

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibilities 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)

ANNOUNCEMENT IN RELATION TO PROVISION FOR ASSET IMPAIRMENT FOR 2023

This announcement is made pursuant to Rules 13.09 and 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 in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

In accordance with the relevant provisions of the Accounting Standards for Business Enterprises, , in order to truly and accurately reflect the financial status of Shandong Molong Petroleum Machinery Company Limited* (the “**Company**”) as at 31 December 2023 and its operating results for 2023, the Company's has conducted a comprehensive inspection and analysis of relevant assets in the consolidated financial statements as at 31 December 2023, conducted impairment tests on assets that may be subject to impairment losses, and made provision for asset impairment. The details are set out as follows:

A. SOCPE OF ASSETS AND TOTAL AMOUNT OF PROVISION FOR ASSET IMPAIRMENT

The asset projects for which the company has made provision for asset impairment this time mainly include fixed assets, accounts receivable, notes receivable, other receivables, inventories, excess loss receivables subsidiary Shouguang Baolong Petroleum Equipment Co., Ltd. ("Shouguang Baolong Petroleum Equipment Co., Ltd." Estimated losses on creditor's rights, etc. In 2023, a provision for impairment of various assets of RMB 240.9058 million will be made. The details of impairment provisions for various assets are as follows:

Unit : RMB 0,000

Asset impairment provision items	Amount of provision for impairment in the current period
Bad debt losses on notes receivable	-94.49
Bad debt losses on accounts receivable	-219.32
Bad debt losses on other receivables	-10.33
Estimated losses on claims against excessive loss-making subsidiaries	1,295.88
Inventory depreciation loss	1,356.66
Impairment losses on fixed assets	21,762.18
Total	24,090.58

B. REASONS FOR PROVISION FOR ASSET IMPAIRMENT

1. Reasons for provision of credit impairment provisions for accounts receivable, notes receivable, and other receivables

According to accounting standards and the company's relevant accounting policies, the provisions for bad debt losses on accounts receivable, other receivables, and notes receivable are based on information such as age of the accounts, nature of the accounts, credit risk exposure, historical payment collection, etc. The similarity and correlation of credit risk characteristics are grouped to measure the amount of expected credit losses.

According to the above policy, the Company has made provision for bad debts of accounts receivable of - RMB2.1932 million; provision for bad debts of notes receivable of - RMB944,900; provision for bad debts of other receivables of - RMB103,300.

2. Reasons for the provision of credit impairment provisions for the expected losses on the debts of Shouguang Baolong, an excess loss subsidiary

According to the "Guidelines for the Application of Regulatory Rules - Accounting No. 3" issued by the China Securities Regulatory Commission on 3 February 2023, Section "3-4 How to consider the impact of claims receivable from subsidiaries when calculating profits attributable to owners of the parent company" stipulates that when a parent company has receivables from a subsidiary with excess losses, if there is no special agreement between the parent company's owners and minority shareholders on the sharing of excess losses, the parent company shall comprehensively consider factors such as the subsidiary's operating conditions, financial status and external operating environment. If it is concluded that the amount receivable from a subsidiary has suffered substantial losses and cannot be recovered in the future, the entire amount of the loss arising from the creditor's rights shall be included in the "profit attributable to the owners of the parent company" in the consolidated financial statements, the excess losses after deducting the amount of creditor's rights losses will be included in the "profit attributable

to the owners of the parent company" and "minority shareholders' profits and losses" respectively according to the distribution ratio of the parent company's owners and minority shareholders to the subsidiary.

In order to truly reflect the Company's asset position, the Company has made provision for credit impairment loss of RMB 12.9588 million for Shouguang Baolong's debts in accordance with the aforementioned "Guidelines for the Application of Regulatory Rules - Accounting No. 3".

3. Reasons for accruing asset impairment provisions due to inventory depreciation

The Company's closing inventory is measured at the lower of cost and net realizable value. When the net realizable value of the inventory is lower than the cost, a provision for inventory depreciation is made. For merchandise inventories that are directly used for sale, such as inventory, work in progress, and materials for sale, the net realizable value is determined based on the estimated selling price of the inventory minus the estimated sales expenses and related taxes. The net realizable value of material inventories held for production is determined based on the estimated selling price of the finished goods produced minus the estimated costs to be incurred upon completion, estimated sales expenses and related taxes. According to the above-mentioned policy, the Company has made inventory impairment provisions of RMB 13.5666 million.

4. Reasons for provision of asset impairment provisions for fixed assets

On the balance sheet date, the Company will assess whether there are signs of impairment of various long-term assets. If there are signs of impairment, the Company will estimate its recoverable amount and conduct an impairment test. The Company uses the calculation method of comparing the estimated recoverable amount with the book value to calculate the Company's long-term asset impairment provisions. At the same time, the Company engaged a professional valuer to evaluate the recoverable amount of the Company's relevant assets. According to the valuation of the valuer (valuation report number: Kun Xin Ping Bao Zi [2024] 024, Kun Xin Ping Bao Zi [2024] 025 No., Kun Xin Ping Bao Zi [2024] No. 026, Kun Xin Ping Bao Zi [2024] No. 027), a fixed asset impairment provision of RMB 217,621,800 was made.

The impairment test of fixed assets is as follows:

- a) The recoverable amount is determined based on the net amount of fair value minus disposal costs:

Unit : RMB

Item	Book value	Recoverable amount	Impairment amount	Method to determine fair value and disposal costs	Key parameters	Basis for determining key parameters
Smelting reduction equipment	205,336,578.44	158,225,070.98	47,111,507.46	The fair value adopts the asset-based method, and the disposal expenses are expenses related to the disposal of assets.	Replacement cost, comprehensive newness rate, economic depreciation rate, disposal costs	Note 1
Shouguang Maolong production line	599,168,748.36	455,314,912.99	143,853,835.37			

Note 1: A. Replacement cost of building (structure) assets: comprehensive construction cost, upfront and other expenses, capital cost and deductible value-added tax; replacement cost of machinery and equipment (including vehicle electronic equipment): including: equipment purchase price, transportation and miscellaneous fees, installation and commissioning fees, basic fees, upfront and other fees, capital costs and related taxes; B. Comprehensive newness rate: The comprehensive newness rate is determined by combining the theoretical newness rate and the survey newness rate; C. Economic depreciation rate = $[1 - (\text{Industry average annual utilization production capacity} / \text{annual design production capacity}) \times X] \times 100\%$ (Note: X economies of scale index); D. Disposal costs: Based on the specific disposal conditions of the assets, estimate the legal fees, related taxes, transportation fees and direct costs incurred to bring the assets to a saleable state.

- b) The recoverable amount is determined based on the present value of expected future cash flows:

Unit : RMB

Item	Book value	Recoverable amount	Impairment amount	Forecast period (year)	Key Parameters for the Forecast Period
180 tube production line	356,476,900.00	329,820,400.00	26,656,500.00	7	Revenue growth rate, discount rate

C. REASONABLENESS OF THE PROVISION FOR ASSET IMPAIRMENT

This provision for asset impairment is in compliance with the relevant provisions of the Accounting Standards for Business Enterprises and the Company's accounting policies, is in line with the Company's actual situation, and can fairly, objectively and truly reflect the Company's financial position as at 31 December 2023 and its 2023 operations results. The financial information related to the provision for asset impairment has been audited by an accounting firm.

D. IMPACT OF THE PROVISION FOR ASSET IMPAIRMENT ON THE COMPANY

The various asset impairment provisions made in 2023 will reduce the Company's total profit in the consolidated financial statements in 2023 by RMB240.9058 million, reduce the Company's net profit by RMB240.9058 million, reduce the net profit attributable to shareholders of the listed company by RMB240.9058 million, and reduce the net assets attributable to shareholders of the listed company by RMB240.9058 million.

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

By order of the Board
Shandong Molong Petroleum Machinery Company Limited*
Yuan Rui
Chairman

Shandong, the PRC
28 March 2024

As at the date of this announcement, the board of directors of the Company comprises the executive Directors, namely Mr. Yuan Rui, Mr. Yao You Ling, Mr. Li Zhi Xin and Mr. Zhao Xiao Tong; the non-executive Directors, namely Mr. Ding Yi and 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 purposes only*