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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 2023

HIGHLIGHTS

- For the six months ended 30 June 2023, revenue of the Group amounted to RMB798.4190 million, representing a decrease of approximately 49.18% as compared to the corresponding period of last year.
- Net profit attributable to equity owners of the Company amounted to –RMB158.2424 million, as compared to –RMB172.7177 million for the corresponding period of last year.
- Earnings per share was approximately –RMB0.1983, as compared to –RMB0.2165 for the corresponding period of last year.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023.

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 2023.

The information contained in this announcement does not constitute the statutory financial statements of the Group for the six months ended 30 June 2023 but the financial information is extracted therefrom. The interim results for the six months ended 30 June 2023 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 Board (the “**Audit Committee**”).

Unless otherwise specified, the financial information of the Company is expressed in Renminbi (“**RMB**”).

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2023

		For the six months ended 30 June	
	Notes	2023 (Unaudited)	2022 (Unaudited)
Total operating revenue	3 and 4	798,419,015.10	1,570,941,941.65
Total operating costs		959,074,308.28	1,746,829,087.21
Operating costs		745,514,513.99	1,517,239,001.79
Business tax and surcharges		8,876,640.21	7,134,994.01
Selling expenses		9,699,153.33	7,124,810.84
Administrative expenses		135,856,718.33	136,188,184.82
Research and development expenditures		15,508,358.85	25,104,469.52
Finance costs	5	43,618,923.57	54,037,626.23
Including: Interest expenses		47,431,215.06	58,378,820.98
Interest income		2,911,132.92	3,752,773.33
Add: Credit impairment losses	6	(2,115,579.66)	5,831,665.58
Asset impairment losses	7	(1,465,146.60)	(15,000,113.67)
Gains on changes in fair value			
Investment income			
Including: Gain on investment in associates and joint ventures			
Gains on disposal of assets	8	325,712.98	
Other income	9	132,723.59	49,128.67
Operating profit		(163,777,582.87)	(185,006,464.98)
Add: Non-operating income	10	2,044,943.45	4,960,223.84
Less: Non-operating expenses		742,741.22	1,061,228.98
Total profit	11	(162,475,380.64)	(181,107,470.12)
Less: Income tax expenses	12	1,458,254.39	2,063,592.49
Net profit		(163,933,635.03)	(183,171,062.61)
Other comprehensive income		(669,582.15)	(859,902.79)
Total comprehensive income		(164,603,217.18)	(184,030,965.40)
Net profit attributable to			
Shareholders of the Company		(158,242,397.13)	(172,717,715.72)
Minority interests		(5,691,237.90)	(10,453,346.89)
Total comprehensive income attributable to			
Shareholders of the Company		(158,845,021.06)	(173,491,628.23)
Minority interests		(5,758,196.12)	(10,539,337.17)
Earnings per share	13		
(I) Basic earnings per share		(0.1983)	(0.2165)
(II) Diluted earnings per share		N/A	N/A
Dividends	14	N/A	N/A

UNAUDITED CONSOLIDATED BALANCE SHEET

As at 30 June 2023

	<i>Notes</i>	As at 30 June 2023 (Unaudited)	As at 31 December 2022 (Audited)
Current assets			
Monetary funds		453,841,221.77	459,657,822.57
Bills receivable		60,192,674.87	171,547,752.98
Accounts receivable	15	364,398,811.59	294,399,562.75
Loans and advances			
Financing receivables		16,486,581.33	5,371,855.71
Prepayments		9,950,942.76	35,450,700.83
Other receivables		11,113,319.94	5,626,830.61
Including: Interests receivable			
Dividends receivable			
Inventories		509,137,968.74	670,217,844.40
Assets classified as held for sale			
Other current assets		3,788,957.13	5,790,675.91
Total current assets		1,428,910,478.13	1,648,063,045.76
Non-current assets			
Available-for-sale financial assets			
Long-term equity investments		1,857,463.06	1,857,463.06
Investment properties			
Fixed assets		1,904,405,618.29	2,003,871,030.19
Construction-in-progress		6,323,500.82	298,971.19
Right-of-use assets			
Intangible assets		350,173,760.99	357,278,042.57
Goodwill			
Deferred income tax assets		24,551,419.33	26,108,899.14
Research and development expenditures		4,569,208.80	
Long-term deferred expenses			
Gain or loss on properties to be dealt			
Other non-current assets		750,000.00	1,128,107.60
Total non-current assets		2,292,630,971.29	2,390,542,513.75
Total assets		3,721,541,449.42	4,038,605,559.51

	<i>Notes</i>	As at 30 June 2023 (Unaudited)	As at 31 December 2022 (Audited)
Current liabilities			
Short-term borrowings		2,056,148,505.85	1,962,936,789.90
Bills payable		47,445,760.00	64,855,401.04
Accounts payable	16	509,925,689.87	611,264,285.51
Receipts in advance			
Contract liabilities		50,955,109.94	107,582,152.10
Salaries payable		58,708,004.97	42,790,646.48
Taxes payable		22,281,543.77	11,279,406.47
Other payables		24,465,572.17	36,765,356.32
Including: Interests payable			
Other current liabilities		24,881,369.20	48,192,008.81
Non-current liabilities due within one year		49,329,277.41	87,329,367.25
Total current liabilities		2,844,140,833.18	2,972,995,413.88
Net current assets		(1,415,230,355.05)	(1,324,932,368.12)
Total assets less current liabilities		877,400,616.24	1,065,610,145.63
Non-current liabilities			
Long-term borrowings			
Lease liabilities			
Long-term payables		41,160,600.38	65,461,963.55
Estimated liabilities		77,771,212.05	77,771,212.05
Deferred revenue		6,756,829.50	6,756,829.50
Bonds payable			
Deferred income tax liabilities		5,167,706.87	5,266,932.29
Other non-current liabilities			
Total non-current liabilities		130,856,348.80	155,256,937.39
Total liabilities		2,974,997,181.98	3,128,252,351.27
Shareholders' equity			
Share capital		797,848,400.00	797,848,400.00
Capital reserve		865,199,605.64	864,405,329.26
Surplus reserve		187,753,923.88	187,753,923.88
General risk reserve			
Undistributed profits		(1,017,259,947.64)	(859,017,550.51)
Other comprehensive income		(3,631,883.68)	(3,029,259.75)
Total equity attributable to shareholders of the parent company		829,910,098.20	987,960,842.88
Minority interests		(83,365,830.76)	(77,607,634.64)
Total shareholders' equity		746,544,267.44	910,353,208.24

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2023

Item	2023								
	Equity attributable to shareholders of the parent company							Minority interests	Total owners' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits		
I. 1 January 2023 (audited)	797,848,400.00	864,405,329.26	(3,029,259.75)		187,753,923.88		(859,017,550.51)	(77,607,634.64)	910,353,208.24
II. Changes during the period		794,276.38	(602,623.93)				(158,242,397.13)	(5,758,196.12)	(163,808,940.80)
(I) Total comprehensive income			(602,623.93)				(158,242,397.13)	(5,758,196.12)	(164,603,217.18)
(II) Shareholders' capital injection and reduction		794,276.38							794,276.38
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		794,276.38							794,276.38
(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				7,315,605.66					7,315,605.66
2. Utilisations during the period				7,315,605.66					7,315,605.66
(VI) Others									
III. 30 June 2023 (unaudited)	797,848,400.00	865,199,605.64	(3,631,883.68)		187,753,923.88		(1,017,259,947.64)	(83,365,830.76)	746,544,267.44

	2022								
	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. 1 January 2022 (audited)	797,848,400.00	863,356,311.20	(1,671,948.29)		187,753,923.88		(434,047,824.92)	(53,491,100.48)	1,359,747,761.39
II. Changes during the period		696,422.22	(773,912.51)				(172,717,715.72)	(10,539,337.17)	(183,334,543.18)
(I) Total comprehensive income			(773,912.51)				(172,717,715.72)	(10,539,337.17)	(184,030,965.40)
(II) Shareholders' capital injection and reduction		696,422.22							696,422.22
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		696,422.22							696,422.22
(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 year				13,594,754.41					13,594,754.41
2. Utilisations during the year				13,594,754.41					13,594,754.41
(VI) Others									
III. 30 June 2022 (unaudited)	797,848,400.00	864,052,733.42	(2,445,860.80)		187,753,923.88		(606,765,540.64)	(64,030,437.65)	1,176,413,218.21

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 “Stock Exchange”) and the Main Board of Shenzhen Stock Exchange (“SZSE”). The address of the registered office of the Company is at No. 99 Xing Shang Road, Gucheng Subdistrict, Shouguang City, Shandong Province, PRC, and the address of the principal place of business of the Company in Hong Kong is at 5/F, Kam Sang Building, 257 Des Voeux Road 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 2023, the Group was principally engaged in the design, research and development, processing and manufacturing, sale service and export trade of products for the energy equipment industry. The main products included petroleum-drilling machinery equipment, petroleum and natural gas pipeline equipment, oil and gas exploitation equipment and castings and forgings, etc.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared using the going concern basis of accounting based on 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 on the Stock Exchange 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”.

There were no changes in the accounting policies adopted for the preparation of the financial statements for the current period.

3. TOTAL OPERATING REVENUE

Total operating revenue includes 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 2023.

Analysis of the Group's operating revenue for the six months ended 30 June 2023 is as follows:

For the six months ended 30 June 2023 (Unaudited)

	2023	2022
Pipe products	716,389,280.84	593,912,032.35
Castings and forgings	14,860,414.01	878,006,892.23
Three kinds of pumping units	14,110,813.66	16,732,788.46
Petroleum machinery parts	14,807,795.88	8,763,820.61
Others	38,250,710.71	73,526,408.00
Total	798,419,015.10	1,570,941,941.65

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 five reportable segments. Management of the Group regularly evaluates the operating results of these reportable segments for the purposes of making decisions on resource allocation to and performance evaluation of these segments. The main products provided by the Group's reportable segments include pipe products, castings and forgings, three kinds of pumping units, petroleum machinery parts, 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 2023 (Unaudited)

	Pipe products	Castings and forgings	Three kinds of pumping units	Petroleum machinery parts	Others	Unallocated items	Total
Operating revenue							
Revenue from external sales	716,389,280.84	14,860,414.01	14,110,813.66	14,807,795.88	38,250,710.71		798,419,015.10
Revenue from inter-segment sales							
Total segment operating revenue	716,389,280.84	14,860,414.01	14,110,813.66	14,807,795.88	38,250,710.71		798,419,015.10
Total operating revenue as reported	716,389,280.84	14,860,414.01	14,110,813.66	14,807,795.88	38,250,710.71		798,419,015.10
Segment expenses	684,455,826.42	18,602,891.52	12,167,658.66	12,115,961.51	38,213,116.02	2,115,579.66	767,671,033.79
Segment operating profit	31,933,454.42	(3,742,477.51)	1,943,155.00	2,691,834.37	37,594.69	(2,115,579.66)	30,747,981.31
Adjusted for:							0.00
Administrative expenses						135,856,718.33	135,856,718.33
Research and development expenditures						15,508,358.85	15,508,358.85
Finance costs						43,618,923.57	43,618,923.57
Investment income							0.00
Gains on disposal of assets						325,712.98	325,712.98
Other income						132,723.59	132,723.59
Operating profit as reported	31,933,454.42	(3,742,477.51)	1,943,155.00	2,691,834.37	37,594.69	(196,641,143.84)	(163,777,582.87)
Non-operating income						2,044,943.45	2,044,943.45
Non-operating expenses						742,741.22	742,741.22
Total profit	31,933,454.42	(3,742,477.51)	1,943,155.00	2,691,834.37	37,594.69	(195,338,941.61)	(162,475,380.64)
Income tax						1,458,254.39	1,458,254.39
Net profit	31,933,454.42	(3,742,477.51)	1,943,155.00	2,691,834.37	37,594.69	(196,797,196.00)	(163,933,635.03)
Total segment assets	1,462,066,873.31	1,140,837,033.24	76,946,330.69	53,003,776.69	252,748,561.53	735,938,873.96	3,721,541,449.42
Total segment liabilities	905,506,498.11	781,891,172.21	20,836,098.45	26,731,470.04	34,644,238.89	1,205,387,704.28	2,974,997,181.98

Segment reporting information — For the six months ended 30 June 2022 (Unaudited)

	Pipe products	Castings and forgings	Three kinds of pumping units	Petroleum machinery parts	Others	Unallocated items	Total
Operating revenue:							
Revenue from external sales	593,912,032.35	878,006,892.23	16,732,788.46	8,763,820.61	73,526,408.00		1,570,941,941.65
Revenue from inter-segment sales							
Total segment operating revenue	593,912,032.35	878,006,892.23	16,732,788.46	8,763,820.61	73,526,408.00		1,570,941,941.65
Total operating revenue as reported	593,912,032.35	878,006,892.23	16,732,788.46	8,763,820.61	73,526,408.00		1,570,941,941.65
Segment expenses	571,789,430.24	878,408,657.46	17,280,712.24	9,639,445.80	63,549,008.99		1,540,667,254.73
Segment operating profit	22,122,602.11	(401,765.23)	(547,923.78)	(875,625.19)	9,977,399.01		30,274,686.92
Adjusted for:							
Administrative expenses						136,188,184.82	136,188,184.82
Research and development expenditures						25,104,469.52	25,104,469.52
Finance costs						54,037,626.23	54,037,626.23
Investment income							
Gains on disposal of assets							
Other income						49,128.67	49,128.67
Operating profit as reported	22,122,602.11	(401,765.23)	(547,923.78)	(875,625.19)	9,977,399.01	(215,281,151.90)	(185,006,464.98)
Non-operating income						4,960,223.84	4,960,223.84
Non-operating expenses						1,061,228.98	1,061,228.98
Total profit	22,122,602.11	(401,765.23)	(547,923.78)	(875,625.19)	9,977,399.01	(211,382,157.04)	(181,107,470.12)
Income tax						2,063,592.49	2,063,592.49
Net profit	22,122,602.11	(401,765.23)	(547,923.78)	(875,625.19)	9,977,399.01	(213,445,749.53)	(183,171,062.61)
Total segment assets	2,997,387,796.10	907,910,615.14	101,008,222.89	44,059,373.78	348,557,664.89	648,504,003.27	5,047,427,676.07
Total segment liabilities	1,444,404,422.26	803,645,729.05	37,864,728.49	25,325,004.45	103,122,507.93	1,456,652,065.68	3,871,014,457.86

(2) Revenue from external sales by origin of revenue and non-current assets by location of assets

The Group derives all revenue from external sales from the PRC and overseas but all of its assets are located in the PRC. Therefore, the disclosures of revenue from external sales by origin of revenue are as follows:

For the six months ended 30 June 2023 (Unaudited)

	2023	2022
Revenue from external sales derived from the PRC	635,768,739.52	1,507,525,783.97
Revenue from external sales derived from other countries	162,650,275.58	63,416,157.68
Total	798,419,015.10	1,570,941,941.65

5. FINANCE COSTS

For the six months ended 30 June 2023 (Unaudited)

	2023	2022
Interest expenses	47,431,215.06	58,378,820.98
Less: Interest expenses capitalised		
Less: Interest income	(2,911,129.74)	(3,752,773.33)
Exchange differences	(2,133,951.94)	(3,432,565.42)
Others	1,232,790.19	2,844,144.00
Total	43,618,923.57	54,037,626.23

6. CREDIT IMPAIRMENT LOSSES

For the six months ended 30 June 2023 (Unaudited)

	2023	2022
Loss on bad debts	(2,115,579.66)	5,831,665.58
Including: Accounts receivable	(2,799,943.61)	4,843,687.17
Bills receivable	1,124,798.77	1,074,148.13
Other receivables	(440,434.82)	(86,169.72)
Others		
Total	(2,115,579.66)	5,831,665.58

7. ASSET IMPAIRMENT LOSSES

For the six months ended 30 June 2023 (Unaudited)

Item	2023	2022
Loss on impairment of inventories and loss on impairment of costs of contract performance	(1,465,146.60)	(15,000,113.67)
Total	(1,465,146.60)	(15,000,113.67)

8. GAINS ON DISPOSAL OF ASSETS

For the six months ended 30 June 2023 (Unaudited)

Source of gains on disposal of assets	2023	2022
Gains on disposal of fixed assets	325,712.98	—
Total	325,712.98	—

9. OTHER INCOM

For the six months ended 30 June 2023 (Unaudited)

Source of other income	2023	2022
Stability subsidies		
Work-based training subsidies		
Others	132,723.59	49,128.67
Total	132,723.59	49,128.67

10. NON-OPERATING INCOME

For the six months ended 30 June 2023 (Unaudited)

	2023	2022
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	2,044,943.45	4,960,223.84
Total	2,044,943.45	4,960,223.84

11. TOTAL PROFIT

For the six months ended 30 June 2023 (Unaudited)

	2023	2022
Total profit has been arrived at after charging/(crediting)		
Staff costs (including directors' remuneration)	114,965,133.22	133,283,280.95
Amortisation of intangible assets	7,104,281.58	8,566,763.51
Auditor's remuneration (included in administrative expenses)	1,367,924.49	1,367,924.49
Cost of inventories recognised as expense	721,967,610.83	1,468,395,267.79
Depreciation of fixed assets	97,690,374.32	100,047,688.51
Cost of research and development (included in administrative expenses)	13,657,003.29	21,805,959.56
Losses (gains) on disposal of non-current assets	(131,293.77)	217,577.50

12. INCOME TAX EXPENSES

For the six months ended 30 June 2023 (Unaudited)

	2023	2022
Current income tax expenses		
— PRC		
Deferred income tax expenses	1,458,254.39	2,063,592.49
Total	1,458,254.39	2,063,592.49

The Company has been listed as a high and new technology enterprise and is subject to the PRC enterprise income tax at a PRC income tax rate of 15% (2022: 15%).

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

13. EARNINGS PER SHARE

For the six months ended 30 June 2023 (Unaudited)

	2023	2022
Calculated based on the net profit attributable to shareholders of the parent company:		
	(158,242,397.13)	(172,717,715.72)
Basic earnings per share	(0.1983)	(0.2165)
Diluted earnings per share	N/A	N/A
Calculated based on the net profit from continuing operations attributable to shareholders of the parent company:		
	(158,242,397.13)	(172,717,715.72)
Basic earnings per share	(0.1983)	(0.2165)
Diluted earnings per share	N/A	N/A

14. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (2022: Nil).

15. ACCOUNTS RECEIVABLE

For the six months ended 30 June 2023 (Unaudited)

	As at 30 June 2023 (Unaudited)	As at 31 December 2022 (Audited)
Accounts receivable	469,861,648.77	397,062,652.41
Less: Provision for bad debts of accounts receivable	105,462,837.18	102,663,089.66
Total	364,398,811.59	294,399,562.75

The Group as primary obligor satisfies its obligations of supplying products to customers in a timely manner by reference to the category, standard and time requested by the customers in accordance with the provisions of the contracts. There are different payments terms for different customers and different products: domestic customers of pipes are normally subject to payment in advance of delivery, and domestic customers of oil casing are normally subject to payment terms of 3–6 months after invoicing for account 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 delivery of products. As to petroleum machinery parts, the credit term is normally 2 months.

Aging analysis of accounts receivable for the six months ended 30 June 2023 based on the date of invoices is as follows:

	As at 30 June 2023 (Unaudited)	As at 31 December 2022 (Audited)
Within 1 year	366,466,496.17	294,779,413.05
1–2 years	2,451,875.32	4,537,041.54
2–3 years	523,052.05	823.90
Over 3 years	100,420,225.23	97,745,373.92
Total	469,861,648.77	397,062,652.41

16. ACCOUNTS PAYABLE

Aging analysis of accounts payable for the six months ended 30 June 2023 based on the date of invoices is as follows:

	As at 30 June 2023 (Unaudited)	As at 31 December 2022 (Audited)
Within 1 year	256,327,202.00	406,341,085.16
1–2 years	128,459,626.20	86,956,033.94
2–3 years	40,942,131.29	30,406,379.94
Over 3 years	84,196,730.38	87,560,786.47
Total	509,925,689.87	611,264,285.51

17. CAPITAL COMMITMENTS

As at 30 June 2023, the Group had the following commitments in respect of capital expenditures

	As at 30 June 2023 (Unaudited)	As at 31 December 2022 (Audited)
Contracted but not recognised in financial statements — Commitment in respect of acquisition and construction of long-term assets	0	0

18. CONTINGENT LIABILITIES

Nil

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results

During the six months ended 30 June 2023, the Group achieved an unaudited operating revenue of RMB798.4190 million, representing a decrease of 49.18% compared to the corresponding period of last year. Unaudited operating profit was –RMB163.7776 million, compared to that of –RMB185.0065 million in the corresponding period of last year. Unaudited total profit was –RMB162.4754 million, compared to that of –RMB181.1075 million in the corresponding period of last year. Unaudited net profit attributable to shareholders of the listed company was –RMB158.2424 million, compared to that of –RMB172.7177 million in the corresponding period of last year.

Business Review

During the reporting period, the Company was principally engaged in the design, research and development, processing and manufacturing, sale service and export trade of products for the energy equipment industry. The main products included petroleum-drilling machinery equipment, petroleum and natural gas pipeline equipment, oil and gas exploitation equipment and castings and forgings, etc. These products were mainly used in the manufacture of equipment in connection with industries such as oil and gas drilling, machinery processing, urban pipe network and wind turbine castings. During the reporting period, the Company's main products are pipe products, accounting for nearly 90% of the Company's operation revenue, and particularly, the proportion of export businesses sales has increased significantly. The Company has adopted a "sales-based production" business model for production under which the production system of the Company manufactures, inspects and delivers products according to the orders placed by customers specifying the required specifications and quantity and based on the market sales initiatives of the sales department. The Company has adopted a centralised procurement model under which the procurement department is responsible for the purchase of all raw materials, moulds and equipment, including the signing of procurement contracts, procurement status tracking, facilitating quality improvement of raw materials, etc. The procurement department strictly controls the selection of suppliers based on a comprehensive overall evaluation index system. It fosters quality partners and develops long-term and stable strategic partnership. The Company has a relatively mature sales network and has established a professional team dedicated to sales and import and export operations with members responsible for domestic and international market research and study, development, product sales and after-sales services, respectively.

During the reporting period, the sales volume and gross profit margin of oil casing and other products related to the Company's oilfield business recorded a year-on-year increase; affected by factors such as poor market conditions for general pipe and castings and forgings, the Company has adjusted its product structure and reduced the production and sales of general pipe and castings and forgings, resulting in a significant year-on-year decline in the production and sales of related products in the first half of the year, insufficient utilization rate of production lines and increased costs. The growth in the oilfield business could not offset the impact of poor market conditions for general pipe and castings and forgings, resulting in an overall losses in the Company's operating results.

Significant Events Subsequent to the Reporting Period

The Group had 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 and coalbed methane, which falls within the scope of the petroleum and natural gas special equipment manufacturing and services industry. Therefore, the development and prosperity of the petroleum and natural gas exploitation industry have direct impact to the development of the Company's industry. In the long run, global economic growth rate, price trends of and consumers' demand for petroleum and natural gas, global spendings in exploration and development of petroleum and scale of oil and gas exploitation, and the carbon neutrality policy around the world, are determinants of the prosperity of the Company's industry.

In 2023, the world economy continues its slow recovery, China's economy enjoys a steady upturn, and market expectations are expected to improve significantly. While international oil prices have been shocked to the downside, the domestic market demand for refined oil has steadily recovered, and the market demand for natural gas has continued to grow. The national energy system and the oil and gas industry, anchoring the "Seven-Year Action Plan" mission objectives, has continuously strengthened the policy supply, increased investment and workload in oil and gas exploration and development, further promoted the strategy of scientific and technological innovation, and accelerated the stable and increasing output of crude oil and rapid increasing production of natural gas. Vigorously enhanced oil and gas exploration and development efforts have achieved remarkable results, offshore oil and gas exploration and development continue to advance to the deep-water, and other unconventional oil and gas such as shale oil and gas have realized a leap-forward development, which have made great contributions to the security of oil and gas supply in China.

The 2023 Work Meeting on Great Efforts to Enhance Oil and Gas Exploration and Development stressed that as the next step, the national energy system and the oil and gas industry will continue to deeply implement the decision and deployment of the 20th National Congress of the CPC on "further promoting the energy revolution" and "strengthening the exploration and development of oil and gas resources and the efforts on increasing reserves and production", strengthen overall planning and forward-looking thinking, and coordinate scientific and technological research and application of results, as well as build a scientific long-term development strategy, establish strategic confidence, maintain confidence in success, and firmly increase oil and gas reserves and production, so as to resolutely guarantee the core demand for oil and gas in China. Under the guidance of the strategy of improving energy security, the demand for oil and gas equipment and services continues to grow, which shows positive prospects for the year.

Significant Investments Held

During the six months ended 30 June 2023, the Company did not hold any significant investments.

Material Acquisitions and Disposals

During the six months ended 30 June 2023, the Group did not have material acquisitions and disposals in respect of subsidiaries, associates and joint ventures.

Future Plans for Significant Investments or Capital Assets

During the six months ended 30 June 2023, the Group did not have future plans for significant investments or capital assets.

Foreign Exchange Exposure

During the six months ended 30 June 2023, the Group's revenue was denominated in RMB and United States dollars and its expenses were denominated in Hong Kong dollars, RMB and United States dollars. 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 United States dollars and RMB against Hong Kong dollars 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 emphasized a quality board, sound internal control, and transparency and accountability to stakeholders. During the six months ended 30 June 2023, the Company has adopted and complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Audit Committee

The Audit Committee of the Company (with members consisting of three independent non-executive directors) held three meetings during the six months ended 30 June 2023 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 for the six months ended 30 June 2023. 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 2023. The interim results for the six months ended 30 June 2023 have not been reviewed and audited 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 2023.

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 Company during the six months ended 30 June 2023.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

Publication of results announcement and interim report

This announcement is published on the websites of the Stock Exchange and the Company. The interim report for the six months ended 30 June 2023 will be dispatched to the 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 Stock Exchange and SZSE in due course.

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

Shandong, the PRC
30 August 2023

As at the date of this announcement, the board of directors of the Company comprises the executive Directors, namely Mr. Yuan Rui, Mr. Li Zhi Xin, Mr. Yao You Ling and Mr. Zhao Xiao Tong; the non-executive Director, namely Ms. Zhang Min; and the independent non-executive Directors, namely Mr. Tang Qing Bin, Mr. Song Zhi Wang and Mr. Cai Zhong Jie.

* *For identification purpose only*