

To the Shareholders:

The supervisory committee (the “**Supervisory Committee**”) of Shandong Molong Petroleum Machinery Company Limited, in compliance with the provisions of the Company Law of the People’s Republic of China (the “**PRC Company Law**”), the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, has conducted its work in accordance with the fiduciary principle, and has taken up an active role to work faithfully and diligently to protect the interests of the Company and the Shareholders.

During 2006, the Supervisory Committee has reviewed cautiously the development plans of the Company and provided reasonable suggestions and opinions to the board of Directors whilst attending board meetings. It also strictly and effectively monitored and supervised the Company’s management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and that they are in the interests of the Shareholders.

We have carefully reviewed and agreed to the report of the Directors, audited financial statements and the declaration of a final dividend to be proposed by the Board for presentation at the annual general meeting. The Supervisors believe that during 2006, the operating results of the Company adequately reflects its state of affairs; all expenses and costs incurred were reasonable; the plan for distribution of dividends accommodated the Shareholders’ interests and the long-term benefits of the Group, and the statutory surplus reserve and welfare fund provided from net profits for the year were made in compliance with applicable laws, regulations and the Articles of Association of the Company.

Throughout 2006, to the best knowledge of the Supervisory Committee, none of the Directors or other officers of the Group had been found to have abused their authority, damaged the interests of the Company or infringed upon the interest of the Shareholders and the Company’s employees. To the best knowledge of the Supervisory Committee, none of the Directors or other officers of the Company was found to be in breach of any applicable laws and regulations, the Articles of Association of the Company or relevant regulations of China Securities Regulatory Commission. We are of the opinion that the Directors and other officers of the Company were able to strictly observe their respective duties, to act diligently and to exercise their authority faithfully in the best interests of the Company.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company for 2006 and has great confidence in the future of the Company and would like to take this opportunity to express its appreciation to all Shareholders, Directors and staff for the strong support of our work.

By order of the Supervisory Committee

Li Bao Hui

Chairman of the Supervisory Committee

Shandong, the PRC

29 March 2007