



# 山東墨龍石油機械股份有限公司

**Shandong Molong Petroleum Machinery Company Limited\***

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

## **First Quarterly Report 2004**

*\* For identification purposes only*

## **Characteristics of The Growth Enterprise Market(“GEM”) of The Stock Exchange of Hong Kong Limited (The “Stock Exchange”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular , companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities trade on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors of Shandong Molong Petroleum Company Limited(the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, , confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading ; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

**HIGHLIGHTS**

- .Successful listing of the H shares of the Company on GEM on 15 April 2004.
- .Achieved a turnover of RMB84,526,000, representing an approximately 34% increase in turnover as compared with the turnover for the corresponding period in 2003.
- .Accomplished a net profit of RMB11,772,000 for the three months ended 31 March 2004.
- .The Directors (as defined below) do not recommend the payment of an interim dividend for the three months ended 31 March 2004.

**FIRST QUARTERLY RESULTS (UNAUDITED )**

The board of directors (the “Directors”) of Shandong Molong Petroleum Machinery Company Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiary (the “Group”) for the three months ended 31 March 2004.

For the three months ended 31 March 2004 the unaudited turnover is RMB84,526,000, representing a growth of RMB 21,729,000 or 34% in turnover as compared with that of the same period in 2003.

Due to the growth in the turnover, the unaudited net profit of Group for the three months ended 31 March 2004 is RMB11,772,000, representing a substantial growth in the results as compared with the corresponding figure in 2003.

The unaudited results of the Group for the three months ended 31 March 2004 together with the unaudited comparative figures for the corresponding period in 2003 are as follows:

	<i>Notes</i>	<b>For the three months ended 31 March</b>	
		<b>2004</b>	<b>2003</b>
		<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	<b>84,526</b>	62,797
Cost of Sales		<u><b>(64,102)</b></u>	<u>(46,651)</u>
Gross profit		<b>20,424</b>	16,146
Other revenue and gains		<b>6,298</b>	3,311
Selling and distribution costs		<b>(2,259)</b>	(1,251)
Administrative expenses		<b>(3,176)</b>	(2,638)
Other operating expenses		<u><b>(1,080)</b></u>	<u>(526)</u>
Profit from operating activities		<b>20,207</b>	15,042
Finance costs		<u><b>(1,324)</b></u>	<u>(905)</u>
Profit before tax		<b>18,883</b>	14,137
Tax	3	<u><b>(6,413)</b></u>	<u>(4,665)</u>
Profit before minority interests		<b>12,470</b>	9,472
Minority interests		<u><b>(698)</b></u>	<u>(431)</u>
Net profit from ordinary activities attributable to shareholders		<u><u><b>11,772</b></u></u>	<u><u>9,041</u></u>
Earnings per share-basic(cents)	4	<u><u><b>2.9cents</b></u></u>	<u><u>2.2cents</u></u>

**Notes:**

**1. BASIS OF PRESENTATION**

The Company was incorporated as a joint stock limited company with limited liability in the People's Republic of China (the "PRC") on 30 December 2001 and its H shares were listed on the GEM (the "Listing") on 15 April 2004.

The above results were prepared on the basis that the existing Company's structure had been in place throughout the period from 1 January 2003 to 31 March 2004.

The unaudited results of the Group have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the Rules Governing the Listing of Securities on GEM.

## 2. TURNOVER

Turnover represents value of goods sold to customers, net of value added tax and other sales tax and returns.

	<b>For the three months ended 31 March</b>	
	<b>2004</b>	<b>2003</b>
<b>By products</b>	<i>RMB'000</i>	<i>RMB'000</i>
Oil well pipes	<b>41,691</b>	32,945
Other petroleum extraction machinery accessories	<b>18,716</b>	17,216
Oil well sucker rods	<b>12,796</b>	9,450
Oil well pumps	<b><u>11,323</u></b>	<u>3,186</u>
Total	<b><u><u>84,526</u></u></b>	<u><u>62,797</u></u>
<b>By geographical area</b>		
The PRC	<b>69,787</b>	55,316
U.S.	<b>12,395</b>	7,416
Others	<b><u>2,344</u></b>	<u>65</u>
Total	<b><u><u>84,526</u></u></b>	<u><u>62,797</u></u>

## 3. TAXATION

	<b>For the three months ended 31 March</b>	
	<b>2004</b>	<b>2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
The Charge comprises		
PRC income tax	<b><u>6,413</u></b>	<u>4,665</u>

The Company and Molong Machinery are located in the PRC and as a result are subject to PRC corporate income tax at a rate of 33% on their assessable profits.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong.

#### **4. EARNINGS PER SHARE**

The calculation of the basic earnings per share for three months ended 31 March 2004 was based on the unaudited net profit attributable to shareholders of approximately RMB11,772,000 (three months ended 31 March 2003: RMB9,041,000) and on the assumption that 405,000,000 shares in issue during each of the three months ended 31 March 2003 and 2004.

Diluted earnings per share is not presented for the three months ended 31 March 2004 and 2003 as there were no potential dilutive securities in existence during the relevant periods.

#### **5. RESERVES**

There were no movements in reserves of the Group for three months ended 31 March 2004.

#### **6. INTERIM DIVIDEND**

The Directors do not recommend the payment of any interim dividend for the period (2003:Nil).

### **BUSINESS AND FINANCIAL REVIEW**

#### **Business Review**

The Company's H shares were successfully listed on GEM of the Stock Exchange of Hong Kong Limited on 15 April 2004. It represented an important milestone for the Group, which also enhanced the Group's corporate identity in order to tap into the international market.

During the period under review, the Group continued to enhance the research and development team, quality and production capacity of products and strengthen the sales and marketing.

## **Financial Review**

The Group has achieved a stable and sustained growth in the operational results of the first quarter of this financial year. For the three months ended 31 March 2004, the Group recorded an unaudited turnover of RMB84,526,000 (2003: RMB62,797,000), representing a growth of RMB21,729,000 or 34% in turnover as compared to the corresponding period over the previous year.

Due to the growth in turnover, the Group's unaudited net profit to the shareholders for the three months ended 31 March 2004 amounted to RMB 11,772,000 (2003: RMB9,041,000), representing an encouraging growth of 30% in the results as compared with the corresponding period in 2003.

As at 31 March 2004, the Group had net current assets of RMB70,775,000. The Directors believe that with the net proceed of RMB80,929,000 generated from the listing, the Group would have sufficient capital to meet its liabilities and commitment.

## **FUTURE PROSPECTS**

### **Research and development**

The Group continues to carry out research and development for new products, in particular, super strength oil well sucker rods, special seamless oil well pipes and casing. The Directors believe that the Group's commitment to research and development for new products is critical in maintaining the Group's competitive edge in the PRC and overseas market. In addition, the Group will strengthen its research and development capability by recruiting more research personnel with a view to improve the quality and functionality of its products in response to the market trends. The Directors have also planned to use more advanced production lines and more new production facilities for future expansion.

### **Expansion of market coverage**

To further enlarge the market coverage, the Group intends to increase its sales presences in both the PRC and overseas markets by expanding its sales force and marketing activities. These activities will include participation of petroleum extraction machinery exhibitions, regular oilfields visit and strengthening its relationships with existing customers. The Group also intends to expand its sales network by setting up more sales/representative offices and/or appointing authorized sales agents in overseas markets, particularly in strategic locations such as the South East Asia region and the Middle East. The Group believes that setting up sales offices in such locations would assist the Group to increase sales of its products and to maintain closer contracts with overseas markets.

## **Expansion of production capacity**

In order to capture the increasing demand for the petroleum extraction machinery in the PRC, the Group increased its production capacities by constructing a new production facility. The first phase of construction was completed in 2002 and the second phase of the construction (two factory buildings) with the main structure work and a total gross floor area of 14,489.35 sq.m. has been completed in November 2003. The decoration work is in progress. These facilities will primarily be used for production of super strength oil well sucker rods and special seamless oil well pipes.

Looking into the future, the Directors expected that with the increasing demand for crude oil as well as the huge expenditure on oil and gas exploration and production in the PRC, there will be a further increase in demand on the petroleum extraction machinery and related accessories. At the same time, the Group will also further explore the international market. Since the Group has established a solid foundation and is well positioned in the industry, it enjoys a competitive advantage by increasing its product sales under the booming market condition.

The Directors strongly believe that by developing new products and enhancing existing products as well as increasing production capacities, the Group is able to fulfill both the market demands and to maximize shareholder's return on investment.

## **CAPITAL COMMITMENT AND CONTINGENT LIABILITIES**

As at 31 March 2004, the Group had capital commitment and contingent liabilities of approximately RMB3,283,600 and RMB 6,000,000 respectively.

## **MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENT**

Saved as disclosed in the subsection headed "Further information about the business" in the section headed "Statutory and general information" in Appendix V to the prospectus dated 30 March 2004, the Group had no material acquisition, disposal and investment. At present, the Group has no immediate plan for material acquisition, disposal of significant investments other than those set out in the section headed "Statement of business objectives".



## BANK FACILITIES AND PLEDGE OF ASSETS

The Group did not have any banking facilities with financial institutions. As at 31 March 2004, the Group borrowed a sum of RMB75,000,000 short term loan and RMB25,000,000 long term loan. Of the RMB100,000,000 loans, RMB78,000,000 were secured by corporate guarantee and assets of the Group and RMB22,000,000 were secured by corporate guarantee of Shouguang Maolong Machinery Company Limited (“Maolong Machinery”) and Shouguang Molong Electro-mechanical Equipment Company Limited (“Molong Equipment”). Applications have been made and consents have been obtained from the banks of the Company for the corporate guarantees provided by Maolong Machinery and Molong Equipment to be released upon the listing of the shares of the Company on GEM. The corporate guarantees provided by Maolong Machinery and Molong Equipment will be replaced by corporate guarantees and/or other securities to be provided by the Company. Both Maolong Machinery and Molong Equipment have confirmed that they are willing to continue to provide the corporate guarantees for the existing loans.

## NUMBER OF EMPLOYEES

A breakdown of the number of employees of the Group by function as at 31 March 2004 and 31 December 2003 were set out below:

	<b>As at 31 March 2004</b>	<b>As at 31 December 2003</b>
Research and development	40	40
Production	790	790
Quality control	77	77
Sales and marketing	45	45
Administration	<u>153</u>	<u>153</u>
Total	<u><u>1,105</u></u>	<u><u>1,105</u></u>

## DISCLOSURE UNDER GEM LISTING RULES 17.15 TO 17.21

Under the Chapter 17.16 of GEM Listing Rules, a disclosure obligation arises, among other situations, where :

(a) the relevant advances to an entity increases from that previously disclosed and any of the percentage ratios for the amount of the increase since the previous disclosure is 3% or more.

(1) Advance to an entity

The total market capitalization of the Company based on the average closing price of the H Shares of the Company for the five business days from 4 May 2004 to 10 May 2004 was approximately HK\$355,318,684 (the “Market Capitalization”). Trade receivables of an amount of approximately RMB4,200,000 were owing from an independent party, Petro China, as at 31 March 2004. As stated in the prospectus of the Company dated 30 March 2004, such receivables amounted to RMB32,868,000 as at 31 December 2003. The increment therefore represented approximately 4.5% of the Market Capitalization. Accordingly, a disclosure obligation under paragraph 17.16 of Chapter 17 for the Company arises.

As confirmed by the Directors, the trade receivables and notes receivables referred to above were resulted from the sale of the Group's products to such customer in the ordinary course of business of the Group. The trade receivables and notes receivables were unsecured, interest free and had a credit terms of between 30 to 150 days.

### **DIRECTORS' INTERESTS IN SHARES**

Immediately upon listing, the interests of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance(the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the Rules Governing the listing of Securities on GEM(the "GEM Listing Rules"). Long position in shares of the Company

<b>Name</b>	<b>Type of interest</b>	<b>Number of shares (Note)</b>	<b>Percentage of domestic shares</b>	<b>Percentage of total registered share capital</b>
Zhang En Rong	Personal	279,517,000	69.58%	51.76%
Lin Fu Long	Personal	34,216,000	8.25%	6.34%
Zhang Yun San	Personal	30,608,000	7.62%	5.67%
Xie Xin Cang	Personal	21,410,000	5.33%	3.96%

(Note: All represented domestic shares)

Other than as disclosed above, none of the Directors and chief executives had any interests or short position in shares, underlying shares or debentures of the Company or any of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules immediately upon Listing.

### **DIRECTORS' RIGHTS TO ACQUIRE H SHARES**

Save as disclosed above, during period from 1 January 2004 to 15 April 2004 (date of the Listing of the Company), none of the Directors or Supervisors was granted options to subscribe for H shares of the Company. As at 15 April 2004 (date of the Listing of the Company), none of the Directors or the Supervisors had any rights to acquire H shares in the Company.

### **SHARE OPTION SCHEME**

The Company does not have share option scheme.

### **SUBSTANTIAL SHAREHOLDER**

Immediately upon Listing, the following persons (other than Directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the listed issuer as recorded in the register to be kept under section 336 of the SFO:

## Long position in shares

Name	Type of interests	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered capital
Zhang Xiu Lan (Note 1)	Interests of spouse	279,517,000	69.58%	—	51.76%
Li Xiu Fen (Note 2)	Interests of spouse	34,216,000	8.25%	—	6.34%
Zhang Xin Lan (Note 3)	Interests of spouse	30,608,000	7.62%	—	5.67%
Li Bao Hui (Note 4)	Interests of spouse	21,410,000	5.33%	—	3.96%
SG Asset Management (Singapore) Ltd. (Note 5)	Investment Manager	8,000,000	—	5.79%	1.48%
SG Yamaichi Asset Management Co Ltd. (Note 5)	Interest of a controlled corporation	8,000,000	—	5.79%	1.48%
Societe Generale Aeest Management North Pacific Ltd (Note 5)	Interest of a controlled corporation	8,000,000	—	5.79%	1.48%
SG Asset Management SA (Note 5)	Interest of a controlled corporation	8,000,000	—	5.79%	1.48%
Societe Generale SA (Note 5)	Interest of a controlled corporation	8,000,000	—	5.79%	1.48%
MartinCurrie China Hedge Fund Limited	Investment Manager	12,264,000	—	8.87%	2.27%
Peter Cundill & Associates (Bermuda) Ltd	Investment Manager	48,600,000	—	35.15%	9.00%
J.P.Morgan Chase & Co.	Interest of a controlled corporation	10,824,000	—	7.83%	2.00%

<b>Name</b>	<b>Type of interests</b>	<b>Number of shares</b>	<b>Percentage of domestic shares</b>	<b>Percentage of H shares</b>	<b>Percentage of total registered capital</b>
JF International Management Inc. <i>(Note 6)</i>	Investment Manager	1,824,000	–	1.32%	0.34%
J.P.Morgan Fleming Asset Management Holdings Inc. <i>(Note 6)</i>	Interest of a controlled corporation	10,824,000	–	7.83%	2.00%
J.P.Morgan Fleming Asset Management (Asia) Inc. <i>(Note 6)</i>	Interest of a controlled corporation	10,824,000	–	7.83%	2.00%
JF Asset Management Limited <i>(Note 6)</i>	Investment Manager	9,000,000	–	6.51%	1.66%

*Note 1:* Zhang Xiu Lan is the wife of Zhang En Rong and is taken to be interested in the shares in 279,517,000 domestic shares held by Zhang En Rong under the SFO.

*Note 2:* Li Xiu Fen is the wife of Lin Fu Long and is taken to be interested in the shares in 34,216,000 domestic shares held by Lin Fu Long under the SFO.

*Note 3:* Zhang Xin Lan is the wife of Zhang Yun San and is taken to be interested in the shares in 30,608,000 domestic shares held by Zhang Yun San under the SFO.

*Note 4:* Li Bao Hui is the wife of Xie Xin Cang and is taken to be interested in the shares in 21,410,000 domestic shares held by Xie Xin Cang under the SFO.

*Note 5:* Societe Generale, SA owns 100% of SG Asset Management SA. SG Asset Management SA owns 100% Societe Generale Asset Management North Pacific Ltd. Societe Generale Asset Management North Pacific Ltd owns 95% of SG Yamaichi Asset Management Co. Ltd. SG Yamaichi Asset Management Co. Ltd. owns 85% of SG Asset Management (Singapore) Ltd. Societe Generale, SA, SG Asset Management SA, Societe Generale Asset Management North Pacific Ltd and SG Yamaichi Asset Management Co. are deemed by Part XV of the SFO to be interested in the 8,000,000 H shares held by SG Asset Management(Singapore) Ltd.

*Note 6:* J.P.Morgan Chase & Co. owns 100% of J.P.Morgan Fleming Asset Management Holdings Inc. J.P.Morgan Fleming Asset Management Holdings Inc. owes 100% of J.P. Morgan Fleming Asset Management (Asia)Inc. J.P. Morgan Fleming Asset Management (Asia)Inc. owns 99.99% of JF Asset Management Limited and 100% of JF International Management Inc.respectively. J.P. Morgan Chase & Co., J.P. Morgan Fleming Asset Management Holdings Inc. and J.P. Morgan Fleming Asset Management (Asia)Inc. are deemed by Part XV of the SFO to be interested in the 9,000,000 H shares held by JF Asset Management Limited. J.P.Morgan Chase Co., J.P. Morgan Fleming Asset Management Holdings Inc. and J.P. Morgan Fleming Asset Management(Asia) Inc. are deemed by Part XV of the SFO to be interested in the 1,824,000 H shares held by JF International Management Inc.

Other than disclosed above, the Directors were not aware of any other person(other than Directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the listed issuer as recorded in the register required to be kept under section 336 of the SFO.

### **COMPETING INTERESTS**

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

### **SPONSOR'S INTEREST**

Same as disclosed below, neither Deloitte & Touche Corporate Finance Ltd.(the "sponsor")nor its directors, employees or associates (as referred to in Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 15 April 2004(date of the Listing of the Company).

Pursuant to the agreement dated 29 March 2004 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the remaining period of the financial year ending 31 December 2004 and the two subsequent financial years.

### **AUDIT COMMITTEE**

The Company established an audit committee on 20 March 2004 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the three independent non executive directors, Mr. Qin Xue Chang and Mr. Yan Yi Zhuang and Mr.Loke Yu alias Loke Hoi Lam. Mr. Qin Xue Chang is the chairman in the Audit Committee.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the first quarterly report for the three months ended 31 March 2004,with the Directors.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiary purchased, sold or redeemed any listed securities of the Company during the period from 1 January 2004 to 15 April 2004 (date of the Listing of the Company).

## **COMPLIANCE**

In the opinion of the Directors, the Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices throughout the three months ended 31 March 2004.

## **DIRECTORS**

Executive Directors of the Company as at the date of this report are Mr.Zhang En Rong, Mr.Lin Fu Long, Mr.Zhang Yun San and Mr. Xie Cang, non-executive Directors as at the date of this report are Mr. Chen Jian Xiong and Mr. Wang Ping and the independent non-executive Directors as the date of this report are Mr. Qin Xue Chang, Mr. Yan Yi Zhuang and Mr. Loke Yu alias Loke Hoi Lam.

On behalf of the Board  
**Zhang En Rong**  
*Chairman*

11 May 2004,Shangdong, the PRC