Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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)

INSIDE INFORMATION

ANNOUNCEMENT IN RELATION TO THE PROVISION FOR ASSETS IMPAIRMENT

This announcement is made by Shandong Molong Petroleum Machinery Company Limited (the "**Company**") pursuant to the Inside Information Provisions (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and Rule 13.09(2) and Rule 13.10B of the Listing Rules.

The 2nd extraordinary meeting of the sixth session of the board of directors (the "**Board**") of the Company, and the 1st extraordinary meeting of the sixth session of the supervisory committee (the "**Supervisory Committee**") of the Company were convened on 26 February 2020, at which the resolution in relation to the provision for 2019 assets impairment (the "**Impairment Resolution**") was considered and approved. Details in respect of the Impairment Resolution are set out below:

I. OVERVIEW OF INDIVIDUAL PROVISION FOR ASSETS IMPAIRMENT

For true and accurate reflection of the financial status, asset value and operation result of the Company, investigation and analysis were carried out in accordance with relevant requirements under the Accounting Standards for Business Enterprises (the "**ASBE**")for assets of the Company and its subsidiaries in the consolidated financial report as of 31 December 2019 which showed indication of impairment. The Company made an aggregate provision for potential loss in assets impairment.:

Item	Provision for assets impairment (000')	Portion in 2018 audited net profit attributable to shareholders of listed companies
Depreciation of inventory	14,308.1	15.47%
Impairment of goodwill value	23,683.4	25.61%
Impairment of account receivable	4,768.6	5.16%

Credit impairment of other receivables	2,102.8	2.27%
Credit impairment of notes receivable	2,602.4	2.81%
Credit impairment of loans and advances	7,256.0	7.85%
Total	**54,721.3**	**59.17%**

The above figures are preliminary accounting data, which are subject to the amounts of the annual audited report to be issued by the accounting firm.

II. EFFECT ON THE COMPANY OF INDIVIDUAL PROVISION FOR ASSETS IMPAIRMENT

The provision for assets impairment in the consolidated financial statements of the Company totaled RMB54.72 million for 2019, and as a result of which, total profit and net profit decreased by RMB54.72 million and RMB50.00 million for 2019, respectively. This provision for asset impairment is within the Company's estimated 2019 annual result and will not affect the Company's estimated 2019 annual result disclosed.

III. DETAILS OF INDIVIDUAL PROVISION FOR ASSETS IMPAIRMENT

(1) Provision for impairment of assets for depreciation of inventory

The company's inventory at the end of the financial year is measured at the lower of cost and net realisable value. When the net realisable value of the inventory is lower than the cost, provision for inventory depreciation is made. Provision for inventory depreciation of inventory goods and bulk raw materials are prepared based on the difference between the cost of a single inventory item and its net realisable value. Provision for inventory depreciation of other raw materials and auxiliary materials with a large quantity and low unit price are prepared by category. The net realisable value of inventory of goods, work in progress, and materials used for sale, etc., is determined by the estimated selling price of the inventory minus the estimated sales expenses and related taxes and fees. The net realisable value of the material inventory held is determined by the estimated selling price of the finished product minus the estimated costs to be incurred upon completion, the estimated selling expenses and related taxes and fees. According to the above policy, the company made provision for inventory impairment of RMB 14.30 million.

(II) Provision for impairment of assets of goodwill

According to the accounting standards, the goodwill formed by corporate merger shall be tested for impairment at least at the end of each year. Goodwill shall be tested for impairment in combination with the asset group or combination of asset groups associated with it.

The Company acquired the entire equity of Shouguang Maolong New Material Technology Development Co., Ltd.* (formerly known as “Shouguang Maolong Machinery and Electric Co., Ltd.*") in 2007, forming a goodwill of RMB 142.97 million, and then allocated the goodwill to Weihai Baolong Asset group, Molong asset group portfolio, Maolong new material asset group. As of the end of year 2018, the company accrued a total of RMB 119.29 million in provision for impairment of goodwill in accordance with relevant accounting standards.

Due to the poor operating performance of the asset group in which the goodwill is located in 2019, there are signs of impairment. According to the regulatory requirements of the "Accounting Regulatory Risk Tips No. 8-Impairment of Goodwill*", the company has hired an assets evaluation agent with qualifications in securities and futures to conduct an impairment test on the Company's goodwill. According to the preliminary calculation of the Company's finance department, provision for impairment of goodwill was RMB 23,68 million. The final figure shall be based on the report issued by the assets evaluation agent.

(III) Provision for credit impairment of accounts receivable

For notes receivable and accounts receivable, the Group uses the expected credit loss method to make provision for bad debts. For notes receivables and account receivables with significantly different credit risks, the expected credit loss is determined individually. In addition to the notes receivable and accounts receivables that the expected credit loss shall be determined individually, the Group adopts an expected credit loss model based on portfolio characteristics to calculate the expected credit loss for notes receivable and accounts receivable through the default risk exposure and expected credit loss rate of notes receivable and accounts receivable, and determine the expected credit loss rate based on the probability of default and the default loss rate.

The expected credit loss rate is shown in the table below.

Age of receivable	Expected credit loss rate for accounts receivable	Expected credit loss rate for notes receivable
1 year	1%	1%
1-2 years	50%	50%
2-3 years	75%	75%
3-5 years	85%	85%
5years or above	100%	100%

The methods for determining expected credit losses of other receivables and accounting treatment methods:
The Group measures other receivables loss allowances in accordance with the following circumstances: (i) for financial assets whose credit risk has not increased significantly since initial realisation, and the Group measures the loss allowances based on the expected credit loss in the next 12 months; (ii) for financial assets whose risks have significantly increased since initial recognition, the Group measures the loss provision at an amount equivalent to the expected credit loss over the life of the financial instrument; (iii) for purchased or created financial assets that have suffered credit impairment, The Group measures the loss allowance at an amount equivalent to the expected credit loss over the entire life of such assets and performed portfolio-based assessment. For other receivables that the Group cannot obtain sufficient evidence of a significant increase in credit risk at

a reasonable cost at the individual instrument level while it is feasible to assess whether the credit risk has increased significantly on a portfolio basis. So the Group, based on type of financial instrument, credit risk rating collateral type, initial confirmation date, remaining contract term, and common risk characteristic such as industry of the borrower or loan mortgage rate, groups other receivables and assesses whether the credit risk has increased significantly based on the combination. Also, the Group groups other receivables according to their nature and assesses whether credit risk has increased significantly.

(IV) Provision for credit impairment on loans and advances

According to the mortgage guarantee situation and status of the loan, the Company classified the loan into five classes of normal, concern, subordinate, suspicious, and loss for credit impairment testing in accordance with the five-class classification of loans. The Company expected that the provision for credit impairment of the year would be RMB 7.3 million. The expected credit loss model is shown in the following table:

Classes	Provision proportion
Normal	1.50%
Concern	11.00%
Subordinate	34.00%
Suspicious	61.00%
Loss	100.00%

IV. OPINIONS OF INDEPENDENT DIRECTORS ON PROVISION FOR ASSETS IMPAIRMENT

The independent directors of the Company are of the view that the provision for assets impairment is well substantiated, complies with the ASBE and the accounting policy of the Company, and provides more true, reliable and accurate accounting information to investors. The decision-making process of the provision for assets impairment is lawful and in line with the requirements of relevant laws, regulations and the articles of association of the Company, and does not prejudice the interest of the Company and its shareholders, in particular minority shareholders, as a whole.

V. OPINIONS OF THE AUDIT COMMITTEE OF THE BOARD ON PROVISION FOR ASSETS IMPAIRMENT

The audit committee of the Board is of the view that the provision for assets impairment is in line with the ASBE and the accounting policy of the Company. Following the provision for assets impairment, it reflects more truly and fairly the financial positions of the Company as of December 31, 2019 and the operating results for 2019, which helps to provide more true, reliable and accurate accounting information to investors.

VI. OPINIONS OF THE SUPERVISORY COMMITTEE ON PROVISION FOR ASSETS IMPAIRMENT

The Supervisory Committee of the Company is of the view that the provision for assets impartment complies and is in line with the ASBE and the accounting policy of the Company, is well substantiated and gives a fair view of the actual assets and financial positions of the Company.

By order of the Board
Shandong Molong Petroleum
Machinery Company Limited
Chairman
Liu Yunlong

Shandong, PRC
26 February 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 purposes only