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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 2011 FIRST QUARTERLY REPORT

This announcement is published simultaneously in The People's Republic of China pursuant to the Rules Governing Listing of Stocks on the Shenzhen Stock Exchange and in Hong Kong pursuant to the disclosure obligations under Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Part 1 IMPORTANT NOTICE

1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of Shandong Molong Petroleum Machinery Company Limited (the "Company") confirm that this report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.

1.2 The financial statements contained in the first quarterly financial report were unaudited.

1.3 Mr. Zhang Enrong, Chairman of the Company, Mr. Cui Huanyou, Chief Financial Officer of the Company and Mr. Liu Xianghua, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial report contained in this quarterly report

Part 2 BASIC CORPORATE INFORMATION

2.1 Major Accounting Data and Financial Indicators

Items	At the end of the current reporting period	At the end of last year	Increase or Decrease (%)
Total assets (RMB)	4,417,376,838.38	4,586,410,815.18	-3.69

Owners' equity attributable to shareholders of the listed company (RMB)	2,705,575,322.03	2,685,990,386.13	0.73
Share capital (shares)	398,924,200.00	398,924,200.00	0.00
Net assets per share attributable to shareholders of the listed company (RMB/share)	6.78	6.73	0.74

Items	The reporting period	Same period last year	Increase or Decrease (%)
Total operating revenue (RMB)	672,861,508.81	559,035,854.83	20.36
Net profit attributable to shareholders of the listed company (RMB)	22,120,961.62	33,051,270.43	-33.07
Net cash flow from operating activities (RMB)	20,913,067.02	-204,519,451.06	-
Net cash flow from operating activities per share (RMB/share)	0.05	-0.62	-
Basic earnings per share (RMB/share)	0.06	0.10	-40.00
Diluted earnings per share (RMB/share)	N/A	N/A	-
Weighted average return on net assets (%)	0.82%	2.60%	-1.78
Weighted average return on net assets after extraordinary items (%)	0.82%	2.44%	-1.62

Extraordinary items

√ Applicable N/A

Unit: RMB

Extraordinary gains or losses items	Amount	Notes(if applicable)
Gains or losses from disposal of non-current assets	-22,630.26	
Non-operating net gain or loss other than the above	157,644.41	
Effect of extraordinary gains or losses on income tax	-14,846.99	
Effect of minority interests(after tax)	-4,403.75	
Total	115,763.41	

2.2 Total number of shareholders and top ten holders of shares not subject to lock-up as at the end of the reporting period

Units : Shares

Total number of shareholders as at the end of the reporting period	24,135		
<i>Top ten holders of shares not subject to lock-up</i>			
Name of shareholder (Full name)	Number of shares not subject to lock-up at the end of the	Class	

	reporting period	
1. HKSCC Nominees Limited	127,766,345	H Shares
2. Hwabao Securities Limited	1,226,930	A Shares
3. GF Securities Co., Ltd.	1,200,000	A Shares
4. China Construction Bank — 民生加銀精選股票型證券投資基金	1,199,976	A Shares
5. China Construction Bank — 諾安主題精選股票型證券投資基金	1,100,000	A Shares
6. China Merchants Bank — 華夏經典配置混合型證券投資基金	1,099,907	A Shares
7. Bank Of Communications — 易方達科訊股票型證券投資基金	1,000,000	A Shares
8. Bank Of China — 泰信優質生活股票型證券投資基金	717,000	A Shares
9. China Everbright Bank Company Limited — 光大保德信量化核心證券投資基金	700,000	A Shares
10. China Pacific Property Insurance — 傳統—普通保險產品—013C—CT001 深	602,335	A Shares

Part 3 MATERIAL MATTERS

3.1 Substantial changes in major accounting items and financial indicators and the reasons thereof

√ Applicable N/A

Balance Sheet:

- (1) The cash and bank balances decreased 39.35%, compared with which at the beginning of the year. It is mainly because part of short-term borrowing was paid back in this quarter.
- (2) The bills receivable increased 85.12%, compared with which at the beginning of the year. It is mainly because the bills received from banks at the end of this quarter haven't been put into use.
- (3) The prepayments decreased 65.32%, compared with which at the beginning of the year. It is mainly because the price of the materials increased from the same period of last year, in order to reduce the risk from the increasing price, part of payment was paid in advance to lock the price of main materials, which had been already finished.
- (4) The other current assets increased 50.81%, compared with which at the beginning of the year. It is mainly because as at the end of this quarter, the debit balance of value-added tax payable increased, compared with balance at the end of last year.
- (5) The short-term borrowings decreased 35.99%, compared with which at the beginning of the year. It is mainly because part of short-term borrowing was paid back in this quarter.
- (6) The advance receipts increased 103.36%, compared with which at the beginning of the year. It is mainly because advance receipts from customers increased in this quarter.
- (7) The dividends payable is RMB 0.00, decreased compared with which at the beginning of the year. It is mainly because dividends for shareholders for the previous period were paid in this quarter.

Income Statement:

- (1) The business tax and surcharges decreased 59.40%, compared to the same period last year. It is mainly because the value-added tax payable decreased in this quarter.

(2)The finance costs decreased 59.81%, compared to the same period last year. It is mainly because part of short-term borrowing was paid back in this quarter and the interest expense decreased.

(3)The non-operating income decreased 90.00%, compared to the same period last year. It is mainly because the operation of recovering waste and old materials decreased in this quarter.

(4) The net profit attributable to shareholders of the listed company decreased 33.07%, compared to the same period last year. It is mainly because the 180mm special petroleum pipes technical reconstruction Project(“180mm Project”) is in the early stage of production therefore cost of manufacture is high, and the price of materials has increased largely.

(5)The basic earning per share decreased 40%, compared to the same period last year. It is mainly because the listing of A Shares causing increase in share capital in the forth quarter of 2010, and 180mm Project is in the early stage of production therefore cost of manufacture is high, and the price of materials has increased largely.

Cash Flow Statement:

(1)The cash flows from operating activities is RMB20,910,000 in this quarter while RMB -204,520,000 at the same period of last year. It is mainly because in order to reduce the risk from the increasing price, part of payment (RMB200,000,000) was paid in advance to lock the price of main materials.

(2) The cash flows from investing activities is RMB-57, 050,000 in this quarter while RMB -111,690,000 at the same period of last year. It is mainly because the 180mm Project has been put into operation in December of last year, the cash paid for purchasing fixed assets for this quarter decreased RMB33.70 million.

(3) The cash flows from financing activities is RMB-289, 870,000 in this quarter while RMB 253,050,000 at the same period of last year. It is mainly because the part of bank loans were paid back in this quarter.

3.2 Progress of significant events and analysis of their impacts and solutions

3.2.1 Non-standard opinions

Applicable N/A

3.2.2 Existence of provision of funds, or guarantees which breaches rules, from the Company to the controlling shareholders or its related parties.

Applicable N/A

3.2.3 Execution and performance of material contracts in daily operations

Applicable N/A

3.2.4 Others

Applicable N/A

3.3 Performance of undertakings by the Company, its shareholders and its effective controller

The following table illustrates commitments by the Company and its directors, supervisors and senior management, and any shareholders (which own more than 5% of the Company's shares) and their respective beneficial controllers made or continued during the reporting period.

√ Applicable N/A

The commitment items	Commitments by	Contents of commitments	Implementation situation
Commitments on share reform	N/A	N/A	N/A
Commitments under the reports of acquisition or equity changes	N/A	N/A	N/A
Commitments upon the restructuring of significant asset	N/A	N/A	N/A
Commitments upon issuance of shares	Zhang Enrong, Zhang Yunsan, Lin Fulong, Xie Xincang, Liu Yunlong, Cui Huanyou, Liang Yongqiang, and Kaiyuan Oil	<p>Zhang Enrong and Zhang Yunsan, the controlling shareholders of the Company, committed that shares held by them shall not be transferred or entrusted to others to manage, and not be acquired by the Company within 36 months from the date of listing of the A Shares.</p> <p>Lin Fulong, Xie Xincang, Liu Yunlong, Cui Huanyou, Liang Yongqiang, and Kaiyuan Oil, the shareholders of the Company, committed that shares held by them shall not be transferred or entrusted to others to manage, and not be acquired by the Company within 12 months from the date of listing of the A Shares.</p> <p>Meantime, as the directors, supervisors and senior management of the Company, Zhang Enrong, Lin Fulong, Zhang Yunsan, Xie Xincang, Cui Huanyou and Liu Yunlong committed that, after the expiration of the abovementioned periods, the number of shares transferred by them each year during their terms of office shall not exceed 25% of the total shares of the Company, and they shall not transfer the shares held by them within half a year after leaving.</p>	During the reporting period, the above people (or legal person) strictly performed their commitments.
Others (including additional commitments)	N/A	N/A	N/A

3.4 Result Forecast for the six months ended 30 June 2011

The result forecast for the six	The decrease of net profit attributable to shareholders of the listed company, which
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months ended 30 June 2011	compared with the same period of last year, is less than 50%.			
Range forecast of change for net profit from January to June in 2011 compared with the same period last year	The decrease for net profit attributable to shareholders of the listed company compared with the same period last year:	5.00%	~~	38.00%
The results for the six months ended 30 June 2010	Net profit attributable to shareholders of the listed company (<i>RMB</i>):	120,899,320.10		
Reasons for change in results	1. The 180mm Project was put into production successfully, and conformed to its project plan, while it's still in the early stage of production, cost of manufacture is high, which will return to normal level in the third quarter in accordance with plan; 2. the price of materials increases largely, compared with which in the same period of last year.			

3.5 Other material matters requiring disclosure

3.5.1 Investment in securities

Applicable N/A

Part 4 APPENDICES

4.1 Balance Sheet

Prepared by: Shandong Molong Petroleum Machinery Company Limited

Unit: RMB

Item	31 March 201		1 January 2011	
	Consolidated	the Company	Consolidated	the Company
Current assets:				
Cash and bank balances	541,143,644.00	365,620,049.16	892,286,589.93	837,167,588.76
Balances with clearing companies				
Placements with banks and other financial institutions				
Held for trading financial assets				
Bills receivable	35,397,198.00	22,768,306.22	19,120,729.91	11,570,729.91
Accounts receivable	571,331,889.66	553,037,928.17	500,867,640.05	495,100,949.64
Prepayments	54,998,953.59	13,521,519.20	158,601,512.56	101,572,609.15
Premiums receivable				
Reinsurance accounts receivable				
Deposits receivable from reinsurance treaty				
Interests receivable				
Dividends receivables			150,000.00	
Other receivable	29,879,698.13	20,863,181.23	30,281,650.63	18,186,384.98
Purchases of resold financial assets				
Inventories	924,419,854.21	721,927,058.77	743,553,547.47	612,796,033.63
Non-current assets due within one year				
Other current assets	61,912,563.41	39,739,065.78	41,054,637.00	27,836,147.66
Total current assets	2,219,083,801.00	1,737,477,108.53	2,385,916,307.55	2,104,230,443.73
Non-current assets:				
Loans and advances granted				
Available-for-sale financial assets				
Held-to-maturity investments				
Long-term receivables				
Long-term equity investment	12,477,279.82	649,069,921.73	12,477,279.82	435,467,004.23
Investment properties		6,098,431.22		6,189,666.32
Fixed assets	1,618,459,949.25	1,287,666,389.6	1,648,583,610.99	1,305,073,564.42
Construction in progress	150,558,367.50	63,231,709.56	131,446,242.52	44,383,482.30
Construction materials				
Disposal of fixed assets				
Productive biological assets				
Oil and gas assets				
Intangible assets	245,334,709.59	165,767,532.78	249,918,129.97	170,497,485.42
Development expenses	13,393,486.89	10,700,643.89		
Goodwill	142,973,383.21		142,973,383.21	

Long-term deferred expenses				
Deferred income tax assets	15,095,861.12	7,186,875.91	15,095,861.12	7,174,248.69
Other non-current assets				
Total non-current assets	2,198,293,037.38	2,189,721,504.69	2,200,494,507.63	1,968,785,451.38
Total assets	4,417,376,838.38	3,927,198,613.22	4,586,410,815.18	4,073,015,895.11
Current liabilities:				
Short-term borrowings	456,332,471.10	240,936,851.10	712,866,417.20	543,626,227.20
Loans from central bank				
Deposit taking and deposit in inter-bank market				
Placements from banks and other financial institutions				
Held for trading financial liabilities				
Bills payable	524,244,306.46	500,494,306.46	482,816,088.17	446,849,308.17
Accounts payable	523,166,638.51	331,370,776.30	501,771,570.34	324,586,612.39
Advance receipts	70,611,322.81	173,496,587.24	34,721,719.22	80,810,957.44
Disposal of repurchased financial assets				
Fee and commission payable				
Salaries payable	17,556,599.87	10,934,600.57	17,839,689.76	11,150,221.53
Taxes payable	14,611,098.62	4,043,975.27	29,428,377.89	14,729,859.41
Interests payable	3,066,662.62	1,550,412.62	955,547.63	751,797.63
Dividends payable			23,788,680.00	23,788,680.00
Other payables	22,075,157.03	11,573,413.17	25,991,912.66	14,243,186.10
Reinsurance accounts payable				
Reserve for insurance policies				
Customer deposits for trading in securities				
Customer deposits for underwriting				
Non-current liabilities due within 1 year				
Other current liabilities				
Total current liabilities	1,631,664,257.02	1,274,400,922.73	1,830,180,002.87	1,460,536,849.87
Non-current liabilities:				
Long-term loans				
Debentures payable				
Long-term payables				
Special payables				
Accrued liabilities				
Deferred income tax liabilities	21,619,327.61	8,009,453.16	13,027,452.38	522,199.20
Other non-current liabilities				
Total non-current liabilities	21,619,327.61	8,009,453.16	13,027,452.38	522,199.20
Total liabilities	1,653,283,584.63	1,282,410,375.89	1,843,207,455.25	1,461,059,049.07
Owners' equity(or Shareholders' equity):				
Paid-up capital (or share capital)	398,924,200.00	398,924,200.00	398,924,200.00	398,924,200.00
Capital reserve	1,248,406,190.92	1,248,406,190.92	1,248,406,190.92	1,248,406,190.92
Less: treasury stock				
Special reserve				
Surplus reserve	147,123,850.77	140,393,447.06	140,393,447.06	140,393,447.06
General risk reserve				
Undistributed profit	912,325,071.60	857,064,399.35	898,749,873.79	824,233,008.06
Foreign currency translation differences	-1,203,991.26		-483,325.64	
Total equity attributable to	2,705,575,322.03	2,644,788,237.33	2,685,990,386.13	2,611,956,846.04

owners of the Company				
Minority interests	58,517,931.72		57,212,973.80	
Total owners' equity	2,764,093,253.75	2,644,788,237.33	2,743,203,359.93	2,611,956,846.04
Total liabilities and owners' equity	4,417,376,838.38	3,927,198,613.22	4,586,410,815.18	4,073,015,895.11

4.2 Income Statement

Prepared by: Shandong Molong Petroleum Machinery Company Limited

Unit: RMB

Item	Three months ended 31 March 2011		Three months ended 31 March 2010	
	Consolidated	the Company	Consolidated	the Company
I . Total revenue from operations	672,861,508.81	653,250,984.68	559,035,854.83	511,927,029.99
Among which: operating revenue	672,861,508.81	653,250,984.68	559,035,854.83	511,927,029.99
Interest income				
Premium earned				
Fee and commission income				
II . Total cost of operations	646,826,370.23	632,471,912.76	525,783,249.10	478,497,548.59
Among which: Operating cost	613,969,031.62	605,066,555.44	482,490,933.10	442,063,949.53
Interest expenses				
Fees and commission expenses				
Surrender payment				
Net expenditure for compensation payments				
Net provision for insurance deposits				
Policyholder dividend expenses				
Reinsurance costs				
Business tax and surcharges	493,686.10		1,216,098.73	
Selling expenses	9,614,953.08	9,525,167.42	12,903,420.39	12,572,485.31
Administrative expenses	18,415,445.04	15,243,990.53	18,390,379.42	16,212,809.99
Finance costs	4,333,254.39	2,636,199.37	10,782,417.46	7,648,303.76
Asset impairment losses				
Add: Gains from changes in fair value (losses are represented by “-”)				
Investment income (losses are represented by “-”)		16,959,524.67		44,545,164.48
Among which: Gains from investment in associates and joint ventures		16,959,524.67		
Gains from foreign currencies exchange (losses are represented by “-”)				
III. Operating profit (loss is presented by “-”)	26,035,138.58	37,738,596.59	33,252,605.73	77,974,645.88
Add: Non-operating income	631,120.61	144,261.77	6,309,361.33	656,188.48
Less: Non-operating expenses	49,687.09	22,669.94	21,092.33	447.00

Among which: Loss from disposal of non-current assets	20,680.47	20,680.47		
IV. Total profit (loss is represented by “-”)	26,616,572.10	37,860,188.42	39,540,874.73	78,630,387.36
Less: Income tax expenses	4,335,649.64	3,120,206.05	5,771,970.39	3,877,373.74
V. Net profit (loss is represented by “-”)	22,280,922.46	34,739,982.37	33,768,904.34	74,753,013.62
Net profit attributable to owners of the Company	22,120,961.62	34,739,982.37	33,051,270.43	74,753,013.62
Minority interests	159,960.84		717,633.91	
VI. Earnings per share:				
(1) Basic earnings per share	0.06		0.10	
(2) Diluted earnings per share	N/A		N/A	
VII. Other comprehensive income				
VIII. Total comprehensive income	22,280,922.46	34,739,982.37	33,768,904.34	74,753,013.62
Total comprehensive income attributable to owners of the Company	22,120,961.62	34,739,982.37	33,051,270.43	74,753,013.62
Total comprehensive income attributable to minority interests	159,960.84		717,633.91	

4.3 Cash Flow Statement

Prepared by: Shandong Molong Petroleum Machinery Company Limited

Unit: RMB

Item	Three months ended 31 March 2011		Three months ended 31 March 2010	
	Consolidated	the Company	Consolidated	the Company
I. Cash flows from operating activities:				
Cash received from selling goods and rendering services	582,652,036.06	746,248,646.98	729,968,490.61	637,907,061.21
Net increase in deposits from customers and placements from banks and other financial institutions				
Net increase in borrowings from central bank				
Net increase in placements from other financial institutions				
Cash received from premiums of original insurance contracts				
Net cash received from reinsurance business				
Net increase in deposits from policyholders and investments				
Net increase in disposal of tradable financial assets				
Cash received from interest, handling charges and commissions				
Net increase in capital due to banks and other financial institutions				
Net increase in repurchases business fund				

Tax rebate received	36,058,150.94	36,058,150.94	15,268,496.66	15,268,496.66
Other cash received relating to operating activities	3,375,097.25	1,781,776.03	-186,666,454.43	-1,737,647.51
Sub-total of cash inflow from operating activities	622,085,284.25	784,088,573.95	558,570,532.84	651,437,910.36
Cash paid for purchasing goods and receiving services	536,047,570.44	626,493,969.01	886,246,490.76	822,103,533.00
Net increase in loans and advances to customers				
Net increase in placements with central bank and other financial institutions				
Cash paid for claims on original insurance contracts				
Cash payment for interest, handling charges and commissions				
Cash payment for policyholder dividend				
Cash paid to and on behalf of employees	26,492,670.50	16,814,604.75	21,718,145.48	12,969,968.16
Taxes and surcharges paid	19,082,343.58	10,868,265.03	28,774,214.50	9,871,779.93
Other cash paid relating to operating activities	19,549,632.71	17,528,243.13	-173,648,866.83	10,624,205.03
Sub-total of cash outflow from operating activities	601,172,217.23	671,705,081.92	763,089,983.90	855,569,486.12
Net cash flows from operating activities	20,913,067.02	112,383,492.03	-204,519,451.06	-204,131,575.76
II. Cash flows from investing activities:				
Cash received from disposal of investments				
Cash received from return on investments	150,000.00			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets				
Net cash received from disposal of subsidiaries and other business entities				
Other cash received relating to investing activities	15,765,194.61	15,765,194.61		
Sub-total of cash inflow from investing activities	15,915,194.61	15,765,194.61		
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	72,967,839.91	28,303,928.45	77,839,873.82	67,316,568.13
Cash paid for investment	0.00	220,000,000.00	33,702,462.73	28,702,462.73
Net increase in pledged loans	0.00	0.00	0.00	0.00
Net cash paid for acquisition of subsidiaries and other business entities				
Other cash paid relating to investing activities			142,752.03	142,752.03
Sub-total of cash outflow from investing activities	72,967,839.91	248,303,928.45	111,685,088.58	96,161,782.89
Net cash flows from investing activities	-57,052,645.30	-232,538,733.84	-111,685,088.58	-96,161,782.89
III. Cash flows from financing activities:				
Cash received from equity investments				
Among which: Cash received by subsidiaries from minority shareholders' investment				
Cash received from borrowings	66,983,255.35	20,026,120.35	506,221,900.00	440,000,000.00
Cash received from issue of bonds	0.00	0.00	0.00	0.00
Other cash received relating to financing activities				
Sub-total of cash inflow from financing activities	66,983,255.35	20,026,120.35	506,221,900.00	440,000,000.00
Cash paid for repayment of liabilities	322,715,496.45	322,715,496.45	185,648,512.00	179,648,512.00
Cash paid for dividends, profits distribution	31,374,179.70	30,890,370.75	67,521,580.26	15,217,388.89

or interest repayment				
Among which: Dividend and profit paid by subsidiaries to minority shareholders	0.00	0.00	0.00	0.00
Other cash paid relating to financing activities	2,764,395.91	2,680,000.00		
Sub-total of cash outflow from financing activities	356,854,072.06	356,285,867.20	253,170,092.26	194,865,900.89
Net cash flows from financing activities	-289,870,816.71	-336,259,746.85	253,051,807.74	245,134,099.11
IV. Effect on cash and cash equivalents due to change in foreign currency exchange rate	632,643.67	632,643.67	-399,019.25	-399,019.25
V. Net increase in cash and cash equivalents	-325,377,751.32	-455,782,344.99	-63,551,751.15	-55,558,278.79
Add: Balance of cash and cash equivalents at the beginning of the period	754,225,131.33	709,106,130.16	226,121,078.70	205,767,350.33
VI. Balance of cash and cash equivalents at the end of the period	428,847,380.01	253,323,785.17	162,569,327.55	150,209,071.54

4.4 Auditors' report

Auditors' opinion: Unaudited

By Order of the Board

Shandong Molong Petroleum Machinery Company Limited

Zhang En Rong

Chairman

Shandong, the PRC

27 April 2011

As at the date of this announcement, the executive Directors are Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long and Mr. Xie Xin Cang; the non-executive Directors are Mr. Chen Jian Xiong, Mr. Wang Ping and the independent non-executive Directors are Mr. John Paul Cameron, Mr. Chau Shing Yim, David and Ms. Wang Chun Hua.

** For identification purpose only*