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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 2019

HIGHLIGHTS

For the year ended 31 December 2019, the total operating revenue of the Group in the consolidated financial statements ament6eo

to -RMB196,309,267.90, representing a decrease of approximately 312.28% as compared to that of RMB92,476,375.01 in last year.

Earnings per share in the consolidated financial statements amounted to -RMB0.246, representing a decrease of approximately 312.25 % as compared to the earnings per share of RMB0.1159 in last year.

The Board does not recommend the payment of final dividend for the year ended 31 December 2019.

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 2019.

The financial information set out in this announcement below does not constitute the Group's statutory financial statements for the year ended 31 December 2019, 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 2019

	Note	**2019**	2018
Total operating revenue	*4*	4,388,904,215.91	4,452,014,810.12
Including: Operating revenue		4,388,904,215.91	4,452,014,810.12
Total operating costs		4,547,980,146.59	4,368,803,923.82
Including: Operating costs		4,034,622,745.27	3,760,482,732.11
Business tax and surcharges		25,254,426.66	39,442,851.14
Selling expenses		84,340,449.53	113,969,714.60
Administrative expenses		193,606,016.95	178,822,233.92
Research and development expenses		63,830,329.90	71,979,056.24
Finance costs	*6*	146,326,178.28	204,107,335.81
Including: Interest expenses		159,146,751.07	203,251,721.32
Interest income		8,791,007.22	7,381,164.96
Add : Other gains	*7*	14,032,294.31	29,456,919.93
Investment income		3,384,366.15	1,370,779.21
Including: Gains on investment in associates and joint ventures		(106,457.89)	24,197.42
Gain on fair value changes			
Credit impairment losses	*8*	(17,003,268.54)	(37,813,973.27)
Asset impairment losses	*9*	(37,538,995.67)	(10,603,105.42)
Gain on disposal of assets		7,152,864.22	3,501,489.47
Operating (loss)/profit		(189,048,670.21)	69,122,996.22
Add : Non-operating income	*10*	9,730,641.34	6,366,554.82
Less : Non-operating expenses		35,909,103.13	14,327,049.92
Including: Loss from disposal of non-current assets			
Total (loss)/profit	*11*	(215,227,132.00)	61,162,501.12
Less : Income tax (credit)/ expenses	*12*	9,680,705.56	(41,243,965.51)
Net (loss)/profit		(224,907,837.56)	102,406,466.63
Net (loss)/profit attributable to shareholders of the Company		(196,309,267.90)	92,476,375.01
Loss attributable to minority interests		(28,598,569.66)	9,930,091.62
(Loss)/earnings per share	*13*		
Basic (loss)/earnings per share		(0.246)	0.1159
Diluted (loss)/earnings per share		(0.246)	0.1159
Other comprehensive (loss)/income		(292,277.16)	(1,467,938.03)9

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Note	**31 December 2019**	31 December 2018
Current assets			
Monetary funds		539,942,128.18	892,452,274.76
Bills receivable	*15*	257,635,279.11	271,735,086.30
Accounts receivable	*16*	507,559,024.95	536,199,939.96
Financing receivables		96,155,523.75	111,166,610.00
Loans and advances		17,046,915.97	38,561,702.67
Prepayments		41,184,464.45	30,978,235.20
Other receivables		29,289,226.01	47,697,703.66
Including: Interests receivable		2,308,030.91	2,710,659.25
Inventories		934,907,320.58	1,042,761,257.01
Assets classified as held for sale			
Other current assets		35,206,341.97	144,802,505.41
Total current assets		2,458,926,224.97	3,116,355,314.97
Non-current assets			
Investments in other equity instruments			
Long-term equity investments		2,557,061.01	2,663,518.90
Fixed assets		2,726,157,716.13	2,915,815,731.99
Construction-in-progress		55,034,853.27	35,871,296.86
Intangible assets		443,223,548.01	452,046,844.13
Goodwill			23,683,383.21
Development expenditure			
Long-term deferred expenses			
Deferred income tax assets		40,231,904.91	47,256,488.04
Other non-current assets		9,621,036.29	13,844,015.27
Total non-current assets		3,276,826,119.62	3,491,181,278.40
Total assets		5,735,752,344.59	6,607,536,593.37
Current liabilities			
Short-term borrowings		1,929,510,883.39	2,390,918,560.77
Bills payable	*17*	281,588,603.88	278,902,047.79
Accounts payable	*18*	924,020,613.80	821,162,695.81
Receipts in advance			
Contract liabilities		32,463,654.22	57,364,400.72
Salaries payable		57,276,942.10	57,100,793.80
Taxes payable		13,393,461.51	81,227,045.72
Other payables		61,423,531.25	51,344,753.68
Including: Interests payable		6,389,751.57	8,691,627.11
Dividends payable			
Non-current liabilities due within one year		482,636,906.78	308,994,908.08
Other current liabilities		87,557,572.20	94,281,027.25
Total current liabilities		3,869,872,169.13	4,141,296,233.62

Non-current liabilities			
Long-term borrowings			426,219,050.90
Bonds payable			
Long-term payables		58,045,884.69	
Estimated liabilities	*20*	5,734,176.25	12,780,330.57
Deferred revenue		7,386,306.54	6,954,855.00
Deferred income tax		5,754,299.38	6,126,499.96
Other non-current liabilities			
Total non-current liabilities		76,920,666.86	452,080,736.43
Total liabilities		3,946,792,835.99	4,593,376,970.05

CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2019

Item	2019								
	Equity attributable to shareholders of the parent							Minority interests	Total owners' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits		
I. Balance at the end of the previous year	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
Add: Changes of accounting policy									
II. Opening Balance	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
III. Changes in the current year			(263,049.44)				(196,309,267.90)	(28,627,797.38)	(225,200,114.72)
(i) Total comprehensive income			(263,049.44)				(196,309,267.90)	(28,627,797.38)	(225,200,114.72)
(ii) Shareholder' capital injection and capital reduction									
1. Ordinary shares contributed by shareholders									
2. Capital contributed by holders of other equity instruments									
3. Amounts of share-based payments recognised in shareholders' equity									
4. Others									
(iii) Profit distribution									
1. Appropriations of surplus reserve									
2. Appropriations of general risk provision									
3. Distribution to the owners									
4. Others									
(iv) Transfer of owners' equity									
1. Transfer of capital reserve to share capital									
2. Transfer of surplus reserve to share capital									
3. Surplus reserve offsetting against losses									
4. Others									
(v) Special reserve									
1. Appropriations during the year				19,329,466.94					19,329,466.94
2. Utilisations during the year				19,329,466.94					19,329,466.94
(vi) Others									
IV. Balance at the end of the current year	797,848,400.00	863,169,158.42	(3,055,060.57)		187,753,923.88	11,236.91	(98,208,687.79)	41,440,537.75	1,788,959,508.60

Item	2018								
	Equity attributable to shareholders of the parent							Minority interests	Total owners' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed 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 Changes 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 income			(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. Ordinary shares contributed by shareholders									
2. Capital contributed by holders of other equity instruments									
3. Amounts of share-based payments recognised in shareholders' equity									
4. Others		2,651,700.00							2,651,700.00
(iii) Profit distribution					11,067,020.37		(11,067,020.37)		
1. Appropriations of surplus reserve					11,067,020.37		(11,067,020.37)		
2. Appropriations of general risk provision									
3. Distribution to the owners									
4. Others									
(iv) Transfer of owners' equity									
1. Transfer of capital reserve to share capital									
2. Transfer of surplus reserve to share capital									
3. Surplus reserve offsetting against losses									
4. Others									
(v) Special reserve									
1. Appropriations during the year				20,348,646.62					20,348,646.62
2. Utilisations during the year				20,348,646.62					20,348,646.62
(vi) Others									
IV. Balance at the end of the current year	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

NOTES TO THE 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, 11th Floor Ho Lee Commercial Building, 38 – 44 D'Aguilar Street, Central, Hong Kong.

The consolidated financial statements are presented in renminbi ("**RMB**"), which is also the functional currency of the Company.

During the year, the Group was mainly engaged in research and development, production and sales of products for the energy equipment industry. The main products included 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 were mainly used in petroleum, natural gas, coalbed methane, shale gas and other energy drilling, machinery processing, urban pipe network, etc.

2 BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

These 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 (the "**Ministry of Finance**")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 (the "**Listing Rules**") 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

Description of and reasons for the change of accounting policy	Approval procedure	Remark
Pursuant to the Circular on Revising and Issuing of ASBE 21 Leases (Cai Kuai [2018] No. 35) (the "**New Leasing Standard**")issued by the Ministry of Finance on 7 December 2018, enterprises listed domestically and overseas and enterprises listed overseas and applying the International Financial Reporting Standards (IFRSs) or ASBE to prepare financial statements are required to apply the new standard for leasing from 1 January 2019.	The change in the relevant accounting policy has been approved at the 4th meeting of the 6th Board.	Note 1
Pursuant to the Circular on Revising and Issuing the Format of General Corporate Financial Statements for the Year of 2019 (Cai Kuai [2019] No. 6) and the Circular on Revising and Issuing the Format of Consolidated Financial Statements (2019 edition) (Cai Kuai [2019] No. 16), (the "Revising Circular") issued by the Ministry of Finance on 30 April 2019 and 19 September 2019 respectively, companies applying ASBE are required to prepare financial statements in the new format.	The change in the relevant accounting policy has been approved at the 4th meeting of the 6th Board.	Note 2

Note 1: The application of the New Leasing Standard did not have any impact on the financial statements of the Group.

Note 2: The Group has prepared the financial statements for the year ended 31 December 2019 according to the above circular on new format of financial statements, and has make the corresponding adjustments to the comparative financial statements. The impacts are detailed as follows:

1. Consolidated financial statements

Original statement format		New statement format	
Statement item	Amount	Statement item	Amount
Bills and accounts receivable	919,101,636.26	Bills receivable	271,735,086.30
		Accounts receivable	536,199,939.96
		Financing receivables	111,166,610.00
Bills and accounts payable	1,100,064,743.60	Bills payable	278,902,047.79
		Accounts payable	821,162,695.81

2. Consolidated income statement

Original statement format		New statement format	
Statement item	Amount	Statement item	Amount
Asset impairment losses	10,603,105.42	Asset impairment losses	(10,603,105.42)
Credit impairment losses	37,813,973.27	Credit impairment losses	(37,813,973.27)

4. OPERATING REVENUE

Total operating revenue consists of operating revenue and revenue from other operations. Operating revenue solely represents the net amount received and receivable for goods sold and services rendered to external by the Group during the year, excluding any trade discounts.

The following is an analysis of the Group's operating revenue for 2019:

Item	**2019**	2018
Casings	3,456,742,513.39	3,919,305,934.10
Three kinds of pumping units	43,755,412.12	46,384,863.25
Petroleum machinery parts	34,536,314.66	58,383,638.50
Tube blanks	699,060,843.61	295,857,663.73
Others	80,673,011.23	29,766,159.83
Total	4,314,768,095.01	4,348,992,106.97

5. SEGMENT INFORMATION

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

(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 — 2019

Item	Casings	Three kinds of pumping units	Petroleum machinery parts	Tube blanks	Others	Unallocated	Elimination	Total
Operating revenue								
External transaction revenue	3,456,742,513.39	43,755,412.12	34,536,314.66	699,060,843.61	154,809,132.13			4,388,904,215.91

Segment reporting information — 2018

Item	Casings	Three kinds of pumping units	Petroleum machinery parts	Tube blanks	Others	Unallocated	Elimination	Total
Operating revenue								
External transaction revenue	3,919,305,934.10	46,384,863.25	58,383,638.50	295,857,663.73	2,082,710.54			4,452,014,810.12
Inter-segment revenue								
Total segment operating revenue	3,919,305,934.10	46,384,863.25	58,383,638.50	295,857,663.73	2,082,710.54			4,452,014,810.12
Total operating revenue in financial statements	3,919,305,934.10	46,384,863.25	58,383,638.50	295,857,663.73	2,082,710.54			4,452,014,810.12
Segment expenses	3,434,776,867.65	43,787,516.26	53,515,581.62	299,973,278.09	0,259,132.92			3,962,312,376.54
Segment operating (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
Adjusted for:								
Administrative expenses						178,822,233.92		178,822,233.92
Research and development expenses								

7. OTHER INCOME

Source of other income	Amount for the period	Amount for the last period
Incentives and subsidies for energy conservation and emission reduction		
Subsidies and grants for recycling resource enterprises	11,703,891.00	28,730,384.37
Stability subsidies and social insurance subsidies	563,748.95	722,535.56
Bonuses for technology upgrade and energy conversion	1,108,200.00	
Grants for defense basement construction	287,634.36	
Special funds for external trade development	123,700.00	
Others	245,120.00	4,000.00
Total	14,032,294.31	29,456,919.93

8. ASSETS IMPAIRMENT LOSSES

Item	**2019**	2018
Loss on bad debts		
Including: Accounts receivable		
Other receivables		
Provision of allowance for inventory	(13,855,612.46)	(7,603,105.42)
Including: Raw materials		
Finished goods		
Work-in-progress		
Sub-contracting materials		
Impairment loss on intangible assets		
Impairment loss of fixed assets		
Provisions for loans		
Impairment loss on goodwill	(23,683,383.21)	(3,000,000.00)
Total	(37,538,995.67)	(10,603,105.42)

9. CREDIT IMPAIRMENT LOSSES

Item	Amount for the period	Amount for the last period
Loss on bad debts of bills receivable	(2,602,376.56)	0
Loss on bad debts of accounts receivable	(4,768,618.30)	(20,395,907.37)
Loss on bad debts of other receivables	(2,376,261.95)	(16,199,472.78)
Impairment loss on loans	(7,256,011.73)	(1,218,593.12)
Total	(17,003,268.54)	(37,813,973.27)

10. NON-OPERATING INCOME

Item	**2019**	2018
Government grants		
Penalty income		
Others	9,730,641.34	6,366,554.82
Total	9,730,641.34	6,366,554.82

11. TOTAL (LOSS)/PROFIT

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

Item	**2019**	2018
Staff costs (including directors' remuneration)	274,971,298.57	256,801,255.25
Amortisation of intangible assets	19,122,913.33	31,644,301.63
Auditor's remuneration (included in administrative expenses)	1,273,584.87	1,132,075.44
Cost of inventories recognised as expenses	4,034,622,745.27	3,760,482,732.11
Depreciation on fixed assets	233,184,214.62	238,867,452.39
Research and development expenses	56,348,398.99	71,979,056.24
Gain on disposal of fixed assets	7,152,864.22	3,501,489.47

12. INCOME TAX (CREDIT) EXPENSES

Item	**2019**	2018
Current income tax expenses	3,028,323.01	2,820,105.97
—Hong Kong		
—Mainland China	3,028,323.01	2,820,105.97
Deferred income tax expenses	6,652,382.55	(44,064,071.48)
Total	9,680,705.56	(41,243,965.51)

The Company has been listed as a new high-technology enterprise and was subject to the PRC enterprise income tax at a rate of 15% (2018: 15%) pursuant to the Enterprise Income Tax Law of the PRC.

The subsidiary of the Company incorporated in Hong Kong was subject to the profits tax at the rate of 16.5% (2018:16.5%) in Hong Kong.

13. (LOSSES)/EARNINGS PER SHARE

Item	**2019**	2018
Net (loss)/profit attributable to shareholders of the Company is calculated based on:		
Basic (losses)/earnings per share	**(0.246)**	0.1159
Diluted (losses)/earnings per share	**(0.246)**	0.1159
Net (loss)/profit from continuing operations attributable to shareholders of the Company is calculated based on:		
Basic (losses)/earnings per share	**(0.246)**	0.1159
Diluted (losses)/earnings per share	**(0.246)**	0.1159

14. DIVIDENDS

Item	**2019**	2018
Dividends recognised and distributed during the year	**0**	0
2019 final dividend — RMB0.00 per ordinary share (2018: RMB0.00)		

The Board does not recommend any payment of final dividend in respect of the year ended 31 December 2019. It has been proposed by the Board but shall be subject to approval from shareholders at the general meeting.

15 BILLS RECEIVABLE

Item	2019			2018		
	Balance of receivables	**Provision for bad debt**	**Net amount of receivables**	Balance of receivables	Provision for bad debt	Net amount of receivables
Bills receivable	260,237,655.67	2,602,376.56	257,635,279.11	271,735,086.30		271,735,086.30
Total	260,237,655.67	2,602,376.56	257,635,279.11	271,735,086.30		271,735,086.30

The above bills receivable of the Group as at the end of the year were all aged within 1 year.

16. ACCOUNTS RECEIVABLE

Item	2019			2018		
	Balance of receivables	**Provision for bad debt**	**Net amount of receivables**	Balance of receivables	Provision for bad debt	Net amount of receivables
Accounts receivable	635,558,340.28	127,999,315.33	507,559,024.95	659,640,026.92	123,440,086.96	536,199,939.96
Total	635,558,340.28	127,999,315.33	507,559,024.95	659,640,026.92	123,440,086.96	536,199,939.96

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.

The following is an aging analysis of accounts receivable:

Age	**2019**	2018
Within 1 year	490,103,181.90	507,268,066.12
1 to 2 years	168,705.00	4,828,632.86
2 to 3 years	2,867,987.41	18,659,661.29
3 to 4 years	18,568,664.26	47,600,375.20
4 to 5 years	38,616,655.37	60,349,065.32
Over 5 years	85,233,146.34	20,934,226.13
Total	635,558,340.28	**659,640,026.92**

17 BILLS PAYABLE

Category	2019	2018
Bills payable	281,588,603.88	278,902,047.79
Total	281,588,603.88	278,902,047.79

The above bills payable of the Group as at the end of the year were all aged within 1 year.

18. ACCOUNTS PAYABLE

Category	2019	2018
Accounts payable	924,020,613.80	821,162,695.81
Total	924,020,613.80	821,162,695.81

The following is an aging analysis of accounts payables:

Age	2019	2018
Within 1 year	767,967,072.44	679,637,387.26
1 to 2 years	57,797,898.87	56,642,182.97
2 to 3 years	33,184,637.97	37,055,057.30
Over 3 years	65,071,004.52	47,828,068.28
Total	924,020,613.80	821,162,695.81

19. CAPITAL COMMITMENTS

As at 31 December 2019, the Group did not have any capital commitments as at the end of the year:

20. CONTINGENT LIABILITIES

As at the date of these financial statements, the cases against the Company by investors regarding false statements about securities have been entertained by the intermediate people's court of Jinan, and the aggregate sum involved was RMB88,414,796.64. Currently, the total amount involved in cases that have been judged or closed through mediation was RMB81,668,706.93, with settlement amount of RMB40,925,558.22. For closed cases, the Company is performing its obligations according to the judgment results. For those cases that have been heard but pending for judgment and those cases that have not been heard, an estimated liabilities of RMB5,734,176.25 were provided at a rate of 85% with reference to the cases already closed. The total amount of estimated liabilities provided for this issue by the Company was RMB46,659,734.47.

ANNUAL RESULTS

For the year ended 31 December 2019, the Company recorded a revenue of RMB4,388,904,215.91, representing a decrease of approximately 1.42% as compared with the last year. Net profit attributable to equity owners of the Company and earnings per share amounted to -RMB196,309,267.90 and -RMB0.246, respectively.

BUSINESS REVIEW

(I) Descriptions of the Group's main businesses 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 included 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 were mainly used in petroleum, natural gas, coalbed methane, shale gas and other energy drilling, machinery processing, urban pipe network, etc. During the reporting period, sales of pipe products accounted for over 75% of the Company's revenue, which was the main source of the revenue and profit of the Company. During the reporting period, there was no material change in the composition of Company's main businesses.

The Company's main products, especially pipe products, were divided into API standard products and non-API standard products. The Company adopted a ''sales-based production'' business model for production, i.e. the production system of the Company will produce, inspect and deliver the products according to the order placed by customer specifying the required specification and quantity. The Company adopted a centralised procurement model under which all raw materials, moulds and equipment were centrally purchased by the procurement department and it was also responsible for the signing of procurement contracts, procurement status follow-up, facilitating quality improvement of raw material. The procurement department strictly controlled the selection of suppliers based on the comprehensive overall evaluation index system, fostered quality partners and developed long-term and stable strategic partnership. The Company had a relatively mature sales network and has established dedicated sales companies and import & export companies, responsible for domestic and international market research, research and development, product sales and post-sales services, respectively.

(II) Development stage and cyclical characteristics of the industry the Company operates and the position of the Company in the industry during the reporting period

Products of the Company were mainly used in the exploitation of energy sources such as oil and natural gas, and were within the scope of energy equipment manufacturing industry. The development and prosperity of the industry of exploitation of energy sources such as oil and natural gas were directly related to the development status of the industry the Company operates in. Demand for energy consumption, changes in economic cycle, and fluctuations in raw material prices were the main factors affecting the prosperity of the industry the Company operates in.

According to the World Energy Outlook (2018 edition), in the long run, demand for oil and gas would be on the rise. In China, due to the increasing reliance on imported crude oil and natural gas as well as the prominent energy safety issues, there were urgent needs for importation instead of increasing the self -development rate. In recent years, the government has rolled out various policies to encourage exploration and development of oil and gas resources. In May 2019, the National Energy Administration organised and convened a meeting about vigorously increase the exploration and development of oil and gas. At the meeting, it was proposed that in order to vigorously increase oil and gas exploration and development in 2019 and onwards, oil companies should fulfil their responsibilities of increasing reserves and production, and to complete the tasks under the ''Seven-Year Action Plan'' for 2019–2025 without compromise to. Under the guidance of the policy, the three largest oil companies formulated its ''Seven-Year Action Plan'' in 2019 to increase inputs to the exploration and development of oil and gas. With the acceleration of oil and gas production and the increasing oil and gas capital expenditures, the domestic oil service industry was expected to become more prosperous.

(III) Discussion and analysis of operation of the Company during the reporting period

In 2019, China's economy remained stable in general but was facing increasing downward pressure due to the US-Mainland trade friction and the stagnant global economy. Demand for energy consumption, changes in economic cycle and fluctuations in raw material prices were the main factors affecting the prosperity of the energy equipment manufacturing industry. China's economy was still in the critical period of energy conversion. As the supply-side structural reform in China deepens, the government strengthened the counter-cyclical adjustment to macroeconomic policies, implemented aggressive fiscal policies and prudent monetary policies to ease the economic downturn and revitalise the economic growth momentum. Therefore, the economy will change from a high-speed growth stage to a high-quality development stage.

During the reporting period, During the reporting period, the Company faced a tough development landscape domestically and internationally. In 2019, the prices of major raw materials increased significantly, which led to a substantial increase in production costs. Besides, certain products of the Company suffered from a decline in prices, which narrowed down the profit margins. Shouguang Maolong, a wholly owned subsidiary, suspended production for overhaul and maintenance, and carried out technology upgrade of some equipment, and thus incurred a significantly higher overhaul expenses. It also limited the supply of raw materials required for production by downstream subsidiaries, resulting in an increase in production costs. Owning to the litigation instigated by investors, a provision of RMB29,170,000 was made for the year in respect of the loss from investors' claims. The Company also made a provision for impairment loss on assets of RMB54,994,800 in respect of the possible asset impairment loss in 2019.

In the face of dynamic economic environment and industry landscape, in 2019, management of the Company upheld the general principle of making steady progress. With a focus on strengthening quality control, the Company aggressively explored domestic and international markets, increased investment in research and development of technology, progressively optimised and adjusted its product structure and industry chain, and enhanced its incentive mechanism and internal management standard, and strengthened risk management and control, to ensure the steady and healthy development of the Company. In 2019, the Company produced 880,300 tons of pipe products, representing an increase of 9.74% compared to last year. The Company sold 874,900 tons of pipe products, representing an increase of 12.82% compared to last year.

During the reporting period, the Company achieved an operating revenue of RMB4,388,904,215.91, representing a decrease of 1.42% year-on-year. Operating profit was -RMB189,048,670.21, representing a decrease of 373.50% year-on-year. Total profit was -RMB215,227,132.00, representing a decrease of 451.89%. Net profit attributable to shareholders of the Company was -RMB196,309,267.90, representing a decrease of 312.28%. As at the end of the reporting period, the Company had total assets of RMB5,735,752,344.59, representing a decrease of 13.19% from the beginning of the period. Owners' equity attributable to shareholders of the Company was RMB1,747,518,970.85, representing a decrease of 10.11%. Net assets per share attributable to shareholders of the Company was RMB2.19, representing a decrease of 10.13%.

PROSPECTS

(I) Development trend of the industry and strategic plans for future development of the Company:
In 2019, the US-Mainland trade friction and the stagnant global economy heightened the uncertainties in the external environment for development. China's economy faced increasing downward pressure, which gave rise to the challenges to the stability of energy market and prices of energy sources in China. Demand for energy consumption, changes in economic cycle and fluctuations in raw material prices are the main factors affecting the prosperity of the energy equipment manufacturing industry. China's economy is still in the critical period of energy conversion. As the supply-side structural reform in China deepens, the government will strengthen the counter-cyclical adjustment to macroeconomic policies, implement aggressive fiscal policies and prudent monetary policies to ease the economic downturn and revitalise the economic growth momentum. Under the situation where firm policies are maintained and economic stability is expected, the development trend of energy sector is basically controllable.

According to the World Energy Outlook published by the International Energy Agency (IEA), up to 2040, oil and natural gas will continue to take up a significant share of the global energy demand and the demand for oil and gas will continue to grow in the long run. In China, due to the increasing reliance on imported crude oil and natural gas as well as the prominent energy safety issues, there are urgent needs for importation instead of increasing the self -development rate. In recent years, the government has rolled out various policies to encourage exploration and development of oil and gas resources. In May 2019, the National Energy Administration organised and convened a meeting about vigorously increase the exploration and development of oil and gas. At the meeting, it was proposed that in order to vigorously increase oil and gas exploration and development in 2019 and onwards, oil companies should fulfil their responsibilities of increasing reserves and production, and to complete the tasks under the "Seven-Year Action Plan" for 2019– 2025 without compromise to. Under the guidance of the policy, the three largest oil companies formulated its ''Seven-Year Action Plan'' in 2019 to increase inputs to the exploration and development of oil and gas. In the medium to long run, with the acceleration of oil and gas production and the increasing oil and gas capital expenditures, the scale of energy equipment industry will demonstrate an expanding trend in general, and the industry is expected to become more prosperous.

Energy industry is a pillar industry to China's economy. In the 13th Five-Year Plan, the Chinese government clearly stressed on expanding rooms for industry development, supporting the development of high-end equipment industry and new energy industry, and supporting the transformation and upgrade of traditional industries. The Company persists on a customer-centered and market-oriented approach. With a key focus on developing and selling high-end, precision and advanced new products, the Company will capitalize on its industry strengths to strengthen the research and development of technology and service capability, form an economical, efficient, state-of-the-art and eco-friendly industry chain and develop a circular economy, with an aim at becoming an internationally renowned energy equipment manufacturer and service provider, so as to achieve steady and sustainable development of the Company.

(II) Business plans of the Company for 2020:

1. Brand management

The Company will take market demand as the guidance to improve product quality, develop a system for developing and cultivating high value-added products such as non-API standard, high-end casting products, establish brand image for new products in the course of the Company's strategic transformation, increase the market share of its new products, and enhance brand value of the Company.

2. Research and development of technology

The Company will standardise the process for research and development of new products, fully perform market research and docking, improve the efficiency of research and development of new products and get prepared for marketing initiatives in order to achieve seamless connection among research and development, trial production, and marketing. The Company will also strengthen collaboration with scientific research institutes and tertiary schools. With the focus on the technology of the Company, led by the furnace rehabilitation business unit and leveraging on the technological advantages of tertiary schools and scientific research institutes and the advanced equipment of Shouguang Maolong, the Company will endeavor to promptly implement process testing, development and design, so as to lay a solid foundation for the application of new products and new technology in the future.

3. Quality control

The Company will further improve the quality control system and the inspection mechanism, strengthen the process quality control at early stages of production, strengthen the quality control and assessment of the upper and lower stages. With goals of meeting customers' needs and minimising its loss, the Company will raise the quality awareness of managers at all levels, so as to truly achieve full engagement and full supervision. The Company will make full use of quality inspection and testing equipment and internal and external professionals to enhance the standard of quality control, safeguard the quality of products, emphasising on the quality control in the course of research and development of new products, and promptly formulate process and standards for product inspection, to ensure the quality risks are controlled at source.

4. Safety production

In the production system, the Company will implement strict safety environmental protection and production management, continually improve the safety production management system, strengthen basic management and further define job responsibilities. The Company will focus on efficiency management, optimise product structure, produce high value-added products. Moreover, the Company will further enhance the business skills of staff and provide training for mastering production operation, cost accounting, product quality and other knowledges. The Company will continue to offer training and learning sessions regarding safety for all staff member in order to enhance their awareness and ability in safety precaution. The Group will strengthen the operation and management of eco-friendly facilities, and strictly perform investigation, rectification and assessment of hidden dangers.

5. Market sales

Adhering to the "profit-centered, market supervision-guided" sales philosophy, the Company will capitalise on the sales network of its sales companies, perform market research and collect real-time information on market demand, and leverage on its strengthen in technology, production and sales, to speed up the research and development and promotion of high-end, precision and advanced products, increase the order volume and production capacity of high value-added products, procure the prompt formation of diversified product structure, so as to develop competitive products, expand the market share and popularity of its products and enhance the core competitiveness of the Group.

6. Financial management

The Company will further strengthen its financing management by broadening financing channels and reducing financial expenses, to ensure the safety of it funds. The Company will continue to strengthen the training of the business knowledge of financial staff and improve their professional skills. The Company will refine the cost accounting and profit accounting system of workshops, make full use of the ERP system, determine cost control benchmarks, to strengthen the control of cost and income and expenditures between subsidiaries. The Company will also strengthen the accounting and supervision practices, and fortify the financial analysis functions, in order to provide accurate basis for the decision-making of its management.

7. Human resources

Adhering to the “going out and recruiting in” concept, the Company will put its focus on strengthened cultivation or recruitment of professional, technical, and highly educated talents, to establish junior talent reserve and echelon construction. The Company will further increase employees’ satisfaction and offer them with better benefit packages, cultivation and retention. The Company will establish a sound remuneration and labor security system, employ and educate staff in a scientific manner, and shoulder social responsibility. The Company will continuously improve its sales services and management team, make good manpower deployment according to the needs of sales business in a timely manner. The Company will also enhance the knowledge and skills of sales personnel by such ways as business training and management training.

(III) Major risk factors for future development strategy and business goals of the Company:

(1) Market risk

The Company operates in energy equipment and service industry which is directly relevant to the development and prosperity of the energy industry. The fluctuations of crude oil price are affected by global economic growth rate, regional, political, financial, supply and demand and many other factors, and have strong cyclicality and volatility. At the time when oil prices are low, oil and gas companies will accordingly reduce capital expenditures, make less exploration and development investment and have lower demand for equipment and services in the oil and gas industry. The Company will adjust product structure and market setting in a timely manner according to market changes.

(2) Raw material price fluctuation risk

Any fluctuations in raw material prices will directly affect the manufacturing costs of products and will, in turn, have direct impact on product prices. The Company will closely mon

AUDIT COMMITTEE

The Company's audit committee (its members consist of three independent non-executive directors of the Company) held four meetings in 2019 to discuss matters regarding the accounting standards and practices adopted by the Group, internal control and risk management and financial reporting, and they have reviewed the audited results for the year ended 31 December 2019.

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 requiring the directors of the Company to follow the Model Code while conducting securities transactions. It is also applicable to the Company's senior management. Having made specific enquiries by the Company, all Directors confirmed that they have fully complied with the Model Code throughout the year of 2019.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2019.

CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The 2019 annual general meeting of the Company is expected to be held on 19 June 2020. A notice convening the annual general meeting will be published and despatched to shareholders of the Company in due course.

The register of members of H shares of the Company ("H Shares") will be closed from 21 May 2020 to 19 June 2020 (both days inclusive) during which period no transfer of the H Shares will be effected. In order to qualify for attend and vote at the annual general meeting, all completed transfers accompanied by the relevant share certificates must be lodged with the H Shares registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on 20 May 2020.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.molonggroup.com). The annual report for the year ended 31 December 2019 will be dispatched to shareholders as soon as possible and will be available on the website of the Company 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
27 March 2020

As at the date of this announcement, the Board of the Company 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*