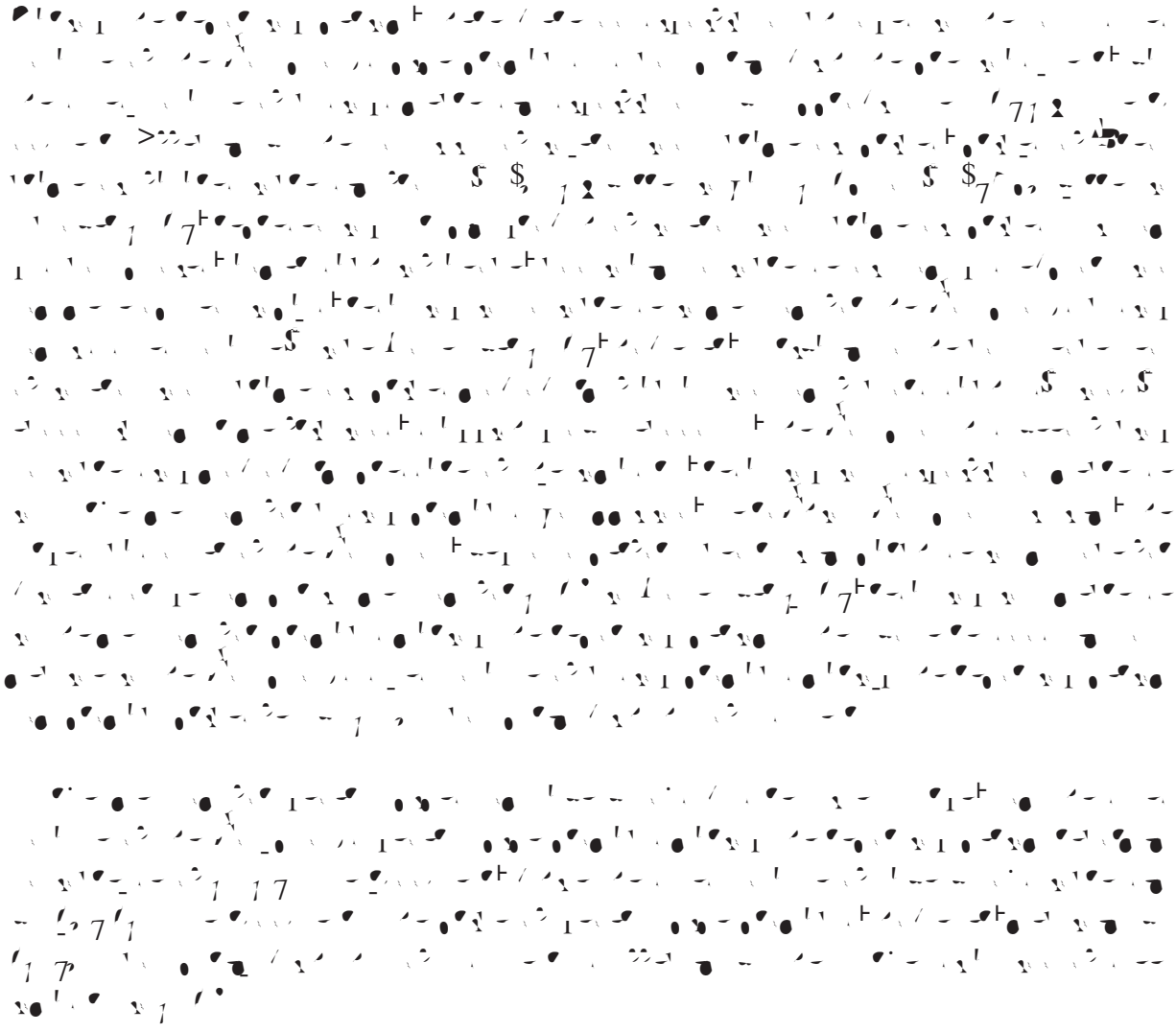
山東 石油機械股份有限
ong Molong Petroleum Machinery Company

(1) In terms of sales and production volumes of the Company's pipe products and tube blanks for the period, illustrate the changes in average sales price and purchase price of the Company's pipe products and tube blanks in the last three years, and illustrate the rationality of the changes in the average sales price and purchase price of the pipe products and tube blanks in terms of the downstream demand analysis of the Company's products and the price analysis of similar products of peer companies:

Reply:

1) Analysis of changes in average sales price of pipe products and tube blanks:



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Product	2019 Average sales price	2018 Average sales price	2019 increase/ decrease compared with 2018	2017 Average sales price

②

Product	2019 Average sales price	2018 Average sales price	2019 increase/ decrease compared with 2018	2017 Average sales price

2) Analysis of changes in average purchase price of raw materials:

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(2) In terms of the development of the industry, analysis of competitors and changes in the gross profit margins of peer comparables during the reporting period, illustrate the reasons and rationality for the decrease in the gross profit margin of the Company during the reporting period. Annual audit accountant please verify and give clear opinion.

Reply:

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[illegible]

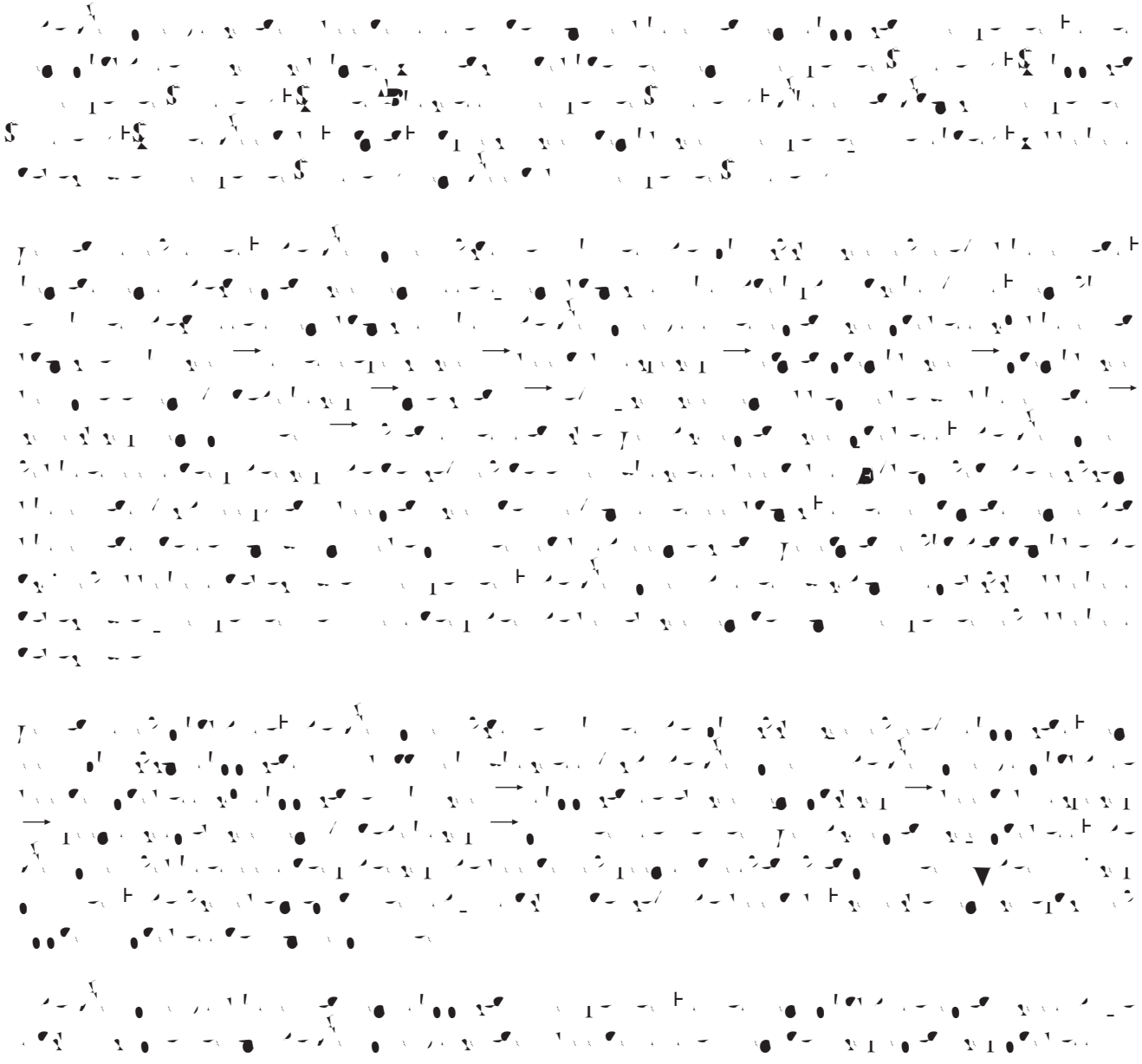
[illegible]

[illegible]

2. **During the reporting period, the aggregate sales to the Company's five largest customers accounted for 47.91% of the total sales for the year, while the aggregate purchases from the five largest suppliers accounted for 27.94% of the total purchases for the year.**

   (1) **Illustrate whether the internal control system and operating process related to the Company's customer and supplier management, sales and purchase are strictly implemented in accordance with the relevant system:**

   Reply:



(2) Illustrate whether the business scope, business qualification and business and personnel scales of the five largest customers and suppliers of the Company correspond with the sales or purchase scale of the Company:

Reply:

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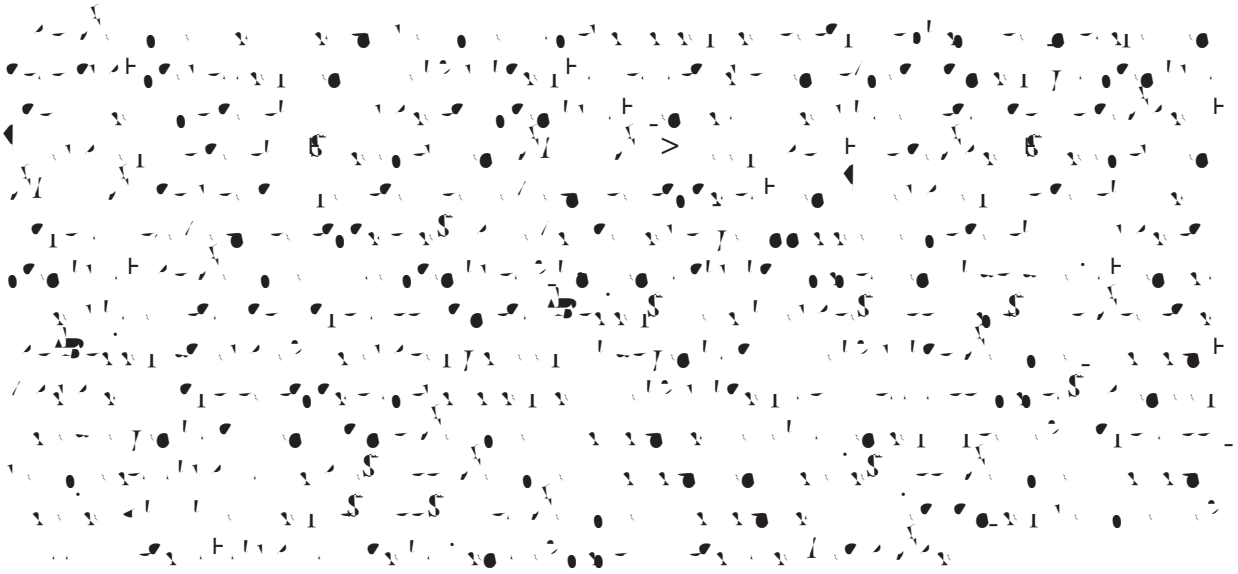
No.	Name of customer	Registered capital (RMB'0,000)	Nature of company	Business scope and nature	Number of staff



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No.	Name of supplier	Registered capital (RMB'0,000)	Business scope and nature	Number of staff

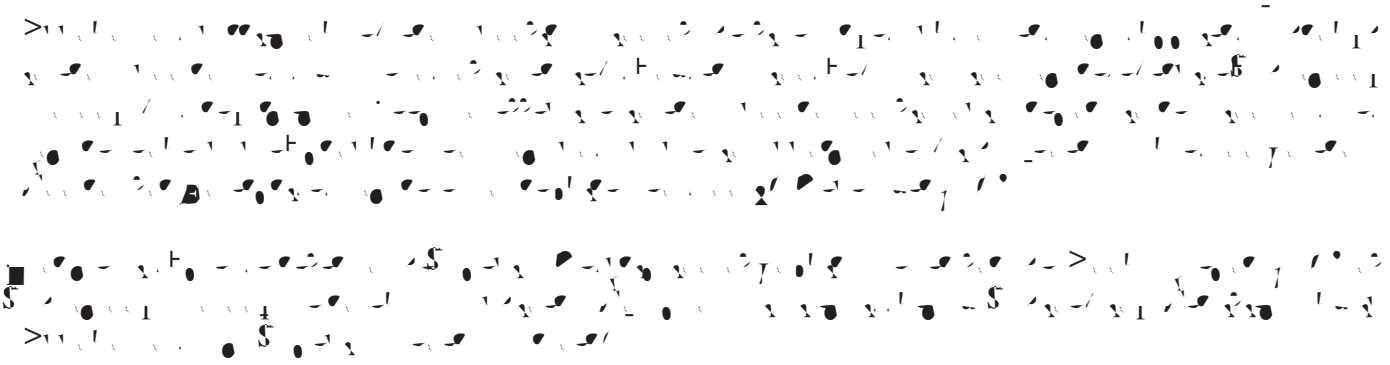
(3) Illustrate whether the five largest customers and suppliers and their respective controlling shareholders and beneficial controllers are related to the Company, the Company's beneficial controllers, shareholders who own more than 5% of the Company and directors, supervisors and senior executives.

Reply:



The annual auditor please: (1) illustrate the specific external confirmation of the five largest customers and suppliers of the Company in the reporting period, including but not limited to the object and amount of the external confirmation, reply status and whether alternative tests have been carried out; (2) illustrate the specific internal control test carried out on the sales and revenue cycle and procurement and cost cycle, and whether they are aware of any unusual situation.

Verification opinion from accountant:



3. At the end of the reporting period, the book balance of the Company's inventory was RMB957 million, and the provision for impairment of inventory was RMB21.73 million. The gross profit margin of the Company's main products, tube blanks, for the period was -2.1%. Please illustrate the balance of inventory – tube blanks and the provision for impairment of inventory, and, in terms of the calculation process of net realisable value of inventory – tube blanks, illustrate whether the provision for impairment of inventory – tube blanks was sufficient and prudent. The annual audit accountant please verify and give clear opinion.

Reply:

Types of inventory	Amount of inventory (tons)	Cost of inventory (RMB'0,000)	Net realizable value (RMB'0,000)	Provision for impairment of inventory (RMB'0,000)

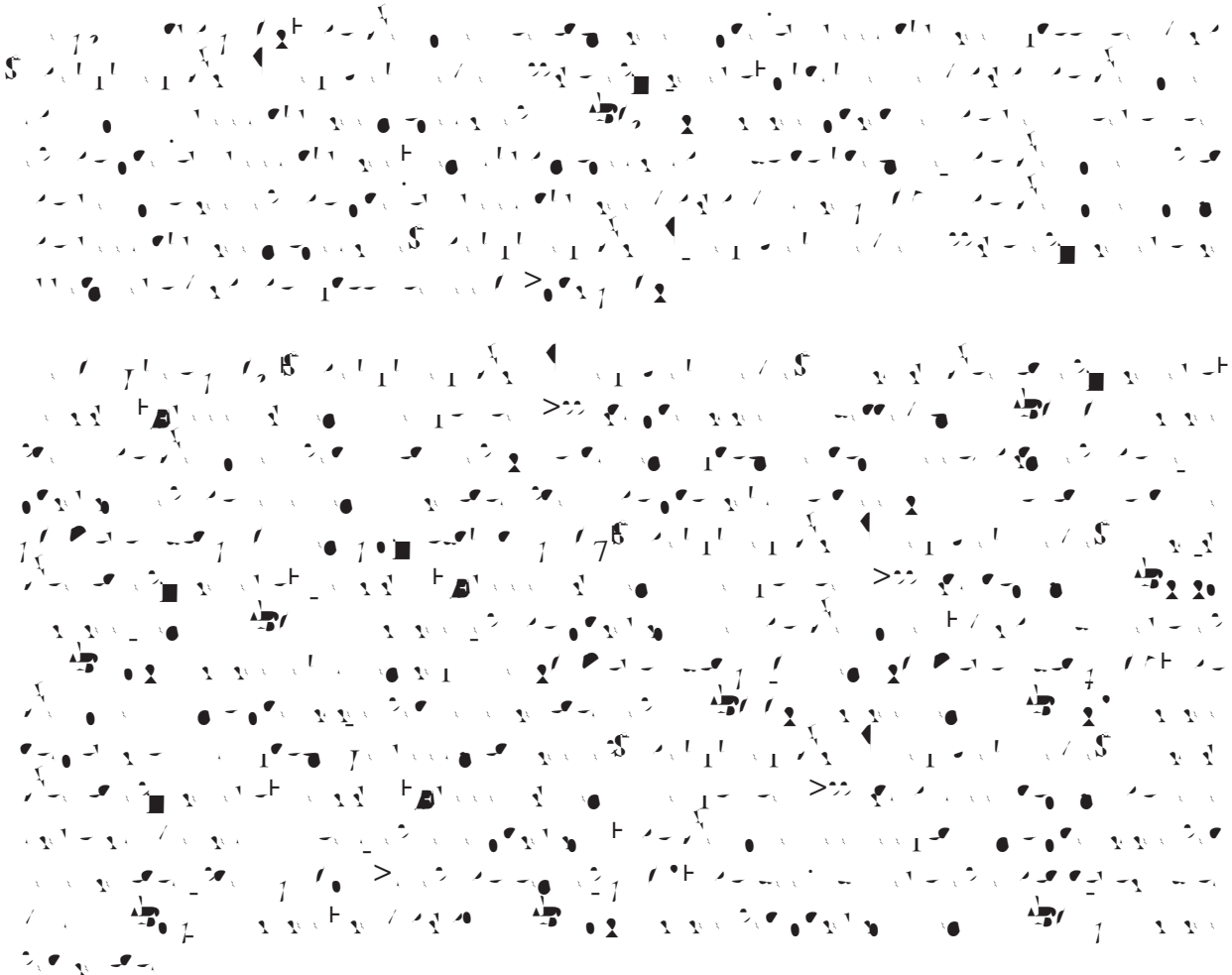
Verification opinion from accountant:

4. At the end of the reporting period, the balance of other receivables of the Company from administrative units was RMB26.00 million, of which RMB14.53 million and RMB7.25 million were from Shouguang City Yang Kou Town Office of Finance and Shouguang City Yang Kou Town Statistic Center of Finance, Political, Economic and Management Affairs, with an aging of over 5 years and 3 years respectively, and the provision for bad debt at the end of the period was RMB2.6154 million and RMB2.1284 million respectively. During the reporting period, the Company has written off RMB35.87 million of other receivables from JESORO OIL LTD. As of the end of 2018, the Company has made provision for bad debt for these other receivables in full, for the reason that JESORO OIL LTD was deregistered.

(1) Illustrate the reasons for the generation and specific nature of other receivable balance of the Company from Shouguang City Yang Kou Town Office of Finance and Shouguang City Yang Kou Town Statistic Center of Finance, Political, Economic and Management Affairs, as well as whether the basis for the provision of bad debt is sufficient.

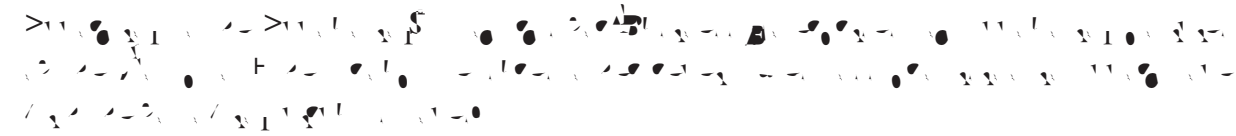
Reply:

1) Reasons for the generation and specific nature of other receivable – Shouguang City Yang Kou Town Office of Finance and Shouguang City Yang Kou Town Statistic Center of Finance, Political, Economic and Management Affairs





2) Basis for the provision of bad debt of other receivable – Shouguang City Yang Kou Town Office of Finance and Shouguang City Yang Kou Town Statistic Center of Finance, Political, Economic and Management Affairs



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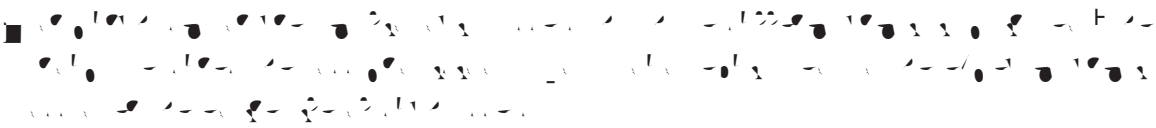
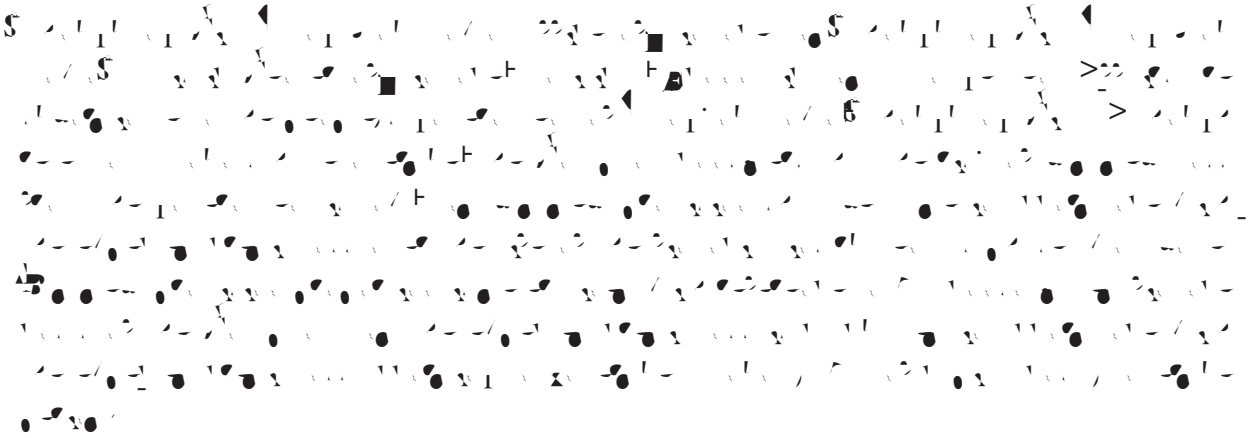
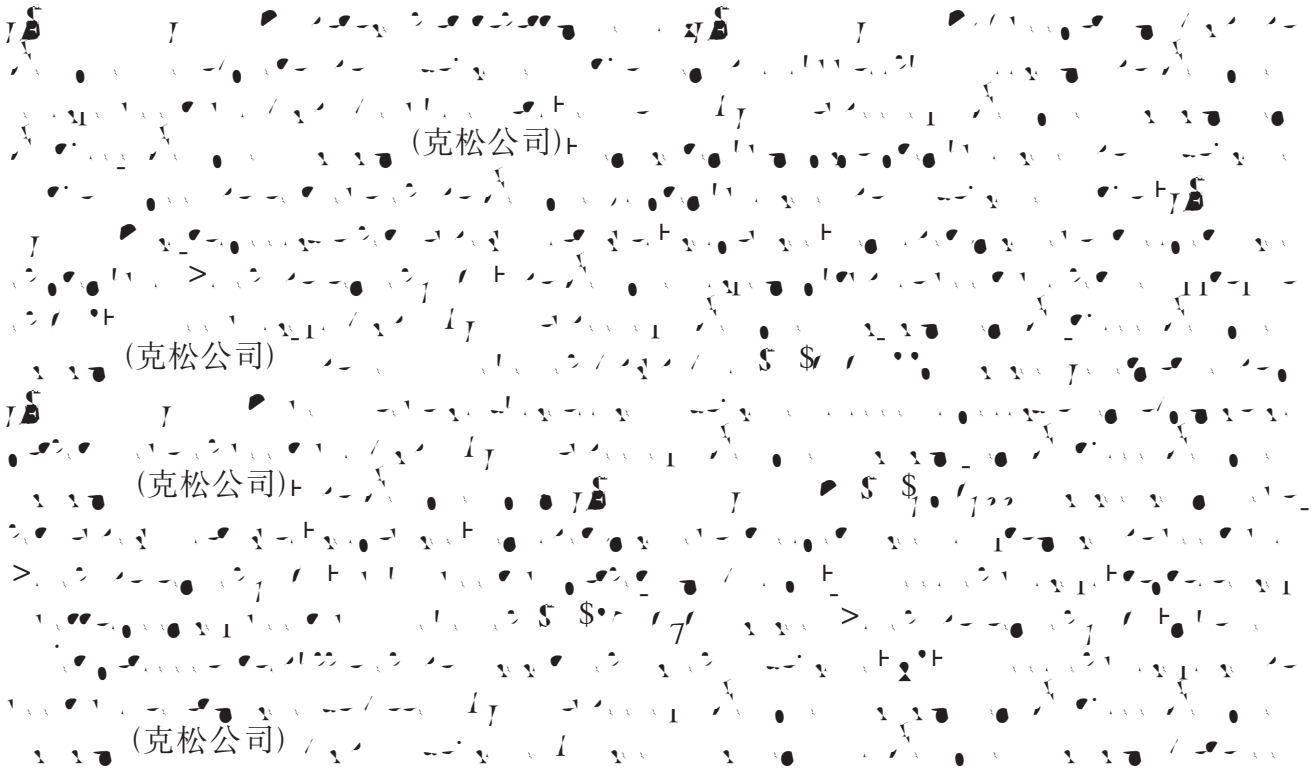
③ 

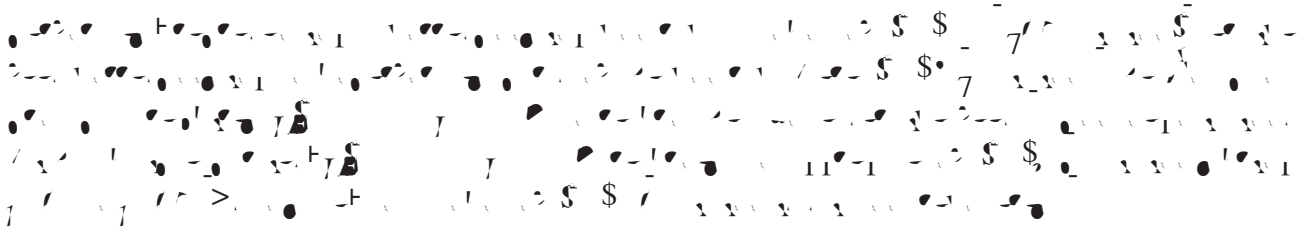


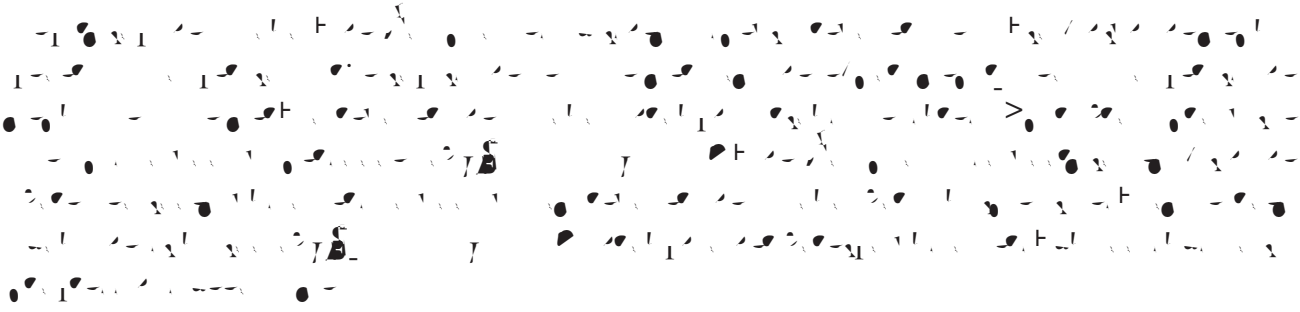


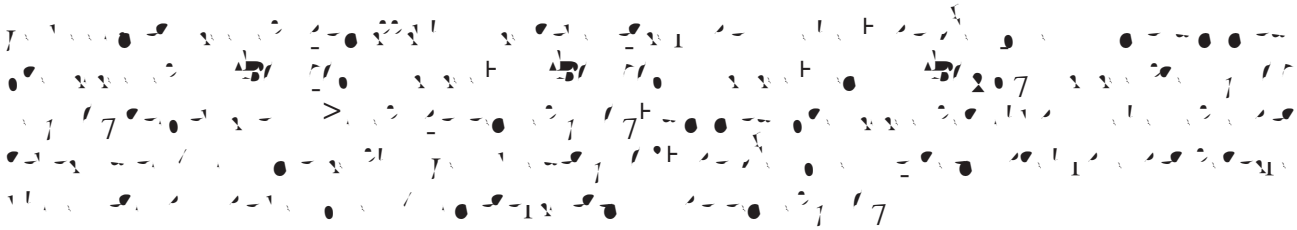
(2) Illustrate the specific time of deregistration of JESORO OIL LTD, the reason and rationality for writting off other receivables of RMB35.87 million from JESORO OIL LTD, and whether the Company has taken active and effective recovery measures.

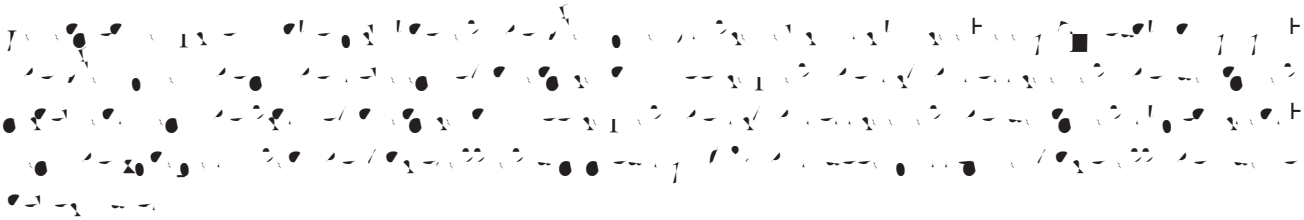
Reply:











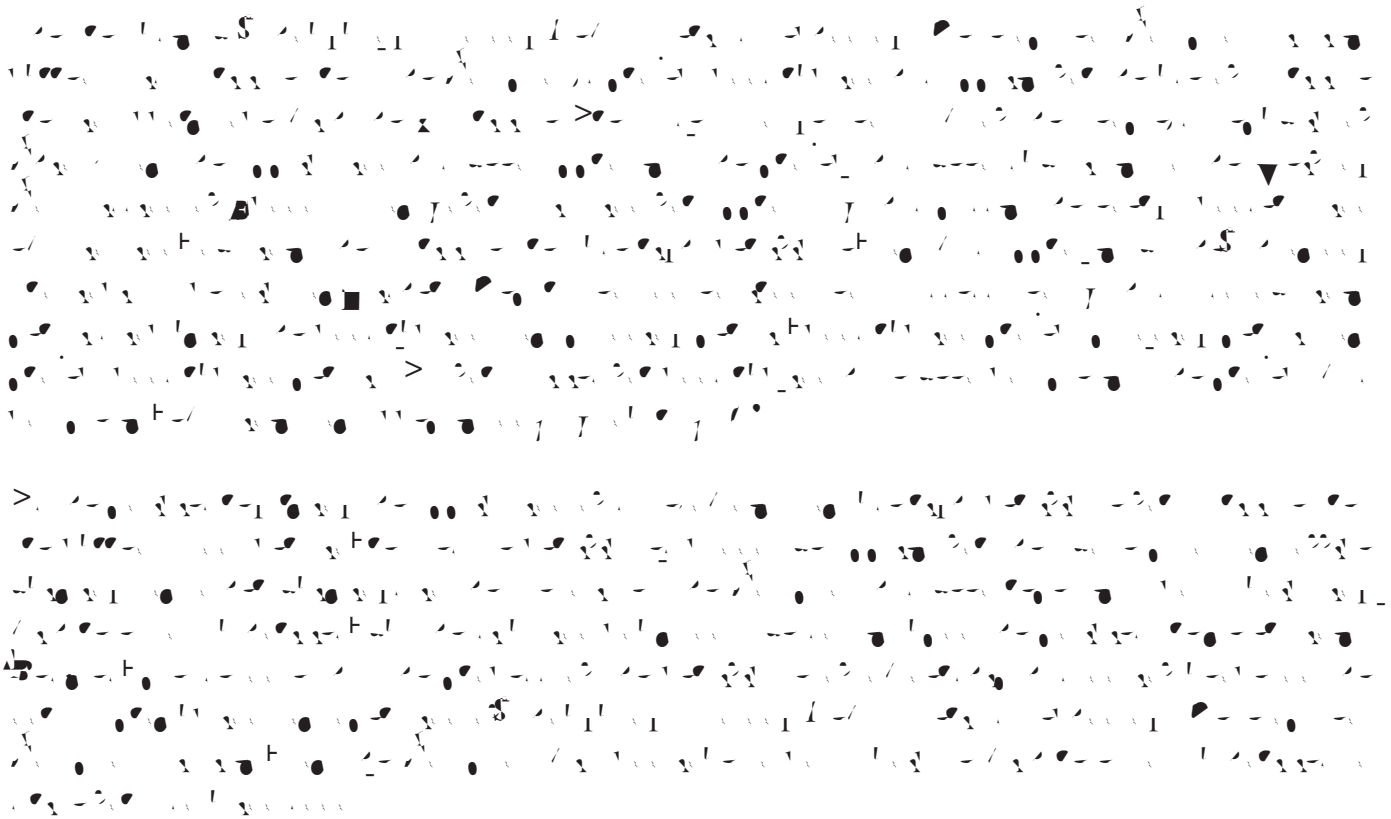
Verification opinion from accountant:





5. At the end of the reporting period, fixed assets included in outstanding certificate of ownership were workshop plant, office building and staff canteen of Maolong New Materials with a book value balance of RMB253 million. Please explain the reasons for the outstanding of the certificate of ownership, the expected time of process and whether there are major obstacles. The annual audit accountant please verify and give clear opinion.

Reply:



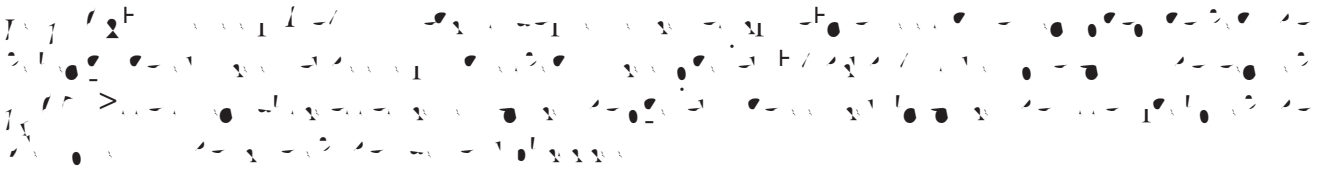
Verification opinion from accountant:



6. At the end of the reporting period, the closing balance of the Company's goodwill was RMB143 million, which was generated from the acquisition of equity interests of Maolong New Materials not under common control by the Company in 2007. The acquisition constituted a business combination not under common control. At the time of acquisition, Maolong New Materials held 95% equity interest of Weihai Baolong and 75% equity interest of Molong Electro-Mechanical, which in turn held 5% equity interest of Weihai Baolong. As the three newly acquired companies operated and commenced business independently, they formed three asset groups at the time of acquisition. During the reporting period, provision for impairment of goodwill of RMB17.29 million and RMB6.39 million were made by the Company for Weihai Baolong Asset Group and Molong Electro-Mechanical Asset Group respectively. Please illustrate the recognition method and specific test process of the above impairment loss of goodwill, including but not limited to the calculation process of the present value of the estimated future cashflow, forecast growth rate, steady growth rate, profit margin, discount rate, forecast period, etc., and whether the provision for impairment of goodwill in the report period was sufficient and prudent. The annual audit accountant please verify and give clear opinion.

Reply:

(1) Background of the formation of goodwill



(2) Provision for goodwill impairment in 2019





Name of asset group A	Carrying amount of asset groups B	Original value of goodwill attributable to the parent C	Holding ratio of minority shareholders D	Unrecognised book value of goodwill attributable to minority shareholders E=C/(1-D)*D	Total book value of assets and the amount of goodwill F=B+C+E	Recoverable amount of asset groups G	Accrued provision for asset impairment H=B-G	Aggregate provision for goodwill impairment I=F-G-H	Accrued provision for goodwill impairment attributable to the parent J=I*(1-D)	Book value of goodwill impairment made for previous years K	Amount of provision for goodwill impairment to be made for the year L=J-K

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(3) Provision for goodwill impairment from 2016 to 2018

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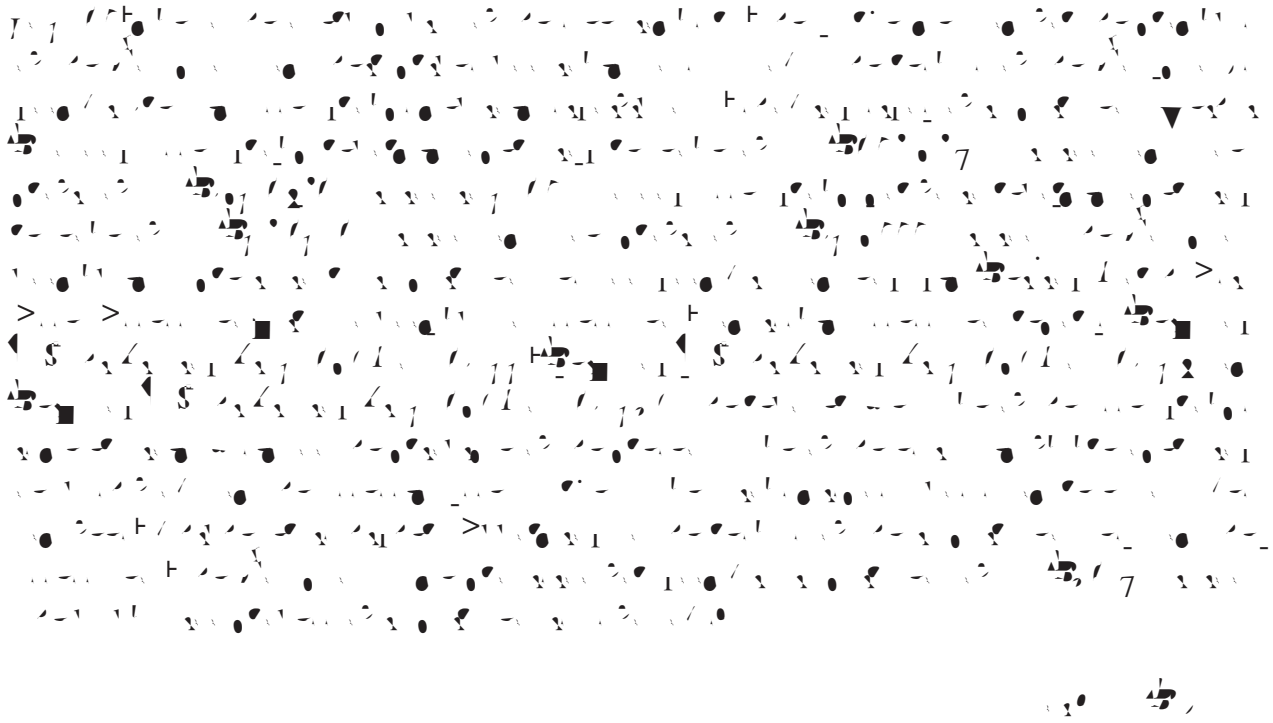

Name of asset group A	Carrying amount of asset groups B	Original value of goodwill attributable to the parent C	Holding ratio of minority shareholders D	Unrecognised book value of goodwill attributable to minority shareholders E=C/(1-D)*D	Total book value of assets and the amount of goodwill F=B+C+E	Recoverable amount of asset groups G	Accrued provision for asset impairment H=F-G	Amount of impairment attributable to the parent I=H*(1-D)	Book value of goodwill impairment made for previous years J	Amount of provision for asset impairment to be made for the year K=I-J	Amount of provision for goodwill impairment for the year L

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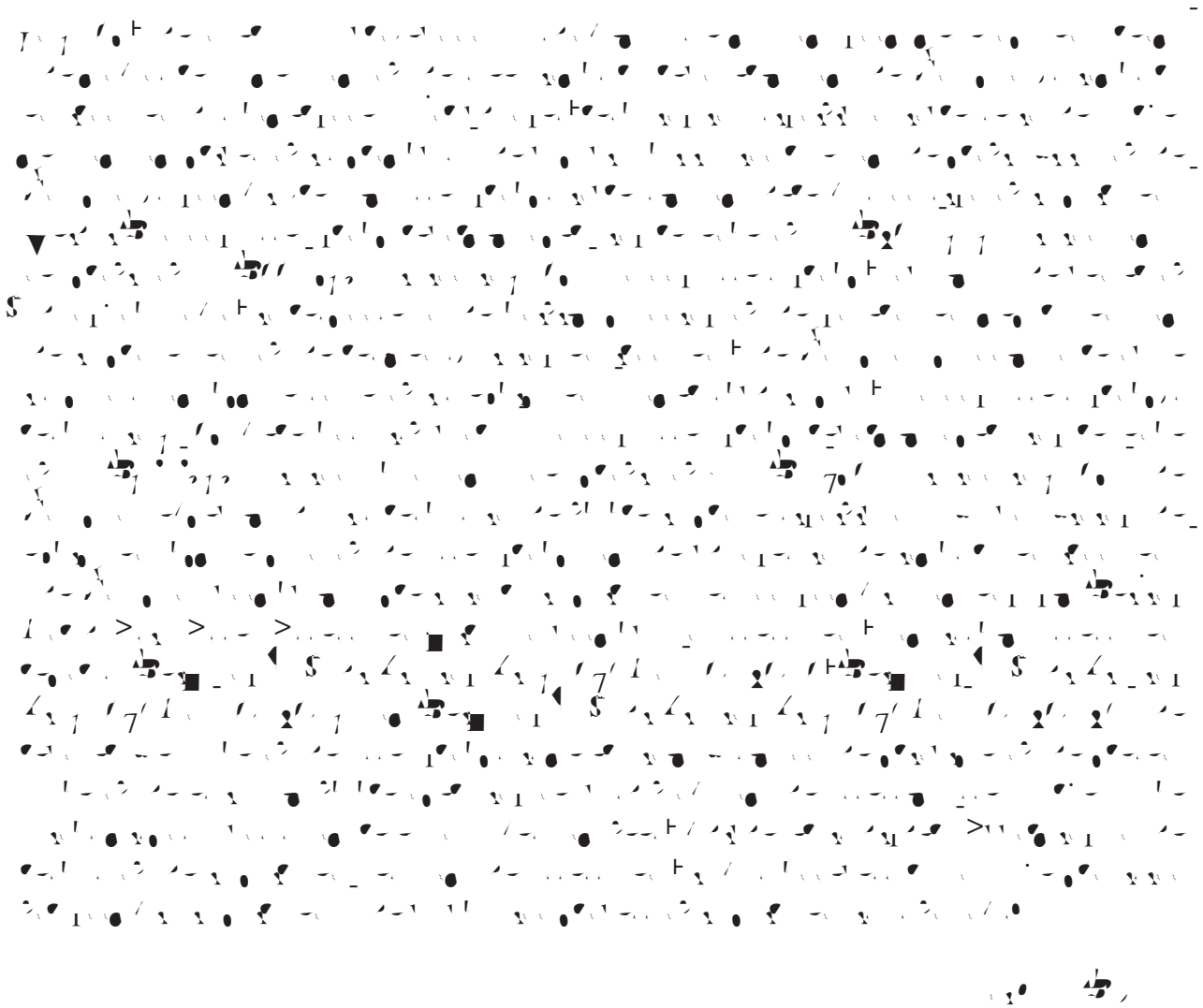
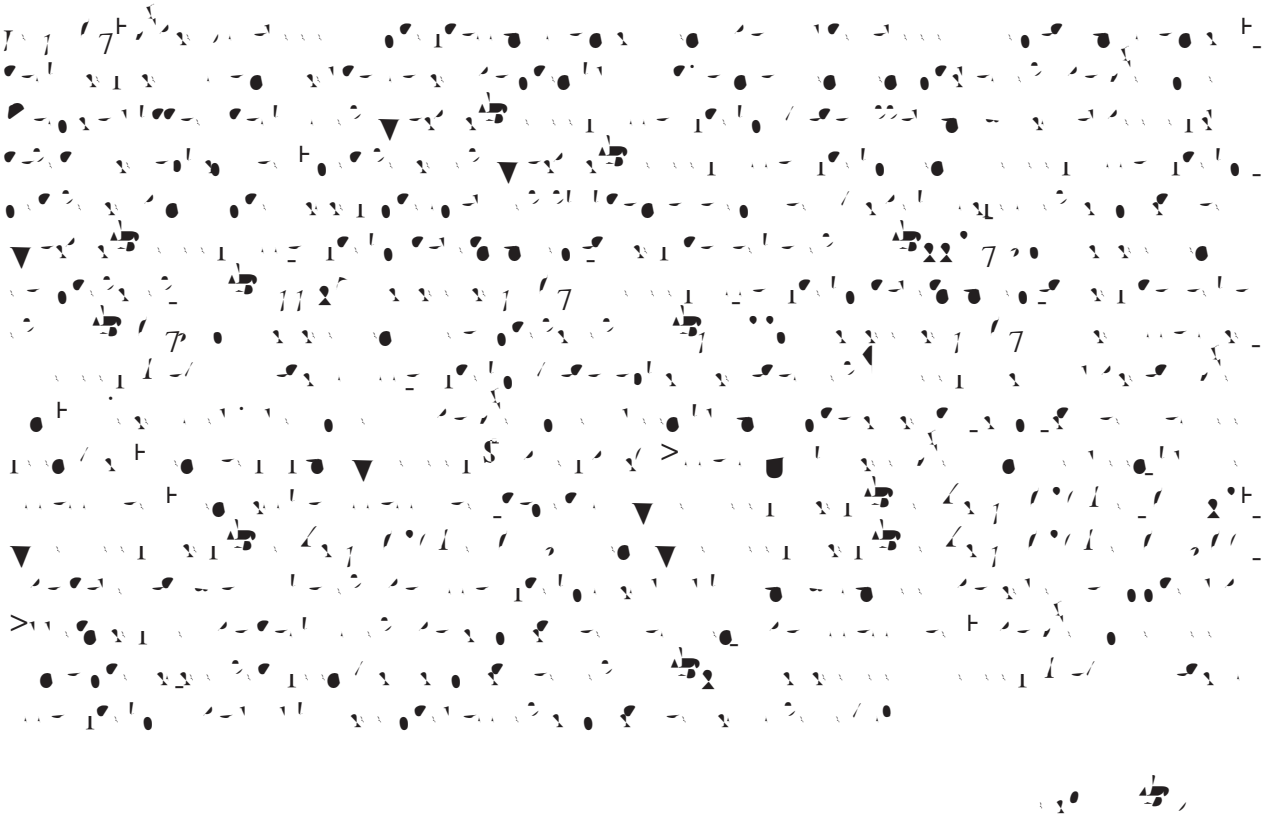


Name of asset group A	Carrying amount of asset groups B	Original value of goodwill attributable to the parent C	Holding ratio of minority shareholders D	Unrecognised book value of goodwill attributable to minority shareholders E=C/(1-D)*D	Total book value of assets and the amount of goodwill F=B+C+E	Recoverable amount of asset groups G	Accrued provision for asset impairment H=F-G	Amount of impairment attributable to the parent I=H*(1-D)	Book value of goodwill impairment made for previous years J	Amount of provision for asset impairment to be made for the year K=I-J	Amount of provision for goodwill impairment for the year L

③



Name of asset group A	Carrying amount of asset groups B	Original value of goodwill attributable to the parent C	Holding ratio of minority shareholders D	Unrecognised book value of goodwill attributable to minority shareholders E=C/(1-D)*D	Total book value of assets and the amount of goodwill F=B+C+E	Recoverable amount of asset groups G	Accrued provision for asset impairment H=F-G	Amount of impairment attributable to the parent I=H*(1-D)	Book value of goodwill impairment made for previous years J	Amount of provision for asset impairment to be made for the year K=I-J	Amount of provision for goodwill impairment for the year L

Verification opinion from accountant:

7. **At the end of the reporting period, the Company had current liabilities of RMB3,869 million, including short-term loans of RMB1,930 million, long-term loans due within one year of RMB483 million and accounts payable of RMB924 million. The current ratio was 0.64 and gearing ratio was 68.81%. In terms of monetary funds at the end of the period, receivables collection plan and the repayment plan of the above liabilities subsequent to the end of the period, please illustrate whether the Company has any liquidity risk and overdue debt, and whether the Company has sufficient risk warning in this respect. The annual audit accountant please verify and give clear opinion.**

Reply:

Borrowing type	Name of creditor	Borrowing amount	Maturity date	Repayment plan	Repayment status

Borrowing type	Name of creditor	Borrowing amount	Maturity date	Repayment plan	Repayment status
		-			
		-			
		-			
		-			
		-			
		-			
		-			
		-			
		-			
		-			
		-			
		-			
		-			
		-			
		-			
		-			
		-			
		-			

Borrowing type	Name of creditor	Borrowing amount	Maturity date	Repayment plan	Repayment status
	Sub-total	48,263.69			
Total		241,214.69			

[illegible]

[illegible]

[illegible]

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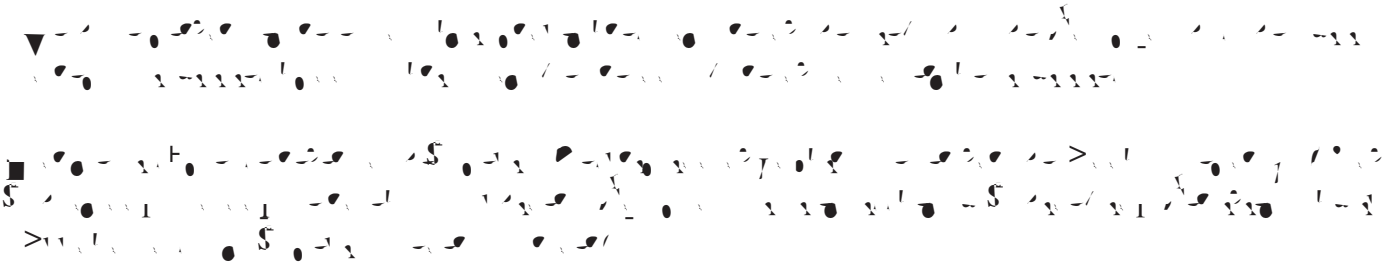
Verification opinion from accountant:



8. **At the end of the reporting period, the Company had other payables – accrued energy charges of RMB35.88 million, representing a year-on-year increase of 58%. Please illustrate the reasons and rationality of the year-on-year increase in the accrued energy charges, and, in terms of accrued energy charges carried forward subsequent to the end of the period, illustrate whether the accrued amount at the end of the reporting period was reasonable and sufficient. The annual audit accountant please verify and give clear opinion.**

Reply:

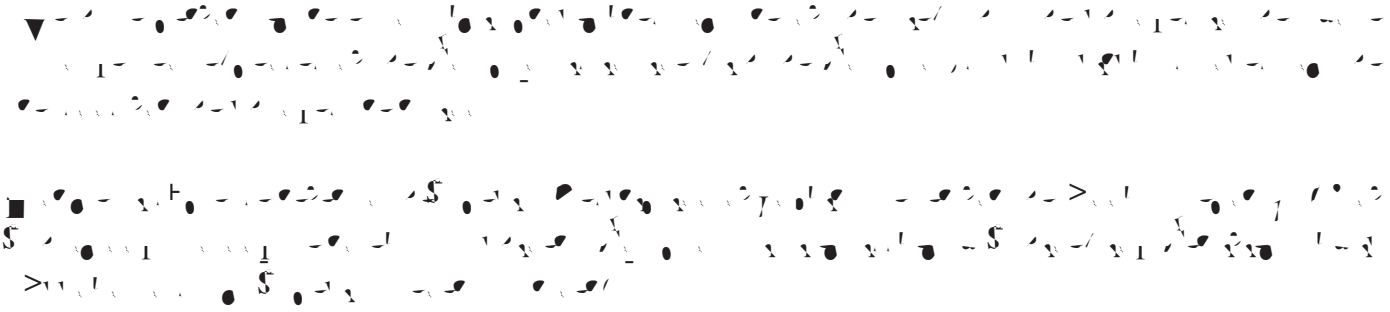


Verification opinion from accountant:

9. According to the annual report, during the reporting period, administrative expenses – amortisation of intangible assets, depreciation expenses and utilities were RMB11.64 million, RMB47.82 million and RMB22.03 million respectively, representing a decrease of 62%, an increase of 75% and an increase of 164% year-on-year respectively. Please illustrate the reasons and rationality of the changes in the above expenses. The annual audit accountant please verify and give clear opinion.

Reply:

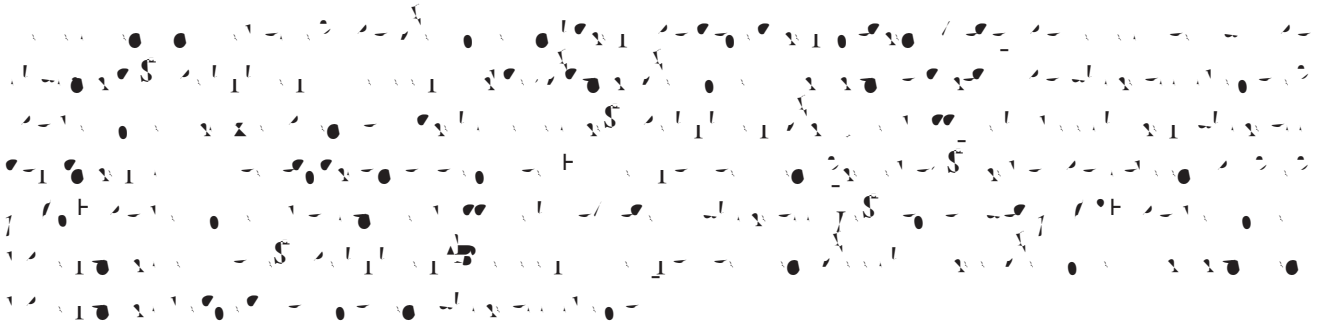
Verification opinion from accountant:



10. At the end of the reporting period, net loans and advances of the Company was RMB17.05 million. As at 31 December 2019, the Company had overdue loans of RMB47.93 million in aggregate, which were overdue for over 360 days, and a loss provision for loans of RMB30.88 million has been made. Please provide details of the loans and advances, including whether they are related to the core business of the Company, the reasons and rationality for the overdue period of over 360 days, and whether the loss provision for loans was sufficient and prudent. The annual audit accountant please verify and give clear opinion.

Reply:

(1) Particulars of loans and advances of the Company



(2) Description of accounting policies on provision for loan losses



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(3) Credit impairment losses for loans and advances of the Company

Borrower	Balance	Five categories	Ratio of provision made	Amount of provision made	Overdue time (Months)	Collaterals and guarantee

Borrower	Balance	Five categories	Ratio of provision made	Amount of provision made	Overdue time (Months)	Collaterals and guarantee

Verification opinion from accountant:

11. During the reporting period, research and development expenses – amortization of non-patented technology for the previous year of the Company was RMB7.48 million. Please provide details of the above expenses, and the rationality for the non-patented technology for last year was amortized in the current period. The annual audit accountant please verify and give clear opinion.

Reply:

[illegible]

Name of non-patented technology	Date of credit	Original value	Months of amortization	Amount of monthly amortization	Amortization in 2019	
					Months	Amortized amount
[illegible]						

[illegible]

Verification opinion from accountant:

[illegible]

[illegible]

12. During the reporting period, loss on bad debts of bill receivables was RMB2.60 million. Please illustrate the reasons and rationality of the loss on bad debts of bill receivables, and, in terms of the collection of bill receivables subsequent to the end of the period, illustrate whether provision for bad debts of bill receivables is sufficient and prudent. The annual audit accountant please verify and give clear opinion.

Reply:

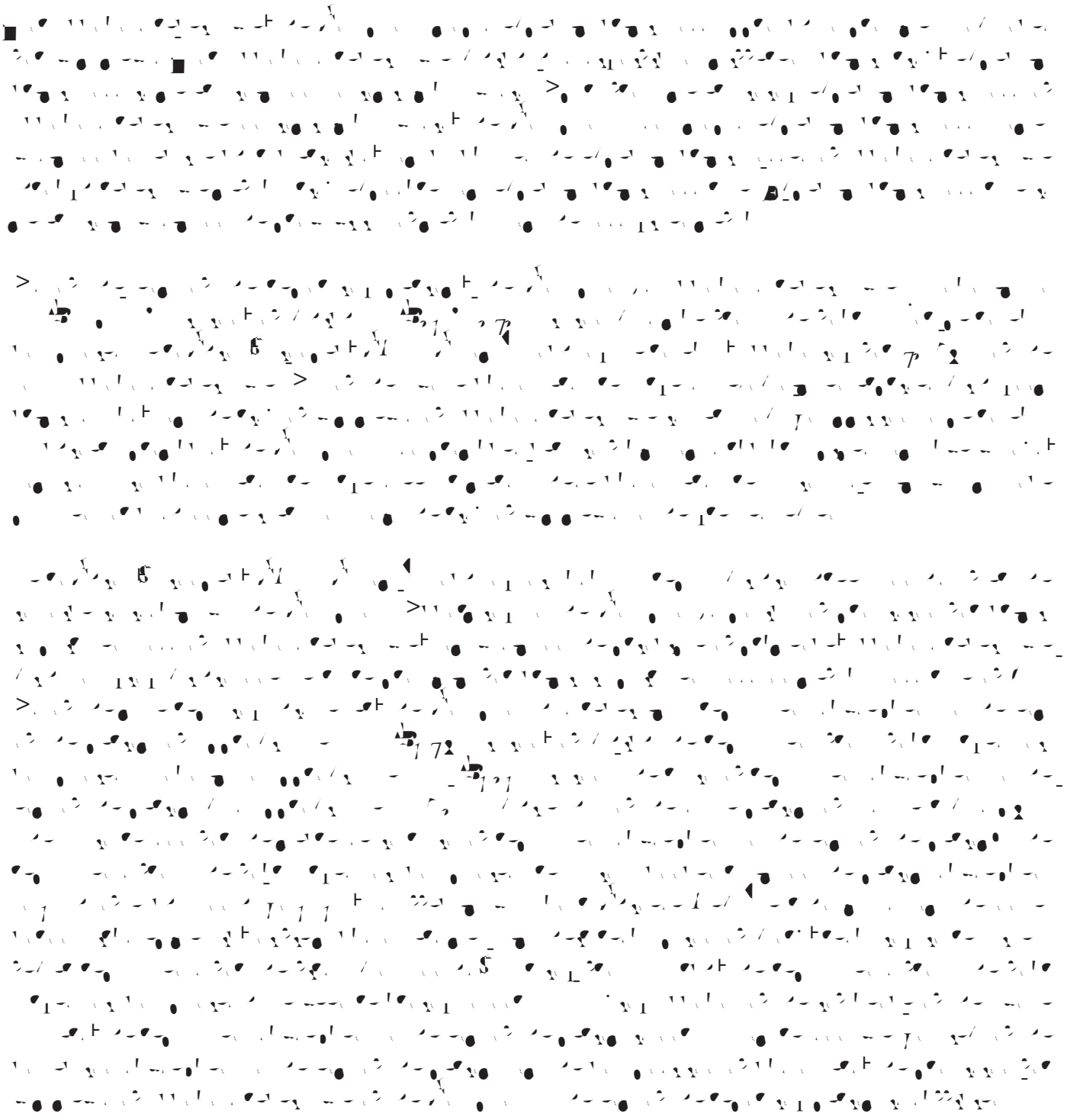
[illegible]

[illegible]

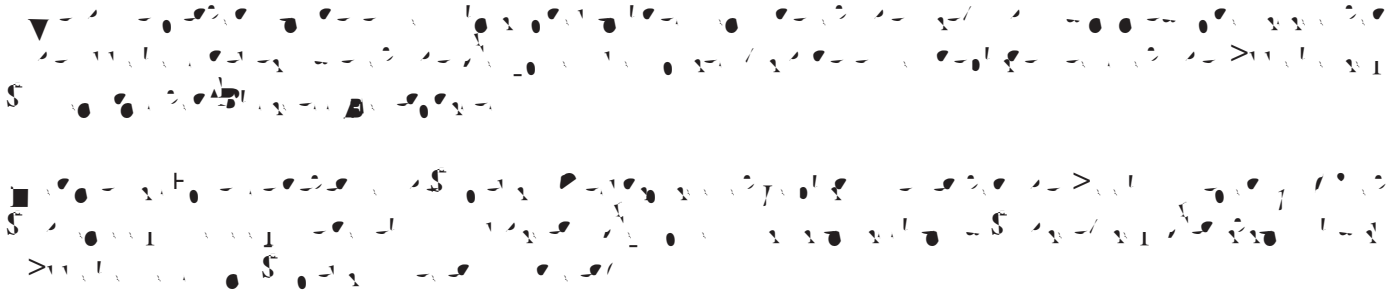
Verification opinion from accountant:

13. Illustrate the collection of accounts receivable at the end of the reporting period and, in terms of collection, illustrate whether provision for bad debts of accounts receivable is sufficient. The annual audit accountant please verify and give clear opinion.

Reply:

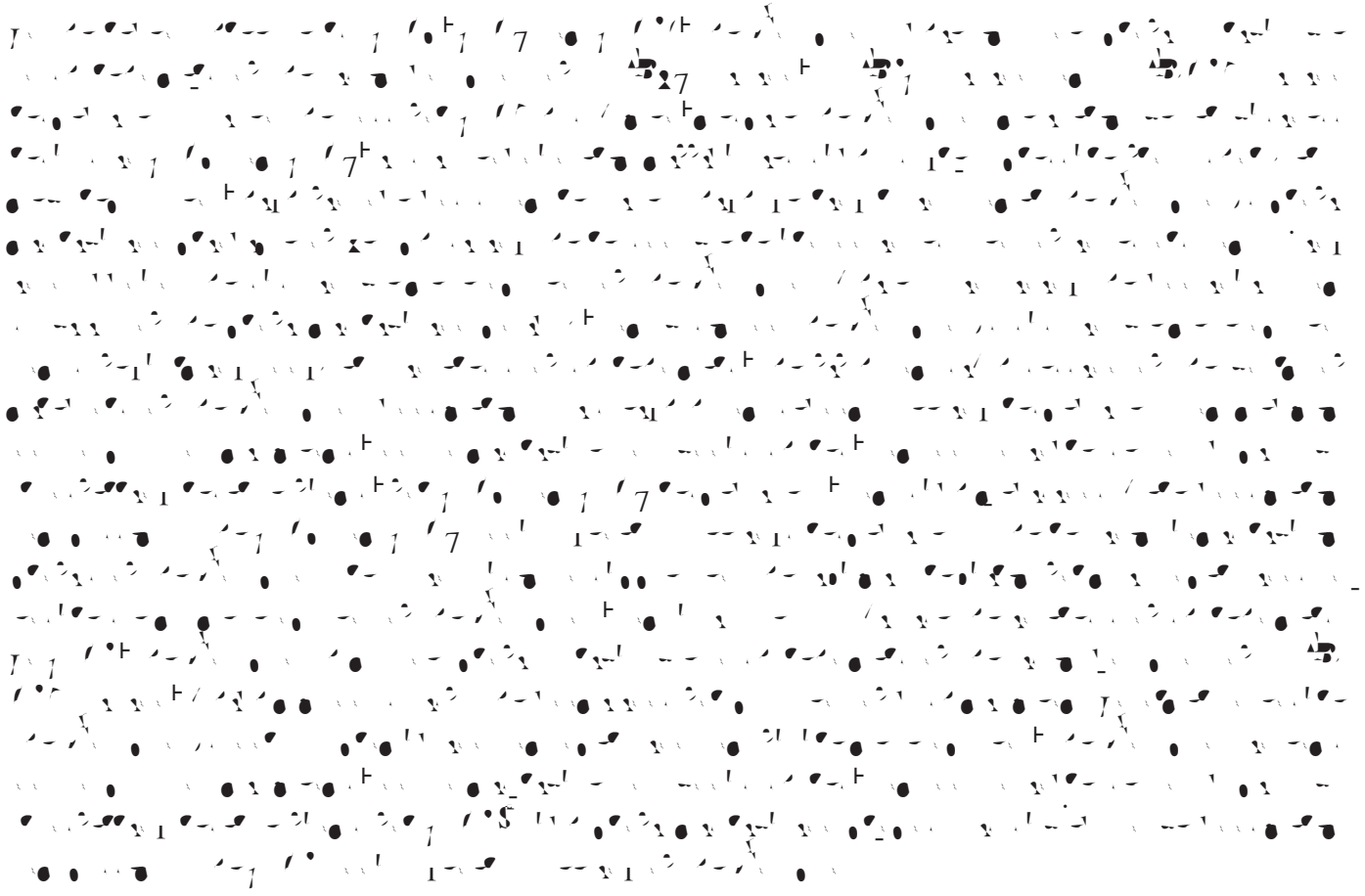


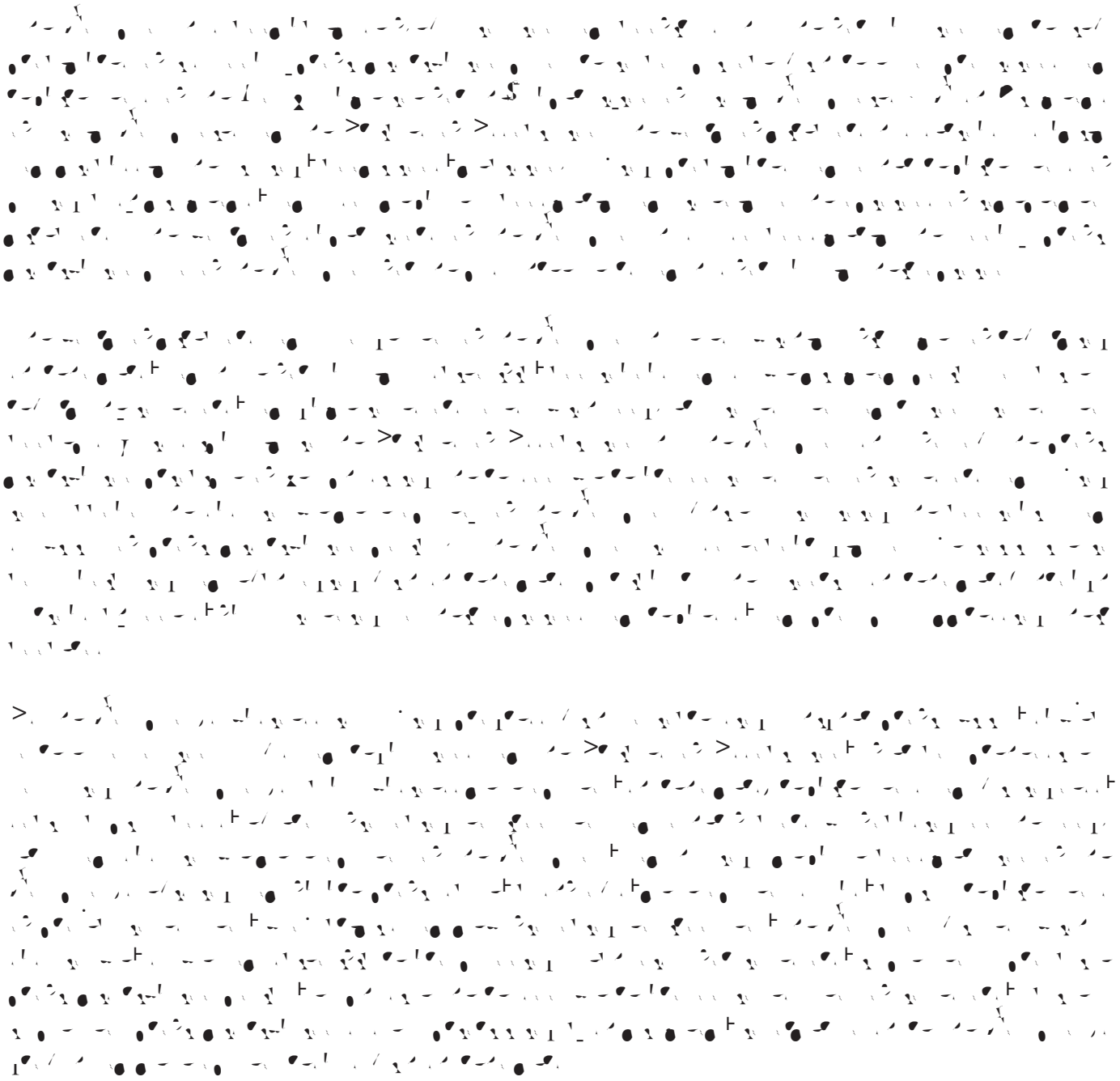
Verification opinion from accountant:



14. The Company has not paid any cash dividend for three years in a row. Could the Company please advise the reasons based on business development, and conduct self-examination as to whether it has complied with the No. 3 Guideline for the Supervision of Listed Companies – Cash Dividends of Listed Companies and the articles of association of the Company. Please advise the key work ideas about increasing investors' return.

Reply:





15. **The Company's 2019 annual report does not provide an explanation for data with changes of more than 30%, e.g. non-recurring profit and loss items on page 7 – profit or loss arising from contingencies unrelated to the normal operation of the Company; there are calculation errors in some data contained in the 2019 annual report, e.g. the composition of operating cost on page 18, of which the year-on-year increase/decrease was miscalculated. Please make corrections to the above errors, and check whether there are other situations that require corrections in the 2019 annual report.**

Reply:

Shandong Molong Petroleum Machinery Company Limited*
Liu Yun Long