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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 2020

HIGHLIGHTS

- For the six months ended 30 June 2020, revenue of the Group amounted to RMB1,346.3777 million, representing a decrease of approximately 43.37% as compared to the corresponding period of last year.
- Net profit attributable to equity owners of the Company amounted to -RMB109.3255 million, representing a decrease of approximately 706.93% as compared to the corresponding period of last year.
- Earnings per share was approximately -RMB0.137, representing a decrease of approximately 706.19% as compared to the corresponding period of last year.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020.

The board of directors (the "**Board**") of Shandong Molong Petroleum Machinery Company Limited (the "**Company**") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2020.

The information contained in this announcement does not constitute the statutory financial statements of the Group for the six months ended 30 June 2020 but the financial information is extracted therefrom. The interim results for the six months ended 30 June 2020 have been prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China (the "**PRC ASBEs**") and the relevant requirements. They have not been audited by any accounting firm but have been reviewed by the audit committee of the Company (the "**Audit Committee**").

Unless otherwise specified, the financial information of the Company is stated in Renminbi ("**RMB**").

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

		For the six months ended 30 June	
	Notes	**2020 (Unaudited)**	2019 (Unaudited)
Total operating revenue	*3 and 4*	**1,346,377,691.82**	2,377,445,034.26
Total operating costs		**1,452,590,013.40**	2,365,272,100.70
Operating costs		**1,244,256,538.68**	2,156,658,882.03
Business tax and surcharges		**10,232,230.64**	12,424,623.05
Selling expenses		**27,322,539.42**	39,984,800.58
Administrative expenses		**86,163,288.05**	55,293,610.81
Research and development expenses		**11,480,131.03**	21,016,556.28
Finance costs	*5*	**73,135,285.58**	79,893,627.95
Including: Interest expenses		**74,244,592.48**	82,551,261.56
Interest income		**2,700,511.98**	4,383,386.30
Add: Credit impairment losses	*6*	**(8,118,063.86)**	(2,041,521.53)
Asset impairment losses		**(6,431,967.73)**	
Gains on changes in fair value			
Investment income		**0.00**	1,170,164.41
Including: Gain on investment in associates and joint ventures			
Gains on disposal of assets		**(20,157.66)**	(229,634.05)
Other income		**601,950.96**	12,204,052.90
Operating profit		**(120,180,559.87)**	23,275,995.29
Add: Non-operating income	*7*	**1,086,698.16**	6,078,613.12
Less: Non-operating expenses		**3,444,396.64**	7,328,046.80
Total profit	*8*	**(122,538,258.35)**	22,026,561.61
Less: Income tax expenses	*9*	**1,300,015.86**	3,410,375.68
Net profit		**(123,838,274.21)**	18,616,185.93
Other comprehensive income		**(264,115.52)**	(29,674.09)
Total comprehensive income		**(124,102,389.73)**	18,586,511.84
Net profit attributable to			
Shareholders of the Company		**(109,325,493.01)**	18,012,923.36
Minority interests		**(14,512,781.20)**	603,262.57
Total comprehensive income attributable to			
Shareholders of the Company		**(109,563,196.99)**	17,986,216.68
Minority interests		**(14,539,192.74)**	600,295.16
Earnings per share	*10*		
(I) Basic earnings per share		**(0.137)**	0.0226
(II) Diluted earnings per share		**N/A**	N/A
Dividends	*11*	**N/A**	N/A

UNAUDITED CONSOLIDATED BALANCE SHEET

As at 30 June 2020

	Note	**As at 30 June 2020**	As at 31 December 2019
		(Unaudited)	(Audited)
Current assets			
Monetary funds		**707,917,691.75**	539,942,128.18
Bills receivable		**130,423,298.54**	257,635,279.11
Accounts receivable	*12*	**424,787,776.04**	507,559,024.95
Loans and advances		**10,142,715.97**	17,046,915.97
Financing receivables		**11,945,280.78**	96,155,523.75
Prepayments		**81,939,698.15**	41,184,464.45
Other receivables		**23,902,695.95**	29,289,226.01
Including: Interests receivable			2,308,030.91
Dividends receivable			
Inventories		**861,023,594.51**	934,907,320.58
Assets classified as held for sale			
Other current assets		**22,026,619.60**	35,206,341.97
Total current assets		**2,274,109,371.29**	2,458,926,224.97
Non-current assets			
Available-for-sale financial assets			
Long-term equity investments		**2,557,061.01**	2,557,061.01
Fixed assets		**2,625,785,466.34**	2,726,157,716.13
Construction-in-progress		**54,254,509.44**	55,034,853.27
Intangible assets		**437,923,890.81**	443,223,548.01
Goodwill			
Deferred income tax assets		**38,802,419.49**	40,231,904.91
Research and development expenditures		**10,945,166.88**	
Long-term deferred expenses			
Gain or loss on properties to be dealt			
Other non-current assets		**4,400,583.62**	9,621,036.29
Total non-current assets		**3,174,669,097.59**	3,276,826,119.62
Total assets		**5,448,778,468.88**	5,735,752,344.59

	Note	**As at 30 June 2020**	As at 31 December 2019
		(Unaudited)	(Audited)
Current liabilities			
Short-term borrowings		**2,001,166,539.08**	NoteAs at

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2020

	2020								
	Equity attributable to shareholders of the parent company								
Item	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits	Minority interests	Total owners' equity
I. As at 1 January 2020 (audited)	**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**
II. Changes during the period			**(237,703.98)**				**(109,325,493.01)**	**(14,539,192.74)**	**(124,102,389.73)**
(I) Total comprehensive income			**(237,703.98)**				**(109,325,493.01)**	**(14,539,192.74)**	**(124,102,389.73)**
(II) Shareholders' capital injection and reduction									
1. Ordinary shares contributed by shareholders									
2. Capital contributed by holders of other equity instruments									
3. Share-based payments included in shareholders' equity									
4. Others									
(III) Profit appropriations									
1. Appropriations of surplus reserve									
2. Appropriations of general risk reserve									
3. Appropriations to the owners									
4. Others									
(IV) Transfer within shareholders' 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 period				**16,103,187.39**					**16,103,187.39**
2. Utilisations during the period				**16,103,187.39**					**16,103,187.39**
(VI) Others									
III. As at 30 June 2020 (unaudited)	**797,848,400.00**	**863,169,158.42**	**(3,292,764.55)**		**187,753,923.88**	**11,236.91**	**(207,534,180.80)**	**26,901,345.01**	**1,664,857,118.87**

	2019								
	Equity attributable to shareholders of the parent company								
Item	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits	Minority interests	Total owners' equity
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. Changes during the year			(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) Shareholders' capital injection and reduction									

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS:

1. GENERAL INFORMATION

The Company is a limited liability company established in the People's Republic of China ("**PRC**" or "**China**"), with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**SEHK**") and the Small and Medium Enterprises Board of Shenzhen Stock Exchange ("**SZSE**"). 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 financial statements are presented in RMB, which is also the functional currency of the Company.

During the six months ended 30 June 2020, the Group was principally engaged in the design, manufacture and sale of petroleum extraction machinery and related products including pumping tubes, sucker rods, oil pumps, casings and pumping units.

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared using the going-concern basis and the transactions and events actually occurred and in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and the relevant requirements (collectively, "**ASBEs**"), 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), the Rules Governing the Listing of Securities of the SEHK and the disclosure requirements under the Companies Ordinance of Hong Kong, on the basis of the accounting policies and accounting estimates as stated in "Significant Accounting Policies and Accounting Estimates".

3. TOTAL OPERATING REVENUE

Total operating revenue includes the operating revenue and income from other businesses. Operating revenue only represents the net amounts received and receivable by the Group from external sales of goods and rendering of services less trade discounts during the six months ended 30 June 2020.

Analysis of the Group's operating revenue for the six months ended 30 June 2020 is as follows:

For the six months ended 30 June (Unaudited)

	2020	2019
Pipe products	**1,075,867,038.06**	1,736,398,713.52
Three kinds of pumping units	**17,235,153.36**	22,554,354.70
Petroleum machinery parts	**5,554,410.20**	19,718,743.32
Tube blanks	**92,664,669.60**	528,281,779.05
High-end castings and forgings	**122,510,014.88**	18,364,032.00
Others	**32,546,405.72**	52,127,411.67
Total	**1,346,377,691.82**	2,377,445,034.26

4. SEGMENT INFORMATION

(1) Basis for determining reportable segments and accounting policies

1) *Basis for determining reportable segments*

Based on its internal organisational structure, management requirements and internal reporting system, the Group's operating businesses are divided into six reportable segments. Management of the Group regularly evaluates the operating results of these reportable segments to make decision about resources to be allocated to these segments and assess their performances. The main products of each of the Group's reportable segments include pipe products, three kinds of pumping units, petroleum machinery parts, tube blanks, high-end castings and forgings, and others.

2) *Accounting policies for the reportable segments*

Segment reporting information is disclosed in accordance with 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 — For the six months ended 30 June 2020 (Unaudited)

	Pipe products	Three kinds of pumping units	Petroleum machinery parts	Tube blanks	High-end castings and forgings	Others	Unallocated items	Total
Operating revenue:								
Revenue from external sales	1,075,867,038.06	17,235,153.36	5,554,410.20	92,664,669.60	122,510,014.88	32,546,405.72		1,346,377,691.82
Revenue from inter-segment sales								
Total segment operating revenue	1,075,867,038.06	17,235,153.36	5,554,410.20	92,664,669.60	122,510,014.88	32,546,405.72		1,346,377,691.82
Total operating revenue as reported	1,075,867,038.06	17,235,153.36	5,554,410.20	92,664,669.60	122,510,014.88	32,546,405.72		1,346,377,691.82
Segment expenses	1,031,978,534.70	15,092,700.67	5,652,579.94	101,679,166.06	112,938,516.02	29,019,842.94		1,296,361,340.33
Segment operating profit	43,888,503.36	2,142,452.69	(98,169.74)	(9,014,496.46)	9,571,498.86	3,526,562.78		50,016,351.49
Adjusted for:								
Administrative expenses							86,163,288.05	86,163,288.05
Research and development expenses							11,480,131.03	11,480,131.03
Finance costs							73,135,285.58	73,135,285.58
Investment income							0.00	
Gains on disposal of assets							(20,157.66)	(20,157.66)
Other income							601,950.96	601,950.96
Operating profit as reported	43,888,503.36	2,142,452.69	(98,169.74)	(9,014,496.46)	9,571,498.86	3,526,562.78	(170,196,911.36)	(120,180,559.87)
Non-operating income							1,086,698.16	1,086,698.16
Non-operating expenses							3,444,396.64	3,444,396.64
Total profit	43,888,503.36	2,142,452.69	(98,169.74)	(9,014,496.46)	9,571,498.86	3,526,562.78	(172,554,609.84)	(122,538,258.35)
Income tax							1,300,015.86	1,300,015.86
Net profit	43,888,503.36	2,142,452.69	(98,169.74)	(9,014,496.46)	9,571,498.86	3,526,562.78	(173,854,625.70)	(123,838,274.21)
Total segment assets	4,206,758,927.08	92,777,934.79	25,533,113.23	145,228,167.18	156,488,874.03	205,845,625.90	616,145,826.67	5,448,778,468.88
Total segment liabilities	2,049,501,691.06	18,972,472.54	13,913,228.07	62,813,313.34	111,266,875.38	23,916,960.24	1,503,536,809.38	3,783,921,350.01

5. FINANCE COSTS

For the six months ended 30 June (Unaudited)

	2020	2019
Interest expenses	**74,244,592.48**	82,551,261.56
Less: Interest expenses capitalised		
Less: Interest income	**2,700,511.98**	4,383,386.30
Foreign exchange difference	**(1,501,780.09)**	(3,211,118.44)
Others	**3,092,985.17**	4,936,871.13
Total	**73,135,285.58**	79,893,627.95

6. CREDIT IMPAIRMENT LOSSES

For the six months ended 30 June (Unaudited)

	2020	2019
Loss on bad debts	**(8,325,816.04)**	(2,772,854.42)
Including: Accounts receivable	**(9,186,990.41)**	(2,772,854.42)
Bills receivable	**1,284,969.50**	
Other receivables	**(423,795.13)**	
Loss on impairment of inventories		
Including: Raw materials		
Sub-contracting materials		
Finished goods		
Work-in-progress		
Others	**207,752.18**	731,332.89
Total	**(8,118,063.86)**	(2,041,521.53)

7. NON-OPERATING INCOME

For the six months ended 30 June (Unaudited)

	2020	2019
Total gains on disposal of non-current assets		
Including: Gains on disposal of fixed assets		
Gains on disposal of intangible assets		
Government grants		
Penalty income		
Others	**1,086,698.16**	6,078,613.12
Total	**1,086,698.16**	6,078,613.12

8. TOTAL PROFIT

For the six months ended 30 June (Unaudited)

	2020	2019
Total profit has been arrived at after charging/(crediting)		
Staff costs (including directors' remuneration)	**102,737,821.70**	137,876,481.15
Amortisation of intangible assets	**9,531,201.27**	9,573,771.15
Auditor's remuneration (included in administrative expenses)	**1,273,584.87**	1,273,584.87
Cost of inventories recognised as expense	**1,223,518,980.53**	2,118,045,769.31
Depreciation of fixed assets	**116,640,645.30**	103,994,293.41
Research and development expenses (included in administrative expenses)	**7,704,388.16**	17,029,164.68
Losses (gains) on disposal of fixed assets	**89,482.39**	229,634.05

9. INCOME TAX EXPENSES

For the six months ended 30 June (Unaudited)

	2020	2019
Current income tax expenses		1,390,220.31
— PRC		
Deferred income tax expenses	**1,300,015.86**	2,020,155.37
Total	**1,300,015.86**	3,410,375.68

The Company has been listed as a high and new technology enterprise and is subject to the PRC enterprise income tax at a rate of 15% (2019: 15%) pursuant to the Enterprise Income Tax Law of the PRC.

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5%

10. EARNINGS PER SHARE

For the six months ended 30 June (Unaudited)

	2020	2019
Calculated based on the net profit attributable to shareholders of the parent company:	**(109,325,493.01)**	18,012,923.36
Basic earnings per share	**(0.137)**	0.0226
Diluted earnings per share	**N/A**	N/A
Calculated based on the net profit from continuing operations attributable to shareholders of the parent company:	**(109,325,493.01)**	18,012,923.36
Basic earnings per share	**(0.137)**	0.0226
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 2020 (2019: Nil).

12. ACCOUNTS RECEIVABLE

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Accounts receivable	**561,974,081.78**	635,558,340.28
Less: Provision for bad debts of accounts receivable	**137,186,305.74**	127,999,315.33
Total	**424,787,776.04**	507,559,024.95

Prior to accepting new customers, the Group applies internal credit assessment policies to access the credit quality of the potential customers and sets credit limits. Apart from new customers who are normally required to pay in advance, the Company formulates different credit policies according to different customers. The credit period is generally three months, but can be extended up to six months for major customers.

Aging analysis of accounts receivable (net of provision for bad debts) for the six months ended 30 June based on the date of invoices is as follows:

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Within 1 year	**402,992,070.88**	490,103,181.90
1–2 years	**16,654,355.48**	168,705.00
2–3 years	**400,715.36**	2,867,987.41
Over 3 years	**141,926,940.06**	142,418,465.97
Total	**561,974,081.78**	635,558,340.28

13. ACCOUNTS PAYABLE

Aging analysis of accounts payable for the six months ended 30 June based on the date of invoices is as follows:

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Within 1 year	**594,396,404.95**	767,967,072.44
1–2 years	**98,288,832.85**	57,797,898.87
2–3 years	**27,887,812.82**	33,184,637.97
Over 3 years	**69,919,146.48**	65,071,004.52
Total	**790,492,197.10**	924,020,613.80

14. CAPITAL COMMITMENTS

As at 30 June 2020, the Group had the following commitments in respect of capital expenditures

	As at 30 June 2020	

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results

During the six months ended 30 June 2020, the Group achieved an unaudited operating revenue of RMB1,346.3777 million, representing a decrease of 43.37% compared to the corresponding period of last year. Unaudited operating profit was -RMB120.18 million, compared to a profit of RMB23.28 million in the corresponding period of last year. Unaudited total profit was -RMB122.54 million, compared to a profit of RMB22.03 million in the corresponding period of last year. Unaudited net profit attributable to shareholders of the listed company was -RMB109.3255 million, compared to a profit of RMB18.0129 million in the corresponding period of last year.

Business Review

During the reporting period, the global spread of COVID-19 hit the ordinary economic activities in all industries at different levels. The world economy showed a downward trajectory. The energy equipment manufacturing industry where the Company operates was hard hit by the pandemic in particular. Amid the excessively volatile international oil prices, the capacity utilisation rate of domestic and overseas oilfield drilling operations declined, the demand in downstream markets inclined to shrink and the

mass production and supplied to some companies. During the reporting period, with greater effort placed in promotion, the Company achieved a further increase in the production and sales volumes of high-end castings and forgings, and a significant year-on-year growth in operating revenue.

As at the end of the reporting period, the Company had total assets of RMB5,448.7785 million, representing a decrease of 5.00% year-on-year. Net assets attributable to shareholders of the listed company were RMB1,637.9558 million, representing a decrease of 6.27% year-on-year. During the reporting period, the Company achieved an operating revenue of RMB1,346.3777 million, representing a decrease of 43.37% year-on-year. Net loss attributable to shareholders of the listed company of RMB109.3255 million was recorded, compared to a profit of RMB18.0129 million in the corresponding period of last year.

Significant events subsequent to the reporting period

The Group has no significant events subsequent to the reporting period.

Prospects

The Company operates in the energy equipment industry covering energy sources such as petroleum, natural gas, shale gas, coal, coalbed methane and others, which is apparently vulnerable to changes in economic development cycle, market consumption and demand, cycle of crude oil prices and cycle of raw material prices. During the reporting period, hit by the COVID-19 pandemic and the fluctuation of international oil prices, the capacity utilisation rate of domestic and overseas oilfield drilling operations decreased, the demand in downstream markets inclined to shrink and oil companies at home and abroad accordingly made adjustments to their capital expenditures. However, in the medium and long run, the strategy about energy safety is not going to waver. Against the backdrop of China's continued high external dependence on crude oil and natural gas, the goals of "stabilising oil market and increasing demand for natural gas" would not change and the oil and gas exploration and development market in China is expected to maintain long-term stability and growth.

Furthermore, with the full opening up of China's oil and gas exploration and development market, private and foreign-invested companies and different sectors have hopes of investing capital into the domestic market, to bring new blood for China's oil and gas exploration and development and drive new demand for the energy equipment industry. As the pandemic situation in the world's major countries is easing, the overall demand in the industry will gradually come out of trough and stride into a phase of recovery.

Looking forward to the second half of 2020, to address the stresses and challenges brought about by various uncertainties, management of the Company will take active steps in adjusting business strategies, increase effort in exploring new markets and developing new products, and concentrate on enhancing product quality and brand awareness. The Company will seek to promote quality and efficiency enhancement by deepening internal tapping and refining management. The Company will strengthen technological innovation and equipment upgrade and pursue closer industry-university-institute cooperation to achieve continuous improvement in production capacity and efficiency. The

Company will continue to optimise its personnel placement system to recruit high-calibre talents, and build a corporate culture adaptive to the development of the Company to foster stronger cohesiveness company-wide. The Company will strive to achieve higher standards of corporate governance through optimising management processes.

Significant Investments

During the six months ended 30 June 2020, the Company did not have any plans for significant investments.

Material acquisitions, disposals and future plans for investments during the six months ended 30 June 2020

During the six months ended 30 June 2020, the Group did not have any material acquisitions, disposals or plans for investments.

Charge on Assets

(1) Pursuant to a financing agreement and the relevant mortgage contract entered into between the Company and the related subsidiaries with 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"), Shouguang Baolong and Molong Logistic (both subsidiaries of the Company) provided collaterals to secure the Company's financing in Great Wall Asset Management by its own land use rights with licence numbered Shou Guoyong (2007) No. 02704 and Shou Guoyong (2013) No. 00352 and the related ground buildings, and by its own sea area use rights with licence numbered Guohai Zheng No.2016B37078313748, respectively. As at 30 June 2020, the book value of the above-mentioned land use rights and sea area use rights was RMB82.2353 million, and the book value of the real property buildings was RMB19.3639 million. The financing amount of the Company under such contract is RMB50.0119 million. Meanwhile, Zhang En Rong, the controlling shareholder of the Company entered into a joint liability guarantee contract (《連帶責任擔保合同》) with Great Wall Asset Management, to provide joint guarantee liability for the financing. The above mortgage guarantee and warrant guarantee is expired on 8 October 2020.

(2) Pursuant to a financing agreement and the relevant mortgage contract entered into between the Company and Shouguang Maolong (a subsidiary of the Company) with Great Wall Asset Management, the Company provided collaterals to secure the financing of the Company and Shouguang Maolong (a subsidiary) in Great Wall Asset Management by the Company's own land use rights with licence numbered Shou Guoyong (2005) No. 1027 and the related ground buildings. As at 30 June 2020, the book value of the above-mentioned mortgaged land use rights was RMB9.3092 million, and the book value of real property buildings was RMB32.3813 million. The financing amount of the Company under such contract is RMB300.00 million. Meanwhile, Zhang En Rong, a controlling shareholder of the Company, entered into a contract on pledge of share of the listed company (《上市公司股票質押合同》) with Great Wall Asset Management, to

provide collateral for the financing agreement by the 85 million shares of the Company it held. Zhang En Rong, a controlling shareholder of the Company, entered into a Joint Liability Guarantee Contract (《連帶責任擔保合同》) with Great Wall Asset Management, to provide joint guarantee liability for the financing agreement. The above mortgage guarantee, pledge guarantee and warrant guarantee are expired on 29 December 2020.

(3) Pursuant to a finance lease contract entered into between the Company and Cosco Shipping Leasing Co., Ltd. ("**Cosco Shipping**"), the Company commenced the finance lease business using certain equipment by way of sale and leaseback arrangement. As at 30 June 2020, the equipment had an original value of RMB187.0596 million and a net book value of RMB127.9219 million. The financing amount under the contract was RMB150 million. The contract will expire on 15 April 2022.

(4) On 30 June 2020, the Company and Shouguang Maolong (a subsidiary of the Company) entered into a financing agreement with Great Wall Asset Management, pursuant to which, the Company provided collaterals to secure the financing of the Company and Shouguang Maolong (a subsidiary of the Company) by its own land use rights and the relevant ground buildings with licence numbered Shou Guoyong (2011) No. 0164, Shou Guoyong (2009) No. 0204, Shou Guoyong (2010) No. 0083, Shou Guoyong (2010) No. 0082, Shou Guoyong (2009) No. 0203, Lu (2019) Shouguang City Fixed Asset Right No. 0015760, Lu (2019) Shouguang City Fixed Asset Right No. 0015758, Lu (2019) Shouguang City Fixed Asset Right No. 0015752, Lu (2019) Shouguang City Fixed Asset Right No. 0015747, Lu (2019) Shouguang City Fixed Asset Right No. 0015757, Wen Guoyong (2006) No. 160005 and Wen Guoyong (2010) No. 160001. The financing amount of the Company under the contract was RMB192.4085 million. As at 30 June 2020, the above pledged land use rights had an book value of RMB146.9131 million and the real property buildings had a book value of RMB74.9589 million. The contract will expire on 30 June 2023.

Foreign Exchange Exposure

For the six months ended 30 June 2020, 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 prolonged or significant change in RMB against US$ and RMB against HK$ may have impact on the Group's results and financial position.

Corporate Governance

The Company is committed to reaching high standards of 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. Throughout the six months ended 30 June 2020, the Company has complied with all code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") of the SEHK.

Audit Committee

The Audit Committee (with members consisting of three independent non-executive directors) held two meetings during the six months ended 30 June 2020 to discuss matters such as the accounting standards and practices adopted by the Group, internal control and financial reporting, and has reviewed the unaudited interim results announcement for the six months ended 30 June 2020. 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 the results for the six months ended 30 June 2020. The interim results for the six months ended 30 June 2020 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 to the Listing Rules and requires directors to follow the Model Code while conducting securities transactions. The Model Code also applies to the Company's senior management. The Company has made specific enquiries to all directors and all of them have confirmed that they have fully complied with the Model Code for the six months ended 30 June 2020.

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 2020.

Publication of results announcement and interim report on the website of the SEHK

This announcement is published on the website of the SEHK. The interim report for the six months ended 30 June 2020 will be dispatched to shareholders of the Company as and when appropriate and will be available on the Company's website at http://www.molonggroup.com and the websites of the SEHK and SZSE in due course.

By order of the Board
Shandong Molong Petroleum Machinery Company Limited
Chan Wing Nang, Billy
Company Secretary

Shandong, PRC
26 August 2020

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*