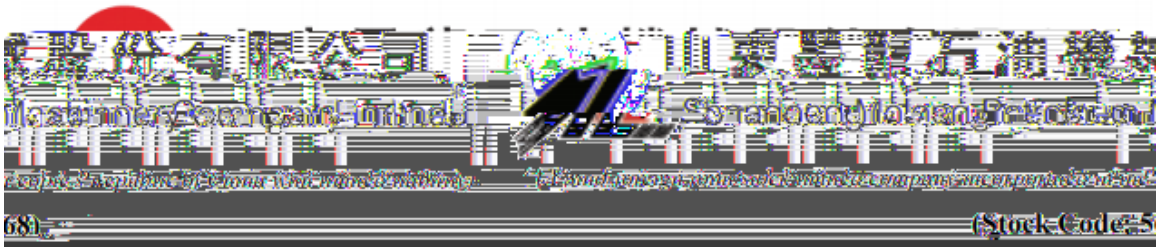
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Results of Internal Control Review

This announcement is made by Shandong Molong Petroleum Machinery Company Limited (the **Company**)

No.	Major findings in the Review	Improvement Recommendations from the Review	Response of the management	Implementation of rectification
1	Improvement on whistle-blowing mechanism is required	The Company is recommended to designate an independent department or personnel (e.g. the audit committee) to directly handle complaints and reports. The Company should also ensure the whistle-blowing mechanism (including confidential means of contact and handling procedures) is distributed to the employees and other stakeholders through effective channels (such as staff handbook, annual report, company website, etc.) so as to provide whistle-blowing method to parties in need.	The Company has revised the system. The audit department is responsible for handling all complaints or reported information and reports directly to the board of directors. The revision is to be announced in the C system. Information such as whistle-blowing hotlines, email address and correspondence address etc. are to be added to the staff handbook and training materials for new employees.	Rectification completed.
2	Improvement for mechanism of notifiable transactions and connected transactions is required	The Group should optimise the of Decisions on Material by making reference to Chapter 14 and Chapter 14A of the Hong Kong Listing Rules in order to ensure that notifiable transactions and connected transactions are comprehensively identified, monitored and disclosed. In respect of the management of notifiable transactions, the Group should ensure that the Decisions on Material definitions and announcement requirements of notifiable transactions under Chapter 14 of the Listing Rules, so as to identify and disclose notifiable transactions. In respect of the management of connected transactions, the Group is recommended to by making	The Company has improved and revised relevant systems of the Company, and further updated and improved the with reference to the relevant requirements of the Listing Rules of the Hong Kong Stock Exchange for the confirmation and approval of the members of the board of directors in order to ensure that notifiable transactions and connected transactions are more comprehensively identified, monitored and disclosed.	Rectification completed.

		reference to the contents set out in Rule 14A.07 of Chapter 14A of the Listing Rules. The Lis shall be regularly reviewed by the members of each of the board of directors for confirmation on completeness and review, and distributed to relevant departments for identifying, reporting and disclosing connected transactions. Should a member of the board of directors discover the need to amend his/her connected person list, he/she shall promptly report to the board of Directors through the office to the board in writing, and the office to the		
3	Improvement on independent review of settlement at the end of financial period	After the completion of the settlement of monthly financial statements, the deputy manager of the Finance Department should pass the Summary of Items for Settlement to an independent person, such as the manager of Finance Department or chief financial officer, for confirmation and review.	The Company has improved the account checkout process prior to account closing and a final review process by the manager of Finance Department was added .	Rectification completed.
4	Original documents of sales and delivery have not been kept properly	The Company should keep the delivery documents relating to sales (including delivery orders by delivery staff, shipping transportation certificate by outsourcing driver, delivery invoices/weighing lists with confirmation letter and etc.) effectively, which should be passed to the Finance Department and Sales Department for verification in the bookkeeping of monthly estimated income. At the same time, the Company should optimise the existing Management System of Sales Business including regulations in relation to keeping delivery	The Company has improved the delivery record for self-pickups by customers, required customers to provide proof of the license plate for the transportation vehicles deployed. The Company	

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		documents.	delivery process. The loading and delivery records are to be recorded in the auxiliary management system.	
5	Supervision of overdue accounts receivable is required to be improved	The Sales Department should optimise the current collection system of overdue accounts receivable, prepare and submit written records of collection of accounts receivable regularly for the review and further follow-up (to carry out legal procedures to recover long overdue receivables if so decided by the board).	The Sales Department shall enhance the management of overdue accounts receivable, regularly collect and maintain records of collection and prepare reports regularly for reporting to the management. The Sales Department shall sign and undertake to regularly collect the overdue accounts receivable that overdue for a prescribed period. The accounts receivables that cannot be recovered within the undertaking period would be automatically passed to the Legal Department for recovery by legal means.	Rectification completed.
6	Enhancement of management process of and credit limits	The Group should strengthen establishing an effective mechanism to prohibit the provision of credit to customers who has prolonged amount overdue, or else, the customers should repay all amount overdue before the Group could enter any new sales transaction with them. For special circumstances, special approval from the management has to be obtained to carry out credit sales. In addition, it is recommended that the Group should offer customers with appropriate credit limits strictly in accordance with the Survey and Evaluation Form . In case of special circumstances	The Company has revised the Management System . It is required that the management and control over the credit line of customers be enhanced and business exceeding credit line is strictly prohibited. For special circumstances, record of special approval from the appropriate management must be submitted.	Rectification completed.

		which require special credit limits to be offered, such as Grade C customers, special written application should be submitted to appropriate management, such as the general manager, for approval, and the relevant records should be kept. It should be specified in the application the reason for granting a special credit limit so as to enhance the credit management process of and risk.		
7	Enhance the independence of tender evaluation personnel in the bidding process in the respect of suppliers or subcontractors who participate in the bidding	The Group should prepare a form of independence declaration for members of the tender evaluation group. All members of the group shall sign and confirm upon the formation of the tender evaluation group. Members of the group shall declare their independence in respect of potential suppliers participating in the bidding in order to ensure the independence and fairness of the tender evaluation process, minimize circumstance of conflicts of interest and secure the interests of the Group.	Upon the request of the Audit Department of the Company, from 1 November 2019, the tender evaluation group is required to sign the independence declaration before tendering to ensure the fairness of the tendering business.	Rectification completed.
8	Failure to conduct inventory stock-taking in accordance with the existing management system	The Group should carry out a full stock-taking at least every two months using cycle count method in accordance with the existing Inventory . Accounts should be adjusted if any discrepancy is found in order to ensure that record in the accounts and the actual status are consistent.	Based on the actual circumstance of the Company, it was too demanding for a full cycle count stock-taking every two months. The system was revised based on the actual circumstance of the Company to a cycle count stock-take every six months. The Company has updated the which requires a full cycle count stock-taking every six months. The Company is currently conducting year-end stock-taking,	Rectification in progress

			and undertakes that it will strictly implement the requirements of full stock-taking in the future. The Company will conduct stock-taking and carry out reconciliation at least every six months, maintain the records of full stock-taking and analyse and report on differences in reconciliation.
9	Enhance the monitoring of reducing long-term inventory backlog and improving inventory turnover	The Group should establish a plan for disposal of the long-term backlog of inventory, such as promotional sales, use of existing raw materials for production, improve slow-moving goods to cater for the board of Directors regularly so as to facilitate monitoring and approval.	The Company has revised the Management System and has now formulated and implemented measures for inventory turnover assessment. The Warehousing Department will conduct quarterly aggregated analysis on materials that exceed the prescribed storage period

11	The plants have not obtained the real estate ownership certificates	It is recommended that the Group shall maintain a schedule of the application for the real estate ownership certificates to record the expected application date and actual progress of the application for the real estate ownership certificates. The Group shall promptly follow up the status of the application for the real estate ownership certificates to Shouguang City Real Estate Administration and Weihai City Municipal Real Estate Administration, and obtain the official real estate ownership certificates and related property ownership certificates as soon as possible.	The Company has applied to the relevant government authorities for the sea areas rights certificate (being the land certificate) and has timely applied for ownership certificates and improved the relevant process. The Company will maintain the records of application for ownership certificates and track records and undertakes to continue to track and follow-up the progress of application for ownership certificates in the future.	Rectification in progress
12	Improvement on the control of liquidity is required	The Company shall improve the existing monitoring of liquidity to specifically forecast the working capital of the Company for the following 12 months, implement specific measures to improve the withdrawal of monetary funds, and report to the board of Directors for approval regularly.	The Company has added annual capital budget to the preparation of annual comprehensive budget, and will formulate an expenditure plan for next year based on the financial position at the year-end. The Company also established targets for receivables and inventory to enhance their turnover rates so as to accelerate the liquidity flow. Annual financing strategies were formulated to expand the means of financing and reduce financing costs.	Rectification completed.
13	Thoroughly review the division duties and responsibilities of the ERP and OA system approval list	The Company should assign different personnel for distribution of users access and review of users access. For example, the distribution of users access would be assigned to information administrator while regular review should be conducted by the head of information center.	The Company has established a reasonable division of duties and responsibilities in respect of the assigning and reviewing access of the office automation system, with the information administrator responsible for the	Rectification completed.

	access and the head of information center responsible for review. The responsibilities were clarified to ensure the effectiveness of access is reviewed.

Opinions of the internal control advisor

According to the result of follow-up internal control review conducted by Crowe, Crowe believes that there is no evidence of any material irregularity or error in the financial reporting procedures and internal control system of the Company and the Group which requires its attention. Based on the internal control review procedures of Crowe and its conclusion opinion, it believes that the Company has adequate and reliable corporate governance, internal control and financial reporting systems to fulfill its obligations under the Listing Rules.

Opinions of the Company

The Company has fully adopted and implemented the Improvement Recommendations of Crowe and agreed to continue to implement those continuous Improvement Recommendations in the future so as to further strengthen the internal control system of the Company.

In order to further improve the corporate governance and internal control of the Company and ensure compliance with financial reporting and compliance requirements, the Company has appointed Ample Capital Limited as the independent compliance adviser of the Company on an for a period of two years with effect from 8 October 2019.

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

Shangdong, the PRC
16 January 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*