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)

2008

INTERIM REPORT

* *For identification purpose only*

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This report, for which the directors of Shandong Molong Petroleum Machinery 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 Stock Exchange of Hong Kong Limited (the "Listing Rules") for the purpose of giving information with regard to the Company. The directors of 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.

Contents

HIGHLIGHTS

- Achieved a revenue of approximately RMB1,052,030,000 for the six months ended 30 June 2008, which represents a growth of approximately 30.5% as compared to RMB806,411,000 in the same period last year.

- The net profit increased by approximately 54.6% to approximately RMB140,005,000 as compared to RMB90,532,000 that of the same period last year.

- Earnings per share of the Group were approximately RMB4.26 cents for the six months ended 30 June 2008.

- The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2008.

The board of directors of the Company (the "Board") is pleased to announce the unaudited results of Shandong Molong Petroleum Machinery Company Limited and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2008 (the "period under review").

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2008

The unaudited results of the Group for the six months ended 30 June 2008 together with the unaudited comparative figures for the corresponding period in 2007 are as follows:

		Six months ended 30 June	
		2008	2007
	Notes	**RMB'000**	RMB'000
Revenue	(2)	**1,052,030**	806,411
Cost of sales		**(851,952)**	(640,854)
Gross profit		**200,078**	165,557
Other income and gains	(3)	**10,820**	14,062
Selling and distribution costs		**(25,123)**	(17,943)
Administrative expenses		**(22,797)**	(19,594)
Other operating expenses		**(727)**	(9,850)
Finance costs		**(20,660)**	(12,044)
Profit before tax	(4)	**141,591**	120,188
Tax	(5)	**(1,272)**	(29,196)
Profit for the period		**140,319**	90,992
Attributable to:			
Shareholders of the Company		**140,005**	90,532
Minority interests		**314**	460
		140,319	90,992
Dividends			
Interim dividend per share (RMB cents)		**Nil**	Nil
Earnings per share attributable to ordinary equity holders of the parent - basic (RMB cents)	(6)	**4.26**	2.79

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Notes	**As at 30 June 2008 RMB'000 (unaudited)**	As at 31 December 2007 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**899,007**	820,313
Investment properties		**3,534**	3,574
Prepaid land lease payments		**88,954**	88,584
Intangible assets		**13,196**	377
Goodwill		**147,115**	147,115
Investment in an associate		**2,142**	2,142
Available-for-sale equity investment		**10,000**	10,000
Other long term assets		**11,304**	6,704
Deferred tax assets		**15,896**	15,705
Total non-current assets		**1,191,148**	1,094,514
CURRENT ASSETS			
Inventories	(7)	**699,808**	599,168
Trade receivables	(8)	**357,184**	232,957
Bills receivables		**36,571**	28,080
Prepayments, deposits and other receivables		**118,029**	60,618
Due from related party		**3,282**	1,449
Pledged deposits		**374,126**	160,557
Cash and bank balances		**82,087**	112,980
Total current assets		**1,671,087**	1,195,809

	Notes	As at 30 June 2008 RMB'000 (unaudited)	As at 31 December 2007 RMB'000 (audited)
CURRENT LIABILITIES			
Trade and bills payables	(9)	**860,802**	575,039
Other payables and accruals		**260,646**	259,117
Tax payable		**12,195**	47,256
Interest-bearing bank loans		**349,547**	157,120
Due to related parties		**18,132**	18,132
Total current liabilities		**1,501,322**	1,056,664
NET CURRENT ASSETS		**169,765**	139,145
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,360,913**	1,233,659
NON - CURRENT LIABILITIES			
Interest-bearing bank loans		**420,000**	380,000
Deferred tax liabilities		**10,887**	13,631
Total non-current liabilities		**430,887**	393,631
NET ASSETS		**930,026**	840,028
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital		**328,924**	328,924
Reserves		**554,065**	414,850
Proposed interim/final dividend		**—**	49,339
		882,989	793,113
MINORITY INTERESTS		**47,037**	46,915
TOTAL EQUITY		**930,026**	840,028

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008 and 2007

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Net cash inflow from operating activities	**117,846**	90,741
Net cash outflow from investing activities	**(221,239)**	(141,000)
Net cash inflow from financing activities	**193,182**	168,080
Net increase in cash and cash equivalents	**89,789**	117,821
Cash and cash equivalents at the beginning of the period	**112,980**	35,215
Cash and cash equivalents at the end of the period	**202,769**	153,036
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**82,087**	41,594
Time deposits with original maturity of less than three months when acquired, pledged as security for bills payable	**120,682**	111,442
	202,769	153,036

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008 and 2007

	Attributable to equity holders of the parent										
	Issued Share capital	**Capital reserve**	**Statutory reserve fund**	**Statutory welfare fund**	**Retained profits**	**Exchange fluctuation reserve**	**Subtotal of reserves**	**Proposed interim dividend**	**Total**	**Minority interests**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	64,800	177,712	41,132	11,982	220,269	(251)	450,844	12,960	528,604	8,161	536,765
Profit for the period	—	—	—	—	90,532	—	90,532	—	90,532	460	90,992
Exchange fluctuation	—	—	—	—	—	(253)	(253)	—	(253)	—	(253)
Dividend paid	—	—	—	—	—	—	—	(12,960)	(12,960)	—	(12,960)
Absorbed minority interests	—	—	—	—	—	—	—	—	—	12,600	12,600
Paid to minority share holders	—	—	—	—	—	—	—	—	—	(7,342)	(7,342)
At 30 June 2007	64,800	177,712	41,132	11,982	310,801	(504)	541,123	—	605,923	13,879	619,802
At 1 January 2008	328,924	121,018	70,225	—	224,549	(942)	414,850	49,339	793,113	46,915	840,028
Profit for the period	—	—	—	—	140,005	—	140,005	—	140,005	314	140,319
Exchange fluctuation	—	—	—	—	—	(790)	(790)	—	(790)	(192)	(982)
Dividend paid	—	—	—	—	—	—	—	(49,339)	(49,339)	—	(49,339)
At 30 June 2008	328,924	121,018	70,225	—	364,554	(1,732)	554,065	—	882,989	47,037	930,026

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in Renminbi unless otherwise stated)

1. **General Information and Basis of Preparation**

The interim financial statements were unaudited. The interim financial statements have been reviewed by the audit committee of the Company.

The Company was incorporated as a joint stock 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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM") on 15 April 2004. On 5 July 2004, the Company became a Sino-foreign joint stock limited company. The Company migrated from the GEM to the Main Board of the Stock Exchange on 7 February 2007.

The unaudited financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of Appendix 16 of the Listing Rules.

The principal accounting policies used in the preparation of the unaudited financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

The Group has adopted the following standards that have been issued and effective for the periods beginning on or after 1 January 2008. The adoption of such standards did not have material effect on these financial statements.

HK (IFRIC) – Int 12	Service Concession Arrangements
HK (IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group has not early adopted the following standards that have been issued but not yet effective. The adoption of such standards will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 1 and HKAS 32 (Amendment)	Puttable Financial Instrusments and Obligations arising on Liquidation[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellation[1]
HKFRS 3 (Revised)	Business Combinations – Comprehensive revision on applying the Acquisition Method[2]
HKFRS 8	Operating Segments[1]
HK (IFRIC) – Int 13	Customer Loyalty Programmes[3]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 July 2009.
3 Effective for annual periods beginning on or after 1 July 2008.

2. **Revenue & Segment Information**

Revenue represents the invoiced value of goods sold, and after allowances for goods returned and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

The Group's operating business is with customers based in the PRC, the United States, Europe and other countries. Each of the Group's geographical segments represents customer destinations to which the Group sells products or provides services which are subject to risks and returns that are different from those of the other geographical segments. Save as disclosed below, no further business segment information is presented as over 90% of the Group's revenue and assets relate to the sales of petroleum machinery.

	For the six months ended 30 June 2008				
	PRC	**United States**	**Europe (Note)**	**Other countries**	**Consolidated**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue					
Sales to external customers	518,579	164,845	219,219	149,387	1,052,030
Other revenue	116,652	—	—	—	116,652
Total revenue	635,231	164,845	219,219	149,387	1,168,682
Segment results	92,408	24,934	36,687	20,926	174,955
Unallocated income					10,820
Unallocated expenses					(23,524)
Finance costs					(20,660)
Profit before tax					141,591
Tax					(1,272)
Profit for the period					140,319

Note: Major revenue was derived from member states of the commonwealth of Independent states such as Russia and Kazakstan. To facilitate comparison with prior periods , the Group has included revenue from the commonwealth of Independent states in the European region.

	For the six months ended 30 June 2007				
	PRC	**United States**	**Europe (Note)**	**Other countries**	**Consolidated**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue					
Sales to external customers	382,218	141,046	155,855	127,292	806, 411
Other revenue	1,585	—	—	—	1,585
Total revenue	383,803	141,046	155,855	127,292	807,996
Segment results	53,631	28,292	31,985	29,895	143,803
Unallocated income					12,477
Unallocated expenses					(24,048)
Finance costs					(12,044)
Profit before tax					120,188
Tax					(29,196)
Profit for the period					90,992

Note: Major revenue was derived from member states of the commonwealth of Independent states such as Russia and Kazakstan. To facilitate comparison with prior periods , the Group has included revenue from the commonwealth of Independent states in the European region.

3. **Other Income and Gains**

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of materials	**—**	1,119
Subcontract income	**—**	138
Bank interest income	**3,159**	2,634
Government subsidies	**5,557**	6,745
VAT refund	**255**	1,252
Gross rental income	**36**	328
Others	**1,813**	1,846
	10,820	14,062

4. **Profit Before Tax**

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**858,896**	640,854
Depreciation	**22,848**	23,197
(Write-back of provision)/provision against inventories	**(6,944)**	1,206
(Write-back of provision)/provision for doubtful debts	**(2,881)**	1,469
Research and development costs	**1,665**	10,149

5. **Tax**

The Company and its subsidiaries (except MPM International Ltd.) are all located in Mainland China and as a result are subject to the PRC corporate income tax at a rate of 25%(2007:33%) on their assessable profits. Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the year. During the period under review, no provision for Hong Kong profits tax had been made as MPM International Ltd., the subsidiary of the Company did not generate any assessable profit.

Weifang Molong Drilling Equipment Company Limited ("Molong Drilling Equipment"), the Company's subsidiary, was approved by the Ministry of Civil Affairs of Shandong Province (山東省民政廳) as a welfare enterprise (民政福利企業) and hence was entitled to a full exemption from corporate income tax for January to June of 2007 according to the tax document Cai Shui Zi [1994] No. 1 Notice about the several preferential policies on corporate income tax (《關於企業所得稅若干優惠政策的通知》). According to the tax document Cai Shui Zi [2007] No.92 (財稅字 [2007]92 號文), with effect from 1 July 2007, Molong Drilling Equipment was entitled to claim twice of salaries paid to its disabled employees when calculating the PRC corporate income tax and was not entitled to an exemption from corporate income tax.

During the period under review, the amount of Corporate Income Tax, which was deducted or exempted for purchasing homemade equipment for the eligible technological innovation projects, was RMB 27,128,000.

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current - PRC tax charge for the period	**3,997**	32,085
Deferred	**(2,725)**	(2,889)
Total tax charge for the period	**1,272**	29,196

6. **Earnings Per Share**

The calculation of the basic earnings per share is based on the profit attributable to shareholders of approximately RMB140,005,000 for the six months ended 30 June 2008 (2007: RMB90,532,000) and on the weighted average number of 3,289,242,000 (2007: 3,239,990,000) shares in issue during the period.

As the issue of 2,591,992,000 bonus shares (transfer from the capital reserve fund and transfer from unallocated profits) was completed on 25 July 2007, the previously reported basic earnings per share for the six months ended 30 June 2007 was then adjusted accordingly.

Diluted earnings per share is not presented for the six months ended 30 June 2007 and 2008 as there were no potential dilutive securities in existence during the relevant periods.

7. **Inventories**

	30 June 2008 RMB'000 (unaudited)	31 December 2007 RMB'000 (audited)
Raw materials	**245,871**	238,560
Work in progress	**330,872**	187,744
Finished goods	**123,065**	172,864
Total	**699,808**	599,168

None of the above balance was carried at net realisable value.

8. **Trade Receivables**

An aged analysis of the trade receivables as at 31 December 2007 and 30 June 2008, based on invoice date, and net of provisions, is as follows:

	30 June 2008 RMB'000 (unaudited)	31 December 2007 RMB'000 (audited)
Trade receivables		
Within three months	**283,106**	206,293
Three to six months	**16,889**	20,131
Six months to one year	**53,176**	4,497
One to two years	**4,013**	2,036
Total	**357,184**	232,957

9. **Trade and Bills Payables**

An aged analysis of trade and bills payables as at 31 December 2007 and 30 June 2008, based on invoice date, is as follows:

	30 June 2008 RMB'000 (unaudited)	31 December 2007 RMB'000 (audited)
Trade and bill payables		
Within three months	**445,231**	323,888
Three to six months	**366,064**	220,371
Six months to one year	**22,131**	11,274
More than one year	**27,376**	19,506
Total	**860,802**	575,039

As at 30 June 2008, the Group's bills payables of RMB600,480,000 (31 December 2007: RMB345, 255,000) were secured by the pledge of certain time deposits amounting to RMB374,126,000 (31 December 2007: RMB160, 557,000). The payable are non-interest-bearing and are normally settled on terms of six months.

10. **Capital Commitments**

	30 June 2008 RMB'000 (unaudited)	31 December 2007 RMB'000 (audited)
Contracted, but not provided for:		
Land and buildings	**1,997**	29,240
Plant and machinery	**48,451**	99,079
	50,448	128,319

11. **Financial Risk Management Objectives and Policies**

The Group's principal financial instruments comprise interest-bearing bank loans, cash and bank balances and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been, throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk.

(i) *Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group maintains14.94% (ended 30 June, 2007: 67.22%) of its interest-bearing borrowings at fixed interest rates at 30 June 2008.

(ii) *Foreign currency risk*

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchases and sales contracts. The Group takes rolling forecast on the foreign currency revenue and expenses, matches the currency and the amount incurred, so as on alleviate the impact to business due to exchange rate fluctuations.

(iii) *Credit risk*

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. There is no significant concentrations of credit risk within the Group in relation to the other financial assets.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

(iv) *Liquidity risk*

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans and other borrowings. 45.4% of the Group's debts would mature in less than one year as at 30 June 2008 (2007: 29.25%) based on the carrying value of borrowings reflected in the financial statements.

(v) *Capital management*

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, amounts due to related parties, trade, bills and other payables, accruals, less cash and cash equivalents, and excludes discontinued operations. Capital includes equity attributable to equity holders of the parent.

The gearing ratios as at the balance sheet dates were as follows:

Group	**30 June 2008 RMB'000**	31 December 2007 RMB'000
Interest-bearing bank and other borrowings	**769,547**	537,120
Trade and bills payables	**860,802**	575,039
Other payables and accruals	**260,646**	259,117
Due to related parties	**18,132**	18,132
Less: Cash and cash equivalents	**(202,769)**	(112,980)
Net debt	**1,706,358**	1,276,428
Equity attributable to equity holders	**882,989**	793,113
Capital and net debt	**2,589,347**	2,069,541
Gearing ratio	**65.9%**	61.7%

12. **Related Party Transactions**

On 27 December 2007, the Company completed the acquisition of all equity interest in Maolong Machinery. During the period, the transactions between the Company and its subsidiary Maolong Group (Maolong Machinery and its subsidiaries, abbreviated as the "Maolong Group") did not constitute related party transactions. Therefore, the Group did not have any material related party transactions during the period.

13. **Contingent Liabilities**

As at 30 June 2008, the Group did not have any significant contingent liabilities.

14. **Comparative Amounts**

Certain comparative amounts have been reclassified to conform with the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group achieved satisfactory results during the period under review. For the six months ended 30 June 2008, the Group recorded an unaudited revenue of approximately RMB1,052,030,000 (2007: approximately RMB806,411,000) and net profit of approximately RMB140,005,000 (2007: approximately RMB90,532,000), representing an increase of approximately RMB245,619,000 or 30.5% and RMB49,473,000 or 54.6% respectively over the corresponding period in the previous year.

Business Review

Main Business

During the period under review, the Group was engaged in the business of design, manufacture and sale of petroleum drilling and extraction machinery and related accessories. Its major products can be divided into six categories, namely oil well pipes, casings, oil well sucker rods, oil well pumps, oil well pumping machines and other petroleum drilling and extraction machinery accessories. These products are primarily used in petroleum drilling and extraction and are necessary equipment of the industry.

Release of Production Capacity

During the period under review, the Company optimized and improved the technology of production lines, the tools and the molds, and strengthened its technological process management. As a result, the production capacity of the oil pipe processing production line increased continuously in the recent two years and is expected to reach approximately 100,000 tonnes by 2008, which established good reference for future technological reforms and expansion of other production lines of the Company. The production capacity of the 250,000-tonne oil casing production line was further released on schedule and is expected to reach approximately 200,000 tonnes by 2008.

Sales Performance

During the period under review, as the result of the determination of the Company's management to implement the marketing strategies formulated by the Board early this year, the domestic sales recorded substantial growth and the revenue derived from domestic sales increased by 35.7% as compared to the corresponding period in the previous year. Meanwhile, the Group's sales derived from overseas markets continued to grow steadily, achieving an increase of 25.8% in sales revenue over the corresponding period in 2007. In particular the revenue of its sales to oil production regions such as Russia and Kazakstan, which are member states of the Commonwealth of Independent States, recorded an remarkable increase of 40.7% as comparable period of 2007.

During the period under review, attough prices of raw materials rose to a centain extent, prices of various kinds of products of the Group was incrersed greatly in 2008. The Company managed to offset the increase in raw material costs by raising the product prices, ensured stable supply of raw materials by extending the industry chain, increased profitability by adjusting the product mix and increasing the proportion of high-added value products, and effectively reduced manufacturing costs of products by increasing the production efficiency and accelerating the release of production capacity.

Enhance Marketing Strategies and Expand Domestic and Overseas Markets

As for the domestic market development, the Group's current major customers are oil fields operated by the two oil groups in the domestic markets, namely PetroChina Company Limited and its subsidiaries (collectively "PetroChina Group"), which oil fields include Xinjiang Oil Field (新疆油田), Daqing Oil Field (大慶油田), Changqing Oil Field (長慶油田), Liaohe Oil Field (遼河油田), Tarim Oilfield (塔里木油田), Qinghai Oil Field (青海油田), Huabei Oil Field (華北油田) and Jilin Oil Field (吉林油田), and China Petroleum & Chemical Corporation and its subsidiaries (collectively "Sinopec Group"), which oil fields include Shengli Oil Field (勝利油田), Zhongyuan Oil Field (中原油田), Jiangsu Oil Field (江蘇油田), Jianghan Oil Field (江漢油田) and etc. During the period under review, the Group has been certified as a qualified supplier to CNOOC Limited and its subsidiaries (collectively "CNOOC Group"), supplying tubings and casings to CNOOC Group. As tubings, casing oil well sucker rods and oil well pumps have been supplied to the oil fields of Shanxi Yanchang Petroleum (Group) Co.,Ltd. (i.e.Yanchang Petroleum, 延長石油), the Group has achieved the goal of overall cooperation with the four major domestic oil groups.

During the period under review, the Group introduced various new products to the market. For example, high extrusion and damage resistant casings were supplied to the Qinghai Oil Field, while high-grade tubings and casings such as P110 were supplied to the Jiangsu Oil Field and the Zhongyuan Oil Field. Meanwhile, immediately following the development of new oil field blocks, products of the Group were also introduced to new markets. For instance, tubing and casing products were launched in the Jidong Oil Field under the PetroChina Group (an integrated 1 billion-tonne oil field newly discovered in 2007 – Jidong Nanbao Oil Field). The launch of new products and the development of new markets will increase the share of products of the Company in the domestic market.

In the emerging coalbed gas exploitation market, customers such as Zhongyu Group (Jiaozuo) Coalbed Methane Corp (中裕集團（焦作）煤層氣開發有限公司), which is a subsidiary of Zhongyu Group, and Shanxi Qinshui Lanyan Coalbed Methane Corp (山西沁水蘭焰煤層氣有限公司) which is a subsidiary of Shanxi Jinmei Group (山西晉煤集團) have been using the Company's products such as oil casing, oil well sucker rods and oil well pumping machines in great quantities. With the rapid development of the emerging field of coalbed gas, the demand for the Company's products will continue to increase.

In respect of the overseas markets, the Group stepped up its efforts in developing the Russia market. As a result, the proportion of products exported to Russia increased rapidly. The Group has become the largest Chinese supplier of oil well pipes and casing products in Russia market for now; the Group also developed other overseas emerging markets including Turkey, Libya, India, Vietnam, Columbia and Ecuador. Currently, apart from maintaining the rapid growth in its export business to regions such as North America, Russia, Southeast Asia, the Group also secures new clients in the Middle East, Africa and etc, and the sales growth contributed to the Group will be reflected in the annual report. The Group established and maintained good cooperative relationships with several international oil companies, which in turn boosted the sales of its products in the overseas markets.

During the period under review, the Group's sales to overseas markets were mainly denominated in US dollars. The Group monitored closely the changes in the exchange rate between RMB and US dollars and the state duty drawback policy. Corresponding strategies were formulated in respect of the pricing of export products, payment collecting and etc. in order to reduce the impact of the above changes on the Group's business. In future, the Group will further increase the proportion of high value-added products in exports and enhance efficiency by improving technology. Meanwhile, the Group will minimize the exchange rate risk through various measures such as raising prices of exports, using various currencies for settlement and adopting relatively locked exchange rates with overseas customers in order to maintain a relatively stable gross profit margin of exports.

Comprehensive Development of New Products

The Group is proactively engaged in the research and development ("R&D") of new products, and it has successfully increased the number of suitable R&D and quality control experts in the industry in order to keep abreast of the latest information and technology in the world for maintaining its leading position in the industry.

The Group has increased investment in technology which is mainly for accelerating the development of new products, standardizing the technology basic administration, enhancing the improvement of technology and optimizing the structure of existing products.

During the period under review, the Company made remarkable achievements in the development of new products: Research achievements such as "R&D on Oil Drill Pipe Body and Upsetting Process", "R&D on CO_2 Corrosion Resistant Super 13Cr Tubings and Casings", "R&D on Molong Series Special Thread Tubings and Casings" and "R&D on High-pressure and Corrosion Resistant Casings" were included in technology innovation projects of the Shandong Province; "Umbrella-type Blue Elephant" was awarded the patent certificate by the State Intellectual Property Office of the PRC; the two patent applications of "Tubing and Casing Threaded Joint" and "Tubing and Casing Threaded Joint for Deep Wells" were officially accepted by the State Intellectual Property Office of the PRC. The evaluation test on new products with proprietary intellectual property rights such as non-API corrosion resistant tubing and casing, thermal well casing, low-temperature resistant tubing and casing and special thread tubing and casing was completed, while preparations for the trial run of the large-caliber casing and the high-grade line pipes were completed.

In January 2008, the American Petroleum Institute awarded the API-5L Standard Certificate to the Group, authorizing the Group to use the API Monogram in the production of line pipes and bare pipes within the scope of PSL1 and PSL2. At present, the Group has been allowed to use the API emblem in its major products such as oil well pumping machines, oil well pumps, oil well sucker rods, oil well pipes, casings and line pipes.

Proposed A Share Issue

During the period under review, the Company submitted to the China Securities Regulatory Commission (the "CSRC") an application for A share issue which was not approved by the CSRC. Pursuant to the relevant regulations, the Company can re-submit the application for A share issue to the CSRC after January 2009, given the general meeting and the class meeting considered and approved the extension of the effective term of the A share issue.

Shouguang Baolong Petroleum Material Project

As at the end of the reporting period, project construction, as well as equipment and process debugging (were completed on schedule) for the Shouguang Baolong Petroleum Material Project (the "Project") and the Project is ready for operation. It will be officially put into operation in the second half of the year to provide accessory services for the petroleum drilling and extraction equipments of the Company, which will enhance the profitability and the supportability for R&D of the Company.

Major Acquisitions/Disposals and Significant Investment

As at 30 June 2008, the Group had no major acquisition or disposal and significant investments.

Outlook

According to the Report of International Energy Outlook in 2008, which was recently released by Energy Information Administration under the United States Energy Department, the global demand for energy in 2030 will have a 50% increase over 2005. It is shown in the report that although many countries vigorously develop wind energy and bio-fuel, the world will still depend on the oil energy over the next two decades. With the development of the global economy, the continuous keen demand in crude oil in various countries and the steady growth of market demand in petroleum drilling and extraction machinery resulting from the exploitation of oil fields to increase output, which increases the usage and consumption of petroleum drilling and extraction machinery, the Group is highly confident in the future prospects of the petroleum drilling and extraction machinery industry.

The Group will continue to capture opportunities and further enhance its competitive capability through various strategies, including expansion of the production volume of new products and high value-added products, improvement of product quality, strengthening of its research and development capability, enhancement of market promotion and adoption of effective cost control. Meanwhile, the Group will continue to develop domestic and overseas markets in order to increase its market share in the industry.

Looking forward, the Group will continue to focus on its business of petroleum drilling and extraction machinery. It will further increase the scale of the production of oil well pipes and casings with a concentration on the petroleum drilling and extraction machinery business, expand the petroleum drilling and extraction machinery business, step into foundry and band processing manufacturing and keep researching and developing in the petroleum and natural gas and the Coal Mine Methane drilling and extraction equipment industry.

Enhancement of Casing Production Capacity

Following the 250,000-tonne casing production line, installation of the ancillary thermal treatment line and processing production line have been put into production. With the enhancement of production technologies and skills, and the familiarization of the staff, the Group expects the production volume will reach approximately 200,000 tonnes in 2008 and approximately 250,000 tonnes in 2009.

Implement of High Grade Special Petroleum Pipes Technical Reconstruction Project

After the completion of the "180mm special petroleum pipes technical reconstruction project", the Group is expected to produce additional 300,000 tonnes high grade special petroleum pipes per year. As at the date of this report, all designs of the project, technical exchange and business negotiation about major equipment were completed. The construction of project was commenced in July, 2008, and is expected to be completed and undergo trial run in the first quarter of 2010.

Bank Facilities and Pledge of Assets

As at 30 June 2008, the Group had bank credit loans amounting to RMB769,547,000 among which US dollar loan is US$16,700,000. In addition, ten banks, including the Agricultural Bank of China (Shandong Branch), have granted credit facilities totaling RMB656,083,000 to the Group. None of these credit facilities have been utilized.

Employees

For the period under review, the breakdown of the number of employees of the Group is set out below:

	Six months ended 30 June		
	2008		2007
Research and development	**60**		58
Production	**2,331**		1,708
Quality control	**211**		97
Sales and marketing	**72**		65
Administration	**214**		166
Total	**2,888**	*(Note)*	2,094

Note: The acquisition of Maolong Machinery was completed on 27 December 2007, resulting in an increase of 595 employees during the period.

The Group keeps a close watch on the levels of employees' remuneration and benefits, and rewards staff according to the results of the Group's operating achievement. Furthermore, the Group also offers training and development opportunities to employees.

CORPORATE GOVERNANCE

The Company has complied throughout the period under review with the code provisions set out in the Code on Corporate Governance (the "Code") contained in Appendix 14 of the Listing Rules. None of the Directors is aware of any information that would reasonably suggest that the Company is not or was not in compliance with the code for any time during the period under review.

Re-appointment of the Director

As Mr. Chen Jianxiong' term as a non-executive director ended on 6 May, 2008, pursuant to the relevant provisions of the Articles of Association of the Company, a motion to re-appoint Mr. Chen Jianxiong as a non-executive Director was tabled at the Eighth Session of the Second Board of Directors held on 16 March 2008 by the Nomination Committee, and it was passed by a resolution at the Annual General Meeting for the year 2007 held on 5 May, 2008.

Audit Committee

The Company formulated written terms of reference for the Audit Committee in accordance with requirements of the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely Mr. Qin Xue Chang, Mr. Yan Yi Zhuang and Mr. Loke Yu alias Loke Hoi Lam. Mr. Qin Xue Chang is the Chairman of the Audit Committee. The Audit Committee held one meeting during the period under review with an attendance rate of 100%.

The Audit Committee is mainly responsible for monitoring the integrity of the Company's financial statements, reviewing the Company's internal control system and its execution, through review of work undertaken by the internal and external auditors, evaluating financial information and related disclosures and reviewing material transactions involving related parties (if any).

The Audit Committee have reviewed the Group's unaudited financial statements and monitored internal control system and its execution for the six months ended 30 June 2008.

Remuneration and Evaluation Committee

The Company set up a remuneration and evaluation committee (the "Remuneration Committee") on 18 January 2005. The primary duty of the Remuneration Committee is to submit proposals to the Board on the overall remuneration policy and structure in respect of the Directors and members of the senior management of the Company and to determine the designated remuneration for all executive Directors and members of the senior management.

The Remuneration Committee consists of three independent non-executive Directors: Mr. Qin Xue Chang, Mr. Yan Yi Zhuang and Mr. Loke Yue alias Loke Hoi Lam, and one executive Director, Mr. Zhang Yun San. Mr. Loke Yu alias Loke Hoi Lam is the Chairman of the Remuneration Committee.

The Remuneration Committee held one meeting during the period under review with an attendance rate of 100%.

Nomination Committee

The Company set up a nomination committee (the “Nomination Committee”) on 18 January 2005, which aims to ensure the procedures for the appointment of Directors to comply with the principles of fairness and transparency. The principal rights and duties of the Nomination Committee are to regularly review the structure, size and composition (including skill, knowledge and experience) of the Board and to make recommendations to the Board on any intended change.

The Nomination Committee consists of three independent non-executive Directors: Mr. Qin Xue Chang, Mr. Yan Yi Zhuang and Mr. Loke Yue alias Loke Hoi Lam, and one executive Director, Mr. Zhang Yun San. Mr. Yan Yi Zhuang is the Chairman of the Nomination Committee.

The Nomination Committee held one meeting during the period under review with an attendance rate of 100%.

Model Code for Securities Transaction by Directors of Listed Issuer

The Company has adopted a model code of practice with standards not lower than those as required by the Model Code for securities Transaction by Directors of Listed Issuer under Appendix 10 of the Listing Rules. The Company has confirmed after making specific enquiries with all the Directors in accordance with the code of practice that all the Directors have complied with the standard of dealings and model code of practice in relation to the securities transaction by all Directors.

DISCLOSURE OF DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2008, the interest and short positions of the Directors, supervisors (the "Supervisors") and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the required standard of dealings by Directors as set out to in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the domestic shares of the Company:

	Type of Interest	Number of domestic shares *(Note 1)*	Percentage of domestic shares *(%)*	Percentage of total registered share capital *(%)*
Zhang En Rong *(Executive Director)*	Beneficial	1,397,585,000	69.58	42.49
Lin Fu Long *(Executive Director)*	Beneficial	171,080,000	8.52	5.20
Zhang Yun San *(Executive Director)*	Beneficial	153,040,000	7.62	4.65
Xie Xin Cang *(Executive Director)*	Beneficial	107,050,000	5.33	3.25
Li Bao Hui *(Supervisor) (Note 2)*	Interests of spouse	107,050,000	5.33	3.25

Notes 1: Unlisted shares.

Notes 2: Ms. Li Bao Hui is the wife of Mr. Xie Xin Cang and is regarded as interested in the 107,050,000 domestic shares held by Mr. Xie Xin Cang under SFO.

Save as disclosed above, as at 30 June 2008, to the best knowledge of the Directors, none of the Directors, the Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or were required, pursuant to section 352 of the SFO to be entered in the register referred to therein, or which were required, pursuant to the requirements as set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange.

OTHER DISCLOSURE INFORMATION

Anti-dumping Lawsuit

On 10 March 2008, the Canadian International Trade Tribunal (CITT) issued a final judgment and ruled that the dumping of and subsidies to carbon steel or alloy casing for seamless oil and gas well produced in China or exported from China have no substantial damage to the Canadian casing production industry, but have created threats of substantial damage.

To avoid and reduce trade conflicts, the Company took the initiative to adjust the export direction of its products in late 2006 and ceased to export casing to Canada in 2007. Therefore, the above final judgment of CITT did not have any impact on the results of the Company for 2008.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

None of the Directors or Supervisors or their respective associates (as defined under the Listing Rules) was granted by the Company or its subsidiaries any rights or options to acquire any shares in or debentures of the Company or had exercised any such rights as at 30 June 2008.

Share Option Scheme

The Company does not have any share option scheme.

Substantial Shareholders

As at 30 June 2008, so far as known to the Directors, Supervisors or chief executives of the Company, the following persons (other than Directors, Supervisors or chief executives of the Company) had, or were deemed or taken to have interests or short positions in the shares and underlying shares and debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register to be kept under section 336 of the SFO:

Long positions in the H Shares of the Company:

	Capacity	Number of H shares	Approximate percentage of total issued H Shares capital (%)	Approximate percentage of total issued Share capital (%)
Paul G. Desmarais *(Note 2)*	Through a controlled corporation	246,724,000 *(Note 1)*	19.27	7.50
Nordex Inc. *(Note 2)*	Through a controlled corporation	246,724,000 *(Note 1)*	19.27	7.50
Gelco Enterprises Ltd. *(Note 2)*	Through a controlled corporation	246,724,000 *(Note 1)*	19.27	7.50
Power Corporation of Canada *(Note 2)*	Through a controlled corporation	246,724,000 *(Note 1)*	19.27	7.50

	Capacity	Number of H shares	Approximate percentage of total issued H Shares capital	Approximate percentage of total issued Share capital
			(%)	*(%)*
Power Financial Corporation *(Note 2)*	Through a controlled corporation	246,724,000 *(Note 1)*	19.27	7.50
IGM Financial Incorporation *(Note 2)*	Through a controlled corporation	246,724,000 *(Note 1)*	19.27	7.50
Martin Currie (Holdings) Limited *(Note 3)*	Through a controlled corporation	116,780,000	9.12	3.55
Atlantis Investment Management Ltd	Directly beneficially owned	65,000,000	5.08	1.98

Notes:

1. According to the disclosure of interest notices filed by Desmarais Paul G., Gelco Enterprises Ltd., IGM Financial Inc., Nordex Inc., Power Corporation of Canada and Power Financial Corporation, each of these companies is interested in 246,724,000 H shares of the Company as at 30 June 2008. Among these 246,724,000 H Shares in which these companies are deemed to have interest, 231,348,000 H Shares were directly held by Mackenzie Cundill Investment Management Ltd. and 15,376,000 H Shares were directly held by Mackenzie Cundill Investment Mgmt (Bermuda) Ltd. (Please refer to Note 2).

2. Mackenzie Cundill Investment Management Ltd. is a wholly-owned subsidiary of Mackenzie Financial Corporation, which in turn is a wholly-owned subsidiary of Mackenzie Inc. Mackenzie Inc. is a wholly-owned subsidiary of IGM Financial Inc., which in turn is owned as to 55.99% by Power Financial Corporation, Power Financial Corporation is owned as to 66.40% by 171263 Canada Inc, which in turn is a wholly-owned subsidiary of 2795957 Canada Inc. 2795957 Canada Inc is a wholly-owned subsidiary of Power Corporation of Canada, which in turn is owned as to 54.18% by Gelco Enterprise Ltd., Gelco Enterprise Ltd. is owned as to 94.95% by Nordex Inc., which in turn is owned as to 68% by Paul G. Desmarais.

   Mackenzie Cundill Investment Mgmt (Bermuda) Ltd, is a wholly-owned subsidiary of Mackenzie (Rockies) Corp. which in turn is a wholly-owned subsidiary of Mackenzie Financial Corporation.

3. According to the disclosure of interest notices filed by Martin Currie (Holdings) Limited and Martin Currie Ltd., each of these companies is interested in 116,780,000 H Shares of the Company as at 30 June 2008, this figure has taken into among these 116,780,000 H Shares in which these companies are deemed to have interest, 50,220,000 H Shares were directly held by Martin Currie Inc and 66,560,000 H Shares were directly held by Martin Currie Investment Management.

Save as disclosed above, as at 30 June 2008 so far as is known to the Directors, Supervisors or chief executive, there are no other persons (not being a Director, Supervisor or chief executive of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be 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 in the Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

Compliance Adviser's Interest

Guotai Junan Capital Limited acts as the Compliance Adviser of the Company, neither the Compliance Adviser, nor its directors, employees or associates (as defined under the Listing Rules) had any interest in the share capital of the Company as at 30 June 2008 pursuant to Rule 3A.19 of the Listing Rules.

Purchase, Sale or Redemption of Securities

Neither the Company nor its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2008.

Directors

As at the date of this report, the executive Directors of the Company 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 and Mr. Wang Ping; and the independent non-executive Directors are Mr. Qin Xue Chang, Mr. Yan Yi Zhuang and Mr. Loke Yu alias Loke Hoi Lam.

By order of the Board of Directors
Zhang En Rong
Chairman

Shandong, the PRC
6 August 2008