accounting policies</b>	<b>Vetting Process</b>	<b>Remarks</b>
reports to implement the New Financial Instrument Standard from 1 January 2018.		
The Ministry of Finance of the PRC announced the Accounting Standards for Business Enterprises No. 14 – Revenues (Cai Kuai [2017] No. 22) (the “ New Revenue Standard”) (the above New Revenue Standard and New financial Instrument Standard are collectively referred as “New Revenue and Financial Instrument Standard”) on 5 July 2017, requiring enterprises which have dual listings in the PRC and overseas or which are listed in the PRC which adopts the International Financial Reporting Standard or corporate accounting standard in composing its financial reports to implement the New Revenue Standard from 1 January 2018.	The relevant changes in accounting policies have been approved on the 9th meeting of the 5th Board.	Note 2
The Ministry of Finance of the PRC announced the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for the Year 2018 (Cai Kuai [2018] No. 15) on 15 June 2018 (the “New Format of Financial Statements”)	The relevant changes in accounting policies have been approved on the 11th meeting of the 5th Board.	Note 3

Note 1: The Group would make bridging adjustments in accordance with the New Financial Instruments Standard: The Group will not adjust inconsistencies between the previous comparative financial reports and the New Financial Instrument Standard requirements. The Group will reflect the difference between the original book value of financial instruments and the new value on the date of the implementation of the New Financial Instrument Standard (i.e. 1 January 2018) in the undistributed profit and other aggregate revenue of the beginning of 2018.

Note 2: In order to implement the New Revenue Standard, the Company would re-evaluate material contracts in terms of the confirmation, quantification, audit and reporting etc. of revenue from contracts. Pursuant to the New Revenue Standard, the Company elects to only adjust the accumulated sum being affected of material contracts that have not been completed on 1 January 2018. Initial accumulative adjustments have been made the undistributed profits and other relevant project amounts as at the commencement of the initial period (i.e. 1 January 2018); no adjustments were made to the financial statements for the year 2017.

Note 3: The Group has prepared its financial statements for the year ended 31 December 2018 in accordance with the abovementioned New Financial Reporting Standard; the comparative financial statements have been adjusted accordingly.

#### **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	2018	2017
Casing and Tubing	3,919,305,934.10	2,602,300,097.09

Three kinds of pumping units	46,384,863.25	33,364,743.00
Petroleum machinery parts	58,383,638.50	45,504,510.14
Tube blank	295,857,663.73	230,315,591.64
Others	132,082,710.54	53,731,780.50
Total	4,452,014,810.12	2,965,216,722.37

## 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—2018

Items	Casing and Tubing	Three kinds of pumping units	Petroleum machinery part	Tube blank	Petroleum machinery part	Unallocated items	Inter-segment elimination	Total
Operating revenue								
External income	3,919,305,934.10	46,384,863.25	58,383,638.50	295,857,663.73	132,082,710.54			4,452,014,810.12
Inter-segment income								
Total segment income	3,919,305,934.10	46,384,863.25	58,383,638.50	295,857,663.73	132,082,710.54			4,452,014,810.12
Total operating income	3,919,305,934.10	46,384,863.25	58,383,638.50	295,857,663.73	132,082,710.54			4,452,014,810.12
Segment costs	3,434,776,867.65	43,787,516.26	53,515,581.62	299,973,278.09	130,259,132.92			3,962,312,376.54
Segment (loss) / profit	484,529,066.45	2,597,346.99	4,868,056.88	-4,115,614.36	1,823,577.62			489,702,433.58
Adjusting items:								
Administrative expenses						178,822,233.92		178,822,233.92
Research and development costs						71,979,056.24		71,979,056.24
Finance costs						204,107,335.81		204,107,335.81
Investment income						1,370,779.21		1,370,779.21
Disposal income						3,501,489.47		3,501,489.47
Other income						29,456,919.93		29,456,919.93
Operating (loss) / profit	484,529,066.45	2,597,346.99	4,868,056.88	-4,115,614.36	1,823,577.62	-420,579,437.36		69,122,996.22
Non-operating income						6,366,554.82		6,366,554.82
Non-operating expenses						14,327,049.92		14,327,049.92
Total (loss) / profit	484,529,066.45	2,597,346.99	4,868,056.88	-4,115,614.36	1,823,577.62	-428,539,932.46		61,162,501.12
Income tax credit						-41,243,965.51		-41,243,965.51
Net (loss) / profit	484,529,066.45	2,597,346.99	4,868,056.88	-4,115,614.36	1,823,577.62	-387,295,966.95		102,406,466.63
Total segment assets	5,218,893,671.75	90,174,399.15	92,005,417.73	152,633,167.19	231,567,186.89	822,262,750.66		6,607,536,593.37
Total segment liabilities	2,709,924,038.72	16,102,523.75	35,791,071.48	111,370,310.83	31,744,777.07	1,688,444,248.20		4,593,376,970.05

#### Segment reporting information-2017

Items	Casing and Tubing	Three kinds of pumping units	Petroleum machinery part	Tube blank	Petroleum machinery part	Unallocated items	Inter-segment elimination	Total
Operating revenue								
External income	2,602,300,097.09	33,364,743.00	45,504,510.14	230,315,591.64	53,731,780.50			2,965,216,722.37

Inter-segment income							
Total segment income	2,602,300,097.09	33,364,743.00	45,504,510.14	230,315,591.64	53,731,780.50		2,965,216,722.37
Total operating income	2,602,300,097.09	33,364,743.00	45,504,510.14	230,315,591.64	53,731,780.50		2,965,216,722.37
Segment costs	2,503,386,340.55	30,959,927.17	35,895,716.20	226,887,201.82	47,977,818.44		2,845,107,004.18
Segment (loss) / profit	98,913,756.54	2,404,815.84	9,608,793.94	3,428,389.82	5,753,962.05		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	98,913,756.54	2,404,815.84	9,608,793.94	3,428,389.82	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	98,913,756.54	2,404,815.84	9,608,793.94	3,428,389.82	5,753,962.05	-85,622,063.44	34,487,654.75
Income tax credit						-593,826.08	-593,826.08
Net (loss) / profit	98,913,756.54	2,404,815.84	9,608,793.94	3,428,389.82	5,753,962.05	-85,028,237.36	35,081,480.83
Total segment assets	5,024,974,960.85	82,566,657.27	145,854,471.16	141,639,143.82	90,767,651.61	737,000,082.83	6,222,802,967.54
Total segment liabilities	3,117,960,928.78	19,753,874.13	47,601,635.33	55,401,971.04	21,870,237.81	1,028,881,226.07	4,291,469,873.16

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

In 2018 and 2017, 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	2018	2017
Domestic external transaction income	<b>4,083,930,871.08</b>	2,629,703,696.31
Foreign external transaction income	<b>368,083,939.04</b>	335,513,026.06
Total	<b>4,452,014,810.12</b>	2,965,216,722.37

## 6. Finance costs

Items	2018	2017
Interest expenses (bank borrowings due wholly repayable one year)	<b>203,251,721.32</b>	126,199,311.38
Less: Interest capitalized		
Less: Interest income	<b>7,381,164.96</b>	7,998,827.35
Foreign exchange difference	<b>294,729.66</b>	8,564,948.50
Other	<b>7,942,049.79</b>	4,476,081.96
Total	<b>204,107,335.81</b>	131,241,514.49

There is no capitalized borrowing costs in 2018(in 2017: 0).

## 7. Assets impairment losses

Items	2018	2017
Provision of bad debt		19,460,062.58
Including: Accounts receivable		8,582,715.99
Other receivables		10,877,346.59

Provision of allowance for inventory	<b>7,603,105.42</b>	(4,286,615.76)
Including: Raw materials		
Finished goods		
Work-in-progress		
Work in process-outsourced		
Impairment loss on intangible asset		
Impairment loss of fixed assets		
Impairment loss on loans and advances		4,102,041.83
Impairment loss on goodwill	<b>3,000,000.00</b>	
Total	<b>10,603,105.42</b>	19,275,488.65

## 8、Credit impairment loss

Item	2018	2017
Bad debts: bills receivable and accounts receivable	<b>20,395,907.37</b>	
Other bad debts from accounts receivable	<b>16,199,472.78</b>	
Loan impairment loss	<b>1,218,593.12</b>	
Total	<b>37,813,973.27</b>	

## 9. Non-operating income

Item	2018	2017
Government grants		
Penalty income		493,743.53
Others	<b>6,366,554.82</b>	5,287,599.57
Total	<b>6,366,554.82</b>	5,781,343.10

## 10、Other income

Sources of generating other income	2018	2017
Energy conservation and emission reduction rewards		150,000,000.00
Recycled resources subsidies and funds for enterprises	<b>28,730,384.37</b>	5,640,168.00
Stability subsidy and social insurance subsidy	<b>722,535.56</b>	453,084.23
Patent technology and intellectual property awards	<b>4,000.00</b>	182,600.00
Total	<b>29,456,919.93</b>	156,275,852.23

## 11. Total (loss) / profit

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

Items	2018	2017
Staff costs (including directors' remuneration)	<b>256,801,255.25</b>	174,169,614.5
Amortization of intangible assets	<b>31,644,301.63</b>	25,153,652.65
Auditor's remuneration (included in administrative expenses)	<b>1,132,075.44</b>	1,132,075.44
Cost of inventories recognized as expenses	<b>3,760,482,732.11</b>	2,736,727,487.28
Depreciation on fixed assets	<b>238,867,452.39</b>	202,967,201.69
Research and development expenses	<b>71,979,056.24</b>	29,265,348.19
Gain on disposal of fixed assets	<b>3,501,489.47</b>	62,088,298.95

## 12. Income tax (credit) expenses

Items	2018	2017
Current income tax expenses	2,820,105.97	635,761.83
—Hong Kong		
—PRC	2,820,105.97	635,761.83
Deferred income tax	(44,064,071.48)	(1,229,587.91)
Total	(41,243,965.51)	(593,826.08)

The Company was subject to the PRC enterprise income tax at a rate of 15% (2017: 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% (2017:16.5%) on the estimated assessable profits.

### 13.(Losses) / earnings per share

Items	2018	2017
Calculated based on net (loss) / profit attributable to the shareholders of the Company:		
Basic (losses) / earnings per share	0.12	0.05
Diluted (losses) / earnings per share	0.12	0.05
Calculated based on net profits from continuing operations attributable to shareholders of the Company:		
Basic (losses) / earnings per share	0.12	0.05
Diluted (losses) / earnings per share	0.12	0.05

### 14. Dividends

Items	2018	2017
Dividends recognized and distributed during the year	0	0
2018 final dividend: RMB0.00 per ordinary share (2017: final dividend RMB0.00)		

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

### 15. Bills receivable and accounts receivable

Item	2018			2017		
	Balance of amount receivable	Provision for bad debt	Net amount receivable	Balance of amount receivable	Provision for bad debt	Net amount receivable
Bills receivable	382,901,696.30		382,901,696.30	94,525,409.69		94,525,409.69
Accounts receivable	659,640,026.92	123,440,086.96	536,199,939.96	464,620,480.29	103,044,179.59	361,576,300.70
Total	1,042,541,723.22	123,440,086.96	919,101,636.26	559,145,889.98	103,044,179.59	456,101,710.39

The Group as primary obligor satisfy its obligations of supplying products customers in a timely manner by reference to the category, standard and time requested by the customer in accordance with the provisions of the contracts. There are different payments terms for different customers and different

products: domestic customers of tubes are normally subject to payment in advance of distribution, and domestic customers of oil casing is normally subject to payment terms of 3-6 months after bill settlement. As to export business, payment terms are mainly payment upfront. As to oil casing products, most of the customers are subject to payment in advance, under which customers are to make full payment before distribution of products. As to petroleum machinery parts, the credit term is normally 2 months.

- (1) All the bills of the Group are receivable within one year
- (2) The following is an aging analysis of accounts receivable net of provision for bad debts:

Aging	2018	2017
Within 1 year	507,268,066.12	310,075,287.59
1 to 2 years	4,828,632.86	21,000,945.46
2 to 3 years	18,659,661.29	57,078,745.91
Over 3 years	128,883,666.65	76,465,501.33
<b>Total</b>	<b>659,640,026.92</b>	<b>464,620,480.29</b>

## 16、 Bills payable and Accounts payables

Category	2018	2017
Bills payable	278,902,047.79	213,984,811.00
Accounts payables	821,162,695.81	843,834,731.51
<b>Total</b>	<b>1,100,064,743.60</b>	<b>1,057,819,542.51</b>

- (1) All the bills of the Group are payable within one year.
- (2) The following is an aging analysis of accounts payables:

Aging	2018	2017
Within 1 year	679637387.26	512,134,674.94
1 to 2 years	56,642,182.97	136,440,231.05
2 to 3 years	37,055,057.30	127,134,872.00
Over 3 years	47,828,068.28	68,124,953.52
<b>Total</b>	<b>821,162,695.81</b>	<b>843,834,731.51</b>

## 17. Commitments

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

Items	2018	2017
Contracted but not provided -Commitment for acquisition and construction of long-term assets	<b>0</b>	1,416,467.48

## 16. Contingent liabilities

As at the date of the financial statement, the Intermediate People's Court of Jinan City has accepted cases in which investors have claimed against the Company on the ground of false

statements relating to securities, the total amount involved being RMB 38,258,803.38. As of the date of this announcement, the total amount claimed under the closed cases (either adjudicated or settled by mediation) is RMB 11,846,046.64, while the actual settlement amount under these closed cases is RMB 4,709,373.76. With regard to these closed cases, the Company is in the process of fulfilling the verdicts. As to other on-going cases, the Company has made provision of RMB 6,817,623.04 as contingent liability according to the total amount awarded in the first trial verdicts (where the first trials have been completed). In relation to cases which have commenced trial but not yet decided, or cases which have not yet been brought to court, the Company has made provision of RMB 5,962,707.53 as contingent liability according to the total amount involved multiplied by a ratio of non-systemic risks of 72% for which the Company may be regarded as responsible. Regarding such event, the Company has made an aggregate provision of RMB 12,780,330.57 as estimated accrued liabilities.

## **Annual results**

For the year ended 31 December 2018, the Company achieved a total revenue from operations of RMB 4,452,014,810.12, representing an increase of approximately 50.14% as compared with the last year. Over the same period, net profit attributable to shareholders of the Company and earnings per share are RMB 92,476,375.01 and RMB 0.12, respectively.

## **Business review**

### **(A) Main business engaged by the Company during the reporting period**

During the reporting period, the Company was mainly engaged in research and development, production and sales of products for the energy equipment industry. The main products include pipes for petroleum and gas extraction, fluid and structural pipes, petroleum pumping machine, petroleum pump, petroleum pumping rods, cylinder liners for drilling rigs, valve parts and large castings and forgings. The Company's products are mainly used in petroleum, natural gas, coalbed methane, shale gas and other energy drilling, machinery processing, urban pipe network, etc. The sales of pipe products exceed 80% of our revenue, which is the main source of the revenue and profit of the Company. During the reporting period, there was no material change in the Company's main business structure.

The Company's business model is to arrange the production planning based on the customer's order demand. The Company's products, especially pipe products, are divided into API standard products and non-standard products (i.e. specially customised products on demand). Generally, customers, according to their own needs, determine the product specifications, model and order quantity. The Company's production system organises production delivery according to customer orders.

### **(II) Basic information of the Company's industry during the reporting period**

The energy equipment industry in which the Company is located covers petroleum, natural gas, shale gas, coal, coalbed methane, etc. In the medium and long term, the demand for petroleum and coal will peak and the demand for natural gas will also increase significantly, so the market growth potential is large. The industry is more affected by cyclical changes in economic development, cyclical changes in market consumption demand, cyclical changes in crude oil price cycles, and cyclical changes in raw materials price. In 2018, affected by fluctuations in crude oil prices and changes in the economic situation, the market for pipe products has improved. The demand and prices of major oilfield use products have increased in varying degrees compared with the same period of last year. During the reporting period, the Company continued to strengthen its business cooperation with domestic and foreign oil companies, causing our business performance continuing to improve.

During the reporting period, the Group realised operating income of RMB 4,452,014,810.12, an increase of 50.14% over the previous year of RMB 2,965,216,722.37; total profit was RMB 61,162,501.12, an increase of 77.35% over the same period last year of RMB 34,487,654.75; net profit attributable to shareholders of listed companies was RMB 92,476,375.01, an increase of 143.11% over the RMB 38,038,484.18 last year; after deducting non-operating profit and loss, the net profit was RMB 76,871,118.68, while the previous year was a loss of RMB 178,210,786.99.

## **Prospects**

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



In 2018, the uncertainty of the external environment of the PRC's economic development has increased. Sino-US trade conflict and tightening of monetary policies in developed countries have challenged the stability of the PRC's energy market and prices. However, with continuous effort of structural reforms on the supply side, the PRC's economic adaptability and ability to withstand risks will be further enhanced. Under the circumstances of expectedly stable economy under policies of maintaining economic stability, the development of the energy sector is basically controllable.

According to the World Energy Outlook report published by the International Energy Agency (IEA), petroleum and natural gas will continue to account for a significant share of global energy demand by 2040; income growth and growing populations concentrated in urban areas of developing economies will drive global energy demand to more than a quarter in 2040. The booming development of electricity, renewable energy and improved energy efficiency will curb the growth of demand for coal, and the profound shift in energy consumption to Asia will be reflected in various fuels, technologies and energy investments.

By 2030, natural gas will surpass coal as the second largest demanded fuel in the global energy composition. Vehicle fuel consumption will peak in mid-2020, but the petrochemical, truck, aircraft and shipbuilding industries will continue to increase the petroleum demand overall. The petrochemical industry is the largest source of growth in petroleum consumption. Under the new policy, the overall growth in oil demand will reach 106 million barrels per day. In the medium and long term, the scale of the oil drilling and mining special equipment industry will continue to expand and the market prospect is expected to be good.

At present, the demand for crude oil and the amount of extraction are basically stable. As the pillar industry of China's economy, the 13th Five-Year Plan of the PRC government clearly states the government needs to promote the development of the energy industry, support the development of high-end equipment industry and new energy industry, and support the transformation and upgrading of traditional industries. Under the influence of the national policies, the energy industry will maintain steady growth, and the energy equipment industry in which the Company is located will be also benefited. In the future, the Company will invest more resources in the research and development of high-end product technology and production technique to ensure product quality, reserve high-end technology, expand supporting production capacity, and actively expand the international market on the premise of ensuring the stability of the domestic market.

## **2. The work of the Company will focus on the following areas in 2019**

(B) The Company's business plan for 2019:

The Company will adhere to the overall tone of steady progress, closely focus on the "new and old kinetic energy conversion" and "supply side structural reform", adhere to the promotion of quality control as the main line of our plan, based on a new starting point, demonstrate new actions, and promote enterprise development.

(1) Strengthen management and strengthen market operation

In 2019, the Company will adhere to the sales strategy of "mainly selling petroleum casings and supplemented by general pipe", selecting and maintaining high-quality customers and developing end-user customers, increasing the promotion of new products, especially development and promotion of special buckles, high steel grades and special materials products. The Company will implement biddings to PetroChina, Sinopec, CNOOC and Yanchang Petroleum, and continue to strengthen the expansion and development of foreign markets.

(2) Strictly grasp production management, promote quality and efficiency

In 2019, the Company will strictly observe safety and environmental protection, constantly

improve the safety production management system, implement safety education and training for all employees, improve employees' awareness and ability of safety precautions, and implement hidden dangers investigation and rectification with zero tolerance. The Company will strictly manage quality control, implement quality control training, enhance the quality awareness of all employees, determine to improve quality and efficiency; increase technological innovation, introduce high-level technical talents, enhance cooperation in production, education and research, and accelerate the introduction and learning of foreign advanced technologies for efficient production, environmental protection and energy conservation,

(3) Promote supply chain construction and increase business value

The Company will strengthen the supply chain basic work management, focus on the development of material resources, strictly control the review process, and further improve the supplier network building and procurement mode optimization, so as to improve the timeliness and efficiency of procurement work; the Company will also comprehensively improve the procurement information management, strengthen the control of supplier and business processes, optimize supplier teams and procurement pipelines, strengthen our market analysis to timely grasp market conditions and to reduce procurement costs.

(4) Strengthen financial management to prevent business risks

The Company will strengthen financial management, broaden financing channels, further reduce financial expenses, ensure Company's funds security; strengthen business knowledge training for financial personnel, improve financial skills; the Company will also continue to strengthen accounting auditing and supervision, organize and improve risk management systems, strength financial analytical functions to provide an accurate basis for Company management decisions.

(5) Strengthen enterprise management and enhance enterprise efficiency

The Company will continuously improve the corporate governance structure, further adjust and optimize the organizational structure and management processes, and continuously improve the corporate governance standards. The Company will combine the Company's actual situation, optimize the internal control system through modern information management methods, so as to reduce business risks. The Company will also continuously optimize the human resources sytem, absorb excellent management talents, marketing talents and scientific and technological talents, improve the level of human resources management, further enhance the Company's sustainable development capabilities, create a corporate culture that adapts to the Company's development, and enhance the Company's manpower cohesiveness.

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

(1) Market risk

In the energy equipment and service industry of the Company, the development of the energy industry and the degree of prosperity of the industry are directly relevant to the development of the industry in which the company operates. The fluctuations of crude oil price would be affected by many factors, such as global economic growth rate and regional, political, financial, supply and demand, and has strong cyclical and volatility. During the period of low oil prices, oil and gas companies would reduce capital expenditures, reduce exploration and development investment, weakening demand for equipment and services in the oil and gas industry. The Company will adjust its product structure and market plan in a timely manner according to market changes.

(2) Raw material price fluctuation risk

Fluctuations in raw material prices will directly affect product manufacturing costs and have a direct impact on product prices. The Company will pay close attention to fluctuations in raw material prices, control product manufacturing costs by locking in raw material prices, and

adjust product prices and product mix in a timely manner.

### (3) Policy risk

In recent years, the PRC has continuously raised environmental protection requirements, and environmental protection policies have become more frequently issued and stricter. Environmental protection supervision has been continuously implemented. The improvement of emission standards is bound to increase the Company's environmental protection related costs. The Company has always been aiming at “energy saving, emission reduction and harmonious development”, vigorously pursuing economy by recycling, maximizing resource utilization, and increasing environmental protection investment to help ensure that all types of wastes of the Company meet the relevant standards.

### (4) Exchange rate risk

Changes in the RMB exchange rate have an impact on the Company's operating results. The Company will pay close attention to exchange rate changes and take timely measures to avoid the risks caused by changes in the RMB exchange rate.

## **Significant investments**

For the year ended 31 December 2018, 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 2018, the Group did not have any acquisition, disposals or significant investment plans.

## **Dividend**

The Directors do not recommend the payment of final dividend for the year ended 31 December 2018.

## **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 2018, 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 2018.

## **Audit Committee**

The Company's audit committee (including three independent non-executive directors of the Company) had held four meetings in the year of 2018 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 2018.

## **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 2018.

### **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 2018.

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

The register of members of H shares of the Company (“**H Shares**”) will be closed from 21 May 2019 to 20 June 2019 (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 20 May 2019.

### **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 2018 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\***

**Liu Yun Long**

*Chairman*

Shandong, the PRC

22 March 2019

*As at the date of this announcement, the Board comprises the executive Directors, namely Mr. Liu Yun Long, Mr. Liu Min, Mr. Zhang Yu Zhi and Mr. Li Zhi Xin; the non-executive Directors, namely Mr. Yao You Ling and Mr. Wang Quan Hong; and the independent non-executive Directors, namely Mr. Tang Qing Bin, Mr. Song Zhi Wang and Mr. Cai Zhong Jie.*

\* *For identification purpose only*