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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 2022

HIGHLIGHTS

- For the year ended 31 December 2022, the total operating revenue of the Group in the consolidated financial statements amounted to RMB2,765,645,281.40, representing a decrease of approximately 25.94% as compared to RMB3,734,462,841.12 in the corresponding period of last year.
- Net profit attributable to the equity owners of the Company in the consolidated financial statements amounted to RMB-424,969,725.59, representing a decrease of 15.48% as compared to RMB-368,017,768.12 in the corresponding period of last year.
- Earnings per share in the consolidated financial statements amounted to approximately RMB-0.53, representing a decrease of 15.22% as compared to the earnings per share of RMB-0.46 in last year.
- The Board does not recommend the payment of final dividend for the year ended 31 December 2022.

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 2022.

The financial information set out below in this announcement does not constitute the Group’s statutory financial statements for the year ended 31 December 2022, 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. (Special General Partnership).

Unless specified otherwise, the financial information of the Group was stated in Renminbi (“**RMB**”).

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

	2022	2021
I. Total operating revenue	2,765,645,281.40	3,734,462,841.12
Including: Operating revenue	2,765,645,281.40	3,734,462,841.12
Interest income		
Insurance premium earned		
Brokerage and commission income		
II. Total operating costs	3,129,597,158.90	3,999,888,750.28
Including: Operating costs	2,675,212,319.74	3,514,477,916.63
Interest expenses		
Brokerage and commission expenses		
Surrenders		
Net compensation expenses		
Net amount of insurance contract reserves provided		
Policyholder dividend expenses		
Reinsurance premiums		
Tax and surcharges	14,382,252.20	20,493,455.61
Selling expenses	17,580,244.46	13,402,249.30
Administrative expenses	274,947,866.01	278,990,958.47
Research and development expenses	41,651,730.15	57,076,465.12
Finance costs	105,822,746.34	115,447,705.15
Including: Interest expenses	117,884,825.33	114,302,110.50
Interest income	8,379,526.72	4,907,692.93
Add: Other gains	973,231.66	2,335,726.68
Investment income	(287,370.63)	(169,863.60)
Including: Gains on investment in associates and joint ventures	(287,370.63)	(169,863.60)
Gain on derecognition of financial assets measured at amortized cost		
Exchange gains		
Net gains on exposure hedges		
Gain on fair value changes		
Credit impairment losses	(61,267,202.09)	14,647,126.44
Asset impairment losses	(16,980,412.51)	(112,901,651.42)
Gain on disposal of assets	1,123.89	399,239.27
III. Operating profit	(441,512,507.18)	(361,115,331.79)
Add: Non-operating income	6,672,878.46	5,272,356.06
Less: Non-operating expenses	11,202,613.91	6,213,826.89
IV. Total profit	(446,042,242.63)	(362,056,802.62)
Less: Income tax expenses	2,893,204.74	6,363,692.81
V. Net profit	(448,935,447.37)	(368,420,495.43)
(i) By business continuity		
1. By business continuity	(448,935,447.37)	(368,420,495.43)
2. Net profit from discontinued operations		
(ii) By attributable ownership		
1. Net profit attributable to the shareholders of the parent company	(424,969,725.59)	(368,017,768.12)

2. Loss or profit attributable to minority interests	(23,965,721.78)	(402,727.31)
VI. Other comprehensive income, net of tax	(1,508,123.84)	381,810.59
Other comprehensive income attributable to owners of the parent company, net of tax	(1,357,311.46)	343,629.53
(i) Other comprehensive income that may not be reclassified to profit or loss		
1. Changes on remeasurement of defined benefit plans		
2. Other comprehensive income that may not be transferred to profit or loss under equity accounting		
3. Fair value changes in investments in other equity instruments		
4. Fair value changes in credit risk of the Company		
5. Others		
(ii) Other comprehensive income that will be reclassified to profit or loss	(1,357,311.46)	343,629.53
1. Other comprehensive income that may be transferred to profit or loss under equity accounting		
2. Fair value changes in other debt investments		
3. Reclassification of financial assets to other comprehensive income		
4. Credit-impaired provision for other debt investments		
5. Cash flow hedge reserve		
6. Exchange differences on translation of foreign financial statements	(1,357,311.46)	343,629.53
7. Others		
Other comprehensive income attributable to minority shareholders, net of tax	(150,812.38)	38,181.06
VII. Total comprehensive income	(450,443,571.21)	(368,038,684.84)
Total comprehensive income attributable to owners of the parent company	(426,327,037.05)	(367,674,138.59)
Total comprehensive income attributable to minority interests	(24,116,534.16)	(364,546.25)
VIII. Earnings per share:		
(i) Basic earnings per share	(0.53)	(0.46)
(ii) Diluted earnings per share	(0.53)	(0.46)

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

Item	31 December 2022	31 December 2021
Current assets:		
Monetary funds	459,657,822.57	475,191,176.69
Settlement deposits		
Lending funds		
Financial assets held for trading		
Derivative financial assets		
Bills receivable	171,547,752.98	235,005,278.71
Accounts receivable	294,399,562.75	299,530,976.41
Financing receivables	5,371,855.71	28,539,024.92
Loans and advances		
Prepayments	35,450,700.83	49,598,390.41
Insurance receivables		
Reinsurance receivables		
Reinsurance contract reserves receivable		
Other receivables	5,626,830.61	17,440,781.64
Including: Interests receivable		
Dividends receivable		
Purchases of sell-back financial assets		
Inventories	670,217,844.40	715,282,787.11
Contract assets		
Assets held for sale		
Non-current assets due within one year		
Other current assets	5,790,675.91	26,180,538.95
Total current assets	1,648,063,045.76	1,846,768,954.84
Non-current assets:		
Loans and advances		
Debt investments		
Other debt investments		
Long-term receivables		
Long-term equity investments	1,857,463.06	2,144,833.69
Investments in other equity instruments		
Other non-current financial assets		
Investment properties		9,929,101.58
Fixed assets	2,003,871,030.19	2,181,361,123.66
Construction-in-progress	298,971.19	10,029,521.56
Productive biological assets		
Oil and gas assets		
Right-of-use assets		1,530,636.81
Intangible assets	357,278,042.57	376,053,902.88
Development expenditure		
Goodwill		
Long-term deferred expenses		

Deferred income tax assets	26,108,899.14	29,065,116.69
Other non-current assets	1,128,107.60	728,107.60
Total non-current assets	2,390,542,513.75	2,610,842,344.47
Total assets	4,038,605,559.51	4,457,611,299.31
Current liabilities:		
Short-term borrowings	1,962,936,789.90	1,916,706,214.72
Borrowings from the central bank		
Borrowing funds		
Financial liabilities held for trading		
Derivative financial liabilities		
Bills payable	64,855,401.04	101,209,067.42
Accounts payable	611,264,285.51	599,514,345.81
Receipts in advance		
Contract liabilities	107,582,152.10	70,368,931.26
Proceeds from disposal of buy-back financial assets		
Customer bank deposits and due to banks and other financial institutions		
Securities brokerage deposits		
Securities underwriting brokerage deposits		
Salaries payable	42,790,646.48	57,833,087.83
Taxes payable	11,279,406.47	25,793,838.53
Other payables	36,765,356.32	64,231,003.43
Including: Interests payable		
Dividends payable		
Brokerage and commission payables		
Reinsurance payables		
Liabilities held for sale		
Non-current liabilities due within one year	87,329,367.25	107,001,393.82
Other current liabilities	48,192,008.81	67,434,388.00
Total current liabilities	2,972,995,413.88	3,010,092,270.82
Non-current liabilities:		
Insurance contract reserves		
Long-term borrowings		37,141,617.50
Bonds payable		
Including: Preferred shares		
Perpetual bonds		
Lease liabilities		
Long-term payables	65,461,963.55	37,742,329.02
Long-term salaries payable		
Estimated liabilities	77,771,212.05	558,467.38
Deferred revenue	6,756,829.50	6,966,655.18
Deferred income tax liabilities	5,266,932.29	5,362,198.02
Other non-current liabilities		
Total non-current liabilities	155,256,937.39	87,771,267.10
Total liabilities	3,128,252,351.27	3,097,863,537.92
Owners' equity:		

Share capital	797,848,400.00	797,848,400.00
Other equity instruments		
Including: Preferred shares		
Perpetual bonds		
Capital reserve	864,405,329.26	863,356,311.20
Less: Treasury shares		
Other comprehensive income	(3,029,259.75)	(1,671,948.29)
Special reserve		
Surplus reserve	187,753,923.88	187,753,923.88
General risk reserve		
Undistributed profits	(859,017,550.51)	(434,047,824.92)
Total equity attributable to owners of the parent company	987,960,842.88	1,413,238,861.87
Minority interests	(77,607,634.64)	(53,491,100.48)
Total owners' equity	910,353,208.24	1,359,747,761.39
Total liabilities and owners' equity	4,038,605,559.51	4,457,611,299.31

CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2022

Item	2022									
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profits	Subtotal	Minority interests	Total owners' equity
I. Balance at the end of the previous year	797,848,400.00	863,356,311.20	(1,671,948.29)		187,753,923.88		(434,047,824.92)	1,413,238,861.87	(53,491,100.48)	1,359,747,761.39
Add: Changes of accounting policy										
Correction of prior period errors										
Business combination under common control										
Others										
II. Balance at the beginning of the current year	797,848,400.00	863,356,311.20	(1,671,948.29)		187,753,923.88		(434,047,824.92)	1,413,238,861.87	(53,491,100.48)	1,359,747,761.39
III. Changes in the current period		1,049,018.06	(1,357,311.46)				(424,969,725.59)	(425,278,018.99)	(24,116,534.16)	(449,394,553.15)
(i) Total comprehensive income			(1,357,311.46)				(424,969,725.59)	(426,327,037.05)	(24,116,534.16)	(450,443,571.21)
(ii) Owners' capital injection and capital reduction		1,049,018.06						1,049,018.06		1,049,018.06
1. Ordinary shares contributed by owners										
2. Capital contributed by holders of other equity instruments										
3. Amounts of share-based payments recognized in owners' equity										
4. Others		1,049,018.06						1,049,018.06		1,049,018.06
(iii) Profit distribution										
1. Appropriations of surplus reserve										
2. Appropriations of general risk reserve										
3. Distribution to the owners (or shareholders)										
4. Others										
(iv) Transfer of owners' equity										
1. Transfer of capital reserve to capital (share capital)										
2. Transfer of surplus reserve to capital (share capital)										
3. Surplus reserve offsetting against losses										
4. Changes in defined benefit plans carried forward to retained earnings										
5. Other comprehensive income carried forward to retained earnings										
6. Others										
(v) Special reserve										
1. Appropriations during the period				20,412,158.71				20,412,158.71		20,412,158.71
2. Utilisations during the period				20,412,158.71				20,412,158.71		20,412,158.71
(vi) Others										
IV. Balance at the end of the current year	797,848,400.00	864,405,329.26	(3,029,259.75)		187,753,923.88		(859,017,550.51)	987,960,842.88	(77,607,634.64)	910,353,208.24

Item	2021								
	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. Balance at the end of the previous year	797,848,400.00	863,169,158.42	(2,015,577.82)		187,753,923.88	11,236.91	(66,030,056.80)	20,832,805.21	1,801,569,889.80
Add: Changes of accounting policy									
II. Opening balance of the current year	797,848,400.00	863,169,158.42	(2,015,577.82)		187,753,923.88	11,236.91	(66,030,056.80)	20,832,805.21	1,801,569,889.80
III. Changes in the current year		187,152.78	343,629.53			(11,236.91)	(368,017,768.12)	(74,323,905.69)	(441,822,128.41)
(i) Total comprehensive income			343,629.53				(368,017,768.12)	(364,546.25)	(368,038,684.84)
(ii) Shareholder' capital injection and capital reduction		187,152.78							187,152.78
1. Ordinary shares contributed by shareholders									
2. Capital contributed by holders of other equity instruments									
3. Amounts of share-based payments recognized in shareholders' equity									
4. Others		187,152.78							187,152.78
(iii) Profit distribution									
1. Appropriations of surplus reserve									
2. Appropriations of general risk reserve									
3. Distribution to the owners									
4. Others									
(iv) Transfer of 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				24,468,609.59					24,468,609.59
2. Utilisations during the year				24,468,609.59					24,468,609.59
(vi) Others						(11,236.91)		(73,959,359.44)	(73,970,596.35)
IV. Balance at the end of the current year	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

NOTES TO THE FINANCIAL STATEMENTS:

1. GENERAL

The Company was established in the People's Republic of China (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 the Company's registered office is No. 99 Xingshang Road, Gucheng Street, Shouguang City, Shandong Province, PRC and the principal place of business in Hong Kong is Floor 5, Kam Sang Building, No. 257, Des Voeux Road 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 design and R&D, processing and production, and sales services of products for the energy equipment industry. The main products included petroleum-drilling machinery equipment, petroleum and natural gas transportation equipment, petroleum and natural gas exploitation equipment, high-end casting products, etc. The Company's products were mainly used in relevant equipment production for the fields of petroleum and natural gas drilling, machinery processing, urban pipe network, wind power casting, etc.

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Group have been prepared on the basis of going concern, according to actual transactions and events as well as such requirements under the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, the Companies Ordinance of Hong Kong and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and based on the accounting policies and accounting estimates as described in "Significant Accounting Policies and Accounting Estimates". During the year, there were no material changes in the Group's accounting policies and accounting estimates.

3. 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 the year of 2022:

Item	2022	2021
Pile products	1,612,040,161.32	2,047,507,945.84
Three kinds of pumping units	34,259,710.39	25,281,830.99
Petroleum machinery parts	22,586,988.18	8,885,631.54
Tube blanks		815,847,918.60
Castings and forgings	982,447,617.23	710,405,198.10
Others	114,310,804.28	126,534,316.05
Total	2,765,645,281.40	3,734,462,841.12

4. 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 six 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 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 the financial statements.

Segment reporting information — the year of 2022

Item	Pipe products	Three kinds of pumping units	Petroleum machinery parts	Tube blanks	High-end castings and forgings	Others	Unallocated	Total
Operating revenue								
External transaction revenue	1,612,040,161.32	34,259,710.39	22,586,988.18		982,447,617.23	114,310,804.28		2,765,645,281.40
Inter-segment revenue								
Total segment operating revenue	1,612,040,161.32	34,259,710.39	22,586,988.18		982,447,617.23	114,310,804.28		2,765,645,281.40
Total operating revenue in financial statements	1,612,040,161.32	34,259,710.39	22,586,988.18		982,447,617.23	114,310,804.28		2,765,645,281.40
Segment expenses	1,554,523,315.06	31,894,330.98	22,159,723.65		1,002,344,610.06	113,233,249.16	61,267,202.09	2,785,422,431.00
Segment operating profit	57,516,846.26	2,365,379.41	427,264.53		(19,896,992.83)	1,077,555.12	(61,267,202.09)	(19,777,149.60)
Adjusted for:								
Administrative expenses							274,947,866.01	274,947,866.01
Research and development expenses							41,651,730.15	41,651,730.15
Finance costs							105,822,746.34	105,822,746.34
Investment income							(287,370.63)	(287,370.63)
Gain on disposal of assets							1,123.89	1,123.89
Other income							973,231.66	973,231.66
Operating profit in financial statements	57,516,846.26	2,365,379.41	427,264.53		(19,896,992.83)	1,077,555.12	(483,002,559.67)	(441,512,507.18)
Non-operating income							6,672,878.46	6,672,878.46
Non-operating expenses							11,202,613.91	11,202,613.91
Total profit	57,516,846.26	2,365,379.41	427,264.53		(19,896,992.83)	1,077,555.12	(487,532,295.12)	(446,042,242.63)
Income tax							2,893,204.74	2,893,204.74
Net profit	57,516,846.26	2,365,379.41	427,264.53		(19,896,992.83)	1,077,555.12	(490,425,499.86)	(448,935,447.37)
Total segment assets	2,437,943,105.49	86,426,227.49	44,267,577.33	312,178,273.71	477,427,227.97	285,827,813.09	394,535,334.43	4,038,605,559.51
Total segment liabilities	529,420,290.06	23,304,919.19	20,778,466.19	493,664,298.21	450,658,293.38	45,498,404.53	1,564,927,679.71	3,128,252,351.27

Segment reporting information — the year of 2021

Item	Pipe products	Three kinds of pumping units	Petroleum machinery parts	Tube blanks	High-end castings and forgings	Others	Unallocated	Total
Operating revenue								
External transaction revenue	2,047,507,945.84	25,281,830.99	8,885,631.54	815,847,918.60	710,405,198.10	126,534,316.05		3,734,462,841.12
Inter-segment revenue								
Total segment operating revenue	2,047,507,945.84	25,281,830.99	8,885,631.54	815,847,918.60	710,405,198.10	126,534,316.05		3,734,462,841.12
Total operating revenue in financial statements	2,047,507,945.84	25,281,830.99	8,885,631.54	815,847,918.60	710,405,198.10	126,534,316.05		3,734,462,841.12
Segment expenses	1,979,934,816.66	27,271,693.42	11,580,767.52	758,670,198.97	750,979,059.40	118,191,610.55		3,646,628,146.52
Segment operating profit	67,573,129.18	(1,989,862.43)	(2,695,135.98)	57,177,719.63	(40,573,861.30)	8,342,705.50		87,834,694.60
Adjusted for:								
Administrative expenses							278,990,958.47	278,990,958.47
Research and development expenses							57,076,465.12	57,076,465.12
Finance costs							115,447,705.15	115,447,705.15
Investment income							(169,863.60)	(169,863.60)
Gain on disposal of assets							399,239.27	399,239.27
Other income							2,335,726.68	2,335,726.68
Operating profit in financial statements	67,573,129.18	(1,989,862.43)	(2,695,135.98)	57,177,719.63	(40,573,861.30)	8,342,705.50	(448,950,026.39)	(361,115,331.79)
Non-operating income							5,272,356.06	5,272,356.06
Non-operating expenses							6,213,826.89	6,213,826.89
Total profit	67,573,129.18	(1,989,862.43)	(2,695,135.98)	57,177,719.63	(40,573,861.30)	8,342,705.50	(449,891,497.22)	(362,056,802.62)
Income tax							6,363,692.81	6,363,692.81
Net profit	67,573,129.18	(1,989,862.43)	(2,695,135.98)	57,177,719.63	(40,573,861.30)	8,342,705.50	(456,255,190.03)	(368,420,495.43)
Total segment assets	3,141,797,055.40	64,490,238.06	20,572,976.89	180,209,159.71	387,517,228.74	267,715,952.25	395,308,688.26	4,457,611,299.31
Total segment liabilities	986,167,467.81	12,439,302.38	10,815,112.02	227,342,205.34	335,342,170.30	39,748,547.64	1,486,008,732.43	3,097,863,537.92

(2) External transaction revenue by origin of revenue sources and non-current assets by location of assets

In the years of 2022 and 2021, the Group derived all external transaction revenue from the PRC and overseas but all of its assets were located in the PRC. Therefore, external transaction revenue by origin of revenue sources is disclosed as follows:

Item	2022	2021
External transaction income derived from the PRC	2,359,717,382.90	3,536,780,288.98
External transaction income derived from other countries	405,927,898.50	197,682,552.14
Total	2,765,645,281.40	3,734,462,841.12

5. FINANCE COSTS

Item	2022	2021
Interest expenses (bank borrowings due within one year)	117,884,825.33	114,302,110.50
Less: Interest expenses capitalized		
Less: Interest income	8,379,526.72	4,907,692.93
Foreign exchange difference	(7,676,880.94)	1,550,959.54
Others	3,994,328.67	4,502,328.04
Total	105,822,746.34	115,447,705.15

There was no capitalized borrowing costs in the year of 2022 (2021: 0).

6. OTHER INCOME

Unit: RMB

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		
Stability subsidies and social insurance subsidies		
Bonuses for technology upgrade and energy conversion	714,277.31	1,402,091.88
Bonuses for technology upgrade and energy conversion		
Grants for defense basement construction	35,954.30	35,954.30
Special funds for external trade development		
Reward for technological innovation patents and acquisition of international brands		106,000.00
Others	223,000.05	791,680.50
Total	973,231.66	2,335,726.68

7. ASSETS IMPAIRMENT LOSSES

Item	2022	2021
Loss on bad debts		
Including: Accounts receivable		
Other receivables		
Loss on impairment of inventories	(16,980,412.51)	(17,739,032.81)
Impairment loss on intangible assets		
Impairment loss of fixed assets		(95,162,618.61)
Provisions for loans		
Impairment loss on goodwill		
Total	(16,980,412.51)	(112,901,651.42)

8. CREDIT IMPAIRMENT LOSSES

Item	Amount for the period	Amount for the last period
Loss on bad debts of bills receivable	640,985.10	(707,677.86)
Loss on bad debts of accounts receivable	4,646,594.01	13,897,008.65
Loss on bad debts of other receivables	1,416,430.85	(633,778.05)
Impairment loss on loans		2,091,573.70
Creditor's Rights loss of Mother Company to Subsidiaries with Excess Loss	(67,971,212.05)	
Total	(61,267,202.09)	14,647,126.44

9. NON-OPERATING INCOME

Item	2022	2021
Government grants		
Penalty income		
Others	6,672,878.46	5,272,356.06
Total	6,672,878.46	5,272,356.06

10. TOTAL (LOSS) PROFIT

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

Item	2022	2021
Staff costs (including directors' remuneration)	253,656,649.51	238,853,255.44
Amortization of intangible assets	18,775,860.31	22,352,887.18
Auditor's remuneration (included in administrative expenses)	1,367,924.49	1,367,924.49
Cost of inventories recognized as expenses	2,675,212,319.74	3,514,477,916.63
Depreciation on fixed assets	199,175,368.21	223,973,971.67
Research and development expenses	33,412,376.94	49,978,469.51
Gain on disposal of fixed assets	1,123.89	399,239.27

11. INCOME TAX (CREDIT) EXPENSES

Item	2022	2021
Current income tax expenses	32,252.92	410,225.62
— Hong Kong		
— Mainland China	32,252.92	410,225.62
Deferred income tax expenses	2,860,951.82	5,953,467.19
Total	2,893,204.74	6,363,692.81

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% (2021: 15%) pursuant to the Enterprise Income Tax Law of the PRC.

The subsidiaries of the Company incorporated in Hong Kong were subject to the profits tax at the rate of 16.5% (2021: 16.5%) in Hong Kong.

12. (LOSSES)/EARNINGS PER SHARE

Item	2022	2021
Net (loss)/profit attributable to shareholders of the Company is calculated based on:		
Basic (losses)/earnings per share	(0.53)	(0.46)
Diluted (losses)/earnings per share	(0.53)	(0.46)
Net (loss)/profit from continuing operations attributable to shareholders of the Company is calculated based on:		
Basic (losses)/earnings per share	(0.53)	(0.46)
Diluted (losses)/earnings per share	(0.53)	(0.46)

13. DIVIDENDS

Item	2022	2021
Dividends recognized and distributed during the year	0	0
2022 final dividend — RMB0.00 per ordinary share	0	0

The Board does not recommend any payment of final dividend in respect of the year ended 31 December 2022. It has been proposed by the Board but shall be subject to approval from shareholders at the general meeting.

14. BILLS RECEIVABLE

Item	2022			2021		
	Balance of accounts receivable	Provision for bad debt	Net amount of accounts receivable	Balance of accounts receivable	Provision for bad debt	Net amount of accounts receivable
Bills receivable	173,280,558.57	1,732,805.59	171,547,752.98	237,379,069.40	2,373,790.69	235,005,278.71
Total	173,280,558.57	1,732,805.59	171,547,752.98	237,379,069.40	2,373,790.69	235,005,278.71

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

15. ACCOUNTS RECEIVABLE

Item	2022			2021		
	Balance of accounts receivable	Provision for bad debt	Net amount of accounts receivable	Balance of accounts receivable	Provision for bad debt	Net amount of accounts receivable
Accounts receivable	397,062,652.41	102,663,089.66	294,399,562.75	406,840,660.08	107,309,683.67	299,530,976.41
Total	397,062,652.41	102,663,089.66	294,399,562.75	406,840,660.08	107,309,683.67	299,530,976.41

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: Customers of tubes of Mainland China are normally subject to payment in advance of distribution and customers of oil casing of Mainland China 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 based on the date of invoice.

Age	2022	2021
Within 1 year	294,779,413.05	286,440,544.44
1 to 2 years	4,537,041.54	9,564,790.04
2 to 3 years	823.90	2,354,706.30
3 to 4 years	1,826,075.57	168,705.00
4 to 5 years	168,705.00	977,938.85
Over 5 years	95,750,593.35	107,333,975.45
Total	397,062,652.41	406,840,660.08

16. BILLS PAYABLE

Category	2022	2021
Bills payable	64,855,401.04	101,209,067.42
Total	64,855,401.04	101,209,067.42

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

17. ACCOUNTS PAYABLE

Category	2022	2021
Accounts payable	611,264,285.51	599,514,345.81
Total	611,264,285.51	599,514,345.81

The following is an aging analysis of accounts payables based on the date of invoice.

Age	2022	2021
Within 1 year	406,341,085.16	433,416,450.73
1 to 2 years	86,956,033.94	60,116,780.67
2 to 3 years	30,406,379.94	36,152,773.49
Over 3 years	87,560,786.47	69,828,340.92
Total	611,264,285.51	599,514,345.81

18. CAPITAL COMMITMENTS

The Group did not have any capital commitments as at the end of the year.

19. CONTINGENT LIABILITIES

Considering the fact that the lawsuit of the Subsidiary Shouguang Baolong has been yet ruled, the Company, after seeking legal advice, evaluated the possible liability for damage in the future and prepared the estimated liabilities at RMB9.8 million for the lawsuit based on the cautious principle.

ANNUAL RESULTS

For the year ended 31 December 2022, the Group recorded a revenue of RMB2,765,645,281.40, representing a decrease of approximately 25.94% as compared with last year. Net profit attributable to equity owners of the Company and earnings per share amounted to RMB-424,969,725.59 and RMB-0.53, respectively.

BUSINESS REVIEW

(I) Descriptions of the Group's main businesses during the reporting period

During the reporting period, the Group was mainly engaged in design, research and development, processing and manufacturing, sales service and export trade of products for the energy equipment industry. The main products included petroleum-drilling machinery equipment, petroleum and natural gas transportation equipment, petroleum and natural gas exploitation equipment and casting products. The Group's products were mainly used in petroleum and natural gas and other energy drilling, machinery processing, urban pipe network, wind power casting products, etc. During the reporting period, the main business of the Group was production and sales of dedicated equipment. Severely impacted by the domestic and foreign macroeconomic downturn, and as some order market demands decreased, the industry and supply chains did not function smoothly, resulting in a decline in the revenue.

The Group's main products are pipe products, casting and forging products. The Group adopted a "sales-based production" business model for production, i.e. the Sales Department coordinated with the production system of the Group for orderly production, inspection and delivery based on the marketing patterns and customer order plans. For the casting products, the Group adopted a "production-based sales" business model for casting products, i.e., the Group determined the production indicators and compiled the sales plans based on the production indicators. The Group adopted a centralized procurement model under which all raw materials, moulds and equipment were centrally purchased by the procurement department, which was also responsible for the signing of procurement contracts, procurement status follow-up, facilitating quality improvement of raw materials. 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 Group had a relatively mature sales network and has established dedicated sales companies and professional import and export teams, responsible for domestic and international market research, research and development, product sales and post-sales services, respectively.

(II) Basic information of the Group's industry during the reporting period

The Group was in the industry category of production and service of dedicated equipment for oil, natural gas and other energy exploitation, and the development and prosperity degree of oil, natural gas and other energy exploitation directly influenced the development status of the industry. Oil and natural gas are the material foundations for production and survival of humankind, and the important props for national economic development. Data have shown that China has constantly raised its consumption demands for oil and gas, and is still highly dependent on external supply of oil and natural gas. According to World and China's Energy Outlook in 2060, the world's demands for disposable energy was still on the rise, and it was vitally important to strengthen the energy supply capability. In the long term, the global economic growth rate, price cycles and consumption demands of oil and natural gas, the global expenses and scale of oil and gas exploitation and development, and "carbon neutrality and carbon peaking" policies of countries around the world are all decisive factors influencing the prosperity degree of the industry. During the reporting period, impacted by the sluggish global economy and geopolitical conflicts, etc., the global economic growth obviously slowed down, and the energy prices were still high. Confronted with complex and changeable external environments, the domestic oil and gas manufacturer kept strengthening exploitation and development, energetically promoted increase in reserve and production, solidly pushed forward the construction of major projects, and enhanced the oil and gas self-supply abilities. The oil and gas exploitation activities became vibrant gradually, and the oil and gas service industry saw an increasing prosperity degree.

2022 was the year of successfully holding the 20th National Congress of CPC and the key year of implementation of the "14th Five-year" Plan. National Energy Administration deeply implemented the spirit of the 20th National Congress of CPC, and decisions and arrangements made by the Central Government and the State Council on strengthening exploitation and development of oil and gas resources and increase in reserve and production of oil and gas resources. The Group, centering on firmly stabilizing the production of old oil fields, rapidly making breakthroughs in new oil fields and rapidly increasing the production in maritime space, vigorously promoted exploitation and development, and accomplished the objectives of important points of the "seven-year action plan". It intensified the exploitation and exploration of new gas fields, steadily consolidated the dominant position of conventional gas, and boosted the rapid production of non-conventional gas, consequently, shale oil witnessed the leap development in constant and rapid production and became the fresh force for steady crude oil production. The all-directional enhancement of exploitation and utilization of China's oil and gas resources is of important significance for focusing on the domestic market and safeguarding national energy security.

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

At the end of the reporting period, the Group's total assets were RMB4.039 billion, with a year-on-year decrease of 9.40%. The net assets attributable to shareholders of the Group were RMB988 million, with a year-on-year decrease of 30.09%. During the reporting period, the Group achieved an operating income of RMB2.766 billion, with a year-on-year decrease of 25.94%. Net profits attributable to shareholders of the Group was RMB-425 million. During the reporting period, the shortage of sales transportation was restricted, some production lines were in operation under capacity, and the price of orders of some products resulted in the decrease in product sales and operation revenue; raw material purchasing and product primary raw material (coal) went up, etc., all of them resulted in the increase in production costs and management expenses, and decrease in the gross interest rates of products. In accordance with Guidelines for the Application of Regulatory Rules - Accounting No. 3 promulgated by China Securities Regulatory Commission on 3 February 2023, the Group prepared the credit impairment losses for the creditor's rights of Shouguang Baolong Petroleum Equipment Co., Ltd. (壽光寶隆石油器材有限公司), the subsidiary with excess loss, which would impact the net profit attributable to the owners of the parent company in the Consolidated Financial Statement at the amount of RMB67.9712 million. The factors mentioned above together resulted in the operation performance loss.

PROSPECTS

(I) Future development trend of the Group's industry

In the long term, the oil and gas demands will continue to grow. The domestic and foreign economies are both facing the recovery demands, especially, the domestic economic development trend is gradually better, and the global energy demands still keep growing. It is estimated that the oil price will keep high, and this facilitates the ever-increasing demands for oil and gas exploitation and development, and the further recovery of industry prosperity.

As stated in the Report to the 20th National Congress of the CPC, we will thoroughly advance promote the energy revolution, make greater efforts to explore and develop oil and gas, discover more untapped reserves and increase production, strengthen the construction of the systems for energy production, supply, storage and marketing. Energy safety is the strategic and systematic issues affecting the overall socioeconomic development, and the fundamental support for the high-quality energy development. Driven by the national energy safety strategy, the safe and steady supply of oil and gas, green and low-carbon transformation, irreplaceability of traditional fossil energy and irreversibility of energy transition all make energy safety with oil and gas safety as the core the important topic relating to national socioeconomic development.

The “14th Five-year” Plan has raised requirements for oil and gas exploitation and development to promote the increase in reserve and production of oil and gas, and to keep the steady and growing production of crude oil and natural gas. Promoting the increase in reserve and promotion is a strategic choice to ensure national energy safety, and also a key to realize the goals of “carbon peaking and carbon neutrality”. From the perspective of resource conditions, China still has huge potential in increase in reserve and production of oil and gas in the future, and expects to continue improving the output and economical efficiency of unconventional gas. Impacted by the Russia-Ukraine Conflict, oil and gas supply has been a core concern of global energy safety. The strategic significance of oil and gas resources and long-term domestic supply-demand gaps urgently require China’s petroleum industry to strengthen exploitation and improve the exploitation efficiency. Especially since China put forward the promotion of energy consumption resolution, energy supply resolution, energy technology resolution, energy system resolution, and strengthening international cooperation, government departments led by National Energy Administration and Ministry of Natural Resources have continued promulgating and firmly implemented the policies and guidelines on strengthening oil and gas exploitation, the state-owned petroleum enterprises represented by CNPC, Sinopec and CNOOC introduced the “Seven-year Action Plans” to increase reserve and production one by one, and maintain higher capital expenditures for exploitation and development. National Energy Administration has emphasized that it will continue promoting increase in promotion and supply of oil and gas, expediting the rapid production of unconventional oil and gas, and boosting the construction of major pipeline projects and oil and gas reserve capacities.

Under the expectation that no fundamental changes will occur to China’s energy structure and status of oil and gas supply and demand in the long term, it is expected that the oil service industry and its downstream oil and gas exploitation and development industry will enjoy key policy support in the long run. Meanwhile, the influences from oil price fluctuation on capital expenditures of domestic oil enterprises with the policy support are weakened, effectively facilitating the development of China’s oil service industry.

(II) Business plans of the Group for 2023

In 2023, the Group will focus on the strategic objective of “being committed to becoming an internationally renowned energy equipment manufacturer and service provider”, adhere to the general tone of making progress while remaining stable, take the promotion of high-quality enterprise development as the main line, grasp opportunities and tackle difficulties, actively promote the development of main business, conscientiously implement every key task, endeavor to improve safe operation and normative governance, continue to optimize the enterprise management and operation quality, and strive to realize the steady enterprise development.

(1) Strengthen exchanges and cooperation, and boost the application and promotion of HIs melt

The Group will spare no efforts to make every preparation based on the technological promotion plan of the Group. The Group will strengthen the communication and exchanges with research institutions and user enterprises to make sure that every task can be accurately and timely implemented; keep close connection with industry peers, keep up with the technological development frontiers, constantly improve the working efficiency and service quality. Based on the technological promotion demands, the Group will constantly improve the reputation and competitiveness of the Group and HIs melt technology from the aspects of scientific and technological innovation, technological R&D, engineering service, etc. to facilitate its high-quality development.

(2) Strengthen the basic management to promote the quality and efficiency improvement

The Group will strictly pay attention to safety, environmental protection and production management, continue to implement safety education and training for all employees, practically raise their safety awareness and pre-control safety risks in advance. The Group will also strengthen equipment operation management, strictly implement hidden danger identification and rectification and ensure stable production operations. The Group will further consolidate basic management, pay attention to product quality, and establish a good reputation for the Group. Production process management will also be practically implemented and the Group will raise the awareness of cost control, reduce costs in various aspects exploit the potential, enhance the efficiency and improve the profitability.

(3) Adhere to “market-oriented” and optimize sales strategies

The Group, based on the market conditions, will timely adjust sales strategies, and constantly optimize the product and customer structures. It will focus on the key markets and accounts, prepare the tender and bidding work in the oilfield market; take full advantages of the industry, actively expand marketing channels, energetically promote the management of major projects, develop new application markets whilst solidifying the advantageous fields, increase the order volumes and capacities of high value-added products, and promote the formulation of diversified product structures to effectively raise the market share and promote the performance growth, endeavoring to improve the operation situation.

(4) Strengthen financing management and ensure capital security

The Group will connect and exchange with banks and other financial institutions well through strengthening bank-enterprise communication and strive to lower financing costs appropriately while maintaining or enhancing the credit scale. It will further strengthen the management of accounts receivable, speed up the turnover rate of accounts receivable, and reduce the occurrence of bad debts to ensure the capital security.

(5) Reinforce the internal control management and reduce operation risks

The Group will further perfect and complete the internal control management system, intensify internal audit, establish efficient monitoring and inspection mechanisms, regulate the specific business process and strengthen risk-resistance ability; continue to reinforce risk control and monitoring mechanisms at all levels, so as to lower the risks of corporate operation.

(6) Optimize the corporate governance and facilitate the standardized operation

The Group will further complete the relevant rules and regulations according to actual needs and ensure their effective implementation; continue to optimize the corporate governance structure and improve the standardized operation level, thereby providing guarantee for the Group’s high-quality development; establish more normative and transparent public company operation systems; optimise the internal control process and constantly perfect the risk prevention mechanisms, so as to guarantee healthy, stable and sustainable development of the Group .

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

(1) *Market risk*

The Group operates in the energy equipment manufacturing 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 cyclicity and volatility. At the time when oil prices are low, oil and gas companies will reduce capital expenditures accordingly, make less investment in to exploration and development and have lower demand for equipment and services in the oil and gas industry. The Group 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 Group will closely monitor if there is any fluctuation in raw material prices and will control the manufacturing costs of products such as by way of fixing raw material prices, adjusting the product prices and product mix in a timely manner as and when necessary.

(3) *Policy risk*

In recent years, the PRC has continuously raised safety and environmental protection requirements, and safety and environmental protection policies have become more frequently issued and stricter. Safety and environmental protection supervision has been continuously implemented. The improvement of emission standards is bound to increase the Group's environmental protection related costs. The Group is dedicated to create a safe, economical, efficient, advanced and environment-friendly industry chain of energy equipment manufacturing, strengthens the education on safety and environmental protection, deepens the investigation and treatment of latent safety hazards, adheres to a green, innovative and sustainability concept, vigorously pursues circular economy, maximizes resource utilisation, and increases environmental protection investment to ensure the waste discharges of the Group is up to standards.

(4) *Exchange rate risk*

Changes in the RMB exchange rate have impact on the Group's operating results. The Group will closely monitor the changes in exchange rates and will take timely measures to avoid any risks caused by changes in the RMB exchange rate.

(5) *Interest rate risk*

Interest rate risk refers to the risk of fluctuation of the fair value or the future cash flow of the financial instruments caused by the change of interest rate. Interest-bearing financial instruments with fixed interest rate expose the Group to interest rate risks at fair value, and those with floating interest rate expose the Group to interest rate risks of cash flow. The Group will determine the ratios of financial instruments at fixed interest rate and floating interest rate based on the market environment, and maintain appropriate financial instrument portfolios through regular check and monitoring.

Events after the Reporting Period

No major events of the Group need to be exposed after the reporting period and as of the announcement date.

SIGNIFICANT INVESTMENTS

During the year ended 31 December 2022, the Group did not have any significant investments.

MATERIAL ACQUISITION AND DISPOSAL DURING THE YEAR AND FUTURE INVESTMENT PLAN

During the year ended 31 December 2022, the Group did not have any acquisitions, disposals or future significant investment plans.

DIVIDEND

The Board does not recommend any payment of final dividend in respect of the year ended 31 December 2022. It has been proposed by the Board but shall be subject to approval from shareholders at the general meeting.

CORPORATE GOVERNANCE

The Company is committed to the achieving a high standard of corporate governance. The principles of corporate governance adopted by the Company emphasize a high-quality board of directors, sound internal control, and transparency and accountability to all shareholders. For the year ended 31 December 2022, the Company has complied with all the code provisions and most of the recommended best practices contained in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Company has introduced and will continue to adopt measures to comply with the changes to the Listing Rules regarding corporate governance. Details of the corporate governance of the Company are set out in the Corporate Governance Report in the annual report of the Company for the year ended 31 December 2022. In addition, during the year, external independent internal control consultants were appointed to review the internal control and financial reporting of the Company.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

On 21 September 2022, Mr. Lin Jun has resigned as a supervisor of the Company for personal work arrangements.

The resolution on by-election of Mr. Li Jing Wei as non-employee representative supervisor of the 7th Board of Supervisors has been approved by shareholders at the extraordinary general meeting of the Company convened on 21 September, 2022, and his term of office will last until the end of term of the 7th Board of Supervisors from the date of approval at the extraordinary general meeting.

AUDIT COMMITTEE

The Company's audit committee (its members consist of three independent non-executive directors of the Company) held six meetings in 2022 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 2022.

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, the same is also applicable to the Company’s senior management. Having made specific enquiries by the Company, all directors of the Company confirmed that they have fully complied with the Model Code throughout the year of 2022.

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 2022.

CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The annual general meeting for the year of 2022 of the Company is expected to be held on 19 May 2023. A notice convening the annual general meeting will be published and dispatched to shareholders of the Company in due course.

The register of members of H shares of the Company (“**H Shares**”) will be closed from Tuesday, 17 May 2023 to Friday, 19 May 2023 (both days inclusive), during which no transfer of the H Shares will be effected. In order to qualify to 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, on Floor 17, Far East Financial Center 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Friday, 15 May 2023.

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 2022 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*
Yuan Rui
Chairman

Shandong, the PRC
31 March 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 and Mr. Yao You Ling; the non-executive Directors, namely Mr. Wang Quan Hong and Mr. Liu Ji Lu; and the independent non-executive Directors, namely Mr. Tang Qing Bin, Mr. Song Zhi Wang and Mr. Cai Zhong Jie.

* *For identification purposes only*