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RIGHTS AND

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In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"A Share(s)"	ordinary domestic share(s) with a nominal value of RMB1.00 each in the share capital of the Company which are listed on the SZSE and traded in RMB
"Articles of Association"	the articles of association of the Company
"Asset Transfer Agreement"	the asset transfer agreement entered into between the Company and the Purchaser on 18 November 2020, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Land Use Rights and the Related Facilities for a total consideration of RMB502,808,000
"Board"	the board of Directors
"Company"	Shandong Molong Petroleum Machinery Company Limited* (山東墨龍石油機械股份有限公司)
"Company Law"	

"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company or its connected persons (as defined under the Hong Kong Listing Rules)
"Land Use Rights"	the land use rights in respect of the Lands to be sold by the Company to the Purchaser pursuant to the terms of the Asset Transfer Agreement
"Lands"	(1) a parcel of land for industrial use (Shou Guo Yong (2005) No. 1027) with an area of 297,321.00 sq.m. located at Shouguang Science and Technology Industrial Park (壽光市科技工業園

"Shenzhen Listing Rules"	the Rules Governing the Listing of Shares on Shenzhen Stock Exchange
"sq.m."	square metre(s)
"SZSE"	Shenzhen Stock Exchange

For ease of reference, the names of the PRC incorporated companies and entities have been included in this circular in both Chinese and English language. In the event of an inconsistenc , the Chinese name shall prevail.

The Asset Transfer Agreement

Date

18 November 2020

Parties

Seller: The Company

Purchaser: Shandong Shouguang Vegetable Wholesale Market Co., Ltd.* (山東壽光蔬菜批發市場有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Finance Bureau of Shouguang (壽光市財政局)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are Independent Third Parties.

Assets to be Disposed of

Pursuant to the Asset Transfer Agreement, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Land Use Rights and the Related Facilities.

The Land Use Rights represent the land use rights of the two parcels of lands as described below:

	The first parcel of land	**The second parcel of land**
Location	Shouguang Science and Technology Industrial Park* (壽光市科技工業園)	The east side of Xing Shang Road in Shouguang* (壽光市興尚路東側)
Land number	Shou Guo Yong (2005) No. 1027	Shou Guo Yong (2011) No. 0164
Total site area	297,321 sq.m.	109,200 sq.m.
Land use	Industrial	Industrial

The Related Facilities mainly consist of (1) buildings, which mainly include the office complex, dormitories, canteens, workshops and plants of steel pipe companies in the science and technology industrial park; (2) structures, which mainly include infrastructural projects, pipeline projects, road surfaces at plant area, boundary walls around plant area, sedimentation tanks, etc.; and (3) power facilities, etc..

The net book value of the Land Use Rights and the Related Facilities was RMB105.7550 million as at 30 September 2020.

Consideration and Payment Terms

The total consideration for the Disposal shall be RMB502,808,000, which is payable by the Purchaser to the Company in the following manner:

1. RMB350 million shall be paid by the Purchaser to the Company by bank transfer by 31 December 2020;

2. RMB50 million shall be paid by the Purchaser to the Company by bank transfer by 5 February 2021;

3. RMB90 million shall be paid by the Purchaser to the Company by bank transfer by 31 March 2021; and

4. the remaining balance of RMB12.808 million shall be paid by the Purchaser to the Company by bank transfer upon completion of the relocation of the Company.

The consideration of the Disposal is negotiated on an arm's length basis and is on normal commercial terms and is determined with reference to the appraised value of the Land Use Rights and the Related Facilities at approximately RMB502,808,000 as set out in an asset valuation report prepared by an independent valuer as at 30 September 2020, being the valuation benchmark date.

Conditions Precedent

The Asset Transfer Agreement is conditional upon the satisfaction of all of the following conditions:

1. the Asset Transfer Agreement having been considered and approved by the internal authorities of the Purchaser;

2. the Asset Transfer Agreement having been considered and approved by the Board and at a general meeting of the Company;

3. the valuation report in respect of the Disposal having been filed with the state-owned assets supervision and administration department;

4. the Disposal having been considered and approved by the state-owned assets supervision and administration department; and

5. the Asset Transfer Agreement having been signed and sealed

As the Asset Transfer Agreement was executed by the Company and the Purchaser on 18 November 2020, the condition precedent 5 above has been satisfied.

Financial Effect of the Disposal

The Group expects to record an estimated indicative gain from the Disposal of approximately RMB350 million, which is based on the total consideration to be received from the Disposal by the Group, less the net book value of the Land Use Rights and the Related Facilities as at 30 September 2020 and related expenses, tax and fees.

The actual gain amount is subject to review and confirmation by the auditors of the Company and may be different from the above amount as any relevant fees and expenses in connection with the Disposal will be taken into account.

Intended Use of Proceeds

The Company intends to use the net proceeds from the Disposal as general working capital of the Company.

Reasons for and Benefits of the Disposal

The Disposal is to accommodate the urban plan of relocating from urban area to industrial zones and the Company's need for strategic development. With the intention of relocating and integrating the existing production plants of the Company, the Disposal would help the Company achieve intensive production management to further reduce production cost and also facilitate better asset structure and stronger market competitiveness of the Company, which is in line with the Company's overall development strategy.

The Board considers that the Disposal is entered into on normal commercial terms and the terms and conditions of which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Information on the Parties

Information on the Group

The Group is principally engaged in the design, production and sale of pumping units, sucker rods, oil pumps, tubing and casing, and the related machinery and accessories for oil drilling.

Information on the Purchaser

The Purchaser is a limited liability company established in the PRC. Its shares are wholly owned by the Finance Bureau of Shouguang (壽光市財政局) which is also its ultimate beneficial owner. The Purchaser is principally engaged in the agricultural wholesale market and the development, leasing, sale and operation of the Related Facilities; the wholesale and

retail sale of agricultural products and their goods; the establishment of agricultural wholesale market and the development, operation and management of logistic and distribution centres and ancillary properties, and agricultural logistic services; and the development of supporting businesses such as storage (exclusive of dangerous goods), conveying, loading and unloading, packaging, distribution and information consultation services.

The Finance Bureau of Shouguang (壽光市財政局) and the State-owned Assets Supervision and Administration Bureau of Shouguang (壽光市國有資產監督管理局, the ultimate controller of the Company), are two parallel government agencies under the government of Shouguang (壽光市政府).

Implications under the Listing Rules

Implications under the Hong Kong Listing Rules

As one or more applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal exceed 5% but all are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements but exempt from the Shareholders' approval requirement under Chapter 14 of the Hong Kong Listing Rules.

Implications under the Shenzhen Listing Rules

In accordance with the Shenzhen Listing Rules and the Articles of Association, the Disposal does not constitute a material asset reorganisation under the Administrative Measures for the Material Asset Reorganisations of Listed Companies, nor does it constitute a related

In accordance with the Rule 13.39 of the Hong Kong Listing Rules, except where the chairman of the EGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the resolution will be put to vote by way of poll at the EGM. An announcement on the poll results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Hong Kong Listing Rules.

4. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 2 December 2020 to Friday, 4 December 2020, both days inclusive, during which period no share transfers will be effected. In order to qualify for attending and voting at the EGM, all instruments of transfer must be lodged with the registrar for H Shares of the Company, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares), for registration no later than 4:30 p.m. on Tuesday, 1 December 2020. The Company will publish specific announcement on the SZSE setting out details of the eligibility of holders of A Shares to attend the EGM.

5. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive and there are no other facts the omission of which would make any statement herein misleading.

6. RECOMMENDATION

The Directors are of the view that the resolution regarding the Asset Transfer Agreement and the transactions contemplated thereunder to be proposed for consideration and approval by the Shareholders at the EGM is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution as set out in the notice of the EGM.

Yours faithfully,
Shandong Molong Petroleum Machinery Company Limited*
Liu Min
Acting chairman

Shandong, the PRC
18 November 2020

(B) A proxy form for use at the EGM is enclosed. Such proxy form is also published on the websites of The Stock Exchange of Hong Kong Limited and the Company. Whether or not you intend to attend the EGM, you are required to complete and return the enclosed proxy form in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending the EGM and voting in person if you so wish.

(C) If a proxy attends the EGM on behalf of a shareholder, he/she should produce his/her proof of identity and the instrument signed by the proxy or his/her legal representative, which specifies the date of its issuance. If the legal representative of a legal person shareholder attends the EGM, such legal representative should produce his/her proof of identity and valid documents evidencing his/her capacity as such legal representative. If a legal person shareholder appoints a representative of a company other than its legal representative to attend the EGM, such representative should produce his/her proof of identity and an authorisation instrument affixed with the seal of the legal person Shareholder and duly signed by its legal representative.

(D) The EGM is expected to last for an hour. Shareholders attending the EGM are responsible for their own transportation and accommodation expenses.

As at the date of this notice, the Board comprises the e·ecutive Directors, namel Mr. Liu Min and Mr. Li Zhi Xin; the non-e·ecutive Directors, namel Mr. Yao You Ling and Mr. Wang Quan Hong; and the independent non-e·ecutive Directors, namel Mr. Tang Qing Bin, Mr. Song Zhi Wang and Mr. Cai Zhong Jie.