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 ASSET IMPAIRMENT IN 2021

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

For the true and accurate reflection of the financial status, asset value and operation results of the Company, thorough review and analysis were made by the Company in accordance with the relevant requirements under the Accounting Standards for Business Enterprises (the "ASBE") on the assets as presented in the consolidated financial report as of 31 December 2021. Assets with potential impairment loss were tested for impairment and provision for impairment thereon was made. In addition, fixed assets with no value-in-use were written-off and recorded loss therefor. Details of which are as follows:

I. SCOPE AND TOTAL AMOUNT OF ASSETS FOR WHICH IMPAIRMENT WAS PROVIDED

The asset items for which impairment was provided by the Company primarily included accounts receivable, other receivables, inventories and fixed assets. In 2021, the total provision made for impairment of all assets amounted to RMB98,254,500. The table below illustrates the breakdown of asset impairment provision made in 2021:

Unit: RMB'0,000

Asset items on which impairment is provided	Provision for impairment made for the period	Impact on the income and loss for the period
Provision for bad debt allowances on accounts receivable	-1,389.70	-1,389.70
Provision for bad debt allowances on bills receivable	70.77	70.77

Asset items on which impairment is provided	Provision for impairment made for the period	Impact on the income and loss for the period
Provision for bad debt allowances on other receivables	63.38	63.38
Provision for impairment of loans and advances	-209.16	-209.16
Provision for devaluation of inventories	1,773.90	1,773.90
Provision for impairment of fixed assets	9,516.26	9,516.26
Impact on total profit per consolidated statements	**9,825.45**	**9,825.45**

II. REASONS FOR THE PROVISION FOR ASSET IMPAIRMENT

(I) Reasons for the impairment provision for inventory devaluation

Inventories of the Company is measured at the lower of the cost and the net realizable value as at the end of the period. Provision for inventory devaluation is made when the net realizable value is lower than the cost. Net realizable value of held-for-sale inventories, including goods-in-stock, work-in-progress and held-for-sale raw materials, are determined by their estimated selling prices less the estimated selling expenses and related taxes. Net realizable value of held-for-production raw materials are determined by their estimated selling prices of the finished products less the estimated production cost to be incurred until completion, estimated selling expenses and related taxes. Under the aforesaid policy, a provision of RMB17,739,000 for inventory impairment was made by the Company.

(II) Reasons for the impairment provision for fixed assets

During the reporting period, the Company conducted a review on its fixed assets. When there exists an indication indicating that one asset or a group of assets maybe impaired, the recoverable amount shall be estimated on the basis of an individual asset of an asset group. The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

Judgement is made to identify whether there exists any indication of impairment in a fixed asset. Impairment test is conducted on the relevant asset when indication of impairment is identified. Impairment of certain asset groups is made on the basis of the assessment results by the professional assessment firms appointed by the Company. The amount of provision for impairment shall be recognized as the anticipated recoverable amount less the net carrying amount of the asset. The provision for impairment of fixed asset is irreversible in the subsequent accounting period once recognized. Under the aforesaid policy, a provision of RMB95,162,600 for fixed asset impairment was made by the Company.

(III) Reasons for the provision for credit impairment on accounts receivable and bills receivable

1. For bills receivable and accounts receivable, the Company adopts an expected credit loss approach to provide for allowances for bad debts. For bills receivable and accounts receivable which have significant different credit risk, expected credit loss is determined on an individual basis. Apart from determining expected credit loss on bills receivable and accounts receivable on an individual basis, the Company also adopts an expected credit loss model based on common characteristics to calculates the expected credit loss on accounts receivable and bills receivable using the exposure to default risk exposure and expected credit loss rate of accounts receivable and bills receivable, and determines the expected credit loss rate based on default probability and default loss rate. The expected credit loss rates are illustrated in the following table.

Aging	Expected credit loss rate of accounts receivable	Expected credit loss rate of bills receivable
Within 1 year	1%	1%
1–2 years	50%	50%
2–3 years	75%	75%
3–5 years	85%	85%
Over 5 years	100%	100%

2. Other receivables. Recognition and accounting methods for expected credit loss on other receivables. The Company measures the loss allowance on other receivables according to the following circumstances: ① for financial assets that the credit risk has not increased significantly since initial recognition, the Company measures the loss allowance at an amount of future 12-month expected credit losses; ② for financial assets that the credit risk has increased significantly since initial recognition, the Company measures the loss allowance at an amount equal to the lifetime expected credit losses of the financial instrument; ③ for purchased or originated credit-impaired financial assets, the Company measures the loss allowance at an amount equal to the lifetime expected credit losses. Assessment made on a combined basis. For other receivables, the Company is unable to obtain sufficient evidence for any significant increase in credit risk at reasonable cost for one instrument, but finds it feasible to assess whether there is any significant increase in credit risk on a combined basis, therefore, by taking the type of financial instruments, credit risk rating, collateral type, date of initial recognition, remaining periods of time to maturity under remaining contracts, industry the borrower operates in and loan pledge rate as the common characteristics of risk, the Company categorizes other receivables into different groups and considers and assesses whether there is any significant increase in credit risk on a combined basis. The Company categorizes other receivables into groups by nature and assesses whether there is any significant increase in credit risk.

Under the aforesaid policy, a provision of -RMB13,897,700 for bad debt allowances on accounts receivable (mainly related to accounts receivable that was individually provided for bad debt allowances and recovered in the year), RMB707,700 for bad debt allowances on bills receivable, and RMB633,800 for bad debt allowances on other receivables were made by the Company.

(IV) Reasons for the provision for credit impairment on loans and advances

The Company conducts impairment test based on the securities and guarantees and status of the loans according to the five-class classification. Since the loans and advances for which a credit loss allowance was provided during the reporting period have been recovered in the period, an impairment provision of RMB2,091,600 was reversed accordingly.

III. RATIONALITY FOR THE PROVISION FOR ASSET IMPAIRMENT

The provision for asset impairment was made in accordance with the relevant requirements under the ASBE and the accounting policies of the Company, was in line with the actual situation of the Company, and has fairly, objectively and truly reflected the financial situation, asset value and operating results of the Company. The financial data in relation to the provision for asset impairment has been audited by an accounting firm.

IV. IMPACT ON THE COMPANY OF THE PROVISION FOR ASSET IMPAIRMENT AND WRITE-OFF OF ASSETS

The total profit as shown on the 2021 consolidated statements of the Company, the net profit of the Company and the net profit attributable to shareholders of the listed company shall be reduced by RMB98,254,500, RMB98,254,500 and RMB71,023,700 respectively by the provision for asset impairment in 2021.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Shandong Molong Petroleum Machinery Company Limited*
Yang Yun Long
Chairman

Shandong, the PRC
30 March 2022

As at the date of this announcement, the board of directors comprises the executive Directors, namely Mr. Yang Yun Long, 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*