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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

HIGHLIGHTS

The revenue of Shandong Molong Petroleum Machinery Company Limited (the "Company") and its subsidiaries (collectively, the "Group") amounted to approximately RMB2,758,678,000, which represents a growth of 62.2% as compared with last year.

Profit attributable to equity holders of the parent amounted to approximately RMB305,811,000 representing an increase by approximately 52.7% as compared with last year.

Earnings per share of the Group amounted to RMB0.093 representing an increase by 50.0% as compared with last year.

The Board of Directors (the "Board") recommended the payment of a final dividend of RMB0.02 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 2008.

Consolidated Income Statement

For the year ended 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000 (restated)
Revenue		**2,758,678**	1,700,405
Cost of sales		**(2,222,114)**	(1,384,199)
Gross profit		**536,564**	316,206
Other income	5	**21,476**	50,873
Distribution expenses		**(59,892)**	(39,846)
Administrative expenses		**(99,692)**	(65,328)
Gain on fair value change of foreign currency forward contracts		**5,270**	—
Other expenses		**(1,787)**	(1,338)
Finance costs	6	**(49,015)**	(26,524)
Share of results of associates		**332**	4,196
Profit before taxation		**353,256**	238,239
Income tax expense	7	**(33,857)**	(37,210)
Profit for the year	8	**319,399**	201,029
Attributable to:			
Equity holders of the Company		**305,811**	200,330
Minority interests		**13,588**	699
		319,399	201,029
Final dividends recognised as distribution: RMB0.015 (2007: RMB0.02) per ordinary share	9	**49,339**	12,960
Proposed final dividends: RMB0.02 (2007: RMB0.015) per ordinary share		**65,785**	49,339
Earnings per share - basic	10	**RMB0.093**	RMB0.062

Consolidated Balance Sheet

As at 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000 (restated)
Non-current assets			
Property, plant and equipment		**1,009,695**	824,463
Deposit paid for acquisition of property, plant and equipment		**3,504**	6,738
Prepaid lease payments		**91,083**	91,516
Goodwill		**142,973**	142,973
Intangible assets		**11,429**	377
Investment in an associate		**2,339**	2,157
Available-for-sale investments		**10,000**	10,000
Long term prepayment		**3,275**	6,704
Deferred tax assets		**27,913**	15,407
		1,302,211	1,100,335
Current assets			
Inventories	11	**795,938**	594,533
Trade and other receivables	12	**543,764**	268,938
Bills receivables	12	**32,115**	28,080
Prepaid lease payments		**2,100**	1,940
Amount due from an associate		**531**	1,449
Derivative financial instruments		**49,650**	—
Pledged bank deposits		**413,967**	163,957
Bank balances and cash		**195,133**	109,580
		2,033,198	1,168,477
Current liabilities			
Trade and bills payables	13	**1,155,378**	575,039
Other payables and accrued charges		**155,254**	160,803
Amounts due to related parties		**—**	98,704
Derivative financial instruments		**44,380**	—
Bank borrowings - due within one year		**253,522**	182,120
Other borrowings		**15,000**	5,000
Tax payable		**32,488**	44,084
		1,656,022	1,065,750
Net current assets		**377,176**	102,727
Total assets less current liabilities		**1,679,387**	1,203,062
Non-current liabilities			
Bank borrowings - due after one year		**550,000**	350,000
Deferred tax liabilities		**19,364**	13,284
		569,364	363,284
		1,110,023	839,778

	NOTE	2008 RMB'000	2007 RMB'000 (restated)
Capital and reserves			
Share capital		**328,924**	328,924
Reserves		**720,792**	464,189
Equity attributable to equity holders of the Company		**1,049,716**	793,113
Minority interests		**60,307**	46,665
Total equity		**1,110,023**	839,778

Notes to the Consolidated Financial Statements

31 December 2008

1. GENERAL

The Company was established in the PRC with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2008.

HKAS 39 & HKFRS 7 (Amendments)	*Reclassification of financial assets*
HK(IFRIC) - INT 11	*HKFRS 2: Group and treasury share transactions*
HK(IFRIC) - INT 12	*Service concession arrangements*
HK(IFRIC) - INT 14	*HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction*

The adoption of the new HKFRSs had no material effect on the results and financial position for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	*Improvements to HKFRSs* [1]
HKAS 1 (Revised)	*Presentation of financial statements* [2]
HKAS 23 (Revised)	*Borrowing costs* [2]
HKAS 27 (Revised)	*Consolidated and separate financial statements* [3]
HKAS 32 & 1 (Amendments)	*Puttable financial instruments and obligations arising on liquidation* [2]
HKAS 39 (Amendment)	*Eligible hedged items* [3]
HKFRS 1 & HKAS 27 (Amendments)	*Cost of investment in a subsidiary, jointly controlled entity or associate* [2]
HKFRS 2 (Amendment)	*Vesting conditions and cancellations* [2]
HKFRS 3 (Revised)	*Business combinations* [3]
HKFRS 8	*Operating segments* [2]
HK(IFRIC) - INT 13	*Customer loyalty programmes* [4]
HK(IFRIC) - INT 15	*Agreements for the construction of real estate* [2]
HK(IFRIC) - INT 16	*Hedges of a net investment in a foreign operation* [5]
HK(IFRIC) - INT 17	*Distributions of non-cash assets to owners* [3]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 July 2009.
[4] Effective for annual periods beginning on or after 1 July 2008.
[5] Effective for annual periods beginning on or after 1 October 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. RESTATEMENT OF CERTAIN 2007 FIGURES

In December 2007, the Group has acquired subsidiaries and the fair value of the assets and liabilities acquired has been determined provisionally as the acquisition is completed near the year end date. Therefore, adjustments on the provisional fair value was made in this year after the finalisation of the identification and valuation of the assets and liabilities acquired.

The consolidated balance sheet as at 31 December 2007 has been restated to reflect the finalised fair value of acquiree's assets and liabilities.

In addition, reclassifications of some of the prior year's consolidated balance sheet figures are made to conform with current year's presentation.

	31 December 2007 RMB'000 (originally stated)	Adjustments RMB'000	Reclassifications RMB'000	31 December 2007 and 1 January 2008 RMB'000 (as restated)
Balance sheet items				
Property, plant and equipment	820,313	4,150	—	824,463
Deposit paid for acquisition of property, plant and equipment	—	—	6,738	6,738
Investment properties	3,574	(3,574)	—	—
Prepaid land lease payments	90,497	3,691	(732)	93,456
Goodwill	147,115	(4,142)	—	142,973
Investment in an associate	2,142	15	—	2,157
Deferred tax assets	15,705	(298)	—	15,407
Inventories	599,168	(4,635)	—	594,533
Trade and other receivables	291,662	(734)	(21,990)	268,938
Other payables and accruals	(259,117)	1,758	96,556	(160,803)
Amounts due to related parties	(18,132)	—	(80,572)	(98,704)
Tax payable	(47,256)	3,172	—	(44,084)
Deferred tax liabilities	(13,631)	347	—	(13,284)
Total effect on assets and liabilities	1,632,040	(250)	—	1,631,790

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

No business segment information is presented as over 90% of the Group's operations relate to the sale of petroleum machinery.

Geographical segments

The Group's operating business is with customers based in the PRC, the United States, Japan 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. These geographical segments are the basis on which the Group report its primary segment.

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

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 2008 and 2007:

	PRC		United States		Japan		Other countries		Consolidated	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000	**2008 RMB'000**	2007 RMB'000	**2008 RMB'000**	2007 RMB'000	**2008 RMB'000**	2007 RMB'000 (restated)
Segment revenue	**1,442,096**	892,161	**608,191**	286,701	**238,089**	124,198	**470,302**	397,345	**2,758,678**	1,700,405
Result										
Segment result	**253,538**	162,232	**105,089**	46,597	**41,139**	20,186	**81,263**	64,579	**481,029**	293,594
Unallocated corporate income									**17,119**	33,639
Gain on fair value of foreign currency forward contracts									**5,270**	—
Share of results of associates									**332**	4,196
Unallocated corporate expenses									**(101,479)**	(66,666)
Finance costs									**(49,015)**	(26,524)
Profit before taxation									**353,256**	238,239
Income tax expense									**(33,857)**	(37,210)
Profit for the year									**319,399**	201,029

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Consolidated balance sheet

	PRC		United States		Japan		Other countries		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000 (restated)
Assets										
Segment assets	**890,559**	575,151	**167,651**	131,039	**52,332**	16,688	**128,783**	104,612	**1,239,325**	827,490
Unallocated assets									**2,096,084**	1,441,322
Consolidated total assets									**3,335,409**	2,268,812
Liabilities										
Segment liabilities	**35,165**	7,077	**524**	333	**–**	115	**934**	46,695	**36,623**	54,220
Unallocated liabilities									**2,188,763**	1,374,814
Consolidated total liabilities									**2,225,386**	1,429,034

Analysis of other information including capital addition, depreciation and amortisation, allowance for trade receivables, reversal of allowance for inventories and other receivables has not been presented as all of them are attributable to the PRC.

5. OTHER INCOME

	2008 RMB'000	2007 RMB'000 (restated)
Other income comprises:		
Bank interest income	**8,363**	6,970
Gain on disposal of prepaid lease payments	**—**	2,394
Gain on disposal of property, plant and equipment	**—**	5,997
Government subsidies	**5,556**	7,334
Penalty fee income	**978**	753
Profit from sale of scrap and raw materials	**—**	10,410
Reversal of allowance for inventories	**4,138**	4,584
Reversal of allowance for trade receivables	**—**	2,240
Reversal of allowance for other receivables	**219**	—
Others	**1,798**	402
VAT refund (note)	**424**	9,789
	21,476	50,873

Note: The VAT refund for the years ended 31 December 2008 and 2007 represented the VAT received by 濰坊墨龍鑽採設備有限公司 (Weifang Molong Drilling Equipment Company Limited) ("Molong Drilling Equipment"), a subsidiary of the Group, which was approved by 國家稅務總局 (State Administration of Taxation) as a welfare enterprise (民政福利企業). According to the tax document Cai Shui [2007] No.92, "Notice about the levy of turnover tax of welfare enterprises for the purpose of encouraging employment for the disabled issued by the State Tax Bureau" (「關於促進殘疾人就業稅收優惠政策的通知」), the output VAT paid by Molong Drilling Equipment was refundable.

6. FINANCE COSTS

	2008 RMB'000	2007 RMB'000 (restated)
Interest on bank and other borrowings wholly repayable within five years	**51,750**	26,524
Less: Amount capitalised in construction in progress	**(2,735)**	—
	49,015	26,524

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.3% (2007: nil) per annum to expenditure on qualifying assets.

7. INCOME TAX EXPENSE

	2008 RMB'000	2007 RMB'000
The income tax expense comprises:		
Current taxation	**40,283**	32,004
Deferred taxation	**(6,426)**	5,206
	33,857	37,210

On 15 January 2009, the Company was approved as an advanced technology enterprise in Shandong (山東省高新技術企業). According 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. The Company was subject to 33% PRC corporate income tax in 2007.

For the subsidiaries located in Mainland China, they are subject to the PRC corporate income tax at a rate of 25% (2007: 33%) on its assessable profits. The subsidiary in Hong Kong is subject to Hong Kong Profits Tax rate of 16.5% (2007: 17.5%) on its assessable profits.

The income tax expense for the year can be reconciled to the profit before taxation per the consolidation income statement as follows:

Year ended 31 December 2008

	RMB'000
Profit before taxation	**353,256**
Tax at statutory tax rate of 15%	**52,988**
Additional tax benefit on qualified plant and machinery (note)	**(30,195)**
Tax exemption granted to a welfare enterprise for the year	**(106)**
Additional deductible research and development expenses	**(1,413)**
Tax effect of expenses not deductible for tax purpose	**956**
Tax effect of income not taxable for tax purpose	**(1,677)**
Effect of different tax rates of subsidiaries	**13,449**
Decrease in opening deferred tax assets resulting from decrease in applicable tax rate	**1,419**
Others	**(1,564)**
Income tax expense for the year	**33,857**

7. INCOME TAX EXPENSE *(continued)*

Year ended 31 December 2007

	RMB'000
Profit before taxation	238,239
Tax at statutory tax rate of 33%	78,619
Additional tax benefit on qualified plant and machinery (note)	(29,819)
Tax exemption granted to a welfare enterprise for the year	(7,248)
Additional deductible research and development expenses	(3,264)
Tax effect of expenses not deductible for tax purpose	1,034
Tax effect of income not taxable for tax purpose	(4,172)
Decrease in opening deferred tax assets resulting from decrease in applicable tax rate	2,214
Others	(154)
Income tax expense for the year	37,210

Note: Pursuant to the relevant tax rules and regulations, the Company claimed PRC Enterprise Income Tax credits on 40% of the acquisition cost of certain qualified plant and machinery in PRC Enterprise Income Tax Expenses.

8. PROFIT FOR THE YEAR

	2008 RMB'000	2007 RMB'000 (restated)
Profit for the year has been arrived at after charging:		
Auditors' remuneration	**600**	900
Allowance for trade receivables	**24,576**	—
Amortisation of intangible asset	**941**	314
Depreciation of property, plant and equipment	**65,669**	39,917
Foreign exchange losses	**—**	1,453
Loss on disposal of property, plant and equipment (included in other expenses)	**600**	—
Release of prepaid lease payments	**2,050**	929
Research and development costs (included in administrative expenses)	**18,245**	19,778
Rental expense	**—**	323
Staff costs, including directors' emoluments	**77,827**	49,987
and after crediting:		
Bank interest income	**8,363**	6,970
Foreign exchange gains	**44**	—
Gain on fair value change of foreign currency forward contracts	**5,270**	—
Gain on disposal of property, plant and equipment	**—**	5,997
Gain on disposal of prepaid lease payments	**—**	2,394
Reversal of allowance for inventories	**4,138**	4,584
Reversal of allowance for trade receivables	**—**	2,240
Reversal of allowance for other receivables	**219**	—
Rental income	**—**	743

9. DIVIDEND

	2008 RMB'000	2007 RMB'000
Dividends recognised as distribution during the year:		
Final - 2007: RMB0.015 (2006: RMB 0.02) per ordinary share	**49,339**	12,960

The final dividend of RMB0.02 (2007: RMB0.015) per ordinary share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008 RMB'000	2007 RMB'000
Earnings attributable to equity holders of the Company for the purpose of basic earnings per share	**305,811**	200,330

	Number of shares	
	2008 **'000**	2007 '000 (restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,289,240**	3,252,303

	2008 RMB	2007 RMB
Weighted average earnings per share	**0.093**	0.062

For the year ended 31 December 2007, the weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the bonus issue on 4 September 2007.

11. INVENTORIES

	2008 RMB'000	2007 RMB'000 (restated)
Raw materials	**255,092**	153,482
Work in progress	**281,316**	182,019
Finished goods	**259,530**	259,032
	795,938	594,533

12. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES

	2008 RMB'000	2007 RMB'000 (restated)
Trade and other receivables:		
Trade receivables	**443,387**	232,957
Deposits and other receivables	**6,125**	5,198
Prepayments	**94,252**	30,783
	543,764	268,938
Bills receivables	**32,115**	28,080
	575,879	297,018

12. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES *(continued)*

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. The aged analysis of trade receivables net of allowance for doubtful debts is stated as follows:

	2008	2007
	RMB'000	RMB'000
		(restated)
Within three months	**390,444**	204,996
Three to six months	**24,255**	21,833
Six months to one year	**19,060**	4,219
Over one year	**9,628**	1,909
	443,387	232,957

Bills receivables are all aged within six months.

Trade receivables at the balance sheet dates mainly comprise amounts receivable from sales of petroleum extraction machinery and related accessories. No interest is charged on the trade receivables.

Included in trade receivables are debtors with carrying amounts of approximately RMB28,688,000 (2007: RMB6,128,000) which are past due at the balance sheet dates for which the Group had not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

	2008	2007
	RMB'000	RMB'000
		(restated)
One to six months past due	**19,060**	4,219
Six months to over one year past due	**9,628**	1,909
	28,688	6,128

12. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES *(continued)*

Movement in the allowance for doubtful debts

	2008	2007
	RMB'000	RMB'000
		(restated)
Balance at beginning of the year	**3,958**	6,434
Allowance made	**28,526**	—
Amounts written off as uncollectible	**—**	(236)
Allowance reversed	**(3,950)**	(2,240)
Balance at end of the year	**28,534**	3,958

At 31st December, 2008, trade receivables amounting to approximately RMB50,644,000 (2007: Nil) were used to secure certain bank facilities granted to the Group.

The Group's trade receivables which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2008	2007
	RMB'000	RMB'000
United States Dollars	**165,295**	91,056
Euro	**7,783**	—

13. TRADE AND BILLS PAYABLES

The following is an aged analysis by invoice date of trade and bills payables at the balance sheet date:

	2008	2007
	RMB'000	RMB'000
		(restated)
Within three months	**529,074**	323,593
Three to six months	**568,194**	220,666
Six months to one year	**17,132**	11,274
Over one year	**40,978**	19,506
	1,155,378	575,039

The Group's bills payable of RMB770,211,000 (2007: RMB376,744,000) were secured by the pledge of certain of the time deposits amounting to RMB413,967,000 (2007: RMB163,957,000). The average credit period on purchase is six months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

14. CAPITAL COMMITMENTS

	2008	2007
	RMB'000	RMB'000
		(restated)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**255,727**	107,435

Outstanding Achievements of the Year

The Group recorded impressive business growth in the current year. For the year ended 31 December 2008, the Group achieved revenue of approximately RMB2,758,678,000 (2007: RMB1,700,405,000), representing an increase of approximately 62.2% as compared with last year. Over the same period, the profit attributable to equity holders of the Company and earnings per share were approximately RMB305,811,000 (2007: RMB200,330,000) and RMB0.093 (2007: RMB0.062), representing an increase of approximately 52.7% and 50.0% respectively as compared with last year. All of these achievements clearly demonstrated the persistent efforts made by the management and employees of the Group in developing its business.

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 approximately 80% of its designed production capacity in 2008, and will reach its full designed production capacity in 2009. The release of the full potential of the production capacity of such production line are beneficial to the substantial growth in oil casing output and the production capacity of high-added value non-API casing of the Group, which are in turn beneficial to the future development of the business and the competitiveness of the Group. In addition, through improving the technology of the production line of the oil well pumping machines and adding some mechanical equipments, the production capacity of the oil well pumping machines has increased from 200 sets per year to 250 sets per year.

The construction of the "180mm special petroleum pipes technical reconstruction Project" (the "**180mm Project**") in which the Group intends to invest approximately RMB720 million has commenced. After the completion of the 180mm project, the Group is expected to produce an additional 300,000 tonnes of high grade special petroleum pipes per year. As at the date of this report, all contracts in relation to the equipments of the 180mm project have been signed. The 180mm project is expected to be completed and undergo trial run in the first quarter of 2010.

Shouguang Baolong Petroleum Material Project (the "**Project**") in which the Company invested in 2007 was completed on schedule and put into operation in July 2008. The Project mainly provides accessory services for the Company's petroleum drilling and extraction equipments and accessories. The Project is currently working well.

The Company submitted to the China Securities Regulatory Commission (the "**CSRC**") an application for A share issue in 2007 which was not approved by the CSRC. Pursuant to relevant laws and regulations, the Board held the 11th meeting of the 2nd Board on 9 November 2008 to present to the Shareholders the A share issue proposal and to obtain relevant authorizations. All the resolutions were approved at the extraordinary general meeting (the "**EGM**") and the Class Meetings on 8 January 2009. The Company will re-submit the application for A share issue to the CSRC.

On 15 January 2009, the Company, confirmed by the records of the Office of the National New & High Technical Enterprises Recognition Leading Group, was named one of the 2008 Shandong Province New & High Technical Enterprises, the certificate of which will be awarded later. The Company will be entitled to the preferential enterprise income tax pursuant to the relevant provisions and policies of the People's Republic of China (the "**PRC**").

In terms of domestic market expansion, the Group's main customers are major oil fields in the PRC, including Changqing Oil Field (長慶油田), Xinjiang Oil Field (新疆油田), Daqing Oil Field (大慶油田), Liaohe Oil Field (遼河油田), Qinghai Oil Field (青海油田), Talimui Oil Field (塔里木油田), Huabei Oil Field (華北油田), Jidong Oil Field (冀東油田) 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), Jiangsu Oil Field (江蘇油田) and Jianghan Oil Field (江漢油田), all of which branch oil fields of China Petroleum & Chemical Corporation and its subsidiaries (collectively, "**Sinopec Group**"). Sales to the above oil fields under PetroChina Group and Sinopec Group accounted for approximately 39.9% of the Group's sales revenue.

After becoming the eligible supplier of the CNOOC Limited and its subsidiaries (collectively "**CNOOC Group**") in 2007, the Group continued to increase tubing supplied to the CNOOC Group during the Reporting Period. The Group has been supplying products to Shanxi Yanchang Petroleum (Group) Co., Ltd. ("**Yanchang Petroleum**") since 2007 and during the Reporting Period, the Group had successfully bid for the supply of 5,000 tonnes of casings and supplied smoothly to Yanchang Petroleum. During the current year, the cooperation between the Group with the four major domestic oil groups increased greatly. In terms of the market expansion of coal-bed gas, the Group's products such as oil well extraction machines, oil well pipes, oil well sucker rods, oil well pumps and extraction machinery accessories have continued to supply entered the domestic markets.

During the current year, the Group introduced various new products to the market. For example, high extrusion and damage resistant casings were supplied to Qinghai Oil Field while high-grade tubings and casings such as P110 were supplied to Jiangsu Oil Field and Zhongyuan Oil Field and all of which have received good feedbacks from the customers. Meanwhile, immediately following the development of new oil field blocks, tubing and casing products of the Group were launched in the Jidong Oil Field under the PetroChina Group (an integrated 1 billion-tonne oil field newly discovered in 2007 - Jidong Nanbao Oil Field). The LC casing with long round thread developed by the Company had successfully passed through wells in the Jidong Nanbao Oil Field on its first attempt which shows that the casing products of the Group have met the strict technical requirements of terrestrial mining in the offshore production well. The launch of the abovementioned new products and the development of new markets will increase the market share of Company's products in the domestic market.

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 2008, 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 many 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 regions such as the Middle East, Africa and South America. For the financial year ended 31 December 2008, the Group's revenue generated from exports increased significantly, which accounted for approximately 47.7% of the Group's total sales revenue. Such increase formed a solid foundation for the Group to further expand its overseas market in the future.

In terms of the development of new products, with the increasing demand for high-end products both in the PRC and overseas, the Group continues to increase investments in product development. Meanwhile, the Group has strengthened 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, and has successively developed 20 new types of products with proprietary intellectual property rights attached such as non-API series high collapse-resistance casings, H_2S corrosion resistant series oil well pipes and casings, thermal well casing, low-temperature resistant tubing and casing, economic CO_2 Corrosion Resistant Tubings and Casings, CO_2 Corrosion Resistant Super 13Cr Tubings and Casings, 8-type Elephant, Molong Series Special Thread, among which eight types have been put into trial productions, and six types have been applied for patents registrations. Many new products have passed the testing and appraisal by domestic or international authorities, and have entered into the markets in large quantities. At the beginning of 2008, the pipeline pipes of the Group were licensed by the American Petroleum Institute under its API-5L Monogram Standards, thus laying the foundation for the Group's products entering into the field of oil transportation.

During the period under review, the Group achieved a breakthrough in the development of new products and patent applications: five research achievements such as "R&D on CO_2 Corrosion Resistant Super 13Cr Tubings and Casings", "R&D on MLC-1 Special Thread Casings", "R&D on High-pressure and Corrosion Resistant Casings", "R&D on H_2S Corrosion Resistant Tubings and Casings", "R&D on thermal well casing" were included in the 2008 Technology Innovation Projects of Shandong Province and one research was named a key project; two patents for utility models "Tubing and Casing Threaded Joint" and "Tubing and Casing Threaded Joint for Deep Wells" were awarded patent certificates by the State Intellectual Property Office of the PRC; the four patent applications for "Processing of Drill Pipe End Upsetting", "Casing and Tubing of Mid-High Strength against H_2S Corrosion and its manufacturing methods", "Casing and Tubing of Mid-Low Strength against H_2S Corrosion and its manufacturing methods" and "Casing and Tubing of High Strength against H_2S Corrosion and its manufacturing" were officially accepted by the State Intellectual Property Office of the PRC.

The Group was awarded a number of accreditations by the PRC government authorities, banks and tax bureaus for its continuous growth in its business performance including "Demonstrative Enterprise for Information in the Manufacturing Industry in Shandong Province", "High and New Technology Enterprise in Shandong Province", "Faithful Enterprise in Shandong Province", "Civilized Enterprise in the Manufacturing Industry in Shandong Province", "Top 100 Private Enterprises in Shandong Province", "Foreign Trade Advanced Enterprise in Shandong Province", "Foreign Trade Advanced Enterprise in Shandong Province", "Famous Export Brands in Shandong Province Entitling to Priority in Fostering and Development for 2008-2009", "Top 100 Industrial Enterprises in Weifang City", "Grade A Credit Rating Enterprise in Tax Payment", "2008 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" for five consecutive years"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 by the industry.

Prospects

The World Energy Outlook Report released by International Energy Agency in November 2008 states that to avoid the oil crisis and to deal with the increase in demand and the decline in the output of oil, there is a need to invest heavily in the crude oil production industry, to update the basic infrastructure and to improve the oil extraction ability of existing facilities over the next 20 years. At the same time, the Agency considers that investments in the oil-producing industry are long-term investments, and the financial crisis will not become the main reason for stopping the enterprises from investing more.

The 2009 Economy Blue Book released by the Chinese Academy of Social Sciences in December 2008 forecasts that China's GDP growth rate is still expected to remain over 9%. National Bureau of Statistics of the PRC recently indicated that the basic conformation of China's economic development has not changed, and China can achieve stable and rapid economic growth.

The Group considers that the economic depression and the staged decline in crude oil production volume has a certain degree of impact on the demand for petroleum machineries by oil fields in some foreign countries and regions. However, the oil industry as the pillar industry of the PRC will keep solid growth under the "keeping growth" fundamental key macro regulation policy of the PRC government and good policies such as the "RMB500 billion Revitalization Petroleum and Petrochemical Industry Investment Program" which will be rolled out by the PRC government. Therefore the petroleum machinery industry in which the Company operates will definitely benefit from these policies. The Group will continue to input more resources into new projects and R & D of the technology of high end products and the production technology so as to guarantee product quality, reserve high-quality technology and enhance accessory production capacity. Subject to ensuring the continuing growth in the domestic market, the Group will continue to consolidate the overseas markets. In addition, the Group will monitor closely the development trends of the global economic crisis and the changes in the RMB exchange rate, seize the opportunities of domestic demand and export stimulation policies to actively adjust the product mix, increase the sales volume of high-end products and high value-added products sold to abroad to neutralize the impact of the economic depression on export businesses.

With regard to product research and development, the Group plans to continue to strengthen the development of high grade steel oil well pipes, casings, pipeline pipes, drill pipe and other petroleum machineries and focus on the development of specially connected OCTG new pipeline pipes used in the acidity and Sea Service environment, CO_2 corrosion resistant casings, pressure and corrosion resistant casings, S corrosion resistant drill pipe body, perforating hole pipes, internal upsetting diameter connection oil well pipes, corrosion resistant and high-strength sucker rods, series of small oil pumping units(used in coal bed gas) and other new products, so as to meet different kinds of demands for the products of the Group from different PRC and overseas clients, to increase the share of high-grade products and to 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 to explore more channels to increase the Group's revenue, the Group will, in light of the consumption demand and development trend for natural gas and coal-bed gas in the market, continue to actively conduct researches 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 terms of production capacity, it is expected that the production line of 250,000 tonnes of oil casings will reach its full designed production capacity in 2009. The 180mm project , in which the Group is planning to invest RMB720 million, is expected to be completed and undergo trial run in the first quarter of 2010. The construction and capacity release of above two projects will increase the Group's total output of special petroleum pipes to 650,000 tonnes in 2010 which will further increase the Group's competitiveness in the industry.

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 of oil casing output and the increase of high-end products in 2009 to increase the sales volume of casings in the domestic market. On the condition that the Company becomes one of the top four outstanding suppliers of PetroChina Company Limited and the establishment of good reputation and good cooperation relationship, the Group will enhance the promotion of high-end products in the domestic market. At the same time, the Group will, on the basis of consolidating and developing relationships with existing customers, actively promote good cooperative relationships with Yanchang Petroleum and CNOOC Group so in order to gain more market share.

For overseas markets, the Company will, taking into account the different trade policies in each oil production country and the development demands of overseas markets, continue to increase the development in markets such as South America, the Middle East and Africa to eliminate the risks arising from over-concentration of the Company's products in particular overseas markets. Meanwhile, the Company will strengthen long-term cooperation relationships with overseas stock companies with sufficient market resources, dominant services and good reputations. With the Group's expansion into new markets such as Russia, the Middle East, South America and others, the Group is confident that it can actively carry out new products promotions through the strengthening of marketing activities so as to expand the Group's market coverage continuously.

In conclusion, the Group considers that the global demand for the oil energy will not be affected by the economy crisis for the long term, and policies on expanding domestic demand and revitalization petroleum and petrochemical industry investment which will be introduced by the PRC government will drive domestic petroleum industry for the better. The Group will seize opportunities, prepare new products and technologies, accumulate capacity, strictly and control costs, thus ensuring the profitability of the Company and achieving the best returns for Shareholders.

Significant Investments

In the year ended 31 December 2008, the Group has completed investment of approximately RMB82.6 million in the newly-commenced 180mm Project.

Acquisitions and Disposals during the Year and Future Investment Plans

In the year ended 31 December 2008, the Group did not have other relevant acquisitions, disposals or significant investment plans.

SIGNIFICANT ITEMS

Re-submit Proposed A Share Issue

Because the first application for A share issue was not approved, the Board has resolved at the 11th session meeting of the 2nd Board on 9 November 2008 that the Company will apply for the issue of not more than 70 million A shares of RMB1.00 each, and the net proceeds from the A Share issue shall be used to finance the 180 Project. The resolution of proposed A share issue was approved by the Shareholders at the first EGM and Class Meetings held on 8 January 2009. Pursuant to relevant regulations, the proposed A share issue will be implemented upon approval 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 2008, 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 2008 for more details.

The Audit Committee (its members include three independent non-executive Directors) of the Company held two meetings in the year of 2008 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 2008.

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 2008.

Dividend

The proposed final dividend for the year ended 31 December 2008 is RMB0.02 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 2008.

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 2008 will be despatched to shareholders on or about 18 February 2009 and will be available on the company's website at http://www.molonggroup.com and the website of the Stock Exchange.

On behalf of the Board
Shandong Molong Petroleum Machinery Company Limited
Zhang En Rong
Chairman

Shandong, People's Republic of China
16 February 2009

As at the date of this announcement, the Board is comprised of Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long and Mr. Xie Xin Cang as executive directors, Mr. Chen Jian Xiong and Mr. Wang Ping as non-executive directors and Mr. Qin Xue Chang, Mr. Yan Yi Zhuang and Mr. Shing Yim Chau David as independent non-executive directors.

** For identification purpose only*