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)

2009

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.

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HIGHLIGHTS

- Achieved a revenue of approximately RMB896,527,000 for the six months ended 30 June 2009, which represents a decrease of approximately 14.78% as compared to RMB1,052,030,000 in the same period last year.
- The net profit was approximately RMB140,088,000 essentially flat from RMB140,005,000 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 2009.
- The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2009.

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 2009 (the "period under review").

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

The unaudited results of the Group for the six months ended 30 June 2009 together with the unaudited comparative figures for the corresponding period in 2008 are as follows:

		Six months ended 30 June	
		2009	2008
	Notes	**RMB'000**	RMB'000
Revenue	(2)	**896,527**	1,052,030
Cost of sales		**(695,917)**	(851,952)
Gross profit		**200,610**	200,078
Other income and gains	(3)	**53,518**	10,820
Selling and distribution costs		**(42,466)**	(25,123)
Administrative expenses		**(30,417)**	(22,797)
Other operating expenses		**(3,137)**	(727)
Finance costs		**(12,637)**	(20,660)
Gain on fair value change		**310**	—
Share of results of associates		**(90)**	—
Profit before tax	(4)	**165,691**	141,591
Tax	(5)	**(24,401)**	(1,272)
Profit for the period		**141,290**	140,319
Attributable to:			
Shareholders of the Company		**140,088**	140,005
Minority interests		**1,202**	314
		141,290	140,319
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**	4.26

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Profit for the period	**141,290**	140,319
Other comprehensive income:		
Difference on translation of foreign currency financial statements	**78**	(982)
Total comprehensive income for the period	**141,368**	139,337
Attributable to:		
Equity holders of the Company	**140,101**	139,215
Minority interests	**1,267**	122
	141,368	139,337

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	Notes	**As at 30 June 2009 RMB'000 (unaudited)**	As at 31 December 2008 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,169,922**	1,009,695
Investment properties		**—**	3,504
Prepaid land lease payments		**99,357**	91,083
Intangible assets		**30,599**	11,429
Goodwill		**142,973**	142,973
Investment in an associate		**2,249**	2,339
Available-for-sale equity investment		**10,000**	10,000
Long term prepayment		**1,636**	3,275
Deferred tax assets		**15,690**	27,913
Other non-current assets		**18,121**	—
Total non-current assets		**1,490,547**	1,302,211
CURRENT ASSETS			
Inventories	(7)	**751,302**	795,938
Trade receivables	(8)	**491,872**	443,918
Bills receivables		**26,417**	32,115
Prepaid lease payments		**2,704**	2,100
Prepayments, deposits and other receivables		**24,280**	99,846
Due from related party		**2,240**	531
Derivative financial instruments		**—**	49,650
Pledged deposits		**520,442**	413,967
Cash and bank balances		**80,346**	195,133
Total current assets		**1,899,603**	2,033,198

	Notes	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
CURRENT LIABILITIES			
Trade and bills payables	(9)	**985,836**	1,155,378
Other payables and accruals		**228,596**	155,254
Derivative financial instruments		**—**	44,380
Bank borrowings-due within one year		**470,000**	253,522
Other borrowings		**6,000**	15,000
Tax payable		**14,648**	32,488
Total current liabilities		**1,705,080**	1,656,022
NET CURRENT ASSETS		**194,523**	377,176
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,685,070**	1,679,387
NON-CURRENT LIABILITIES			
Bank borrowings-due after one year		**493,000**	550,000
Deferred tax liabilities		**10,964**	19,364
Total non-current liabilities		**503,964**	569,364
NET ASSETS		**1,181,106**	1,110,023
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital		**328,924**	328,924
Reserves		**795,108**	720,792
Proposed interim/final dividend		**—**	65,785
		1,124,032	1,115,501
MINORITY INTERESTS		**57,074**	60, 307
TOTAL EQUITY		**1,181,106**	1,175,808

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2009 and 2008

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Net cash inflow from operating activities	**59,618**	117,846
Net cash outflow from investing activities	**(191,523)**	(221,239)
Net cash inflow from financing activities	**195,259**	193,182
Net increase in cash and cash equivalents	**63,354**	89,789
Cash and cash equivalents at the beginning of the period	**195,133**	112,980
Cash and cash equivalents at the end of the period	**258,487**	202,769
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**80,346**	82,087
Time deposits with original maturity of less than three months when acquired, pledged as security for bills payable	**178,141**	120,682
	258,487	202,769

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009 and 2008

	Attributable to equity holders of the parent									
	Issued Share capital	Capital reserve	Statutory reserve fund	profits	Exchange fluctuation reserve	Subtotal of reserves	Dividend reserve	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
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
At 1 January 2009	328,924	121,668	80,087	454,063	(811)	655,007	65,785	1,049,716	60,307	1,110,023
Profit for the period	—	—	—	140,088	—	140,088	—	140,088	1,202	141,290
Exchange fluctuation	—	—	—	—	13	13	—	13	65	78
Dividend paid	—	—	—	—	—	—	(65,785)	(65,785)	(4,500)	(70,285)
At 30 June 2009	328,924	121,668	80,087	594,151	(798)	795,108	—	1,124,032	57,074	1,181,106

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 ("HKICPA") , 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 2008.

In current interim period, the Group has applied. for the fisrt time, the following new or revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2009.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008 except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs 2009 in relation to the amendment to paragraph 80 to HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly controlled entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK (IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK (IFRIC)-Int 13	Customer Loyalty Programmes
HK (IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK (IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods except for the impact as described below.

HKAS 23 (Revised) Borrowing Costs

HKAS 23 (Revised) requires the Group to capitalise borrowing costs directly attributalbe to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. However, HKAS 23 (Revised) has had no impact on the reported results or financial position of the Group. Accordingly, no adjustment has been required.

HKAS 8 Operating Segments

HKFRS 8 is a disclosure Standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The adoption of HKFRS 8 has not resulted in a redesignation of the reportable segment of the Group and has had no impact on the reported results of financial position of the Group.

HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised) has had no impact on the reported results or financial position of the Group.

The Group has not early adopted the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 other than the amendment to paragraph 80 to HKAS 39[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HK (IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK (IFRIC)-Int 18	Transfer of Assets from Customers[4]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for transfers on or after 1 July 2009

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 determined the operating segments based on internal organizational structure, management requirements and internal report system.

	For the six months ended 30 June 2009					
	Tubings	**Casings**	**Three kings of pumping Units**	**Petroleum machinery**	**Other**	**Consolidated**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Segment revenue	**333,689**	**457,942**	**35,627**	**60,098**	**9,171**	**896,527**
Segment result	**50,918**	**82,004**	**7,003**	**5,567**	**194**	**145,686**
Unallocated corporate income						**53,518**
Gain on fair value of foreign currency forward contracts						**310**
Share of results of associates						**(90)**
Unallocated corporate expenses						**(21,096)**
Finance costs						**(12,637)**
Profit before taxation						**165,691**
Income tax expense						**(24,401)**
Profit for the year						**141,290**

	For the six months ended 30 June 2008					
	Tubings	Casings	Three kings of pumping Units	Petroleum machinery	Other	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment result	341,215	494,235	57,086	83,305	76,189	1,052,030
Segment result	69,663	72,713	13,510	2,959	7,286	166,132
Unallocated corporate income						10,820
Unallocated corporate expenses						(14,701)
Finance costs						(20,660)
Profit before taxation						141,591
Income tax expense						(1,272)
Profit for the year						140,319

3. **Other Income and Gains**

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of materials	**286**	—
Technology transfer fees	**4,305**	—
Bank interest income	**9,845**	3,159
Government subsidies	**37,097**	5,557
VAT refund	**1,576**	255
Gross rental income	**—**	36
Others	**409**	1,813
	53,518	10,820

4. **Profit Before Tax**

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

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**695,917**	858,896
Depreciation	**43,227**	22,848
(Write-back of provision)/provision against inventories	**5,816**	(6,944)
(Write-back of provision)/provision for doubtful debts	**(10,756)**	(2,881)
Research and development costs	**8,347**	1,665

5. **Tax**

On 15 January 2009, the Company was named as one of the 2008 Shandong Province New and High Technical Enterprise(山東省高新技術企業). Accoding to the PRC Law on Enterprise Income Tax promulgated on 16 March 2007, the Company is entitled to a concessionary rate of income tax at 15% over 3 years, beginning on 1 January 2008.

For the subsidiaries located in Mainland China, they are subject to the PRC corporate income tax at a rate of 25% (2008: 25%) on its assessable profits. The subsidiary in Hong Kong is subject to Hong Kong Profits Tax rate of 16.5% (2008: 16.5%) on its assessable profits.

Weifang Molong Drilling Equipment Company Limited ("Molong Drilling Equipment"), 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 .

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 RMB0 (2008: RMB27,128,000).

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current - PRC tax charge for the period	**20,579**	3,997
Deferred	**3,822**	(2,725)
Total tax charge for the period	**24,401**	1,272

6. **Earnings Per Share**

The calculation of the basic earnings per share is based on the profit attributable to shareholders of approximately RMB140,088,000 for the six months ended 30 June 2009 and on the weighted average number of 3,289,242,000 shares in issue during the period.

Diluted earnings per share is not presented for the six months ended 30 June 2008 and 2009 as there were no potential dilutive securities in existence during the relevant periods.

7. **Inventories**

	30 June 2009 RMB'000 (unaudited)	31 December 2008 RMB'000 (audited)
Raw materials	**164,104**	255,092
Work in progress	**345,216**	281,316
Finished goods	**241,982**	259,530
Total	**751,302**	795,938

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 2008 and 30 June 2009, based on invoice date, and net of provisions, is as follows:

	30 June 2009 RMB'000 (unaudited)	31 December 2008 RMB'000 (audited)
Trade receivables		
Within three months	**338,025**	390,975
Three to six months	**68,730**	24,255
Six months to one year	**74,111**	19,060
Over one year	**11,006**	9,628
Total	**491,872**	443,918

9. **Trade and Bills Payables**

An aged analysis of trade and bills payables as at 31 December 2008 and 30 June 2009, based on invoice date, is as follows:

	30 June 2009 RMB'000 (unaudited)	31 December 2008 RMB'000 (audited)
Trade and bill payables		
Within three months	**279,780**	529,074
Three to six months	**607,842**	568,194
Six months to one year	**73,461**	17,132
More than one year	**24,753**	40,978
Total	**985,836**	1,155,378

As at 30 June 2009, the Group's bills payables of RMB625,125,000 (31 December 2008: RMB770,211,000) were secured by the pledge of certain time deposits amounting to RMB320,442,000 (31 December 2008: RMB413,967,000). The payable are non-interest-bearing and are normally settled on terms of six months.

10. **Capital Commitments**

	30 June 2009 RMB'000 (unaudited)	31 December 2008 RMB'000 (audited)
Capital expenditure in respect of the accquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**225,140**	255,727
	225,140	255,727

11. **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.

12. **Gearing ratio**

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 2009 RMB'000**	31 December 2008 RMB'000
Interest-bearing bank and other borrowings	**969,000**	818,522
Trade and bills payables	**985,836**	1,155,378
Other payables and accruals	**228,596**	155,254
Less: Cash and cash equivalents	**(258,487)**	(195,133)
Net debt	**1,924,945**	1,934,021
Equity attributable to equity holders	**1,124,032**	1,115,501
Capital and net debt	**3,048,977**	3,049,522
Gearing ratio	**63.13%**	63.42%

13. **Related Party Transactions**

During the period under review,the Group did not have any material related party transactions.

14. **Contingent Liabilities**

As at 30 June 2009, the Group did not have any significant contingent liabilities.

15. **Comparative Amounts**

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

Financial Review

For the six months ended 30 June 2009, the Group recorded an unaudited revenue of approximately RMB896,527,000 (2008: approximately RMB1,052,030,000), representing a decrease of approximately RMB155,503,000 or a decrease of 14.78% over the corresponding period in the previous year, and net profit of approximately RMB140,088,000 (2008: approximately RMB140,005,000) equal to that in the same period last year.

During the period under review, the revenue derived from domestic sales was RMB488,313,000, a decrease of 5.84% as compared to the corresponding period in the previous year, and accounted for 54.47% of the total revenue during the period under review. Meanwhile, the revenue derived from overseas markets was RMB408,214,000, a decrease of 23.48% over the corresponding period in the previous year and accounted for 45.53% of the total revenue during the period under review. Lower sales revenues were primarily due to the flagging market and the decline in products selling prices which were affected by the financial crisis.

	For the six months ended 30 June 2009		For the six months ended 30 June 2008	
Region	**Revenue RMB'000**	**percentage (%)**	Revenue RMB'000	percentage (%)
PRC	**488,313**	**54.47**	518,579	49.29
United States	**230,031**	**25.66**	164,845	15.67
Europe	**93,538**	**10.43**	198,387	18.86
Japan	**58,479**	**6.52**	62,500	5.94
Other countries	**26,166**	**2.92**	107,719	10.24
Total	**896,527**	**100.00**	1,052,030	100.00

During the period under review, the gross profit was RMB200,610,000, equal to RMB200,078,000 during the same period in 2008. Gross margin for the first six months of 2009 was 22.38%, compared to 19.02% in the same period in 2008. The increase in gross margin was mainly due to the reasons listed below. Firstly, manufacturing expenses dropped. In order to respond to the financial crisis, the Company had carried out detailed management in the production to strictly control the cost. Secondly, cost of raw material was substantially reduced. Due to the financial crisis, steel prices dropped immensely which exceeded the drop in product selling prices, thus leading to the increase in the gross profits of the products. As a result, the unit manufacturing expense was lower than that of the previous year. Lastly, the exchange rate between RMB and US Dollar was steady. The Company's sales to overseas markets were mainly settled in US dollars. In the first half of 2009, the exchange rate between RMB and US Dollar has been relatively steady, so there was no negative impact on the product's gross profit.

During the period under review, the selling expenses was RMB42,466,000, an increase of 69.03% as compared to RMB 25,123,000 during the same period in 2008. The increase in the selling expenses was due to the increase in sales expenditure from the further exploration of the overseas market by the Company which was in place to deal with the impact of financial crisis.

During the period under review, the administrative expenses was RMB30,417,000, an increase of 33.43% as compared to RMB 22,797,000 during the same period in 2008. The increase in administrative expenses was due to the increase of new product research and derelopment ("R&D") investment and the overhaul of the production line on schedule.

During the period under review, finance costs was RMB12,637,000, a decrease of 38.83% from RMB 20,660,000 during the same period in 2008.The decrease was mainly due to the prepayment of some bank loans by the Company, and lower bank interest rates.

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 well pipe processing production line further increased and the output reached 48,000 tonnes, and it is expected to break through 100,000 tonnes by 2009. The output of the 250,000-tonne oil casing production line reached 82,000 tonnes, the maximum daily output reached 898.1 tonnes during the period under review, so, the production line had reached its design requirement.

Enhance Marketing Strategies and Expand Domestic and Overseas Markets

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 own oil fields 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）, 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 own oil fields including 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）etc.. During the period under review, the Group increased its efforts to cooperate with existing oil field customers, and gained wide market evaluation, among which the Group was awarded as star supplier by Xinjiang Oil Field. In addition, the Group developed new customers and blocks such as Great Wall Drilling(長城鑽探), Bohai Drilling（渤海鑽探）, Southwest Oil and Gas Field（西南油氣田）, Chuanqing Drilling（川慶鑽探）, Zhejiang Oil Field（浙江油田）, Yumen Oil Field（玉門油田）, Nanyang Oil Field（南陽油田）, Sulige Gas Field （蘇裏格氣田） and etc, which laid solid foundation to increase the shares of the Group's products in the domestic market. Meanwhile, the Goup actively promoted the cooperation with CNOOC Limited and its subsidiaries (collectively "CNOOC Gruop"), and Shanxi Yanchang Petroleum (Group) Co., Ltd. (i.e. Yanchang Petroleum,延長石油), and further implemented stated strategies of overall cooperation with the four major domestic oil groups.

During the period under review, the Group introduced various products to the market. For example, a hydraulic supporting tube as a new product was successfully introduced to the market, and now is being supplied to customers such as Tai Yuan Minging Machinery Hydraulic & Lubrication Equipment Co.,Ltd.（太原礦山機器潤滑液壓設備有限公司）, Shandong Mining Machinery Group Co., Ltd.(山東礦機集團股份有限公司）, the First Coal Mining Machinery Limited Company of Zhang Jia Kou（張家口第一煤礦機械有限公司）, Shiyan Jiaheng Hydraulic Machinery Limited Company（十堰市佳恒液壓機械有限公司）. The developments of new products and customers laid good foundation to enhance the market competitiveness of the Company's products.

In the emerging coalbed gas exploitation market, the Company's products such as oil well pipes, oil well pumps and oil well pumping machines have continually being supplied to 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）. With the rapid scale development of the emerging field of coalbed gas, the demand for the Company's products will continue to increase.

Overseas markets

During the period under review, due to the effect of the financial crisis, the overseas market is generally experiencing a downtown. Under the negative effect of American anti-dumping, the Group further strengthened the market including Southeast Asia, Middle East, South America, while the Group continued to step up its efforts in developing its business to regions such as South America, North Africa, the Middle East and had achived good performance. The pipeline pipes of the Company were successfully introduced to the Libyan market and the newly developed NORRIS97 oil well sucker rod was supplied to the Canadian market. The Group continued to establish and maintain good cooperative relationships with several international oil companies, which in turn boosted the sales of its products in the overseas markets.

Comprehensive Development of New Products

The Group is proactively engaged in the 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 Group continued to increase its efforts to develop high-end products and strengthened technological cooperation with research institutes such as Xi'an Jiaotong University, Xi'an Pipe Material Research Institute of PetroChina Group, Xi'an Maurer Petroleum Engineering Material Lab and China University of Petroleum (East China). The Group devoted greater efforts to increase investments in new product development, actively expanded the product structure, enriched product categories and gradually develop new products, such as K grade and R97 corrosion resistant oil well sucker rod, 3 1/2" internal upsetting outer diameter tubing with special thread, highly resistant thread gluing and twisting tubing, 27SiMn hydraulic supporting tube, special sizes and high-pressure resistant casing, BNS and X52NS pipeline pipes used in the acidity, which were all successfully passed trial-produce. Some of the above products such as K grade and R97 corrosion resistant oil well sucker rod, 3 1/2" internal upsetting outer diameter tubing with special thread, highly resistant thread gluing and twisting tubing, 27SiMn hydraulic supporting tube, special sizes high-pressure resistant casing, had passed the testing and appraisal by domestic or international authorities, and entered into the market in batch.

Proposed A Share Issue

The A share proposal and relevant authorizations had been approved at the extraordinary general meeting and the class meetings held on 8 January 2009 by the Company. The Company is compiling the relevant materials and will choose a good opportunity to submit the application for A share issue to the China Securities Regulatory Commission.

Major Acquisitions/Disposals and Significant Investment

As at 30 June 2009, the Group had no major acquisition or disposal and significant investments.

Outlook

The World Economic Outlook released by International Monetary Fund (IMF) on 8 July 2009 states that economic growth during 2009-2010 is now projected to be about $^1/_2$ percentage points higher than what was projected in April 2009, reaching 2.5 percent in 2010. Meanwhile, the Global Financial Stability Report released by IMF in July 2009 states that the financial conditions had improved, and the world economy is stabilizing, helped by unprecedented macroeconomic and financial policy support. Market confidence starts building up,and economic recovery is expected to rise.

The 2009 Energy Blue Book which was newly published by Social Sciences Academic Press indicates that oil supply in China will grow steadily, although the demand slowed in the short term, it is expected to rise in the long term. On 16 July 2009, National Bureau of Statistics of the PRC indicated that gross domestic product for the first half of the year 2009 grew 7.1 percent year-on-year, with an increase of 1.0 percent compared to the first quarter. There are increasing number of positive factors in the economy and the national economy is stabilizing and recovering.

With the recovery of the economy, the global demand in crude oil will increase, which will stimulate the oil fields to further exploitation to increase output, to increase the market demand for petroleum drilling and extraction machinery, and to bring better development to the petroleum machinery industry. Hence 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 its 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, and continue to research and develop in the new readily marketable products. It will moderately increase the scale of the production, and continue to develop the petroleum and natural gas and the coal mine methane drilling and extraction equipment industry.

Progress of High Grade Special Petroleum Pipes Technical Reconstruction Project

After the completion of the "180mm special petroleum pipes technical reconstruction project" (the "180mm 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, the main framework of the plant has been completed and the equipment foundation is nearly completed. The major equipments can be delivered on schedule and the installation will start in the third quarter. The 180mm project was planned to be completed and to undergo trial run in the first quarter of 2010. Since the Company has taken active management measures, it is expected to be completed as planned.

Bank Facilities and Pledge of Assets

As at 30 June 2009, the Group had bank credit loans amounting to RMB963,000,000. In addition, ten banks, including the Agricultural Bank of China (Shandong Branch), have granted credit facilities totaling RMB1,260,000,000 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	
	2009	2008
Research and development	**66**	60
Production	**2,197**	2,331
Quality control	**183**	211
Sales and marketing	**68**	72
Administration	**188**	214
Total	**2,702**	2,888

During the period under review, the decline of employees is caused by natural attrition. The impact was compensated by the detailed management measures such as optimum composition of the jobs and improving efficiency taken by the Company.

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, appointment of the Directors and change of various special mommittees members

As Mr. Wang Ping' term as a non-executive director ended on 11 May 2009, pursuant to the relevant provisions of the Articles of Association of the Company, the motions to re-appoint Mr. Wang Ping as a non-executive Director and to appoint Mr. John Paul Cameron and Ms. Wang Chun Hua as independent non-executive Directors were tabled at the 13th Board Meeting of the Second Board of Directors held on 16 February 2009 by the Nomination Committee, and the motions were passed by the resolutions at the Annual General Meeting for the year 2008 held on 12 May 2009. The members of the various special committees of the Board were changed at the 14th Board Meeting of the 2nd Board. (The detail is set out in the "Audit Committee", "Remuneration and Evaluation Committee", and "Nomination Committee" sections.)

Re-appointment of Supervisors and Re-election of the Supervisors

As the appointments of Ms. Li Bao Hui, Mr. Liu Wan Fu and Mr. Fan Ren Yi expired on 11 May 2009, pursuant to the relevant provisions of the Articles of Association of the Company, Mr. Zhang En Rong as the main Shareholder of the Company had nominated Mr. Liu Wan Fu and Mr. Fan Ren Yi for re-appointment as Supervisors representing the Shareholders. The resolution was passed as an ordinary resolution at the Annual General Meeting for the year 2008 held on 12 May 2009. Mr. Liu Wan Fu, Mr. Fan Ren Yi and Mr. Liu Huai Duo, who was newly elected as Supervisor representing the staff and workers, formed the third supervisory committee of the Company (the "Supervisory Committee"). Mr. Liu Huai Duo was elected as the chairman of the Supervisory Committee by all supervisors at the first meeting of the third Supervisory Committee held on 12 May 2009.

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. Chau Shing Yim David, Mr. John Paul Cameron and Ms. Wang Chun Hua. Mr. Chau Shing Yim David 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.

The Audit Committee has reviewed the Group's unaudited financial statements and monitored internal control system and its execution for the six months ended 30 June 2009.

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. Chau Shing Yim David, Mr. John Paul Cameron and Ms. Wang Chun Hua, and one executive Director, Mr. Zhang Yun San. Mr. John Paul Cameron 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. Chau Shing Yim David, Mr. John Paul Cameron and Ms. Wang Chun Hua, and one executive Director, Mr. Zhang Yun San. Ms. Wang Chun Hua 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 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 2009, 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)*	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

Notes : Unlisted shares.

Save as disclosed above, as at 30 June 2009, 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

In April 2009, seven U.S. oil pipe manufacturings companies and the United Steelworkers Union brought anti-dumping and anti-subsidies lawsuit to the International Trade Commission and the U.S. Department of Commerce about the OCTG products which were exported from China to America. Although the Company was not classified as a mandatory respondent company to the anti-dumping and anti-subsidies investigation, the Company had hired professional attorneys to actively respond to the lawsuit in order to safeguard the legitimate interests of the Company.

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 2009.

Share Option Scheme

The Company does not have any share option scheme.

Substantial Shareholders

As at 30 June 2009, 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	275,376,000 *(Note 1)*	21.50	8.37
Nordex Inc. *(Note 2)*	Through a controlled corporation	275,376,000 *(Note 1)*	21.50	8.37
Gelco Enterprises Ltd. *(Note 2)*	Through a controlled corporation	275,376,000 *(Note 1)*	21.50	8.37
Power Corporation of Canada *(Note 2)*	Through a controlled corporation	275, 376,000 *(Note 1)*	21.50	8.37
Power Financial Corporation *(Note 2)*	Through a controlled corporation	275,376,000 *(Note 1)*	21.50	8.37
IGM Financial Incorporation *(Note 2)*	Through a controlled corporation	275,376,000 *(Note 1)*	21.50	8.37
Martin Currie (Holdings) Limited *(Note 3)*	Through a controlled corporation	116,780,000	9.12	3.55

Notes:

1. According to the disclosure of interest notices filed by Paul G Desmarais., Gelco Enterprises Ltd., IGM Financial Inc., Nordex Inc., Power Corporation of Canada and Power Financial Corporation, each of these companies is interested in 275,376,000 H shares of the Company as at 30 June 2009. Among these 275,376,000 H Shares in which these companies are deemed to have interest, 260,000,000 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 53.83% 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, the company is interested in 116,780,000 H Shares of the Company as at 30 June 2009. Among these 116,780,000 H Shares, 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.

   Martin Currie Inc and Matin Currie Investment Management are wholly-owned subsidiaries of Martin Currie Ltd., which in turn is a wholly-owned subsidiary of Martin Currie (Holdings) Limited.

Save as disclosed above, as at 30 June 2009 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.

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 2009.

Directors

As at the date of this announcement, 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. Chau Shing Yim David, Mr. John Paul Cameron and Ms. Wang Chun Hua.

By order of the Board of Directors
Zhang En Rong
Chairman

Shandong, the PRC
26 August 2009