



On behalf of the Board of Directors (the “**Board**” or “**Directors**”) of the Company, I am pleased to present the annual report and the audited financial statements of the Company together with its subsidiaries (collectively the “**Group**”) for the financial year ended 31 December 2006 (“**2006**” or the “**current year**”) to the shareholders of the Company (the “**Shareholders**”).

## Outstanding Achievements for the Year

The Group recorded impressive business growth during the year. For the year ended 31 December 2006, the Group achieved revenue of RMB1,014,037,000, representing an increase of approximately 30.6% as compared with last year. Over the same period, the profit attributable to equity holders of the parent and earnings per share were approximately RMB139,404,000 and RMB0.215, representing an increase of approximately 63.6% and 52.5%, respectively, as compared with last year. All of these achievements clearly demonstrated the persistent effort made by the Group in developing its business.

## Business Review

The 250,000-tonne casing production facilities of the Group successfully completed trial production at the end of March 2006 and was put into full production in the fourth quarter of 2006. The construction and production of the 250,000-tonne casing production facilities enabled the Group to grasp the development opportunities arising from the increase in the demand of petroleum drilling and extraction machinery and related accessories. In addition, as the first H share company which successfully migrated from the Growth Enterprise Market (“**GEM**”) to the Main Board (“**Main Board**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), dealings in the H shares of the Company on the Main Board commenced on 7 February 2007.

In terms of market expansion, the Group's main customers are major oil fields in China, including Xinjiang Oil Field (新疆油田), Daqing Oil Field (大庆油田), Changqing Oil Field (长庆油田), Liaohe Oil Field (辽河油田), Qinghai Oil Field (青海油田), Huabei Oil Field (华北油田) and Jilin Oil Field (吉林油田), all of which are branch oil fields of PetroChina Company Limited and its subsidiaries (collectively, “**PetroChina Group**”), as well as Shengli Oil Field (胜利油田), Zhongyuan Oil Field (中原油田) and Jiangnan Oil Field (江汉油田) all of which are branch oil fields of China Petroleum & Chemical Corporation (collectively, “**Sinopec Group**”). Sales to the above oil fields under PetroChina Group and Sinopec Group accounted for approximately 61% of the Group's total revenue. Solid and renowned client base has brought a stable income to the Group. In terms of overseas market, with the Group's continued effort to further expand such market, there was a rapid increase in both the number of and the business with overseas customers in 2006. At present, the Group has established long-term cooperative relationship with approximately 30 overseas agencies and oil field service companies. There has been a significant increase in the exports of the Group's products to overseas regions, such as North America, Europe and Southeast Asia. For the financial year ended 31 December 2006, the Group's revenue generated from exports increased significantly, which accounted for approximately 39% of the Group's total sales revenue. Such increase formed a solid foundation for the Group to further expand the overseas market in the future.

Based on its successful application of the Enterprise Resources Planning (“**ERP**”) system, the Company installed the Product Data Management (“**PDM**”) system and Computer Aided Process Planning (“**CAPP**”) system in 2006 in order to further enhance the management of the entire operation in terms of research and development, production process, supply, manufacture and sales of its products. The PDM system and CAPP system can automatically provide the product's dynamic data during the entire business process and achieve integrated management and establish a solid foundation for company's information management.

For the financial year ended 31 December 2006, the Group was awarded a number of accreditations by the relevant PRC governmental authorities, banks and tax bureaux including 「2006年山東省機械工業百強企業」, 「山東省製造業資訊化示範企業」, 「山東省高新技術企業」, 「山東省就業和社會保障先進民營信用企業」, 「濰坊市2006年度工業百強企業」, 「濰坊市誠信民營企業」, 「濰坊市A級納稅企業」, 「2006-2007年度重點培育和發展山東省出口名牌」, 「山東省銀行最佳信貸誠信客戶」, 「壽光市特大型企業」 and 「AAA級信用企業」. The Group was also listed as one of the 2006 Top 100 Listed Companies in the PRC with the Highest Growth Rate. The above accreditations have demonstrated the recognition of the Group's outstanding results in the People's Republic of China.

### Prospects

The Company is the first H share company which successfully migrated from the GEM to the Main Board of the Stock Exchange. Dealings in the H shares of the Company on the Main Board commenced on 7 February 2007. The Directors believe that the Company's migration from GEM to Main Board will enhance its image and recognition in the international capital market, attract more professional investors and improve the Group's financing capability. It will also elevate the Company's image in the international and domestic petroleum drilling and extraction machinery markets and is favorable to the Company in terms of its efforts in expanding the market and facilitating international cooperation.

According to the report published in "International Energy Outlook 2006" issued by the US Department of Energy Information Administration, the global demand for crude oil has continued to increase. The demand for crude oil is expected to increase from 0.8 billion barrels per day in 2003 to 0.98 billion barrels per day in 2015. Such increase is primarily due to the sharp increase in the demand from non-OECD (Organisation for Economic Co-operation and Development) countries (such as the People's Republic of China), which leads to corresponding increase in both global and domestic investments in crude oil extraction. Coupled with rapid economic development in China, the Chinese government has increased the investment in the exploitation and production of oil and gas in order to produce and reserve more crude oil to meet its demand arising by the economic development. The Directors believe that the increasing global demand for crude oil and the corresponding increase in the capital for oil drilling will directly promote the development in the petroleum drilling and extraction machinery industry.

Looking forward, the Group will continue to invest in its business, conduct research and develop products, increase its productivity and increase its marketing activities in order to grasp business opportunities.



With regard to product research and development, the Group will strengthen the development of high grade oil well pipes and casings, oil well pipe products of various specifications, as well as the API (the American Petroleum Institute) series of oil well pumps and oil well pumping machines in 2007, improve the quality of the Group's products and enhance the Group's competitive strength in the industry.

With respect to the development of new products, in order to secure business opportunities and explore more resources to increase the Group's revenue, the Group will, based on its techniques in the production of oil drilling machinery, actively conduct research to develop the production techniques of natural gas and coal gas drilling and extraction machinery according to the market demand for natural gas and coal gas.

With respect to the expansion of production capabilities, the Group's 250,000-tonne casing production facilities are expected to achieve 60% of its total production capacity in 2007 and to achieve its maximum annual production capacity within three years.

In terms of the expansion of the domestic market, apart from maintaining and consolidating relationships with existing customers, the Group will further develop potential customers. For overseas markets, with the Group's successful expansion into new markets such as Russia, Canada and the United Arab Emirates and so on, the Group will continue to observe and study the booming overseas markets, strengthen marketing activities and actively engage in new product launches to expand the Group's market coverage.

With its competitive strength on research and development and product quality, the Group will be able to capture business opportunities and provide high quality petroleum drilling and extraction machinery and accessories to global petroleum extraction companies to achieve the best interests of the shareholders.

### Acknowledgement

Lastly, I would like to express my gratitude to the Shareholders and business partners of the Group for their support and encouragement for the past year, and at the same time, my most sincere thanks to the Directors and all the staff of the Group for their dedication and contribution.

**Zhang En Rong**

Chairman

Shandong, the PRC

29 March 2007