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山東墨龍石油機械股份有限公司
Shandong Molong Petroleum Machinery Company Limited*

(A Sino-foreign joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 568)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

HIGHLIGHTS

- For the six months ended 30 June 2019, the revenue of the Group amounted to RMB2,377.45 million, which represents an increase of approximately 18.87% as compared with the corresponding period of last year.
- Profit attributable to shareholders of the Company amounted to RMB18.01 million, which represents a decrease of approximately 44.70% as compared with the corresponding period of last year.
- Earnings per share of the Group amounted to RMB0.0226, which represents a decrease of approximately 44.61% 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 2019.

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 2019.

The financial information set out in this announcement does not constitute the Group's financial statements for the six months ended 30 June 2019 as required by statue but represents an extract from such financial statements. The financial information for the six months ended 30 June 2019 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 2019

		For the six months ended 30 June	
	Notes	**2019 (unaudited)**	**2018 (unaudited)**
Total revenue from operations	*3&4*	**2,377,445,034.26**	2,000,081,569.83
Total costs of operations		**2,365,272,100.70**	1,977,008,000.54
Operating cost		2,156,658,882.03	1,716,855,589.44
Business tax and surcharges		12,424,623.05	13,951,014.16
Selling expenses		39,984,800.58	56,820,233.83
Administrative expenses		55,293,610.81	62,665,742.77
Research and development expenses		21,016,556.28	20,919,065.04
Finance costs	*5*	79,893,627.95	105,796,355.30
Including: interest costs		82,551,261.56	102,480,111.07
interest income		4,383,386.30	3,038,609.18
Add: Credit impairment losses		（2,041,521.53）	（9,792,451.04）
Asset impairment losses	*6*		
Gains from changes in fair value			
Investment income		1,170,164.41	
Including: Gains from investment in associates and joint ventures			
Income on disposal of assets		(229,634.05)	1,172,390.42
Other income		12,204,052.90	5,977,430.26
Operating profit		**23,275,995.29**	20,430,938.93
Add: Non-operating income	*7*	6,078,613.12	2,359,752.08
Less: Non-operating expenses		7,328,046.80	232,946.57
Total profit	*8*	**22,026,561.61**	22,557,744.44
Less: Income tax expenses	*9*	3,410,375.68	1,872,724.25
Net profit		**18,616,185.93**	20,685,020.19
Other comprehensive income		**(29,674.09)**	(370,858.44)
Total comprehensive income		**18,586,511.84**	20,314,161.75
Net profit attributable to			
Shareholders of the Company		18,012,923.36	32,575,294.80
Minority interests		603,262.57	(11,890,274.61)
Total comprehensive income attributable to			
Shareholders of the Company		17,986,216.68	32,224,461.51
Minority interests		600,295.16	(11,910,299.76)
Earnings per share:	*10*		
Basic earnings per share		**0.0226**	0.0408
Diluted earnings per share		**N/A**	N/A
Dividends	*11*	**N/A**	N/A

UNAUDITED CONSOLIDATED BALANCE SHEETS

As at 30 June 2019

	Note	**As at 30 June 2019 (unaudited)**	As at 31 December 2018 (audited)
Current assets			
Cash and bank balances		725,002,035.16	892,452,274.76
Bills receivable		515,683,304.52	382,901,696.30
Accounts receivable	*12*	664,185,521.79	536,199,939.96
Loans and advances		37,497,910.59	38,561,702.67
Prepayments		52,746,837.01	30,978,235.20
Interest receivable		1,817,971.48	2,710,659.25
Dividends receivable		-	
Other receivables		33,147,256.06	44,987,044.41
Inventory		1,006,688,718.31	1,042,761,257.01
Assets classified as held for sale		-	
Other current assets		86,499,015.79	144,802,505.41
Total current assets		**3,123,268,570.71**	3,116,355,314.97
Non-current assets			
Available-for-sale financial assets			
Long-term equity investment		2,663,518.90	2,663,518.90
Fixed assets		2,804,113,835.92	2,915,815,731.99
Construction in progress		46,382,671.96	35,871,296.86
Construction materials		-	
Intangible assets		454,580,469.41	452,046,844.13
Goodwill		23,683,383.21	23,683,383.21
Deferred income tax assets		45,196,691.71	47,256,488.04
Research and Development expense		11,399,147.89	
Long-term deferred expenses		-	
Gains and losses from assets to be processed		-	
Other non-current assets		5,922,703.85	13,844,015.27
Total non-current assets		**3,393,942,422.85**	3,491,181,278.40
Total assets		**6,517,210,993.56**	6,607,536,593.37
Current liabilities			
Short-term borrowings		2,214,838,910.00	2,390,918,560.77
Bills payable		476,629,551.98	278,902,047.79
Accounts payable	*13*	891,345,884.09	821,162,695.81
Advance receipts			
Receipts in advance		66,914,556.70	57,364,400.72
Salaries payable		50,799,021.35	57,100,793.80
Taxes payable		22,361,166.96	81,227,045.72
Interests payable		6,760,660.95	8,691,627.11
Other payables		35,990,395.46	42,653,126.57
Other current liability		49,056,505.40	94,281,027.25
Non-current liabilities due within 1 year		183,525,578.00	308,994,908.08
Total current liabilities		**3,998,222,230.89**	4,141,296,233.62
Net current assets			
Total assets less current liabilities			

Non-current liabilities			
Long-term borrowing		323,777,514.17	426,219,050.90
Long-term payables		145,209,090.00	
Estimated liabilities		4,267,805.84	12,780,330.57
Deferred income		6,954,855.00	6,954,855.00
Bonds payable			-
Deferred income tax liabilities		6,033,362.49	6,126,499.96
Other non-current liabilities			
Total non-current liabilities		**486,242,627.50**	452,080,736.43
Total liabilities		**4,484,464,858.39**	4,593,376,970.05
Shareholders' equity			
Share capital		797,848,400.00	797,848,400.00
Capital reserve		863,169,158.42	863,169,158.42
Surplus reserve		187,753,923.88	187,753,923.88
General risk reserve		11,236.91	11,236.91
Undistributed profit		116,113,503.47	98,100,580.11
Other comprehensive income		(2,818,717.81)	(2,792,011.13)
Total equity attributable to shareholders of the Company		**1,962,077,504.87**	1,944,091,288.19
Minority interests		70,668,630.30	70,068,335.13
Total shareholders' equity		**2,032,746,135.17**	2,014,159,623.32

UNAUDITED CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2019

	2019								
	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 January 2019 (audited)	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
II. Change amount during the period			(26,706.68)				18,012,923.36	600,295.17	18,586,511.85
(I) Total comprehensive income			(26,706.68)				18,012,923.36	600,295.17	18,586,511.85
(II) Capital injection from shareholders and capital reduction									
1. ordinary shares by shareholders									
2. injected capital by other interest 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				15,967,596.48					15,967,596.48
2. Used during this period				15,967,596.48					15,967,596.48

(VI) Others									
III. As at 30 June 2019(unaudited)	797,848,400.00	863,169,158.42	(2,818,717.81)	0	187,753,923.88	11,236.91	116,113,503.47	70,668,630.30	2,032,746,135.17

	2018								
	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 January 2018(audited)	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
II. Change amount during period		1,980,200.00	(350,833.29)				32,575,294.80	(11,910,299.76)	22,294,361.75
(I) Total comprehensive income			(350,833.29)				32,575,294.80	(11,910,299.76)	20,314,161.75
(II) Capital injection from shareholders and capital reduction		1,980,200.00							1,980,200.00
1. ordinary shares by shareholders									
2. injected capital by other interest holders									
3. Equity settled share expenses charged to equity									
4. Others		1,980,200.00							1,980,200.00
(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				7,586,725.93				1,095,120.00	8,681,845.93

2. Used during the period				7,586,725.93				1,095,120.00	8,681,845.93
(VI) Others									
III. As at 30 June 2018(unaudited)	797,848,400.00	862,497,658.42	(1,753,581.54)		176,686,903.51	11,236.91	68,509,605.92	49,827,232.91	1,953,627,456.13

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 2019, 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 2019.

Analysis of the Group's operating revenue during the six months ended 30 June 2019 is as follows:

For the six months ended 30 June (unaudited):

	2019	**2018**
Pipe products	**1,736,398,713.52**	1,788,034,148.98
Three kinds of pumping units	**22,554,354.70**	25,393,192.95
Petroleum machinery	**19,718,743.32**	22,258,061.24
Tube blank	**528,281,779.05**	116,372,876.88
Others	**70,491,443.67**	48,023,289.78
Total	**2,377,445,034.26**	2,000,081,569.83

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 tube products, 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 2019 (unaudited)

	Pipe products	Three kinds of pumping units	Petroleum machinery	Tube blank	Other	Unallocated items	Total
Operation Revenue:							
External transaction income	1,736,398,713.52	22,554,354.70	19,718,743.32	528,281,779.05	70,491,443.67		2,377,445,034.26
Income for inter-segment transaction						-	
Total segment operation revenue	1,736,398,713.52	22,554,354.70	19,718,743.32	528,281,779.05	70,491,443.67		2,377,445,034.26
Total operation revenue presented	1,736,398,713.52	22,554,354.70	19,718,743.32	528,281,779.05	70,491,443.67		2,377,445,034.26
Segment costs	1,560,079,606.90	20,614,918.48	16,881,992.95	545,487,643.31	68,045,665.55		2,211,109,827.19
Segment operating profit	176,319,106.62	1,939,436.22	2,836,750.37	(17,205,864.26)	2,445,778.12		166,335,207.07
Adjustment items:							
Administrative expenses						55,293,610.81	55,293,610.81
Research and development expenses						21,016,556.28	21,016,556.28
Finance expenses						79,893,627.95	79,893,627.95
Investment income						1,170,164.41	1,170,164.41
Gain on sale of assets						(229,634.05)	(229,634.05)
Other income						12,204,052.90	12,204,052.90
Operation profit presented	176,319,106.62	1,939,436.22	2,836,750.37	(17,205,864.26)	2,445,778.12	(143,059,211.78)	23,275,995.29
Non-operation income						6,078,613.12	6,078,613.12
Non-operation expenditure						7,328,046.80	7,328,046.80
Total Profit	176,319,106.62	1,939,436.22	2,836,750.37	(17,205,864.26)	2,445,778.12	(144,308,645.46)	22,026,561.61
Income tax						3,410,375.68	3,410,375.68
Net profit	176,319,106.62	1,939,436.22	2,836,750.37	(17,205,864.26)	2,445,778.12	(147,719,021.14)	18,616,185.93
Total segment assets	5,078,705,673.98	100,009,617.03	62,725,218.74	454,391,172.54	236,715,744.82	584,663,566.45	6,517,210,993.56
Total segment liabilities	2,403,528,599.30	18,752,086.65	26,548,232.12	324,759,786.33	42,288,249.20	1,668,587,904.79	4,484,464,858.39

Information from reporting segment - for the six months ended 30 June 2018 (unaudited)

	Pipe products	Three kinds of pumping units	Petroleum machinery	Other	Unallocated items	Total
Operation Revenue:						
External transaction income	1,793,866,689.50	25,393,192.95	22,258,061.24	158,563,626.14		2,000,081,569.83
Income for inter-segment transaction	-	-	-	-	-	-
Total segment operation revenue	1,793,866,689.50	25,393,192.95	22,258,061.24	158,563,626.14		2,000,081,569.83
Total operation revenue presented	1,793,866,689.50	25,393,192.95	22,258,061.24	158,563,626.14		2,000,081,569.83
Segment costs	1,586,676,591.90	24,154,357.49	20,367,220.26	166,221,118.82		1,797,419,288.47
Segment operating profit	207,190,097.60	1,238,835.46	1,890,840.98	(7,657,492.68)		202,662,281.36
Adjustment items:						
Administrative expenses	-	-	-	-	83,584,807.81	83,584,807.81
Finance expenses	-	-	-	-	105,796,355.30	105,796,355.30
Investment income	-	-	-	-	-	-
Operation profit presented					5,977,430.26	5,977,430.26
Non-operation income					1,172,390.42	1,172,390.42
Non-operation expenditure	207,190,097.60	1,238,835.46	1,890,840.98	(7,657,492.68)	(182,231,342.43)	20,430,938.93
Non-operating income	-	-	-	-	2,359,752.08	2,359,752.08
Non-operating expenses	-	-	-	-	232,946.57	232,946.57
Total Profit	207,190,097.60	1,238,835.46	1,890,840.98	(7,657,492.68)	(180,104,536.92)	22,557,744.44
Income tax					1,872,724.25	1,872,724.25
Net profit	207,190,097.60	1,238,835.46	1,890,840.98	(7,657,492.68)	(181,977,261.17)	20,685,020.19
Total segment assets	5,340,035,209.69	98,218,437.14	150,745,938.41	279,659,947.66	451,831,408.00	6,320,490,940.90
Total segment liabilities	2,909,858,940.87	19,747,962.87	45,028,080.71	76,834,863.46	1,315,393,636.86	4,366,863,484.77

(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)

	2019	2018
Domestic external transaction income	**2,101,112,092.50**	1,770,628,086.11
Foreign external transaction income	**276,332,941.76**	229,453,483.72
Total	**2,377,445,034.26**	2,000,081,569.83

5. Finance costs

For the six months ended 30 June (unaudited)

	2019	2018
Interest expenses	**82,551,261.56**	102,480,111.07
Less：Capitalized interest expenses	**-**	-
Less：Interest income	**4,383,386.30**	3,038,609.18
Foreign exchange difference	**(3,211,118.44)**	2,198,589.55

Other	**4,936,871.13**	4,156,263.86
Total	**79,893,627.95**	105,796,355.30

6. Assets impairment losses

For the six months ended 30 June (unaudited)

	2019	2018
Provision of bad debt	**（2,772,854.42）**	（9,818,353.94）
Including: Accounts receivable	**（2,772,854.42）**	（6,687,833.26）
Other accounts receivable		（3,130,520.68）
Provision of allowance for inventory	**-**	-
Including：Raw materials	**-**	-
Entrusted processing materials	**-**	-
Finished product	**-**	-
Work-in-progress	**-**	-
Others	**731,332.89**	25,902.90
Total	**（2,041,521.53）**	（9,792,451.04）

7. Non-operating income

For the six months ended 30 June (unaudited)

	2019	2018
Total income on disposal of non-current assets	**-**	-
Of which: Gain from disposal of fixed assets	**-**	-
Gain from disposal of intangible assets	**-**	-
Government grants	**-**	-
Income from penalty	**-**	-
Others	**6,078,613.12**	2,359,752.08
Total	**6,078,613.12**	2,359,752.08

8. Total profit

For the six months ended 30 June (unaudited)

	2019	2018
Total profit is calculated after charging/(crediting):		
Staff costs (including director’s remuneration)	**137,876,481.15**	128,651,239.18
Amortization of intangible assets	**9,573,771.15**	10,782,794.77
Auditors remuneration (included in administrative expenses)	**1,273,584.87**	1,132,075.44
Recognized cost of inventories	**2,118,045,769.31**	1,681,174,651.71
Depreciation on fixed assets	**103,994,293.41**	110,366,138.38
Research and development expenses (included in administrative expenses)	**17,029,164.68**	20,919,065.04
Loss(gain) from disposal of non-current assets	**229,634.05**	(1,172,390.42)

9. Income tax expenses

For the six months ended 30 June (unaudited)

	2019	2018
Current income tax	**1,390,220.31**	1,872,724.25
— PRC	**-**	-
Deferred tax expenses	**2,020,155.37**	-
Total	**3,410,375.68**	1,872,724.25

The Company is subject to the PRC enterprise income tax at a rate of 15% (2018: 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)

	2019	2018
Calculated based on net profits attributable to the equity holders of the Company:	**18,012,923.36**	32,575,294.80
Basic earnings per share	**0.0226**	0.0408
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:	**18,012,923.36**	32,575,294.80
Basic earnings per share	**0.0226**	0.0408
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 2019 (2018: Nil).

12. Accounts receivables

	As at 30 June 2019 (unaudited)	As at 31 December 2018 (audited)
Accounts receivables	**790,366,817.38**	659,640,026.92
Less: Provision for bad debts	**126,181,295.59**	123,440,086.96
Total	**664,185,521.79**	536,199,939.96

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 2019 (unaudited)	As at 31 December 2018 (audited)
Within 1 year	**638,850,433.49**	507,268,066.12
1 to 2 years	**10,640,061.21**	4,828,632.86

2 to 3 years	**2,500,294.57**	18,659,661.29
Over 3 years	**138,376,028.11**	128,883,666.65
Total	**790,366,817.38**	**659,640,026.92**

13. Accounts payables

The aging analysis of accounts payables is as follows:

	As at 30 June 2019 (unaudited)	As at 31 December 2018 (audited)
Within 1 year	**738,888,472.92**	679,637,387.26
1 to 2 years	**47,005,060.12**	56,642,182.97
2 to 3 years	**25,072,309.12**	37,055,057.30
Over 3 years	**80,380,041.93**	47,828,068.28
Total	**891,345,884.09**	821,162,695.81

14. Capital Commitment

As at 30 June 2019, the capital expenditure commitment of the Group is as follows:

	As at 30 June 2019 (unaudited)	As at 31 December 2018(audited)
Contracted but not recognized in financial statements - Commitment on acquisition and construction of long-term assets	**15,398,500.00**	0

15. Contingent liabilities

During the six months ended 30 June 2019, the Company did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results

During the six months ended 30 June 2019, the Group's unaudited total operation revenue was RMB2,377.45 million, representing an increase of approximately 18.87% as compared with the corresponding period of last year; and the Group has recorded an unaudited total operation profit of RMB23.28 million, representing an increase of approximately 13.93% as compared with the corresponding period of last year. The Group’s unaudited total profit the six months ended 30 June 2019 was RMB22.03 million, representing a decrease of approximately 2.35% as compared with the corresponding period of last year. As a result of factors including increase in raw material prices, fluctuations of product prices and carrying forward losses due to claims and litigations initiated by investors, the unaudited profit attributable to shareholders of the Company was RMB18.01 million, representing a decrease of approximately 44.70% as compared with the corresponding period of last year. The net cash flow from operation activities was RMB273.71 million, representing an increase of approximately 288.33% as compared with the corresponding period of last year.

Business Review

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 70% 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.

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. During the reporting period, the Group has engaged in the development of the domestic market, such as the Yumen Oilfield* (玉門油田), Tuha Oilfield* (吐哈油田), Western Drilling* (西部鑽探), and Zhejiang Oilfield* (浙江油田) etc..

In the overseas market, the Group has continued to consolidate its presence in the developed market and its relationship with the customers, and worked consistently on the promotion of its new products and the enhancement of the sales of petroleum extraction tubes, fluid and structural pipes, oil well machineries, oil well pumps, sucker rods, valve parts and large castings. The Group has developed the Tunis market as a first attempt and shipped a part of the products. During the reporting period, the Group’s revenue from exports accounted for approximately 12% of the Group’s sales income.

As for the development of new products, during the reporting period, the Group successfully developed new products including the ML125V high-performance and high-strength casing for shale gas exploitation and bimetallic corrosion-resistant composite oil casing, and has obtained three utility model patents. The Group is also in the process of one utility model patent application and one invention patent application

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

It is the Group’s view that since 2019, there has been an increased uncertainty as to the external environment of China's economic development. Factors such as Sino-US trade frictions and the tightening of monetary policies in developed countries represent challenges to the stability of China's energy market and the price stability of tubular products. However, with the furtherance of structural reforms on the supply side, China's economic adaptability and risk aversion ability will be further enhanced. Under the condition that policy strength maintains and a stable economic expectation, the development of the energy sector is basically controllable. In the medium and long run, the scale of the oil drilling and mining equipment industry will represent a continuous trend of expansion, leading to positive market prospect.

Looking ahead into the second half of 2019, in accordance with the established business plan, the company will continue to adhere to the sales strategy of "oil casing sales-oriented", expand the reach in new markets, develop new products and strive to improve product quality and brand awareness. Through deepening internal potential tapping and refined management, strictly pursue safety production and environmental protection; strengthen technological innovation and equipment development, deepening the cooperation in production, education and research to continuously improve production capacity and efficiency; actively optimize the employment mechanism, absorbing talents, creating corporate culture that is suitable to the company's development and enhancing the company's cohesiveness; by optimizing the management process, promote the continuous improvement of corporate governance.

Significant Investments

During the six months ended 30 June 2019, the Group did not have any major investment projects.

Acquisition and Disposals during the six months ended 30 June 2019 and Future Investment Plans

During the six months ended 30 June 2019, the Group did not have any relevant acquisitions, disposals or significant investment plans.

Charge on Assets

(1) Pursuant to the financing agreement and the relevant pledge contracts entered into between the Company together with its related subsidiaries and China Great Wall Asset Management Co., Ltd. Shandong Branch (中國長城資產管理股份有限公司山東省分公司) (hereinafter referred to as “Great Wall Asset Management”), the Company’s subsidiaries, Shouguang Baolong and Molong Logistic pledged its own land use rights (certificate number Shou Guo Yong (2007) No. 02704 and Shou Guo Yong (2013) No. 00352 and the structures erected thereon, and the sea area use right (certificate number Guo Hai Zheng No. 2016B37078313748), respectively, to secure the financing facilities granted by Great Wall Asset Management to the Company. As at 30 June 2019, the book value of the above pledged land use rights and sea area use right was RMB84.1896 million and the book value of the structures was RMB20.8461 million. The Company received facilities under the relevant contracts of RMB50.0119 million. Meanwhile, Zhang En Rong, the controlling shareholder of the Company, signed the Joint Liability Guarantee Contract (《連帶責任擔保合同》) with Great Wall Asset Management, to provide joint liability guarantee for the facilities. The due date of the above mortgage and guarantee is 8 October 2020.

(2) Pursuant to the financing agreement and the relevant mortgage contract entered into among the Company, Maolong New Materials (a subsidiary of the Company) and Great Wall Asset Management, the Company pledged its own land use rights (certificate number Shou Guo Yong (2005) No. 1027) and the structures erected thereon to secure the financing facilities granted by Great Wall Asset Management to the Company and its subsidiary, Maolong New Material. As at 30 June 2019, the book value of the above pledged land use rights was RMB9.5568 million and the book value of the structures was RMB36.5335 million. The Company received financing facilities under the relevant contracts of RMB300 million,with return of RMB36.4 million on 30 November 2018 and RMB81.9 million on 31 May 2019, Meanwhile, Zhang En Rong, the controlling shareholder of the Company, entered into the Contract on Pledge of the Listed Shares (《上市公司股票質押合同》) with Great Wall Asset Management, to pledge 85 million shares of the Company held by him to secure the financing agreement. Zhang En Rong, the controlling shareholder of the Company, also signed the Joint Liability Guarantee Contract (《連帶責任擔保合同》) with Great Wall Asset Management, to provide joint liability guarantee for the financing agreement. The due date of the above mortgage, pledge and guarantee is 29 December 2020.

(3) Pursuant to the financing lease contract entered into between the Company and COSCO Shipping Development Co., Ltd., the Company carried out financial leasing business in the form of sale and leaseback, utilizing part of the equipment. As of 30 June 2019, the original value of the equipment was RMB187.0596 million, and the net book value was RMB139.3683 million The financing facilities under the relevant contracts was in the amount of RMB150 million and the term of such contract is until 15 April 2022.

Foreign Exchange Exposure

For the six months ended 30 June 2019, 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.

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 2019, 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.

Audit Committee

The Audit Committee (its members include three independent non-executive directors) held two meetings during the six months ended 30 June 2019 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 2019. 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 2019. The interim results for the six months ended 30 June 2019 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 2019.

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 2019.

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 2019 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*
Chan Wing Nang, Billy
Company Secretary

Shandong, the PRC
22 August 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*