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)

ANNUAL RESULT ANNOUNCEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

HIGHLIGHTS

The revenue of Shandong Molong Petroleum Machinery Company Limited (the "Company") and its subsidiaries (collectively, the "Group") amounted to RMB1,700,405,000, which represents a growth of 67.7% as compared with last year.

Profit attributable to equity holders of the parent amounted to RMB200,330,000 representing an increase by approximately 43.7% as compared with last year.

Earnings per share of the Group amounted to RMB0.062 representing an increase by 44.2% as compared with last year (Please refer to note 10).

The Board of Directors (the "Board") recommended the payment of a final dividend of RMB0.015 per share (before tax).

The board of directors of the Company (the "Board") is pleased to announce the audited results of Shandong Molong Petroleum Machinery Company Limited and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007.

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	4	**1,700,405**	1,014,037
Cost of sales		**(1,380,747)**	(778,488)
Gross profit		**319,658**	235,549
Other income and gains	4	**44,610**	14,946
Selling and distribution costs		**(39,846)**	(28,254)
Administrative expenses		**(36,486)**	(33,790)
Other expenses		**(27,247)**	(14,588)
Finance costs	6	**(26,646)**	(12,089)
Share of profit of an associate		**4,196**	—
PROFIT BEFORE TAX	5	**238,239**	161,774
Tax	7	**(37,210)**	(19,100)
PROFIT FOR THE YEAR		**201,029**	142,674
Attributable to:			
Equity holders of the parent	8	**200,330**	139,404
Minority interests		**699**	3,270
		201,029	142,674
DIVIDENDS	9		
Interim		**—**	9,708
Proposed final		**49,339**	12,960
		49,339	22,668
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – Basic (RMB)	10	**0.062**	0.043

Consolidated Balance Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**820,313**	505,155
Investment properties		**3,574**	7,664
Prepaid land lease payments		**88,584**	19,709
Intangible asset		**377**	253
Goodwill		**147,115**	—
Investment in an associate		**2,142**	—
Available-for-sale investment		**10,000**	50
Long term prepayment		**6,704**	—
Deferred tax assets		**15,705**	8,942
Total non-current assets		**1,094,514**	541,773
CURRENT ASSETS			
Inventories	11	**599,168**	447,579
Trade receivables	12	**232,957**	169,878
Bills receivable		**28,080**	3,786
Prepayments, deposits and other receivables		**60,618**	37,808
Due from related party		**1,449**	—
Pledged deposits		**160,557**	219,254
Cash and bank balances		**112,980**	34,138
Total current assets		**1,195,809**	912,443
CURRENT LIABILITIES			
Trade and bills payables	13	**575,039**	611,721
Other payables and accruals		**259,117**	59,024
Interest-bearing bank and other borrowings		**157,120**	135,000
Due to related parties		**18,132**	22,966
Tax payable		**47,256**	18,740
Total current liabilities		**1,056,664**	847,451
NET CURRENT ASSETS		**139,145**	64,992
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,233,659**	606,765
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**380,000**	70,000
Deferred tax liabilities		**13,631**	—
Total non-current liabilities		**393,631**	70,000
NET ASSETS		**840,028**	536,765
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital		**328,924**	64,800
Reserves		**414,850**	450,844
Proposed final dividend	9	**49,339**	12,960
		793,113	528,604
MINORITY INTERESTS		**46,915**	8,161
TOTAL EQUITY		**840,028**	536,765

Notes to Financial Statements

31 December 2007

1. CORPORATE INFORMATION

Shandong Molong Petroleum Machinery Company Limited (the "Company") is a limited liability company established in the People's Republic of China (the "PRC"). The registered office of the Company is located at No. 99 Beihai Road, Shouguang City, Shandong Province, the PRC.

During the year, the Group was involved in the design, manufacture and sale of petroleum extraction machinery and related accessories, which included oil well pipes, oil well sucker rods, oil well pumps and oil well pumping machines.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain equity investments as further explained below. These financial statements are presented in Renminbi ("RMB").

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements - Capital disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has no issued equity instruments to the Group's employees in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available for sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 8	*Operating Segments*[1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures and the adoption of HKAS 23 (Revised) may result in a change in accounting policy, the other new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. 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. No further business segment information is presented as over 90% of the Group's operations relate to the sale of petroleum machinery.

In determining the Group's geographical segments, revenues and assets are attributed to the segments based on the locations of the customers.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

3. SEGMENT INFORMATION *(continued)*

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006:

	PRC		United States		Europe		Other countries		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue										
Sales to external customers	**892,161**	618,613	**286,701**	163,547	**344,814**	118,288	**176,729**	113,589	**1,700,405**	1,014,037
Other revenue	**14,887**	5,346	**4,393**	—	**—**	—	**—**	—	**19,280**	5,346
Total revenue	**907,048**	623,959	**291,094**	163,547	**344,814**	118,288	**176,729**	113,589	**1,719,685**	1,019,383
Segment results	**164,753**	125,092	**46,138**	32,894	**73,364**	26,172	**19,033**	28,483	**303,288**	212,641
Unallocated income									**25,331**	9,600
Unallocated expenses									**(63,734)**	(48,378)
Finance costs									**(26,646)**	(12,089)
Profit before tax									**238,239**	161,774
Tax									**(37,210)**	(19,100)
Profit for the year									**201,029**	142,674
Segment assets and liabilities:										
Segment assets	**1,825,555**	1,335,954	**164,863**	72,513	**198,280**	23,034	**101,625**	22,715	**2,290,323**	1,454,216
Total assets									**2,290,323**	1,454,216
Segment liabilities	**1,360,364**	904,501	**671**	2,286	**69,121**	5,867	**20,139**	4,797	**1,450,295**	917,451
Total liabilities									**1,450,295**	917,451
Other segment information:										
Depreciation and amortisation	**41,160**	27,115	**—**	—	**—**	—	**—**	—	**41,160**	27,115
Capital expenditure	**268,598**	205,665	**—**	—	**—**	—	**—**	—	**268,598**	205,665
Provision/(reversal of provision) against inventories	**(4,584)**	9,193	**—**	—	**—**	—	**—**	—	**(4,584)**	9,193
Reversal of impairment of trade receivables	**(2,240)**	(3,278)	**—**	—	**—**	—	**—**	—	**(2,240)**	(3,278)

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue, other income and gains is as follows:

	Notes	Group 2007 RMB'000	2006 RMB'000
Revenue			
Sale of petroleum machinery		**1,700,405**	1,014,037
Other income			
Subcontracting income		**1,050**	288
Bank interest income		**6,970**	3,887
Government subsidies		**7,389**	—
VAT refund	(i)	**9,789**	5,376
Gross rental income		**743**	690
Profit from sale of scrap and raw materials	(ii)	**4,695**	4,187
Commission income		**4,393**	—
Others		**1,182**	337
		36,211	14,765
Gains			
Gain on disposal of items of property, plant and equipment		**6,005**	181
Gain on disposal of prepaid land lease payments		**2,394**	—
		8,399	181
		44,610	14,946

Notes:

(i) The VAT refund for the years ended 31 December 2007 and 2006 represented the VAT received by Weifang Molong Drilling Equipment Company Limited, a subsidiary of the Group (濰坊黑龍鑽採設備有限公司) ("Molong Drilling Equipment"), which 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). According to the tax document Guo Shui Fa [1994] No.155, "*Notice about the levy of turnover tax of welfare enterprises issued by the State Tax Bureau*" ("國家稅務局關於民政福利企業徵收流轉稅問題的通知"), the output VAT paid by Molong Drilling Equipment was refundable.

(ii) The profit arising from sale of scrap and raw materials for the years ended 31 December 2007 and 2006 represented the sale of scrap and used metals to related parties and third parties. The selling price was determined at a fixed amount prescribed by the relevant authorities of the PRC. If no fixed price was prescribed by the relevant authorities of the PRC, the selling price was determined by prices agreed by both parties with reference to the prevailing market price.

5. PROFIT BEFORE TAX

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

	Group 2007 RMB'000	Group 2006 RMB'000
Cost of inventories sold	**1,380,747**	778,488
Depreciation	**39,917**	26,339
Amortisation of an intangible asset	**314**	284
Recognition of prepaid land lease payments	**929**	492
Research and development costs	**19,778**	11,667
Minimum lease payments under operating leases:		
Plant and machinery	**—**	81
Land and buildings located in Mainland China	**323**	558
	323	639
Auditors' remuneration	**900**	1,020
Employee benefits expense (including directors' remuneration)		
Wages and salaries	**45,412**	33,184
Pension scheme contributions (defined contribution scheme)	**4,575**	3,531
	49,987	36,715
Foreign exchange differences, net	**1,453**	2,403
(Write-back of provision)/provision against inventories	**(4,584)**	9,193
Reversal of impairment of trade receivables	**(2,240)**	(3,278)
Rental income	**(743)**	(690)
Bank interest income	**(6,970)**	(3,887)
Gain on disposal of items of property, plant and equipment	**(6,005)**	(181)
Gain on disposal of prepaid land lease payments	**(2,394)**	—

6. FINANCE COSTS

	Group 2007 RMB'000	Group 2006 RMB'000
Interest on bank loans wholly repayable within five years	**26,646**	12,089

7. TAX

The Company is located in Mainland China and as a result is subject to the PRC corporate income tax at a rate of 33% on its 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. In the prior year, no provision for Hong Kong profits tax had been made as the Group did not generate any assessable profit during that year.

7. TAX *(continued)*

Molong Drilling Equipment, one of the Group's subsidiaries, 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 PRC corporate income tax for the year ended 31 December 2006 and for the period from 1 January to 30 June 2007 according to the tax document Cai Shui Zi [1994] No.1, "*Notice about the several preferential policies on PRC corporate income tax*"（"關於企業所得和若干優惠政策的通知"）. According to 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 to take full exemption of the value added tax ("VAT") or business tax.

In accordance with the relevant income tax rules and regulations of the PRC, Shouguang Molong Electro-mechanical Equipment Company Limited ("Molong Equipment") is entitled to an income tax rate of 24% as it is a sino-foreign investment enterprise registered in Shouguang, Shandong Province, the PRC.

Other subsidiaries are all located in Mainland China and as a result are subject to the PRC corporate income tax at a rate of 33% on their assessable profits.

	Group	
	2007	2006
	RMB'000	RMB'000
Current – PRC tax charge for the year	**31,369**	22,804
Current – Hong Kong tax charge for the year	**635**	—
Deferred	**5,206**	(3,704)
Total tax charge for the year	**37,210**	19,100

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the PRC in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2007				2006	
	Mainland China		**Hong Kong**		Mainland China	
	RMB'000	**%**	**RMB'000**	**%**	RMB'000	%
Profit before tax	**230,413**		**7,826**		161,774	
Tax at the statutory tax rate	**76,036**	**33.00**	**1,370**	**17.50**	53,385	33.00
Tax exemption of purchased fixed assets used for qualified technological improvement projects	**(29,819)**	**(12.94)**	**—**	**—**	(22,357)	(13.82)
Tax exemption granted to a welfare enterprise for the year	**(7,248)**	**(3.15)**	**—**	**—**	(10,664)	(6.59)
Additional deductible research and development expenses	**(3,264)**	**(1.42)**	**—**	**—**	—	—
Income not subject to tax	**—**	**—**	**(753)**	**(9.62)**	—	—
Expenses not deductible for tax	**870**	**0.38**	**18**	**0.23**	86	0.05
Temporary differences not recognised	**—**	**—**	**—**	**—**	(1,350)	(0.83)
Tax charge at the Group's effective tax rate	**36,575**	**15.87**	**635**	**8.11**	19,100	11.81

8. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of RMB223,015,000 (2006: RMB110,226,000) which has been dealt with in the financial statements of the Company.

9. DIVIDENDS

	2007	2006
	RMB'000	RMB'000
Interim – Nil (2006: RMB0.015) per ordinary share	**—**	9,708
Proposed final – RMB0.015 (2006: RMB0.02) per ordinary share	**49,339**	12,960
	49,339	22,668

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year:

	2007	2006
		(Restated)
Profit for the year attributable to ordinary equity holders of the parent (RMB'000)	**200,330**	139,404
Weighted average number of ordinary shares ('000)	**3,253,888**	3,239,990
Weighted average earnings per ordinary share (RMB)	**0.062**	0.043

The weighted average number of ordinary shares for the year ended 31 December 2006 has been recomputed after taking into account the number of shares transferred from retained profits and capital reserve into the share capital.

No diluted earnings per share amounts have been presented for the year as no diluting events existed during the year.

11. INVENTORIES

	Group		**Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**238,560**	118,855	**195,123**	106,740
Work in progress	**187,744**	205,967	**166,353**	200,360
Finished goods	**172,864**	122,757	**157,243**	113,209
	599,168	447,579	**518,719**	420,309

12. TRADE RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**238,123**	176,312	**213,643**	174,517
Impairment	**(5,166)**	(6,434)	**(3,958)**	(6,434)
	232,957	169,878	**209,685**	168,083

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of three months, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, and net of provisions, is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within three months	**206,293**	155,018	**196,494**	153,223
Three to six months	**20,131**	14,145	**10,083**	14,145
Six months to one year	**4,497**	715	**2,813**	715
One to two years	**2,036**	—	**295**	—
	232,957	169,878	**209,685**	168,083

The movements in provision for impairment of trade receivables are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**6,434**	9,712	**6,434**	9,712
Amount written off as uncollectible	**(236)**	—	**(236)**	—
Impairment losses reversed (note 5)	**(2,240)**	(3,278)	**(2,240)**	(3,278)
Acquisition of subsidiaries	**1,208**	—	**—**	—
	5,166	6,434	**3,958**	6,434

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB5,166,000 (2006: RMB3,958,000) with a carrying amount of RMB5,166,000 (2006: RMB3,958,000).

12. TRADE RECEIVABLES *(continued)*

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**226,424**	169,163	**206,577**	167,368
One to six months past due	**4,497**	715	**2,813**	715
Six months to one year past due	**2,036**	—	**295**	—
	232,957	169,878	**209,685**	168,083

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

13. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within three months	**323,888**	362,625	**232,658**	358,783
Three to six months	**220,371**	234,639	**214,718**	234,183
Six months to one year	**11,274**	6,843	**7,751**	6,588
One to two years	**10,258**	2,667	**7,034**	2,704
Two to three years	**1,659**	4,947	**99**	4,852
Over three years	**7,589**	—	**573**	—
	575,039	611,721	**462,833**	607,110

The Group and the Company's bills payable of RMB345,255,000 (2006: RMB485,481,000) were secured by the pledge of certain of the time deposits amounting to RMB160,557,000 (2006: RMB219,254,000). The trade payables are non-interest-bearing and are normally settled on terms of six months.

14. COMMITMENTS

In addition to the operating lease commitments, the Group and the Company had the following commitments at the balance sheet date:

Capital commitments:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Land and buildings	**29,240**	6,147	**4,800**	6,147
Plant and machinery	**99,079**	46,292	**40,955**	46,292
	128,319	52,439	**45,755**	52,439

15. PLEDGE OF ASSETS

The pledged deposits of the Group are as security for bills payable of RMB345,255,000.

16. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, certain comparative amounts have been adjusted to conform with the current year's presentation and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

Outstanding Achievements of the Year

The Group recorded impressive business growth during the year. For the year ended 31 December 2007, the Group achieved revenue of RMB1,700,405,000, representing an increase of approximately 67.7% as compared with last year. Over the same period, the profit attributable to equity holders of the parent and earnings per share were RMB200,330,000 and RMB0.062, (based on the total diluted share capital as at the end of the year) representing an increase of 43.7% and 44.2%, respectively, as compared with last year. All of these achievements clearly demonstrated the persistent effort made by the management and employees of the Group in developing its business.

The Group's acquisition of Maolong Machinery was completed at the end of December 2007. The Group's revenue and net profit above did not include the revenue and net profit of the Shouguang Maolong Machinery Company Limited ("Maolong Machinery")and its subsidiaries ("Maolong Group") at the same period. Maolong Group had a sales revenue of RMB597,541,000 (unaudited) and a net profit of RMB55,055,000 (unaudited) in 2007.

Business Review

After the 250,000-tonne oil casing production line was successfully put into trial production in the fourth quarter of 2006, it has achieved 60% of its designed production capacity in 2007 . The commissioning and potential of the production capacity of such production line are beneficial to the substantial growth in oil casing output of the Group and enable the Group to grasp the development opportunities arising from the continuing increase in the demand of petroleum drilling and extraction machinery and related accessories , which is in turn beneficial to the future development of the business and the competitiveness of the Group.

As the first H share company which successfully migrated from the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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;

As a return to our investors, the Company has granted the Bonus Share Issue by capitalising the capital reserve fund into capital increase and undistributed profits on July 25, 2007 (the "Bonus Share Issue");

In order to complement the working capital for the 250,000-tonne oil casing, the Company placed 49,252,000 new H shares for listing on the Stock Exchange on September 19, 2007;

In order to improve the Group's industrial chain, to ensure stable supply of raw materials, to enhance the Group's new product trial production ability and to reduce connected transactions, the Company completed the acquisition of Maolong Group on December 27, 2007;

Subject to the approval and authorization of the general meeting of shareholders, the Company had submitted to the China Securities Regulatory Commission (the "CSRC") the application for A shares issue with the aim at increasing the variety and the scale of production of high grade oil pipes for the enhancement of competitive strengths.

In terms of domestic market expansion, the Group's main customers are major oil fields in China, including Xinjiang Oil Field (新疆油田), Daqing Oil Field (大慶油田), Changqing Oil Field (長慶油田), Liaohe Oil Field (遼河油田), Qinghai Oil Field (青海油田), Huabei Oil Field (華北油田)and Jilin Oil Field (吉林油田), all of which branch oil fields of PetroChina Company Limited and its subsidiaries (collectively, "PetroChina Group"), as well as Shengli Oil Field (勝利油田), Zhongyuan Oil Field (中原油田) and Jianghan Oil Field (江漢油田) all of which 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 46.0% of the Group's sales revenue. In 2007, the Group's products have been successfully introduced to the CNOOC Limited and its subsidiaries (collectively "CNOOC Group"), and the Group has become the eligible supplier of CNOOC; meanwhile, the Group's cooperation with Shanxi Yanchang Petroleum (Group) Co., Ltd. ("Yanchang Petroleum") is going well. In terms of market expansion of coal-bed gas, the Group's products such as oil well pumps machines, oil well pipes, casings, oil well pumps and extraction machinery accessories have successfully entered the domestic regional markets.

Due to the long-term sound performance and reputation of supply, the Group was selected by the E-Commerce Department of PetroChina Company Limited as one of the Top Four Suppliers of Special Purpose Oil Pipes. Since its listing, the Group has been a member of the first-class online procurement of the e-commerce network of Sinopec Group. During 2007, the oil well pipes and casings of the Group officially entered the offshore exploitation market of CNOOC Group. CNOOC Group has a stringent assessment system for the acceptance of suppliers, including the investigation of reputation, production capability, market scale, cooperation duration and cooperative partners of the suppliers. In addition, experts in related fields are appointed internally by CNOOC Group as the assessors during the assessment of the procurement tender. These experts maintain absolute independence, which increases the difficulty for the suppliers to be included. During the year,the Group became a qualified supplier of CNOOC Group, which symbolized the further improvement of the Group's overall competitive strength.

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 2007, while high-end products such as high-grade steel and non-API series occupied a leading position in the overseas business. At present, the Group has established good and long-term cooperative relationships with over 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, Russia and Southeast Asia. Apart from the above, the Group has developed new client bases in the Middle East, Africa and South America. For the financial year ended 31 December 2007, the Group's revenue generated from exports increased significantly, which accounted for approximately 47.8% 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.

In the development of new products, with increasing demand for high-end products both in China and overseas, the Group increases investment in product development on the whole. The supersonic non-destructive test equipment, which is leading in the industry, introduced from Unicorn Automation (NDT) Ltd. in the U.K. were installed and commenced operation in 2007. The grasp of application skills of such equipment provides advantageous technical guarantee for the research and development of high-end products of the Company. Meanwhile, during the year, through strengthening technological cooperation with research institutes such as Xi'an Jiaotong University, Xi'an Pipe Material Research Institute of PetroChina Group, and Xi'an Maurer Petroleum Engineering Material Lab, the Group developed over 10 types of API series and non-API series high-end products, which have passed the verification and testing of the domestic authorities. As regards development of high-grade products, during the year, the Group developed a variety of products, such as high collapse-resistance casings, H_2S corrosion resistant series oil well pipes and casings, special drift diameter casings, drill pipes and pipeline pipes. The pipeline pipes were licensed by the American Petroleum Institute under its API-5L Monogram Standards, thus laying a foundation for the Group's products entering into the field of oil transportation. Meanwhile, trial use of some products has been conducted by customers, leading mass production and sales, and further enhanced the output of high-grade oil well pipes, laying a solid foundation for enhancing of the Group's market competitive strength.

The oil well pipe products of the Group have successfully passed the deep well descending test for passing through wells with a depth of 5,750 meters in the Northern Tarim Oil Field in Xinjiang Autonomous Region. It shows that the oil well pipe products of the Group have the ability of being used in complicated geological conditions and in deep well descending.

For the two consecutive years of 2006 and 2007, due to the continuous growth in its business performance, the Group was listed by Forbes as the Top China 100 Potential Enterprises – Enterprises with the Greatest Development Potential. The Group was awarded a number of accreditations by the PRC governmental authorities, banks and tax bureaux including "Demonstrative Enterprise for Informatization in the Manufacturing Industry in Shangdong Province", "High and New Technology Enterprise in Shandong Province", "Faithful Enterprise in Shandong Province", "Famous Export Brands in Shandong Province Entitling to Priority in Fostering and Development for

2006-2007", "Top 100 Industrial Enterprises in Weifang City", "Grade A Credit Rating Enterprise in Tax Payment", "Top 100 Private Enterprises in Weifang City", "2007 Outstanding Contribution Award for Civil Economy Development in Weifang City", "Civilized Entity in Weifang City in 2006-2007", "Ranking No. 4 in "Top 50 Enterprises in Shouguang City" in three years successively", "Mega Enterprises in Shouguang City", "Shouguang City Foreign Trade Advanced Enterprise" and "Triple A Credit Rating Enterprise" etc., the above accreditations demonstrated the recognition of the Group's outstanding results.

Prospects

The Company was the first H share company which successfully migrated from the GEM to the Main Board of the Stock Exchange on 7 February 2007. The Company applied to the CSRC for A Shares issue in 2007. The aim of the A shares issue is to provide a financing channel for the development of the business of the Company and the enhancement of the competitive advantages in the industry. It will also improve the Company's completing activities 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 marketing channels and facilitating international cooperation, thus promoting the stable development of the Company.

International Energy Agency forecasts the global demand for crude oil in 2008 will increase by 2.5% respectively and the global demand for crude oil is expected to increase continuously. The Energy Information Administration of the US also forecasts that the global oil price will tend to rise continually. Under the increasing global demand for crude oil and the rising in the oil price, the capital cost for oil exploration and exploitation will continually increase and will bring more room to the development in the petroleum drilling and extraction machinery industry.

Based on the above information, the Directors believe that, as the global demand for crude oil increases, there will be a corresponding increase in the capital invested by oil explorers for oil drilling which will directly promote the development in the petroleum drilling and extraction machinery industry.

Looking forward, the Group will continue to input more resources into the research and development of petroleum drilling and extraction machineries, increase product technical content, enhance production capacity and product quality, so as to increase its products value-added and further develop the domestic and international markets.

With regard to product research and development, the Group plans to continue to strengthen the development of high grade steel oil well pipes, casings, and oil well pipe products of various specifications, as well as the API series and non API series oil well pipes, so as to meet different demands from different kinds of clients both in the PRC and overseas for the products of the Group, to increase the proportion of high-grade products and enhance the profitability and competitiveness of the Group's products.

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 continue to actively conduct research in the development of production techniques of natural gas and coal-bed gas drilling and extraction machinery based on its existing oil extraction machinery techniques, in light of the trend for consumption demand and development for natural gas and coal-bed gas in the market.

In terms of production capacity, it is expected that the production line of 250,000 tonne of oil casings will reach 80% of its designed production capacity in 2008 and the full designed production capacity in 2009; in combination with A share issue, the Group plans to invest over RMB 700 million in the technical improvement of oil well pipes production lines. Upon the completion of the technical improvement, the company's oil well pipe production capacity will increase to 300,000 tonne the quality of the product and production efficiency will be significantly improved, energy consumption will be greatly reduced and cost will be reduced further. Such technical improvement project has been approved by the Shandong Provincial Economic and Trade Commission.

In terms of the expansion of the domestic market, apart from maintaining and consolidating relationships with existing customers, the Group will further develop potential new customers. The Company will make use of the advantage of the continual increase oil casing output in 2008 to increase the sales volume of casing in the domestic market. Owing to the good reputation and good cooperation relationship established after the Company having become one of the top four outstanding suppliers of PetroChina Company Limited and the increase of sales of oil casing products in the domestic market, the Group is confident that promotion of high end products in the domestic market can be enhanced simultaneously with the stabilization of the overseas market. At the same time, the Group will on the basis of consolidating and developing relationship with the existing customers, actively promote good cooperative relationships with CNOOC Group and Yanchang Petroluem so as to gain more market share.

For overseas markets, the Company will continue to increase the development in the markets such as the South America and the Middle East to eliminate the risks arising from over-concentration of the Company's products in the overseas markets, according to the different situations in every oil production country, such as the economic and politics situations and the development demands of overseas markets. Meanwhile, the Company will keep long-term cooperation with overseas stock companies who have market resources, dominant services and good reputations. With the Group's expansion into new markets such as Russia, the Middle East, the South America and so on, the Group is confident that it can actively carry out new products promotions through the strengthening of marking activities so as to expand the Group's market coverage continuously.

Facing the uncertainties such as the possible increase in the price of raw materials, the appreciation in RMB and the adjustment of export tax refund policy in the future, the Group will take various measures to mitigate the possible adverse impact brought by the aforementioned factors;

With regard to production capacity: with the further release of the production capacity of the production line of 250,000 tonne of special oil casings, it is expected that the production line will reach 80% of its designed production capacity in 2008, which will further drive down manufacturing expense and cost. Meanwhile, as the operating skills of the Group's staff and gradually improves the production and technical staff becomes more experienced, the production capacity of the other production lines will be increased correspondingly;

With regard to industrial chain: with the completion of the acquisition by the Group of Maolong Group, the industrial chain of the Company will be strengthened. The research and development strength of Maolong Group will ensure the Group's research and development in products and raw materials, whereby enabling cost control and reducing the impact of uncertainties caused by the rise in the price of raw materials;

With regard to business strategy: the Group will continue to increase loans denominated in US$ and adopt a policy of relatively fixed rate of exchange with some customers for the purpose of mutual benefit and reducing the risks of uncertainties associated with the appreciation in RMB; the Group will also enhance its technical improvement , adjust the structure of product sales and increase the sales volume of high-end products and high value-added products to neutralize the impact resulting from the changes in tax refund policies on some products to the maximum degree.

Through the aforementioned strategies and measures, the Group considers that, with the price hiking of crude oil in the international market and increased demand of energy, the demand for oil machinery will also display a rising trend. The Group will seize the opportunities to provide the oil explorers around the world with high quality oil machinery equipment and related components, thus ensuring the profitability of the company and achieving the best return for the shareholders.

Significant Investments

In the year ended 31 December 2007, the Group did not have any acquisitions and disposals, and significant investment plan.

Acquisitions and Disposals during the Year and Future Investment Plans

The Company entered into the Equity Transfer Agreement (the "Agreement") with all of the shareholders of Maolong Machinery on 25 September 2007, whereby the Company will acquire 100% equity interest of Maolong Machinery held by shareholders of Maolong Machinery at a total consideration of RMB305,000,000. This connected transaction was approved at the EGM held on 20 December 2007. The circular and EGM resolution about this major and connected transaction were published at the website of the Stock Exchange and the Company on 2 November 2007 and 21 December 2007 respectively.

By the end of this report period, the Company has paid an amount RMB183,000,000, which accounts for 60% of the total consideration under the Agreement, financed by bank borrowing and its own funds. The Company plans to pay the remaining RMB122,000,000, which accounts for 40% of the total consideration with its own funds within 360 days after finishing the relevant registration with the Administrative Bureau for Industry and Commerce. By the end of this report period, the relevant alteration registrations with the Administrative Bureau for Industry and Commerce were finished, and the transaction has been completed.

In the year ended 31 December 2007, the Group did not have other relevant disposals and significant investment plans.

SIGNIFICANT ITEMS

Proposed A Share Issue

For the purpose of promoting the OTGC production scale and the competitiveness of the Company, the Board passed a resolution on 9 September 2007 for the issue of not more than 700 million A Shares of RMB0.10 each (or 70 million A Share of RMB1.00 each). The proceeds from the A Share Issue shall be used to facilitate the 180 millimeters special petroleum pipes reconstruction project. The proposed A Shares issue was approved with a special resolution at the EGM and separated Class Meetings on 17 November 2007. The proposed A Share issue shall be completed after the approval of the by CSRC.

Corporate Governance

The Company is committed to the establishment of a good corporate governance standard. The principles of corporate governance adopted by the Company emphasize a quality Board, sound internal control, and transparency and accountability to all shareholders. For the year ended 31 December 2007, the Company has complied with all the code provisions, and where applicable the recommended best practices of the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Listing Rules. Please refer to the Corporate Governance Report in the Annual Report for the year ended 31 December 2007 for more details.

The Audit Committee (its members include three independent non-executive Directors) of the Company held three meetings in the year of 2007 to discuss such matters as the accounting standards and practices adopted by the Group, internal control and financial reporting matters, and reviewed the audited annual results for the year ended 31 December 2007.

Director's Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules and requiries the Directors to follow the Model Code while conducting securities transactions. Such requirements also apply to the Company's management. The Company has made specific enquiries to all Directors and has confirmed that all of the Directors have complied with the required standard of securities transactions by the Directors set out in the Model Code for the year of 2007.

Dividend

The proposed final dividend for the year ended 31 December 2007 is RMB0.015 per share (before tax).

Purchase, sale or redemption of securities

Neither the Company nor its subsidiary has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2007.

Publication of the Results Announcement and the Annual Report on the website of Stock Exchange

This announcement is published on the website of the Stock Exchange. The annual report for the year ended 31 December 2007 will be despatched to shareholders on or about 20 March 2008 and will be available on the company's website at http://www.molonggroup.com and the website of the Stock Exchange.

By order of the Board of Directors
Zhang En Rong
Chairman

Shandong, the PRC
16 March 2008

As at the date of this announcement, the executive Directors are Mr. Zhang En Rong, Mr. Zhang Yun San and Mr. Lin Fu Long, Mr. Xie Xin Cang; the independent executive Directors are Mr. Chen Jian Xiong and Mr. Wang Ping and independent non-executive Directors are Mr. Qin Xue Chang, Mr. Yan Yi Zhuang and Mr. Loke Hoi Lam.

* *For identification purpose only*