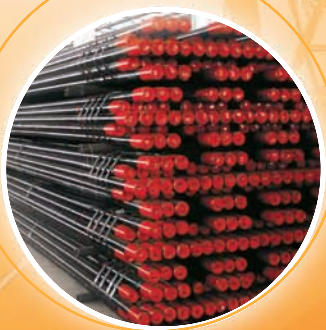
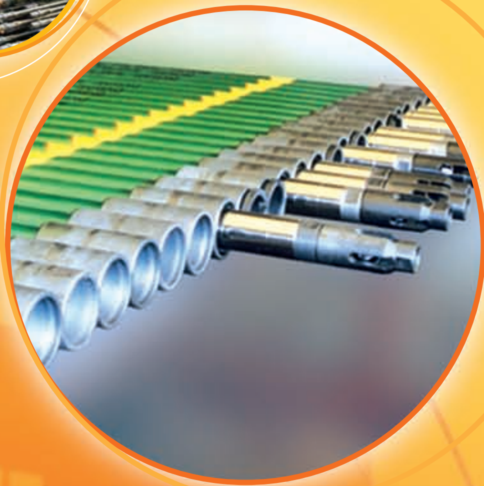
山東墨龍石油機械股份有限公司

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 Annual Report

*For identification purpose only

Contents

2	Corporate Information
5	Financial Highlights
6	Chairman's Report
12	Management Discussion and Analysis
18	Directors, Supervisors and Senior Management
22	Board of Directors' Report
31	Supervisory Committee's Report
32	Corporate Governance Report
40	Significant Items
41	Independent Auditor's Report
43	Consolidated Statement of Comprehensive Income
44	Consolidated Statement of Financial Position
46	Consolidated Statement of Changes in Equity
47	Consolidated Statement of Cash Flows
49	Notes to the Consolidated Financial Statements

Corporate Information

Directors

Executive Directors

Mr. Zhang En Rong *(Chairman)*
Mr. Zhang Yun San *(Vice Chairman)*
Mr. Lin Fu Long
Mr. Xie Xin Cang

Non-executive Directors

Mr. Chen Jian Xiong
Mr. Wang Ping

Independent Non-executive Directors

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

Supervisors

Mr. Liu Huai Duo *(Chairman of the Supervisory Committee)*
Mr. Liu Wan Fu
Mr. Fan Ren Yi

Members of Nomination Committee

Ms. Wang Chun Hua *(Chairman of the Nomination Committee)*
Mr. Zhang Yun San
Mr. John Paul Cameron
Mr. Chau Shing Yim, David

Members of Remuneration and Evaluation Committee

Mr. John Paul Cameron *(Chairman of the Remuneration and Evaluation Committee)*
Mr. Chau Shing Yim, David
Mr. Zhang Yun San
Ms. Wang Chun Hua

Corporate Information

Members of Audit Committee

Mr. Chau Shing Yim, David *(Chairperson of the Audit Committee)*
Mr. John Paul Cameron
Ms. Wang Chun Hua

Qualified Accountant

Mr. Chan Wing Nang, Billy

Company Secretary

Mr. Chan Wing Nang, Billy

Authorised Representatives

Mr. Xie Xin Cang
Mr. Chan Wing Nang, Billy

Authorised Person to Accept Service of Process and Notices

Mr. Chan Wing Nang, Billy

Auditors

Deloitte Touche Tohmatsu CPA Ltd. (PRC)
Deloitte Touche Tohmatsu (Hong Kong)

Legal Advisers

DLA Piper Hong Kong (as to Hong Kong Law)
Kingfield Law Firm (as to PRC law)

Principal Bankers

Agricultural Bank of China
Bank of China Ltd.
Weifang Commercial Bank
Industrial and Commercial Bank of China Ltd.
China Construction Bank Corporation
China Merchants Bank Co., Ltd.
Bank of Communications Co., Ltd.
China Min Sheng Banking Corp., Ltd.
China CITIC Bank Corporation Ltd.
Shenzhen Development Bank Co., Ltd.
China Everbright Bank Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd.
Industrial Bank Co., Ltd.

H Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited
26/F., Tesbury Centre
No. 28 Queen's Road East
Wanchai
Hong Kong

Registered Address

No. 99 Beihuan Road, Shouguang City,
Shandong Province, the People's Republic of China

Principal Place of Business in Hong Kong

Suite A, 11/F, Ho Lee Commercial Building,
38–44 D'Aguilar Street,
Central,
Hong Kong

Website

www.molonggroup.com

Stock Code

568

Financial Highlights

Results

	Year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**2,041,376**	2,758,678	1,700,405	1,014,037	776,522
Profit before tax	**324,280**	353,256	238,239	161,774	115,519
Profit for the year	**273,822**	319,399	201,029	142,674	88,248
Minority interests	**(5,507)**	(13,588)	(699)	(3,270)	(3,021)
Net profit from ordinary activities attributable to ordinary equity holders of the Company	**268,315**	305,811	200,330	139,404	85,227
Basic earnings per share (RMB)	**0.82**	0.93	0.62	0.43	0.28

Assets and Liabilities

	As at 31 December				
	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**3,256,606**	3,335,409	2,268,812	1,454,216	959,129
Total liabilities	**1,942,972**	2,225,386	1,429,034	917,451	544,063
Net assets	**1,313,634**	1,110,023	839,778	536,765	415,066

On behalf of the Board of Directors (the "**Board**" or "**Directors**") of the Company, I am pleased to present the annual report and the audited financial statements of the Company together with its subsidiaries (collectively the "**Group**") for the financial year ended 31 December 2009 ("**2009**" or the "**current year**" or "**Reporting Period**" or the "**period under review**") to the shareholders of the Company (the "**Shareholders**").

Annual Results

Due to the effect of the financial crisis, the revenue of the Group decreased as compared to the previous year. For the year ended 31 December 2009, the Group achieved a revenue of approximately RMB2,041,376,000 (2008: RMB2,758,678,000), representing a decrease of approximately 26.00% as compared with last year. Over the same period, the profit attributable to owners of the Company and earnings per share were approximately RMB268,315,000 (2008: RMB305,811,000) and RMB0.82 (2008: RMB0.93), representing a decrease of approximately 12.26% and 11.83% respectively as compared with last year.

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 reached 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, 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 it has exceeded 100,000 tonnes by 2009.

All the completion of the construction of the "180mm special petroleum pipes technical reconstruction Project" (the "**180mm Project**") in which the Group intends to invest approximately RMB720 million, the Group is expected to produce an additional 300,000 tonnes of high grade special petroleum pipes per year. The 180mm Project was planned to undergo trial run in the first quarter of 2010.

In terms of domestic market expansion, the Group's main customers are major oil fields in the PRC, including Daqing Oil Field (大慶油田), Changqing Oil Field (長慶油田), Xinjiang Oil Field (新疆油田), Liaohe Oil Field (遼河油田), Qinghai Oil Field (青海油田), Talimu 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 are 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 are oil fields of China Petroleum & Chemical Corporation and its subsidiaries (collectively, "**Sinopec Group**"). 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 a star supplier by Xinjiang Oil Field and signed the strategic cooperative agreement with Qinghai Oil Field and Huabei Oil Field in which we became the strategic suppliers of the above two oil fields. Sales to the above oil fields under the PetroChina Group and the Sinopec Group accounted for approximately 36.47% of the Group's sales revenue.

After becoming an eligible supplier of CNOOC Limited and its subsidiaries (collectively, "**CNOOC Group**") in 2007, the Group had successfully bid for the supply of 6,700 tonnes of casings, which marked that the tubing and casing of the Company have fully entered into 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 10,000 tonnes of casings, 800 oil well pumpings and 220,000 meter oil well sucker rods. During the current year, the cooperation between the Group with the four major domestic oil groups increased greatly, and further implemented stated strategies of overall cooperation with the four major domestic oil groups.

During the current year, the Group achieved good results in the domestic market expansion, and 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 (蘇況格氣田), China Petroleum Engineering Construction Corporation (中国石油工程建设公司), Western Drilling (西部鑽探) etc, which laid solid foundation to increase the market shares of the Group's products in the domestic market. Meanwhile, the Group introduced various products to the market, for example, 73N80S Anti-H_2S tubing was supplied to Chuanqing Drilling (川慶鑽探); 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), Xuzhou Huadong Machinery Plant (徐州華東機械廠), Henan Middlings Pipe Industry Co., Ltd. (河南中煤管業有限公司). The developments of new customers and products laid good foundation to enhance the market competitiveness and increase the market share of the Company's products in the domestic market.

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 the Zhongyu Group (中裕集团), 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.

In terms of overseas market, due to the effect of the financial crisis, the overseas market is generally experiencing a downtown. During the year, with the negative effect of American anti-dumping, the Group further strengthened the existing markets 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, Middle East and had achieved good performance. For example, the Group newly developed customers such as Kuwait Petroleum Corporation, Libya Arab States Gulf Oil Company and further expanded the overseas market. Meanwhile, the Group introduced various new products to the overseas market. For example, the pipeline pipes of the Company were successfully introduced to the Libyan market; the newly developed NORRIS97 oil well sucker rod was supplied to the Canadian market and the ML special thread casing was sold to Tunis. The Group continued to establish and maintain good and long-term cooperative relationships with many overseas stock companies and oil field service companies, which in turn boosted the sales of its products in the overseas markets. For the financial year ended 31 December 2009, the Group's revenue generated from exports accounted for approximately 35.90% 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, 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, China University of Petroleum (East China) and Jinan Kaiwu Technology Ltd. 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, $3\frac{1}{2}$" 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, fluid transportation pipe, 27SiMn drill pipe for the Rotary Drilling Rig, Q345 structural tubing, 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, $3\frac{1}{2}$" 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. The fluid transportation pipe has passed the type test of national authority, and got the Manufacture License of Special Equipment (Pressure pipe) of PRC, and will start the batch production in 2010.

During the Reporting Period, the Group achieved breakthroughs in the development of new products and patent applications: four new products such as ML110TT High anti-collapse Casing, ML80SS Anti-H_2S stress corrosion tubing and casing, ML90H Casing for Thermal wells and S135 drill pipe have been passed the provincial appraisal of new products; the patent for utility model "Processing of Drill Pipe End Upsetting" was awarded patent certificate by the State Intellectual Property Office of the PRC; the six patent applications for "Sucker Rods connection for preventing coming off", "Self-locking Sucker Rods for preventing back off", "antisepticizing and wear resistant cylinder of Sucker Rod Pump", "thread connect of tubing and casing with bending resistance , compression resistance and low contact stresses", "Sucker Rods connection for preventing coming off and the processing way" and "Spurt and sand preventing rod pump with oil drainage function" were officially accepted by the State Intellectual Property Office of the PRC.

During the period under review, Shandong Science and Technology Bureau approved the Company to build the Shandong OCTG Engineering and Technological Research Center, of which the construction will be three years.

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 "High and New Technology Enterprise in Shandong Province", "Famous Trademark in Shandong Province", "Demonstrative Enterprise for Information in the Manufacturing Industry 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

According to the data disclosed in "World Energy Outlook" released by the U.S. International Energy Agency which expects a steady economic growth worldwide, the demand for crude oil will reach daily 110 million barrels in the year 2025 with global oil consumption yearly growth of 1.4%, and for China's oil consumption remain 3.5% growth will be higher than the global record. Meanwhile, the U.S. International Energy Agency 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 World Bank released the global economic prospects report, and the estimated world economic growth rate in 2010 is 2.7%. The countries in development account for 5.2% and the economic entities which have already developed account for 1.8%. The economic forecast in 'Economic Blue Book' issued by the Chinese Academy of Social Sciences shows that if the world financial crisis will not be deteriorated further and there is no serious natural calamities and other major issues appear, GDP growth will steadily rise again to the growth standard of 9%.

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 policy of "keeping growth" fundamental key macro regulation policy of the PRC government and the revitalization plan which was proposed by Chinese government for the first 10 companies such as Sinopec. 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 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 will further strengthen the research and development of high value-added products and non-API products with full intellectual propriety rights and 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, 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 special 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 special demand and development trend for natural gas and coal-bed gas in the market, continue to actively conduct researches in high level natural gas drilling and extraction machinery based on its existing oil extraction machinery techniques and demand for natural gas drilling and extraction machinery. With regard to the coal-bed gas drilling and extraction machinery, the Group will be more close to users, research suitable products with low cost, so as to promote the Group's competitive advantages in this field.

In terms of production capacity, the 180mm Project is expected to be completed and undergo trial run in the first quarter of 2010 and is planned to reach its full designed production capacity in 3 years. After the completion of the 180mm Project, the Group is expected to produce an additional 300,000 tonnes of tubing and casing.

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 increase of tubing and oil casing output and the increase of high-end products to increase the sales volume of tubing and casings in the domestic market so as to enlarge the market share. The Company will focus on promoting good cooperative relationships with Yanchang Petroleum and the CNOOC Group in order to gain further 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 distribute the degree of concentration of the Company's products in 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, Africa 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 economic crisis for the long term, and policies on expanding domestic demand and revitalization petroleum and petrochemical industry investment to be introduced by the PRC government will further drive domestic petroleum industry into a better position. The Group will seize opportunities, prepare new products and technologies, accumulate capacity, and strictly control costs, thus ensuring the profitability of the Company and achieving the best returns for the Shareholders.

Acknowledgement

Lastly, I would like to express my gratitude to the Shareholders and business partners of the Group for their support and encouragement for the past year, and at the same time, my most sincere thanks to the Directors, Supervisors and all the staff of the Group for their dedication and contribution.

Zhang En Rong
Chairman

Shandong, the PRC
5 February 2010

The following discussion and analysis of the Group's financial condition and results of operation should be read in conjunction with the Group's consolidated financial statements and accompanying notes.

Revenue

For the current year, sales of the Group's oil well pipes, casing, oil well pumping machines, oil well pumps and other products encountered effect because of the financial crisis. The Group's revenue decreased from RMB2,758.7 million for the year ended 31 December 2008 to approximately 2,041.4 million, representing a decrease of approximately 26.0%. The decrease is mainly due to the approximately 10.5% increase in sales of main products and approximately 30% decrease in price compared to the same period of last year.

For the two years ended 31 December 2009, the Group's revenue analysis by products are as follows:

	2009		2008		**Percentage of change**
	RMB'000	**%**	RMB'000	%	**%**
Oil well pipes	**516,080**	**25.28**	772,834	28.01	**(33.22)**
Casing	**1,209,331**	**59.24**	1,456,028	52.78	**(16.94)**
Oil well sucker rods	**76,622**	**3.75**	67,358	2.44	**13.75**
Oil well pumps	**19,868**	**0.97**	33,325	1.21	**(40.38)**
Oil well pumping machines	**9,230**	**0.45**	28,742	1.04	**(67.89)**
Other petroleum drilling and extraction machinery and accessories	**210,245**	**10.31**	400,391	14.52	**(47.49)**
Total	**2,041,376**	**100**	2,758,678	100	**(26.00)**

For the two years ended 31 December 2009, the Group's revenue analysis by regions are as follows:

	2009		2008		**Percentage of change**
	RMB'000	**%**	RMB'000	%	**%**
PRC	**1,308,531**	**64.10**	1,481,499	53.70	**(11.68)**
USA	**236,940**	**11.61**	568,789	20.62	**(58.34)**
Europe	**252,685**	**12.38**	350,245	12.70	**(27.85)**
Japan	**81,553**	**3.99**	238,089	8.63	**(65.75)**
Others	**161,667**	**7.92**	120,056	4.35	**34.66**
Total	**2,041,376**	**100**	2,758,678	100	**(26.00)**

Note: The revenue is allocated by regions and countries where foreign distributors located.

Gross Profit

The Group's gross profit decreased from approximately RMB536.56 million for the year ended 31 December 2008 to approximately RMB393.59 million for the current year.

Consolidated Gross Profit Margin

The consolidated gross profit margin of the Group is approximately 19.28% for the year ended 31 December 2009, which is approximately the same as the consolidated gross profit margin for 2008.

During the period under review, the same standard with the prior year consolidated gross profit margin of the Group was maintained mainly due to the following reasons: 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. Thirdly, the prices of tubing and casing dropped about 30%.

Net Profit from Ordinary Activities Attributable to Owners of the Company

The Group's net profit from ordinary activities attributable to owners of the Company decreased from approximately RMB305.81 million for the year ended 31 December 2008 to approximately RMB268.32 million for the current year, representing a decrease of approximately 12.26%. The substantial decrease was mainly due to the rapid decrease in the product's selling price.

Cost of Sales

The Group's cost of sales decreased from approximately RMB2,222.11 million for the year ended 31 December 2008 to approximately RMB1,647.78 million for the current year, representing a decrease of approximately 25.8%. The significant decrease in cost of sales was mainly attributable to the rapid decrease in the purchase price of main raw materials.

Distribution Cost

The distribution cost rose from approximately RMB59.9 million for the year ended 31 December 2008 to approximately RMB64.96 million for the year ended 31 December 2009. Distribution cost was approximately 2.17% of the Group's total revenue in 2008 and increased to approximately 3.18% in 2009. The increase of distribution cost is mainly due to the increase of the Group's expenses on expanding overseas market by approximately RMB11.2 million and decrease in the domestic transportation costs in the current year.

Administrative Expenses

The Group's administrative expenses decreased from approximately RMB99.6 million for the year ended 31 December 2008 to approximately RMB52.43 million for the current year, representing a decrease of approximately 47.4%. The Group had made a substantial provision for doubtful debts in 2008 due to the impact of the financial crisis in that year. In 2009 a portion of such provision is reversed and, hence, a significant decrease in administrative expenses in this year.

Finance Cost

The finance cost of the Group for the current year was approximately RMB30.32 million, representing approximately 1.49% of the Group's total revenue and a decrease of RMB18.70 million when compared to the finance cost of the Group for the year ended 31 December 2008 over the same period. The decrease in finance costs was principally due to the decrease of borrowing rate.

Research and Development Cost

The research and development cost of the Group for the current year was approximately RMB11.16 million, representing a decrease of approximately RMB7.09 million when compared to the research and development cost of RMB18.25 million for the year ended 31 December 2008. The decrease was mainly due to the drop in research expenses.

Liquidity and Financial Resources

As at 31 December 2009, the total current assets of the Group amounted to approximately RMB1,589.32 million (2008: approximately RMB2,033.20 million) which comprises: (1) cash and bank balances for the total amount of approximately RMB121.59 million (2008: approximately RMB195.13 million) and pledged time deposit to RMB183.92 million (2008: approximately RMB413.97 million). In the reporting period, the Company decreased the use to the Bank Acceptance Bill and the cost of raw materials, and made a rapid decrease in the fixed deposits. (2) Trade receivable and notes receivable amounted to approximately RMB562.83 million, which is similar to last year (2008: approximately RMB575.88 million). (3) Inventories amounted to approximately RMB713.66 million (2008: approximately RMB795.94 million).

As at 31 December 2009, the total current liabilities of the Group amounted to approximately RMB1,352.50 million (2008: RMB1,656.02 million) which comprises: (1) trade and bills payables approximately RMB718.80 million (2008: RMB1,155.40 million) the increase of which was mainly attributable to the decrease in the cost of raw materials and use to Bank Acceptance Bill in the reporting period; (2) bank loans amounted to approximately RMB467.65 million (2008: approximately RMB253.52 million), this is due to the increased short-term bank loans for the expansion of the scale of the Company. According to the planned arrangement of the present current asset condition and future cash flow, the Company anticipates that it will have sufficient repayment ability to support the Group's operation.

Banking Facilities

For the current year, the Group had interest-bearing bank credit loans amounting to approximately RMB1,047.65 million (2008: approximately RMB803.52 million). In addition, eleven banks, including the Agricultural Bank of China, have granted credit facilities to the Group amounting to approximately RMB911.61 million (2008: approximately RMB412.99 million) that have not been utilised.

Cash Flow

As at 31 December 2009, the cash and cash equivalents of the Company decreased by approximately RMB73.60 million as compared with that of the year ended 31 December 2008 (2008: an increase by approximately RMB86.82 million). The net cash flow from operations of the year amounted to approximately RMB49.54 million (2008: RMB512.03 million). Such decrease is primarily attributable to a decrease in the cost of raw materials so as to reduce the use to Bank Acceptance Bill etc. Other cash flow items decreased approximately RMB230.05 million as the additional pledged fixed deposits, approximately RMB390.65 million as capital expenditures for the purchase of certain property, plant and equipment and intangible assets, approximately RMB55.93 million for distribution of dividends for 2008, and approximately RMB229.13 million as proceeds of new bank loan facilities.

Capital Structure

As at 31 December 2009, the liability ratio of the Group was approximately 147.91% (2008: approximately 200%). The increase was mainly attributable to the increase in bills payable, bank loans and reserves over those of last year, all these reflected the favorable conditions of market demand of the Group's product. The Group's production and operation have entered into a new chapter, and placed emphasis on financial management by way of using bills payable in the purchase of raw materials in the operation to enhance the returns on assets, which led to better control on the increase of bank loans. At present, the Company has strong debt repayment ability and has strong fund raising abilities in the future.

Gearing Ratio

The Group's gearing ratio was approximately 59.66% (2008: approximately 66.72%) which is calculated based on the Group's total liabilities of approximately RMB1,942.97 million (2008: approximately RMB2,225.39 million) and total assets of approximately RMB3,256.61 million (2008: approximately RMB3,335.41 million).

Pledge of Assets

The pledged deposits of the Group are as security for bills payable which amounted to approximately RMB230.57 million (2008: approximately RMB433.62 million).

Foreign Exchange Exposure

The Group's foreign exchange exposure mainly comes from certain receivables, cash and cash equivalents denominated in a currency other than the functional currency Renminbi.

Segment Information

An analysis of the Group's revenue and segment results by operating segments for the current year is set out in note 5 to the financial statements.

Capital Commitment

For the current year, the Group had capital commitments of approximately RMB173.73 million (2008: approximately RMB255.73 million) in respect of fixed assets.

Employees

For the year ended 31 December 2009, the Group had a total of 2,711 employees (31 December 2008: 3,041 employees). Staff costs including Directors' remuneration were approximately RMB69.44 million (2008: approximately RMB77.83 million). The salaries and benefits of employees of the Group are kept at competitive levels. Employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits are also provided to the employees by the Group.

For the years ended 31 December 2008 and 2009, the breakdown of the number of employees of the Group is set out as below:

	As at 31 December	
	2009	2008
Research and development	**66**	64
Production	**2,222**	2,541
Quality control	**173**	179
Sales and marketing	**65**	61
Administration	**185**	196
Total	**2,711**	3,041

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

Significant Investments

In the year ended 31 December 2009, the Group has completed investment of approximately RMB416.24 million in the newly-commenced 180 mm Project.

Acquisitions and Disposals during the Year and Future Investment Plans

In the year ended 31 December 2009, the Group did not have other relevant acquisitions, disposals or significant investment plans.

Directors

Executive Directors

Mr. Zhang En Rong (張恩榮先生), born in January 1940, is the chairman of the Company and an executive Director. Mr. Zhang is a founder of the Company and is responsible for the overall strategic planning, management and business development of the Group. Since the establishment of the Company, Mr. Zhang has held various positions in the Group including the general manager. Mr. Zhang was also a member of the 12th session, 13th session and 14th session of the Weifang City People's Congress of the PRC, a member of the 5th session and the 6th session of the Shandong Shouguang City Committee of the Chinese People's Political Consultative Conference. Mr. Zhang was the legal representative and factory manager of Shandong Shouguang Petroleum Machinery Parts Factory ("**Petroleum Machinery Parts Factory**"), Shandong Shouguang Petroleum Machinery Factory ("**Petroleum Machinery Factory**") and Weifang Molong Industrial Company ("**Weifang Molong**") from 1987 to 1993 and the general manager of Shandong Molong Holdings Company ("**Molong Holdings**") from 1994 to 2001. Mr. Zhang was granted the "Good Enterprise Management Personnel" certificate in 1988, the "Modern Industrial Manufacturing Producer" in 1991 and the "Wealth Attainment and Development of Shandong medal of Shandong Province ("山東省「富民興魯」勞動獎章") in 2004. Mr. Zhang is the father of Mr. Zhang Yun San, an executive Director.

Mr. Zhang Yun San (張雲三先生), born in January 1962, is a founder, the deputy chairman, an executive Director and the general manager of the Company. He is responsible for assisting the chairman of the Board in the overall strategic planning and management and business development of the Group. Mr. Zhang has served in the Company since 15 November 2007 as general manager. Since 1994, Mr. Zhang has held various positions in Molong Holdings and the Group, including deputy general manager and deputy chairman of the Company. Mr. Zhang graduated from Nanjing University with a bachelor of laws degree and holds an advanced certificate in Training Course of Chinese Communist Party School for Entrepreneurs and was granted the "Excellent Private Enterpriser of Weifang City" in 2004; "Top Ten Young Entrepreneurs of Weifang City" in 2005, "Excellent Chief Information Officer of Weifang City" in 2006 and was appointed as the member of the 10th session of the Weifang City People's Congress of the PRC and the member of the 15th session of the Shouguang City People's Congress of the PRC in 2007, and was awarded the "Model Worker of Shandong Province", "Top Ten Persons of 'Moving State Duty' of Weifang in 2007" and "Media Man of the Year in Shouguang" in 2008. Mr. Zhang is currently a member of the 15th session of the Standing Committee of Shouguang City People's Congress of the PRC, Deputy Chairman of Shouguang City Association of Entrepreneurs and Vice President of Shouguang City Industries and Commerce Association. He has abundant experience in the development, manufacture and sales of petroleum drilling and extraction machinery and the management of the Group. Mr. Zhang is the son of Mr. Zhang En Rong, an executive Director.

Mr. Lin Fu Long (林福龍先生), born in November 1952, is a founder, and an executive Director and responsible for major project management of the Group. Mr. Lin was deputy factory manager of Petroleum Machinery Parts Factory, Petroleum Machinery Factory and Weifang Molong from 1989 to 1993, deputy general manager of Molong Holdings from 1994 to 2001 and general manager of the Company from 2001 to 2007. Mr. Lin was an executive director of Weifang Molong Machinery. Mr. Lin was awarded the "Capable Sales Person" title by the Shouguang City People's Government in 1994.

Mr. Xie Xin Cang (謝新倉先生), born in February 1962, is a founder, an executive Director, deputy general manager of the Company and the secretary to the Board. Mr. Xie has served in Molong Holdings since 1995 as deputy general manager. During his employment, Mr. Xie has applied the nickel plating phosphorus alloy technology in the manufacturing of petroleum drilling and extraction machinery and successfully invented the "MB424 steel wire teasel" that possess international advanced level. Mr. Xie graduated from Xian Jiaotong University with a Bachelor of Engineering degree in mechanical engineering and majored in metal materials and their heat treatment and in 2009 graduated from the chairman class of college of continuing education in Tsinghua University for executive master of business administration. Mr. Xie was awarded the "Shandong Province Town and Village Enterprise Technology Innovation Leader" certificate by the Shandong Province Town and Village Enterprise Management Bureau in 1998. Mr. Xie was a standing committee member of the seventh session of the Shouguang City committee of the National Committee of the Chinese People's Political Consultative Conference and is a member of the 8th Session of the Shandong Shouguang City Committee of the Chinese People's Political Consultative Conference.

Non-executive Directors

Mr. Chen Jian Xiong (陳建雄先生), born in June 1955, is a non-executive Director. Mr. Chen has worked for Rodless Oil Pump Company of the Shengli Petroleum Administration Bureau ("Rodless Oil Pump") for over 20 years. Since 1994, Mr. Chen has been the chairman of Shengli Oil Field Kaiyuan Oil Exploitation Company Limited ("Kaiyuan Oil") and was an assistant manager of Rodless Oil Pump. In 2004, he served as manager of Rodless Oil Pump. Mr. Chen is currently the Chairman of Kaiyuan Oil and Shengli Pump Industry Co., Ltd., Shengli Oilfield. Mr. Chen was appointed as a non-executive Director on 28 December 2001, and was re-appointed as a non-executive Director on 7 May 2005 and on 5 May 2008.

Mr. Wang Ping (王平先生), born in May 1955, is a non-executive Director. Mr. Wang has over 20 years of experience in metallurgy and received his doctorate degree in engineering from the University of Science and Technology Beijing. Since 2000, Mr. Wang is a professor at the University of Science and Technology of Beijing. Mr. Wang was appointed as a non-executive Director of the Company on 29 March 2003 and was re-appointed as a non-executive Director of the Company on 12 May 2006 and on 12 May 2009.

Independent non-executive Directors

Mr. Chau Shing Yim, David (周承炎先生), born in November 1963, is an independent non-executive Director and the Chairman of the Audit Committee. Mr. Chau Shing Yim, David has over 20 years' experience in corporate finance, working on projects ranging from initial public offering transactions and restructuring of PRC enterprises to crossborder and domestic takeover transactions. Mr. Chau was formerly a partner of one the big four accounting firms in Hong Kong, holding the position as their head of Merger and Acquisition and Corporate Advisory. He is a member of the Hong Kong Securities Institute, the Institute of Chartered Accountants of England and Wales and the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and was an ex-committee member of the Disciplinary Panel of HKICPA. He is also an executive director of Tidetime Sun (Group) Limited and a non-executive director of Lee & Man Paper Manufacturing Limited, both companies being listed on the main board of the Stock Exchange of Hong Kong Limited. Mr. Chau Shing Yim, David was appointed as an independent non-executive Director of the Company on 1 January 2009.

Mr. John Paul Cameron (約翰 • 保羅 • 卡梅倫), born in May 1965, is an independent non-executive Director and the Chairman of the Remuneration and Evaluation Committee of the Company. Mr. John Paul Cameron is Chairman and CEO of East Wind Consulting Limited Company. Mr. Cameron has over 15 years as a professional investor and public company analyst. He worked as a Senior Fund Manager at JO Hambro Capital Management Group (London, UK) for over 6 years and as a Fund Manager at F&C Special Utilities Trust (London, UK) for over 5 years. Prior to this Mr. Cameron was in sellside research for 4 years. He holds a Masters of Science degree in investment analysis from the University of Stirling in Scotland, UK, a Bachelor of Arts degree in Economics and a Bachelor of Arts degree in Mathematics from Carleton University in Ottawa, Canada. Mr. Cameron's extensive public market experience includes detailed knowledge of both corporate governance as well as knowledge of the North American and UK Oil and Gas industry. Mr. John Paul Cameron was appointed as an independent non-executive Director of the Company on 12 May 2009.

Ms. Wang Chun Hua (王春花), born in November 1953, is an independent non-executive Director and the Chairman of the Nomination Committee of the Company. Ms. Wang Chun Hua graduated from Shandong University. Ms. Wang had held the various positions in Shandong Shouguang People´s Court including the judge, associate chief judge and the chief judge of the No. 1 criminal justice division, vice-president, president and the Party secretary. And Ms. Wang had been appointed as the Vice Chairman of the eighth session of the Shouguang City Committee of the Chinese People's Political Consultative Conference. Ms. Wang has over 20 years of experience in the court work. Ms. Wang Chun Hua was appointed as an independent non-executive Director of the Company on 12 May 2009.

Supervisors

Mr. Liu Huai Duo (劉懷鐸), born in October 1975, is a Supervisor and the Chairman of the supervisory committee of the Company (the "Supervisory Committee"). Mr. Liu Huai Duo is the responsible officer for electricity of oil well pipes of the Company. Mr. Liu graduated from Liaoning Sciences and Technologies College with a junior college degree in industrial automation instrument. Mr. Liu has abundant experience and techniques in electric automatization and PLC Programmable control. Mr. Liu has served in the Company since 2000. He was rewarded as an advanced worker of the Company in 2006 and as a worker model of the Company in 2008. Mr. Liu Huai Duo was elected and appointed as Supervisory at the meeting of association representing the staff and workers of the Company held on 13 February 2009.

Mr. Liu Wan Fu (劉萬賦先生), born in January 1939, is a Supervisor. Mr. Liu is a consultant of China National Petroleum Corporation. Mr. Liu has over 40 years of experience in the petroleum industry. Mr. Liu was appointed as a Supervisor on 29 March 2003 and was re-appointed as a Supervisor on 12 May 2006 and on 12 May 2009.

Mr. Fan Ren Yi (樊仁意先生), born in November 1965, is a Supervisor. Mr. Fan was the vice general manager and CFO of Shandong Charming Home-Textiles Co., Ltd. Mr. Fan holds a bachelor degree from Xian Jiaotong University and is a certified public accountant in the PRC. He was appointed as a Supervisor on 29 March 2003 and was re-appointed as a Supervisor on 12 May 2006 and on 12 May 2009.

Senior Management

Mr. Guo Huan Ran (國煥然先生), born in April 1967, executive master of business administration degree from Tsinghua University, is the deputy general manager of the Company and is responsible for marketing and technology research and development of the Group. Mr. Guo joined Molong Holdings in March 1991. Mr. Guo graduated from Weifang College with a major in Machine Manufacturing and Processing Equipment, and held various positions in the Company including technician, workshop supervisor and Production Director. Mr. Guo has extensive experience in areas including production management and technology research and development of petroleum drilling and extraction machinery. Mr. Guo has directed the innovation of various items for export, such as liner for mud pump and valve body. Some of the products, such as "Special Centralizer for Electrical Submersible Pump System", won the third prize of "Science and Technology Achievements Award from Village & Township Enterprises Administration of Ministry of Agriculture of People's Republic of China". Mr. Guo has been granted the title of "Outstanding Young Entrepreneur of Shouguang City" in November 2007, and graduated from the chairman class of college of continuing education in Tsinghua University for executive master of business administration on 2 April 2009.

Mr. Liu Yun Long (劉雲龍), born in May 1969, executive master of business administration degree from Tsinghua University, is a founder, the deputy general manager of the Company. Mr. Liu joined Molong Holdings in March 1990, and held workshop supervisor, the manager of the branch factory, the general manager of the subsidiary and so on. Mr. Liu has significant experience in managing production of petroleum extraction machinery. Mr. Liu was awarded a certificate of executive master of business administration from Tsinghua University on 2 April 2009. Having been appointed by the 15th meeting of the 2nd Session of the Board, Mr. Liu is the Deputy General Manager of the Company effective from 26 August 2009.

Mr. Zhang Shou Kui (張守奎先生), born in August 1970, is the deputy general manager of the Company and is responsible for organizing the Group's production. Mr. Zhang joined Molong Holdings in 1990. He has been engaging in the production management for over ten years and has extensive related experiences. He held consecutively the positions of the Chief of Inspection Station, General Manager of Branch Plant, and Manager of Production Department in the Group. He is a member of the Communist Party of China. Mr. Zhang was awarded a certificate of executive master of business administration from Tsinghua University on 2 April 2009.

Mr. Cui Huan You (崔煥友先生), born in February 1949, is in charge of the finance, accounting and tax department of the Company. He graduated from Shandong Province Financial Zhigong University. Mr. Cui has significant experience in finance, accounting and taxation. He joined Molong Holdings as an accounting supervisor in June 1995. Mr. Cui was awarded the "Outstanding Financial Management Personnel" in 1992 and the "Advanced Accountant of Weifang City" in 2004.

Company Secretary

Mr. Chan Wing Nang, Billy (陳永能先生), born in June 1961, is the company secretary of the Company. Mr. Chan graduated from the University of Newcastle, United Kingdom with a bachelor degree in Civil Engineering in 1986. He also has a master degree in business administration from the University of Warwick, United Kingdom. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Chan has over 10 years of experience in the accounting and consulting field. Prior to joining the Group, Mr. Chan was a director in a consulting company. Mr. Chan joined the Group on 13 December 2004.

The Board is pleased to present the annual report and the audited consolidated financial statements for 2009 of the Group.

Principal Activities

The Group is principally engaged in the design, manufacture and sale of oil well pumping machines, oil well sucker rods, oil well pumps, oil well pipes, casing and other petroleum drilling and extraction machinery accessories.

Results and State of Financial Affairs

The Group's profit for the current year and the state of financial affairs of the Group at that date are set out in the consolidated financial statements on pages 43 to 45 of the annual report.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 5 of the annual report.

Dividends

The Board has resolved to recommend a final dividend of RMB0.12 per share (inclusive of tax) for 2009. The proposal to declare and pay this final dividend will be submitted to the annual general meeting to be held on 28 March 2010 (the "**2009 AGM**") for the approval of the Shareholders. Final dividend for domestic shares of the Company will be declared and paid in RMB whereas dividend for H shares will be declared in RMB and paid in Hong Kong dollars.

There was no arrangement under which the Shareholders waived or agreed to waive any dividends during 2009.

Changes in Share Capital

There was no change in the share capital of the Company for 2009, and the details are set out in note 31 to the consolidated financial statements.

Pursuant to the resolutions passed by the shareholders on the extraordinary general meeting of the Company on 8 January 2009 and by the directors on 29 December 2009, every 10 shares of the Company of RMB0.1 each in issue was consolidated into one new share of RMB1.0 each with effective from 7 January 2010. As at the date of this report, the total number of shares in issue is 328,924,200 after the consolidation.

Reserves and Distributable Reserves

Details of changes in the reserves of the Group for 2009 are set out in consolidated statement of changes in equity.

Under the PRC laws and regulations, the Company's distributable reserves will be based on the lower of the amount calculated according to the PRC accounting principles and rules and the amount calculated according to the Hong Kong generally accepted accounting principles. At the end of 2009, the Company's distributable profit was approximately RMB575,547,000 (2008: approximately RMB386,728,000).

Property, Plant and Equipment

Details of the movement in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

Capitalised Interest

For 2009, the Group had capitalised interest amounting to RMB17.60 million.

Directors' and Supervisors' Service Contracts or Letters of Appointment

Each of the Directors and Supervisors (including the independent non-executive Directors and the Supervisors) had entered into a service contract or letter of appointment with the Company. None of the Directors or the Supervisors had entered into any service contract or letter of appointment with the Group which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

Directors and Supervisors

Details of the Directors and Supervisors during the year are set out as follows:

Name	Position	Term of Appointment
Mr. Zhang En Rong *(Note 1)*	Chairman and executive Director	25 May 2007 to 24 May 2010
Mr. Zhang Yun San *(Note 1)*	Vice Chairman and executive Director	25 May 2007 to 24 May 2010
Mr. Lin Fu Long *(Note 1)*	Executive Director	25 May 2007 to 24 May 2010
Mr. Xie Xin Cang *(Note 1)*	Executive Director	25 May 2007 to 24 May 2010
Mr. Chen Jian Xiong	Non-executive Director	6 May 2008 to 5 May 2011
Mr. Wang Ping	Non-executive Director	12 May 2009 to 11 May 2012
Mr. Chau Shing Yim David *(Note 1, 2)*	Independent non-executive Director	8 January 2009 to 24 May 2010
Mr. John Paul Cameron *(Note 3)*	Independent non-executive Director	12 May 2009 to 11 May 2012
Ms. Wang Chun Hua *(Note 3)*	Independent non-executive Director	12 May 2009 to 11 May 2012
Mr. Qin Xue Chang *(Note 4)*	Independent non-executive Director	12 May 2006 to 11 May 2009
Mr. Yan Yi Zhuang *(Note 4)*	Independent non-executive Director	12 May 2006 to 11 May 2009

Name	Position	Term of Appointment
Mr. Liu Huai Duo *(Note 5)*	Chairman of Supervisory Committee and Supervisor	12 May 2009 to 11 May 2012
Ms. Li Bao Hui *(Note 6)*	Supervisor	12 May 2006 to 11 May 2009
Mr. Liu Wan Fu	Supervisor	12 May 2009 to 11 May 2012
Mr. Fan Ren Yi	Supervisor	12 May 2009 to 11 May 2012

Notes:

1. The term of appointment each of Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long, Mr. Xie Xin Cang and Mr. Chau Shing Yim, David shall expire on 24 May 2010. Pursuant to the "Company Law" of the PRC and the relevant requirements of the articles of the association of the Company ("**Articles of Association**"), the Board proposed an ordinary resolution to re-elect Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long and Mr. Xie Xin Cang as executive Directors and Mr. Chau Shing Yim, David as an independent non-executive Director at the 2009 AGM, according to the nomination from the Nomination Committee.

2. Mr. Chau Shing Yim David was appointed as an independent non-executive Director on 8 January 2009.

3. Mr. John Paul Cameron and Ms. Wang Chun Hua were appointed as independent non-executive Directors on 12 May 2009.

4. The appointment of Mr. Qin Xue Chang and Mr. Yan Yi Zhuang as independent non-executive Directors ended on 12 May 2009.

5. Mr. Liu Huai Duo was appointed as the Supervisor on 12 May 2009.

6. The appointment of Ms. Li Bao Hui as the Supervisor ended on 12 May 2009.

Save as disclosed above, since 1 January 2010 and up to the date of this annual report, there has been no change to the Directors and Supervisors.

The term of the 2nd Session of the Board shall expire on 24 May 2010. With its zealous devotion work for approximately 3 years, the 2nd Session of the Board successfully accomplished its obligations. According to "Company Law" of the PRC and the relevant requirements of the Articles of Association, if the proposed re-election of the four executive Directors and one independent non-executive Director as mentioned above are approved in the 2009 AGM, Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long, Mr. Xie Xin Cang, Mr. Chen Jian Xiong, Mr. Wang Ping, Mr. John Paul Cameron, Ms. Wang Chun Hua and Mr. Chau Shing Yim, David shall form the 3rd Session of the Board and the term of the same shall be three years from the date of the passing of the proposed re-election in the 2009 AGM.

Special Committee

Details of the Nomination Committee, the Audit Committee and the Remuneration and Evaluation Committee set out by the Board are set out in the Corporate Governance Report on pages 32 to 39 of this annual report.

Emoluments of Directors and Highest Paid Individuals

The emoluments of the Directors and the 5 highest paid individuals are calculated based on their scope of work, experience, qualification and/or performance, the details of which are set out in notes 10 and 11 to the consolidated financial statements.

During the period under review, no Directors had waived or any arrangement to waive emoluments.

Continuing Related Party Transactions

For continuing related party transaction with Yalong Oil Well Pump, please refer to note 37 to the consolidated financial statements. This continuing related party transaction did not constitute "Connected Transactions" under Charter 14A of the Rules ("**Listing Rules**") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Stock Exchange**").

Retirement/Pension Scheme Benefits

	2009	2008
	RMB'000	RMB'000
Salaries and other benefits	**68,873**	72,206
Retirement benefit scheme contributions	**6,509**	5,621
Less: amount capitalised	**(5,944)**	—
Total	**69,438**	77,827

As stipulated by the laws, orders and regulations of the PRC, the Group participated in various defined contribution retirement plans organised by municipal governments for its staff. Currently, the Group is required to make contributions to the retirement plans at a rate of 20% (2008: 20%) of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension, to be paid by the municipal governments, equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. When the staff leaves the positions, the Group is not entitled to recover the contributions paid in respect of their pension scheme benefits.

Disclosure of Directors', Supervisors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures

As at 31 December 2009, the interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures 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 will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules ("**Model Code**"), to be notified to the Company and to the Stock Exchange, were as follows:

Long positions in the Domestic Shares

Name	Type of interest	Number of Domestic Shares *(Note 1)*	Percentage of Domestic Shares	Percentage of total registered share capital
Zhang En Rong	Beneficial	1,397,585,000	69.58%	42.49%
Lin Fu Long	Beneficial	171,080,000	8.52%	5.20%
Zhang Yun San	Beneficial	153,040,000	7.62%	4.65%
Xie Xin Cang	Beneficial	107,050,000	5.33%	3.25%

Note 1: Unlisted shares.

Save as disclosed above, to the best knowledge of the Directors, Supervisors and chief executive of the Company, none of them had any interests or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have 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 will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required pursuant to the Model Code, to be notified to the Company and to the Stock Exchange.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

None of the Directors or Supervisors or their respective associates (as defined under Rule 1.01 of 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 in 2009.

Share Option Scheme

The Company does not have any share option scheme.

Substantial Shareholders

As at 31 December 2009, so far as known to the Directors, Supervisors or chief executive of the Company, the following persons (other than a Director, Supervisor or chief executive 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

Name	Type of interests	Number of H Shares	Percentage of H Shares	Percentage of total registered capital
Paul G. Desmarais *(Note 1)*	Interest of controlled corporation	286,732,000	22.39%	8.72%
Nordex Inc. *(Note 1)*	Interest of controlled corporation	286,732,000	22.39%	8.72%
Gelco Enterprises Ltd. *(Note 1)*	Interest of controlled corporation	286,732,000	22.39%	8.72%
Power Corporation of Canada *(Note 1)*	Interest of controlled corporation	286,732,000	22.39%	8.72%
Power Financial Corporation *(Note 1)*	Interest of controlled corporation	286,732,000	22.39%	8.72%
IGM Financial Incorporation *(Note 1)*	Interest of controlled corporation	286,732,000	22.39%	8.72%
Martin Currie (Holdings) Limited *(Note 2)*	Interest of controlled corporation	113,780,000	8.88%	3.46%
Cheah Capital Company Limited *(Note 3)*	Interest of controlled corporation	90,772,000	7.08%	2.76%
Cheah Company Limited *(Note 3)*	Interest of controlled corporation	90,772,000	7.08%	2.76%
Hang Seng Bank Trustee International Limited *(Note 3)*	Trustee	90,772,000	7.08%	2.76%
Value Partners Group Limited *(Note 3)*	Interest of controlled corporation	90,772,000	7.08%	2.76%
Value Partners Limited *(Note 3)*	Investment Manager	90,772,000	7.08%	2.76%
Cheah Cheng Hye *(Note 3)*	Interest of founder of discretionary trust	90,772,000	7.08%	2.76%
To Hau Yin *(Note 3)*	Interest of spouse	90,772,000	7.08%	2.76%

Notes:

1. According to the best knowledge of the Directors, Supervisor or chief executive of the Company and 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 was interested in 286,732,000 H Shares as at 31 December 2009. Among these 286,732,000 H Shares in which these companies were deemed to have interest, 267,732,000 H Shares were directly held by Mackenzie Cundill Investment Management Ltd. and 19,000,000 H Shares were directly held by Mackenzie Cundill Investment MGMT (Bermuda) Ltd.

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.

2. According to the best knowledge of the Directors, Supervisor or chief executive of the Company and the disclosure of interest notices filed by Martin Currie (Holdings) Limited, the company was interested in 113,780,000 H Shares of the Company as at 31 December 2009. Among these 113,780,000 H Shares, 50,220,000 H Shares were directly held by Martin Currie Inc and 63,560,000 H Shares were directly held by Martin Currie Investment Management.

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

3. According to the best knowledge of the Directors, Supervisor or chief executive of the Company and the disclosure of interest notices filed by Cheah Capital Management Limited, Cheah Company Limited, Hang Seng Bank Trustee International Limited, Value Partners Group Limited, Value Partners Limited, Ms. To Hau Yin and Mr. Cheah Cheng Hye, each of these companies and individuals was interested in 90,772,000 H Shares as at 31 December 2009.

   Value Partners Limited was interested in 90,772,000 H Shares as investment manager. Value Partners Limited is a wholly-owned subsidiary of Value Partners Group Limited, which in turn is owned as to 31.23% by Cheah Capital Management Limited, which in turn is a wholly-owned subsidiary of Cheah Company Limited. Hang Seng Bank Trustee International Limited wholly owned Cheah Company Limited as trustee of The C H Cheah Family Trust. Mr. Cheah Cheng Hye is the founder of the above-mentioned trust. Ms. To Hau Yin is the spouse of Mr. Cheah Cheng Hye.

Save as disclosed above, so far as known to the Directors, Supervisors or chief executive of the Company, no persons (other than being a Director, Supervisor or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares, 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 required to be kept under section 336 of the SFO.

Directors' Interests in Contracts

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted at the end of 2009 or at any time in 2009.

Material Contracts

None of the Company (or any of its subsidiaries) or the controlling Shareholders of the Company (or any of its subsidiaries) had entered into any material contracts between themselves, and none of the controlling Shareholders of the Company (or any of its subsidiaries) has provided any material service contract to the Company (or any of its subsidiaries).

Major Customers and Suppliers

In 2009, 39.81% of the Group's products were sold to domestic oil fields within the PRC. In addition, 35.90% of the Group's products were sold to customers in countries and regions such as North America, Europe, the Middle East, Southeast Asia, Africa, and Latin America, etc. The five largest customers accounted for approximately 57.84% of the Group's total revenue. The largest customer of the Group accounted for approximately 26.71% of the Group's total revenue.

In 2009, the Group's major suppliers are reputable material producers in the PRC, with whom the Group has established good relationships. Steel is the Group's principal raw material. The largest supplier was Zibo Shuntai Gold Company Limited, which the Group has entered into a strategic co-operation agreement with it. The five largest suppliers accounted for approximately 45.45% of the Group's total procurement. The largest supplier accounted for approximately 24.74% of the Group's total procurement.

Save as disclosed above, none of the Directors, Supervisors, their associates or any Shareholders of the Company (who or which to the knowledge of the Directors own more than 5.0% of the share capital of the Company) has any beneficial interest in any of the Group's five largest customers and suppliers during the reporting period.

Purchase, Sale or Redemption of Securities

None of the Company or any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company in 2009.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles of Association or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

Corporate Governance

The principal Code on Corporate Governance adopted by the Company is set out in the Corporate Governance Report on pages 32 to 39 of this annual report.

Sufficiency of Public Float

According to information of the Company available to the public and to the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float throughout the current year and up to the date of this report.

Auditors

Deloitte Touche Tohmatsu ("**Deloitte**") and Deloitte Touche Tohmatsu CPA Ltd. ("**Deloitte CPA**") were approved as the Company's Hong Kong auditor and PRC auditor respectively in the past two years. Messrs. Ernst & Young and Ernst & Young Hua Ming acted as auditors of the Company for the year ended 31 December 2007.

The accounts have been audited by Deloitte. A resolution for the appointment of the auditors, who are eligible and will offer themselves for appointment as the Hong Kong auditor and PRC auditor of the Company for the next year, will be proposed at the forthcoming 2009 AGM.

By order of the Board of Directors
Zhang En Rong
Chairman

Shandong, the PRC
5 February 2010

Supervisory Committee's Report

To the Shareholders:

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

In 2009, the Supervisory Committee had convened two meetings. Three members of the Supervisory Committee attended the meetings, reviewed the annual report, re-election of the Supervisory Committee and change of the chairman of the Supervisory Committee. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they were in compliance with the laws and regulations of the PRC and the Articles of Association, and that they were in the interests of the Shareholders.

In 2009, we reviewed a series of documents newly published by the Company such as "the Code of Securities Transactions by Management of the Company". After reviewing these documents, we believe that the policies published during the current year were in compliance with the requirements of the domestic regulatory authorities and the Listing Rules; the Company has strictly followed the essential information disclosure procedures that perfected the Company's governance structure, and has achieved great progress in standard operation.

We have carefully reviewed and agree with the Board of Directors' Report, audited financial statements and the recommendation of the proposed declaration of a final dividend by the Board to be submitted to the 2009 AGM for approval. The Supervisors believe that during 2009, the operating results of the Company adequately reflects its state of affairs; all expenses and costs incurred were reasonable; the plan for distribution of dividends are in Shareholders' interests and the long-term benefits of the Group, and the statutory surplus reserve and welfare fund provided from net profits for the year were made in compliance with applicable laws, regulations and the Articles.

Throughout 2009, to the best knowledge of the Supervisory Committee, none of the Directors or other officers of the Group had been found to have abused their authority, damaged the interests of the Company or infringed the interests of the Shareholders and the Company's employees. To the best knowledge of the Supervisory Committee, none of the Directors or other officers of the Company was found to be in breach of any applicable laws and regulations, the Articles or relevant regulations of China Securities Regulatory Commission. We are of the opinion that the Directors and other officers of the Company were able to strictly observe their respective duties, to act diligently and to exercise their authority faithfully in the best interests of the Company.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company for 2009 and has great confidence in the future of the Company and would like to take this opportunity to express its appreciation to all Shareholders, Directors and staff of the Company for the strong support of our work.

By order of the Supervisory Committee
Liu Huai Duo
Chairman of the Supervisory Committee

Shandong, the PRC
5 February 2010

The Company strives to attain a higher standard of corporate governance. The principles of corporate governance adopted by the Group emphasize a quality Board, sound internal control, and transparency and accountability to all stakeholders.

(a) Corporate Governance Practices

The Company put strong emphasis on the superiority, steadiness and rationality of corporate governance. In order to enhance the management standard, the Company has set up a committee to review its internal management structure. During the current year, the Company has complied with the requirements set out in the "Code on Corporate Governance Report", Appendix 14 of the Listing Rules.

(b) Directors' Securities Transactions

The Company has adopted the Model Code, which requires the securities transactions of the Directors to be conducted in accordance with the Model Code. The Model Code is also applicable to the senior management of the Company. After making specific enquiries, all Directors have confirmed that they had fully complied with the Model Code throughout 2009.

(c) The Board

The Board is responsible for planning and overseeing the overall development and management of the Group with the objective of enhancing Shareholders' value. The Board, led by the Chairman, is responsible for the approval and monitoring of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company's performance and oversight of the works of management. In 2009, the Board comprised nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. Biographical details of the Directors are set out in the "Directors, Supervisors and Senior Management" section from pages 18 to 21 in this annual report. Pursuant to Rule 3.13 of the Listing Rule, the Company has received the confirmation letter from each independent non-executive Director. The independent non-executive Director will only be regarded as independent by the Board if it is confirmed that such Director does not have any other direct or indirect relationship with the Group. The Chairman of the Board, Mr. Zhang En Rong, is the father of Mr. Zhang Yun San, an executive Director. Aside from this, there is no financial, business and relatives relationship among members of the Board.

In 2009, the Board had convened five meetings.

Attendance record of the Directors:

Members of Directors	**Position**	**Number of meetings attended**
Zhang En Rong	Chairman and executive Director	5/5
Zhang Yun San	Vice Chairman and executive Director	5/5
Lin Fu Long	Executive Director	5/5
Xie Xin Cang	Executive Director	5/5
Chen Jian Xiong	Non-executive Director	5/5
Wang Ping	Non-executive Director	5/5
Chau Shing Yim David	Independent non-executive Director	5/5
John Paul Cameron *(Note 1)*	Independent non-executive Director	3/5
Wang Chun Hua *(Note 1)*	Independent non-executive Director	3/5
Qin Xue Chang *(Note 2)*	Independent non-executive Director	2/5
Yan Yi Zhuang *(Note 2)*	Independent non-executive Director	2/5

Note 1: Mr. John Paul Cameron and Ms. Wang Chun Hua were appointed as independent non-executive Directors from 12 May 2009.

Note 2: The appointment of Mr. Qin Xue Chang and Mr. Yan Yi Zhuang as independent non-executive Directors ended on 12 May 2009.

(d) Chairman and General Manager

The Chairman provides leadership for the Board. He is responsible for approving and monitoring the overall strategies and policies of the Group, approving annual budget and business plan, assessing the performance of the Company and overseeing the duties of management. The General Manager is responsible for the daily operations of the Group. The roles of Chairman and General Manager are separate and are not performed by the same individual. During the current year, Mr. Zhang En Rong was the Chairman and Mr. Zhang Yun San was the General Manager.

(e) Non-executive Director

The appointment of non-executive Director, Mr. Wang Ping, was valid from 12 May 2006 to 11 May 2009. Mr. Wang Ping was re-elected as the non-executive Director at the 2008 AGM with a term of three years from 12 May 2009 to 11 May 2012. The appointment of non-executive Director, Mr. Chen Jian Xiong, is valid from 6 May 2008 to 5 May 2011.

(f) Nomination Committee

The Nomination Committee was established on 18 January 2005 and its current members are Ms. Wang Chun Hua, Mr. Zhang Yun San, Mr. Chau Shing Yim, David and Mr. John Paul Cameron, with Ms. Wang Chun Hua as the Chairperson of the Nomination Committee.

Summary of Tasks of the Nomination Committee

The Nomination Committee submitted to the Board motions relating to the nomination of new vice general manager, the independent non-executive Director and non-executive Director at the 13th meeting of the 2nd Session Board on 16 February 2009 and at the 15th meeting of the 2nd Session Board on 26 August 2009 respectively, and submitted the candidate list to the Board following the process below:

1. Candidate gathering: any person can recommend candidates to the Nomination Committee as well as recommend oneself to be a candidate.

2. Qualification examination: as regards to the persons above, the Nomination Committee should strictly examine the qualifications of vice general manager and the independent non-executive Director candidates in accordance with vice general manager and the independent non-executive Director choice standard.

3. Written survey: the Nomination Committee should examine and verify the aptitude of the candidates who conform with the requirements and provide a written report.

4. Official recommendation: the Nomination Committee is in charge of choosing the good candidates from the qualified candidates and give official nomination during general meeting.

Members of Nomination Committee	Position	Number of meetings attended
Wang Chun Hua *(Note 1)*	Committee Chairperson and independent non-executive Director	1/2
John Paul Cameron *(Note 1)*	Independent non-executive Director	1/2
Zhang Yun San	Deputy Chairman and executive Director	2/2
Chau Shing Yim David	Independent non-executive Director	2/2
Yan Yi Zhuang *(Note 2)*	Committee Chairman and independent non-executive Director	1/2
Qin Xue Chang *(Note 2)*	Independent non-executive Director	1/2

The meanings of note 1 and note 2 are same as above.

The Nomination Committee identifies Directors or manager candidates with appropriate qualifications and advises the Board accordingly.

(g) Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee was established on 18 January 2005 and its current members are Mr. John Paul Cameron, Mr. Zhang Yan San, Mr. Chau Shing Yim, David and Ms. Wang Chun Hua. Mr. John Paul Cameron is the Chairman of the Remuneration and Evaluation Committee.

Summary of Tasks of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee submits to the Board with motions in relation to the remuneration of Directors, Supervisors and senior management and follows the basic principles below to formulate the Directors' and senior management's remuneration:

1. ensuring that the level emolument corresponds with Director's, Supervisor's and senior management's work experience, ability, obligation and responsibility taken;

2. ensuring that no Director, Supervisor or senior management determines one's own remuneration; and

3. any increase of remuneration should be in line with the change of the Company's performance and the development status of the Company.

Policy relating to the Formulation of Remuneration

1. Formulation of the remuneration of executive Directors

   Executive Directors' remuneration is formulated by the Remuneration Committee and Evaluation Committee and consists of basic salary and bonuses. The Company and each executive Director should enter into an "Executive Director Service Agreement".

2. Formulation of the remuneration of non-executive Directors and independent non-executive Directors

   Non-executive Directors and independent non-executive Directors' remuneration are recommended by the Remuneration and Evaluation Committee and reported to the Board for permission. The Company and each non-executive Director or independent non-executive Director should sign a "Letter of Appointment of Non-executive Director" or a "Letter of Appointment of Independent Non-executive Director" respectively.

Summary of tasks of the Remuneration and Evaluation Committee

Members of the Remuneration and Evaluation Committee	**Position**	**Number of meetings attended**
John Paul Cameron *(Note 1)*	Committee Chairman and Independent non-executive Director	0/1
Wang Chun Hua *(Note 1)*	Independent non-executive Director	0/1
Zhang Yun San	Deputy Chairman and executive Director	1/1
Chau Shing Yim David	Independent non-executive Director	1/1
Qin Xue Chang *(Note 2)*	Independent non-executive Director	1/1
Yan Yi Zhuang *(Note 2)*	Independent non-executive Director	1/1

The meanings of note 1 and note 2 are same as above.

The Remuneration and Evaluation Committee has determined the remuneration of the Directors according to their expertise, knowledge and commitment to the Company with reference to the Company's profitability and the prevailing market conditions.

3. Formulation of the remuneration of senior management

Senior management's remuneration is formulated by the Remuneration and Evaluation Committee and consists of basic salary and bonuses.

4. Share Rewards Option

We did not any rewords option to our directors, supervisors or members of senior management.

(h) Audit Committee

The Audit Committee was established on 20 March 2004 and its current members are Mr. Chau Shing Yim David, Mr. John Paul Cameron and Mr. Wang Chun Hua, with Mr. Chau Shing Yim David as the Chairman of the Committee.

Summary of tasks of Audit Committee for the Current Period

The Audit Committee held two meetings during 2009 to discuss matters relating to the accounting standards and practices adopted by the Group, and internal control and financial reporting matters, etc., including reviewing the financial results.

The Audit Committee had held meetings with the external auditors of the Company to discuss the interim report, the annual financial statements, the internal control system of the Company and the internal risk assessment report. The Directors and chief financial officer of the Company also attended the meetings to answer questions in respect of the financial results of the Company. The Audit Committee had also discussed the internal control system with the management of the Company, and ensured that the management had performed its duty to establish an effective internal system, including considering the sufficiency of resources, the qualification and the experience of the employees who were responsible for the accounting and financial reporting of the Company, and the sufficiency of training courses received by employees and the relevant budget.

The management of the Company shall provide all ledgers, analyses and supporting documents as required by the Audit Committee to facilitate their review of the financial statements and control system of the Company to their satisfaction so that they may submit appropriate advice to the Board.

Members of the Audit Committee	**Duties**	**Number of meetings attended**
John Paul Cameron *(Note 1)*	Independent non-executive Director	1/2
Wang Chun Hua *(Note 1)*	Independent non-executive Director	1/2
Qin Xue Chang *(Note 2)*	Committee Chairman and Independent non-executive Director	1/2
Yan Yi Zhuang *(Note 2)*	Independent non-executive Director	1/2
Chau Shing Yim David	Independent non-executive Director	2/2

The meanings of note 1 and note 2 are same as above.

(i) Auditors' Remuneration

For 2009, auditing service fees payable to the Company's Hong Kong auditor Deloitte amounted to approximately RMB0.40 million. The Company confirms that other professional fees paid and payable to Deloitte CPA amounted to approximately RMB1.6 million during the current year.

(j) The Directors confirmed their responsibilities in preparing the Group's financial statements

The Directors acknowledged the responsibility for preparing the accounts and have confirmed that the preparation of the Group's financial statement is in compliance with the relevant regulations and applicable accounting standards. The Directors also warrant that the Group's financial statement will be distributed in due course.

(k) Internal Control

The Board places great importance on internal control and risk management and is responsible for establishing and maintaining adequate internal control over financial reporting for the Company and assessing the overall effectiveness of those internal controls. The Board has reviewed the internal control system of the Group and is of the view that the system is effective.

The Company has an Internal Audit Department which plays a major role in monitoring the internal governance of the Company. The major tasks of the Internal Audit Department are reviewing the financial condition and management of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis. The Company has taken many steps to enhance the internal control of the Company in 2009, such as having all departments internal control inspection and appraisal, strengthening the checks and supervision of implementation of the internal control systems by the Audit Department and according to some weakness found during examination of the internal control, further improving the internal control system and strengthening the implementation of all the internal control systems.

During the year of 2009, the Internal Audit Department issued reports to the senior management covering various operational and financial units of the Company and also conducted reviews of areas of concern identified by the Company's management.

(l) Going Concern

For 2009, there was no uncertainty or conditions of a material nature that would affect the Company's ability to continue as a going concern.

(m) Investor Relations

The Board Office of the Company is responsible for preparing responses to written and telephone enquiries from Shareholders/investors. The Company maintains a hotline (86 536 5789083) and email addresses: dsh@molonggroup.com and zhf@molonggroup.com for such enquiries.

The Company has appointed a company engaged in financial public relations and adopted its advice from time to time. We also seek professional opinions from overseas investors recommended by this company to ensure good communication with investors.

At the same time, the Company cordially invites Shareholders to express their opinions by filling out the feedback form enclosed with this annual report. Visits to our facilities in the PRC will also be arranged for Shareholders. Opinions from the Shareholders will be forwarded to senior management and the Directors of the Company.

(n) Sincere Communication

The Board understands that it is essential to establish good relationships with investors. The Company has established good channels of communication with institutional investors and analysts, and updated them on the Company's performance on a timely basis. We participated in road shows, meetings and telephone conference with investors to communicate with investors widely. The executives participated in more than 20 meetings of these kinds, which has effectively enhanced the Company's corporate transparency.

The Company has a policy of open communication and fair disclosure. Disclosure is a key means to enhance our corporate governance standards. The Company provides its Shareholders and other stakeholders with the information necessary for them to form their own judgment and to provide feedback. The Company understands that full and frank disclosure does not only increase transparency of the Company, but is also essential for building market confidence.

The Company understands that not all Shareholders and stakeholders have ready access to information online. If this is the case, please feel free to send a written request to the Board Office of the Company at No. 99 Beihuan Road, Shouguang City, Shandong Province, the PRC (ZIP code: 262703) or email dsh@molonggroup.com for a copy of the above information.

Proposed A Shares Issue

The resolution of proposed A shares issue and the relevant authorizations was approved by the Shareholders at the first EGM and Class Meetings of the Company held on 8 January 2009. The Company has submitted to the China Securities Regulatory Commission (the "**CSRC**") an application for A shares issue which is pending further reviewed by CSRC.

Share Consolidation

As the general practice in the PRC securities market that A shares listed on the Domestic Stock Exchange are generally of a nominal value of RMB1.00 each and pursuant to the advices of the securities regulatory authority of China, the Board held the 16th Board meeting of the 2nd Session of the Board on 29 December 2009 according to the authorization provided for the Board by the Shareholders at the general meetings held on 8 January 2009 to propose the implementation of the Share Consolidation i.e. every ten issued Shares of RMB0.1 each to be consolidated into one Consolidated Share of RMB1.00 each. The Board also proposed to change the board lot size from 4,000 H Shares of RMB0.1 each to 400 Consolidated H Shares of RMB1.00 each, and make corresponding amendments to the Articles of Association. The relevant procedures of the Share Consolidation had been completed on 7 January 2010.

Anti-dumping Lawsuit

In April 2009, seven American oil pipe manufacturing companies and United Steelworkers of America brought anti-dumping and anti-subsidies lawsuit to U.S. Department of Commerce and International Trade Committee about the Oil Country Tubular Goods products which were exported from China to the United States. The Company was not classified as a mandatory respondent company to the anti-dumping and anti-subsidies investigation. In January 2010, U.S. Department of Commerce and International Trade Committee issued final verdict for anti-subsidies. Up to the date of this report, the U.S. Department of Commence and International Trade Committee has not issued final verdict for anti-dumping. The Directors of the Company believe that this matter will only adversely affect the future sales of the Group to the United States.

Deloitte.

TO THE MEMBERS OF
SHANDONG MOLONG PETROLEUM MACHINERY COMPANY LIMITED
(established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shandong Molong Petroleum Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 98, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

5 February 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	NOTES	**2009** **RMB'000**	2008 RMB'000
Revenue		**2,041,376**	2,758,678
Cost of sales		**(1,647,782)**	(2,222,114)
Gross profit		**393,594**	536,564
Other income and gains	6	**78,136**	21,476
Distribution expenses		**(64,957)**	(59,892)
Administrative expenses		**(52,427)**	(99,692)
Gain on fair value change of foreign currency forward contracts	23	**310**	5,270
Other expenses		**(307)**	(1,787)
Finance costs	7	**(30,316)**	(49,015)
Share of results of associate		**247**	332
Profit before taxation		**324,280**	353,256
Income tax expense	8	**(50,458)**	(33,857)
Profit for the year	9	**273,822**	319,399
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**74**	185
Total comprehensive income for the year		**273,896**	319,584
Profit for the year attributable to:			
Owners of the Company		**268,315**	305,811
Minority interests		**5,507**	13,588
		273,822	319,399
Total comprehensive income attributable to:			
Owners of the Company		**268,388**	305,942
Minority interests		**5,508**	13,642
		273,896	319,584
			(Restated)
Earnings per share — basic	13	**RMB0.82**	RMB0.93

Consolidated Statement of Financial Position

As at 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,307,306**	1,009,695
Deposit paid for acquisition of property, plant and equipment		**1,534**	3,504
Prepaid lease payments	15	**150,415**	91,083
Goodwill	16	**142,973**	142,973
Intangible assets	17	**35,535**	11,429
Investment in an associate	18	**2,436**	2,339
Available-for-sale investments	19	**10,000**	10,000
Long term prepayment		**—**	3,275
Deferred tax assets	30	**17,092**	27,913
		1,667,291	1,302,211
Current assets			
Inventories	20	**713,655**	795,938
Trade and other receivables	21	**528,195**	543,764
Bills receivables	21	**34,631**	32,115
Prepaid lease payments	15	**2,960**	2,100
Amount due from an associate	22	**4,364**	531
Derivative financial instruments	23	**—**	49,650
Pledged bank deposits	24	**183,918**	413,967
Bank balances and cash	24	**121,592**	195,133
		1,589,315	2,033,198
Current liabilities			
Trade and bills payables	25	**718,799**	1,155,378
Other payables and accrued charges	26	**96,064**	125,518
Dividend payable	29	**39,592**	29,736
Derivative financial instruments	23	**—**	44,380
Bank borrowings — due within one year	27	**467,649**	253,522
Other borrowing	28	**—**	15,000
Tax payable		**30,398**	32,488
		1,352,502	1,656,022
Net current assets		**236,813**	377,176
Total assets less current liabilities		**1,904,104**	1,679,387
Non-current liabilities			
Bank borrowings — due after one year	27	**580,000**	550,000
Deferred tax liabilities	30	**10,470**	19,364
		590,470	569,364
		1,313,634	1,110,023

Consolidated Statement of Financial Position

As at 31 December 2009

	NOTES	**2009** **RMB'000**	2008 RMB'000
Capital and reserves			
Share capital	31	**328,924**	328,924
Reserves		**923,395**	720,792
Equity attributable to owners of the Company		**1,252,319**	1,049,716
Minority interests		**61,315**	60,307
Total equity		**1,313,634**	1,110,023

The consolidated financial statements on pages 43 to 98 were approved and authorised for issue by the Board of Directors on 5 February 2010 and are signed on its behalf by:

Zhang Yun San
Director

Xie Xin Cang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to owners of the Company								
	Share capital RMB'000	**Capital reserve** RMB'000 *(Note a)*	**Statutory surplus reserve** RMB'000 *(Note b)*	**Translation reserve** RMB'000	**Retained profits** RMB'000	**Dividend reserve** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total equity** RMB'000
At 1 January 2008	328,924	121,668	59,009	(942)	235,115	49,339	793,113	46,665	839,778
Profit for the year	—	—	—	—	305,811	—	305,811	13,588	319,399
Other comprehensive income for the year:									
Exchange differences arising on translation of foreign operations	—	—	—	131	—	—	131	54	185
Total comprehensive income for the year	—	—	—	131	305,811	—	305,942	13,642	319,584
Dividend recognised as distribution *(note 12)*	—	—	—	—	—	(49,339)	(49,339)	—	(49,339)
Transfer from retained profits to statutory surplus reserve	—	—	21,078	—	(21,078)	—	—	—	—
Proposed 2008 final dividend *(note 12)*	—	—	—	—	(65,785)	65,785	—	—	—
At 31 December 2008	328,924	121,668	80,087	(811)	454,063	65,785	1,049,716	60,307	1,110,023
Profit for the year	—	—	—	—	268,315	—	268,315	5,507	273,822
Other comprehensive income for the year:									
Exchange differences arising on translation of foreign operations	—	—	—	73	—	—	73	1	74
Total comprehensive income for the year	—	—	—	73	268,315	—	268,388	5,508	273,896
Dividends paid to minority interests	—	—	—	—	—	—	—	(4,500)	(4,500)
Dividend recognised as distribution *(note 12)*	—	—	—	—	—	(65,785)	(65,785)	—	(65,785)
Transfer from retained profits to statutory surplus reserve	—	—	28,289	—	(28,289)	—	—	—	—
Proposed 2009 final dividend *(note 12)*	—	—	—	—	(39,471)	39,471	—	—	—
At 31 December 2009	328,924	121,668	108,376	(738)	654,618	39,471	1,252,319	61,315	1,313,634

Notes:

(a) The capital reserve mainly represents the premium arising from the share issue less the bonus issue by way of capitalisation of capital reserve.

(b) In accordance with the laws and regulations of the People's Republic of China (the "PRC"), the Company and its subsidiaries in Mainland China are required to appropriate amounts equal to 10% of their profit after taxation as determined in accordance with the PRC accounting standards to statutory surplus reserve.

Statutory surplus reserve is part of shareholders' equity and when its balance reaches an amount equal to 50% of the registered capital, further appropriation needs not be made. The statutory surplus reserve may only be used, upon approval of the relevant authority, to offset accumulated losses or to increase capital.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
Operating activities		
Profit before taxation	**324,280**	353,256
Adjustments for:		
Amortisation of intangible asset	**5,632**	941
Depreciation of property, plant and equipment	**89,567**	65,669
Finance costs	**30,316**	49,015
Interest income	**(17,078)**	(8,363)
(Gain) loss on disposal of property, plant and equipment	**(7,822)**	600
Release of prepaid lease payments	**2,278**	2,050
Reversal of allowance for inventories	**(1,654)**	(4,138)
Reversal of allowance for other receivables	**(2,600)**	(219)
(Reversal of) allowance for trade receivables	**(8,461)**	24,576
Share of results of associate	**(247)**	(332)
Operating cash flows before movements in working capital	**414,211**	483,055
Decrease in long term prepayment	**3,275**	3,429
Decrease (increase) in inventories	**83,937**	(197,267)
Decrease (increase) in trade and other receivables	**33,947**	(297,736)
Increase in bills receivables	**(2,516)**	(4,035)
(Increase) decrease in amount due from an associate	**(3,833)**	918
Decrease (increase) in foreign currency forward contracts	**5,270**	(5,270)
(Decrease) increase in trade and bills payable	**(436,579)**	580,339
Increase in other payables and accrued charges	**2,452**	479
Cash generated from operations	**100,164**	563,912
PRC income tax paid	**(50,621)**	(51,879)
Net cash from operating activities	**49,543**	512,033
Investing activities		
Decrease (increase) in pledged bank deposits	**230,049**	(250,010)
Purchase of property, plant and equipment	**(390,638)**	(242,793)
Purchase of intangible assets	**(15)**	—
Settlement of balance of consideration for acquisition of a subsidiary in 2007	**(14,510)**	(134,363)
Development cost paid	**(29,723)**	(11,993)
Deposit paid for acquisition of property, plant and equipment	**(1,534)**	(3,504)
Prepaid lease payments	**(60,217)**	(1,777)
Interest received	**17,078**	8,363
Proceeds from disposal of property, plant and equipment	**6,984**	765
Dividend received from an associate	**150**	150
Net cash used in investing activities	**(242,376)**	(635,162)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
Financing activities		
New bank and other borrowings raised	**1,399,649**	1,053,116
Repayment of bank and other borrowings	**(1,170,522)**	(771,714)
Interest paid	**(49,463)**	(51,750)
Dividends paid	**(55,929)**	(19,708)
Dividends paid to minority interests	**(4,500)**	—
Net cash from financing activities	**119,235**	209,944
Net (decrease) increase in cash and cash equivalents	**(73,598)**	86,815
Cash and cash equivalents at beginning of the year	**195,133**	109,580
Effect of changes in exchange rates	**57**	(1,262)
Cash and cash equivalents at end of the year, represented by bank balances and cash	**121,592**	195,133

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.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are 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. The principal activities of the Company's subsidiaries are set out in note 38.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	*Presentation of Financial Statements*
HKAS 23 (Revised 2007)	*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 Disclosure 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*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*
HKFRSs (Amendments)	*Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009*
HKFRSs (Amendments)	*Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39*

Except as described below, the adoption of the new and revised HKFRSs has no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

HKAS 1 (Revised 2007) *Presentation of Financial Statements*

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 *Operating Segments*

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 5) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in relation to fair value measurements in accordance with the transitional provision set out in the amendments.

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK (IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK (IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

[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 annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 July 2010
[7] Effective for annual periods beginning on or after 1 January 2013

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition dates are 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.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of Group's financial assets.

In addition, as part of *Improvements to HKFRSs* issued in 2009, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might not affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on consolidated financial statements.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances and income and expenses are eliminated on consolidation.

3. Significant Accounting Policies *(continued)*

Basis of consolidation *(continued)*

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interest in subsidiaries

Acquisition of additional interest in subsidiaries is recorded at the book value of the net asset attributable to the interests. The excess of the cost of acquisition over net asset value of the subsidiary attributable to the additional interest acquired is recognised as goodwill.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. Significant Accounting Policies *(continued)*

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identified assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. Significant Accounting Policies *(continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and buildings

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

3. Significant Accounting Policies *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes managed by the PRC government and the Mandatory Provident Fund Scheme ("MPF") are charged as expenses when employees have rendered service entitling them to the contributions.

3. Significant Accounting Policies *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which it is able to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liability are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. Significant Accounting Policies *(continued)*

Intangible assets

Intangible assets acquire separately

Intangible assets acquired separately and with finite lives are carried at cost less accumulated amortisation and any accumulated impairment loss. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible assets arising from development (or from the development phase of an internal project) is recognised if, and only if, all the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

3. Significant Accounting Policies *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise.

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, amount due from an associate, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-for-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment loss of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment loss of financial assets (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial assets. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment loss on available-for-sale equity instrument will not be reversed in profit or loss in subsequent periods.

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities at FVTPL represent financial liabilities held for trading.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including bank and other borrowings, trade and bills payables and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Estimated allowance for doubtful debts of trade receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of debtors. Allowances are made on trade debtors whenever there is any objective evidence that the balances may not be collectible. In determining whether an allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sale personnel discuss with the relevant customers and report on the recoverability. Specific allowance is only made for trade receivables that are unlikely to be collected. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of debtors and doubtful debt expenses in the periods in which such estimate has been changed.

The carrying amount of trade debtors at 31 December 2009 is RMB450,746,000 (net of allowance for bad and doubtful debts of RMB7,304,000) (2008: RMB443,387,000 (net of allowance for bad and doubtful debts of RMB28,534,000)).

5. Segment Information

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 January 2009. 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 for the purpose of allocating resources to segments and to assessing their performance. In contrast, the predecessor Standard (HKAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior years, segment information reported externally was analysed on the location of customers (i.e, the PRC, the United States, Japan and other countries). However, information reported to the chief operating decision maker, directors of the Company, is more specifically focused on the types of goods delivered by the Group's operating divisions. The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

1. Tubings

2. Casings

3. Three kinds of pumping units

4. Petroleum machinery

5. Others (including casting and switch)

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

5. Segment Information *(continued)*

Segment revenues and results

The following is an analysis of the Group's revenues and results by reportable segment:

	For the year ended 31 December 2009					
	Tubings RMB'000	Casings RMB'000	Three kinds of pumping units RMB'000	Petroleum machinery RMB'000	Others RMB'000	Total for reportable segments RMB'000
Segment revenue	**516,080**	**1,209,331**	**105,720**	**83,506**	**160,915**	**2,075,552**
Segment result	**86,753**	**204,441**	**22,271**	**15,511**	**10,253**	**339,229**

Reconciliation:	
Total revenue for reportable segments	**2,075,552**
Less: scrap sales included in other income	**(34,176)**
Group's total revenue	**2,041,376**
Total profit for reportable segments	**339,229**
Unallocated corporate income	**57,735**
Interest income	**17,078**
Gain on fair value change of foreign currency forward contracts	**310**
Share of results of associate	**247**
Unallocated corporate expenses	**(60,003)**
Finance costs	**(30,316)**
Profit before taxation	**324,280**

5. Segment Information *(continued)*

Segment revenues and results *(continued)*

	For the year ended 31 December 2008					
	Tubings RMB'000	Casings RMB'000	Three kinds of pumping units RMB'000	Petroleum machinery RMB'000	Others RMB'000	Total for reportable segments RMB'000
Segment revenue	772,834	1,456,028	129,425	204,245	247,097	2,809,629
Segment result	171,365	230,907	25,832	24,619	21,027	473,750

Reconciliation:	
Total revenue for reportable segment	2,809,629
Less: scrap sales included in other income	(50,951)
Group's total revenue	2,758,678
Total profit for reportable segments	473,750
Unallocated corporate income	8,756
Interest income	8,363
Gain on fair value change of foreign currency forward contracts	5,270
Share of results of associate	332
Unallocated corporate expenses	(94,200)
Finance costs	(49,015)
Profit before taxation	353,256

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

Segment result represents the profit earned by each segment without allocation of corporate income and expense, central administration cost, directors' salaries, share of results of associate, government subsidies, gain on disposal of property, plant and equipment, gain on fair value change of foreign currency forward contracts and finance cost. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

5. Segment Information *(continued)*

Segments assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	Segment assets	
	2009	2008
	RMB'000	RMB'000
Tubings	**399,869**	751,194
Casings	**1,317,202**	1,636,201
Three kinds of pumping units	**71,061**	115,291
Petroleum machinery	**61,300**	293,662
Others	**186,991**	—
Total segment assets	**2,036,423**	2,796,348
Unallocated assets	**1,220,183**	539,061
Consolidated assets	**3,256,606**	3,335,409

	Segment liabilities	
	2009	2008
	RMB'000	RMB'000
Tubings	**100,188**	113,527
Casings	**258,366**	293,232
Three kinds of pumping units	**5,539**	14,048
Petroleum machinery	**39,666**	77,735
Total segment liabilities	**403,759**	498,542
Unallocated liabilities	**1,539,213**	1,726,844
Consolidated liabilities	**1,942,972**	2,225,386

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than goodwill, intangible assets, investment in an associate, available-for-sale investments, deferred tax assets and assets used jointly by reportable segments.

- all liabilities are allocated to reportable segments other than derivative financial instruments, bank borrowings, tax payable, deferred tax liabilities and liabilities for which reportable segments are jointly liable.

5. Segment Information *(continued)*

Other segment information

	For the year ended 31 December 2009						
	Tubings RMB'000	**Casings RMB'000**	**Three kinds of pumping units RMB'000**	**Petroleum machinery RMB'000**	**Others RMB'000**	**Unallocated RMB'000**	**Total RMB'000**
Depreciation and amortisation	**11,285**	**62,363**	**3,072**	**2,235**	**—**	**19,469**	**98,424**
Reversal of allowance on receivables and inventories	**(1,539)**	**(5,601)**	**—**	**(128)**	**—**	**(5,447)**	**(12,715)**
Capital expenditure	**13,445**	**60,876**	**20**	**3,188**	**—**	**392,173**	**469,702**

	For the year ended 31 December 2008						
	Tubings RMB'000	Casings RMB'000	Three kinds of pumping units RMB'000	Petroleum machinery RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Depreciation and amortisation	9,540	39,948	3,176	2,158	—	13,838	68,660
(Reversal of) allowance on receivables and inventories	203	(4,735)	2,916	(1,290)	—	23,125	20,219
Capital expenditure	13,383	170,467	240	4,255	454	80,395	269,194

5. Segment Information *(continued)*

Geographical Information

The Group's operations are mainly located in the PRC (country of domicile).

The Group's revenue from external customers by geographical location are detailed below:

	2009	2008
	RMB'000	RMB'000
PRC (country of domicile)	**1,308,531**	1,481,499
United States	**236,940**	568,789
Japan	**81,553**	238,089
Other countries (including Europe, Singapore and Syria)	**414,352**	470,301
	2,041,376	2,758,678

Non-current assets other than financial instruments and deferred tax assets are mainly located in the PRC.

Information about major customers

Revenues from customers of corresponding years contributing over 10% of total sales of the Group are as follows:

	2009	2008
	RMB'000	RMB'000
China National Petroleum Corporation *(note)*	**554,450**	772,011
China Petroleum & Chemical Corporation *(note)*	**202,491**	364,719

Note: Revenue from tubings, casings, three kinds of pumping units and petroleum machinery.

6. Other Income and Gains

	2009	2008
	RMB'000	RMB'000
Other income and gains comprises:		
Bank interest income	**17,078**	8,363
Government subsidies *(note 1)*	**37,162**	5,556
Gain on disposal of property, plant and equipment	**7,822**	—
Scrap sales	**3,323**	—
Penalty fee income	**822**	978
Foreign exchange gains	**3,893**	—
Others	**30**	1,798
Valued-added tax ("VAT") refund (*note 2)*	**8,006**	424
	78,136	17,119

Notes:

(1) Included in this amount is a government subsidy of RMB 30,000,000 received from the local financial bureau of Shouguang City, Shandong Province in connection with the Group's export activities for the year ended 31 December 2009 and is non-recurring and unconditional in nature.

(2) For the year ended 31 December 2009, the VAT refund of approximately RMB2,484,000 (2008: RMB424,000) represents 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 is refundable.

Pursuant to a tax document Cai Shui [2008] No.157, "Notice about the policy of recyclable resources VAT tax" issued by the State Tax Bureau (《關於再生資源增值稅政策的通知》), 壽光懋隆廢舊金屬回收有限公司 (Shouguang Maolong Old Metals Recycle Company Limited) and 文登市寶隆再生資源有限公司 (Wendeng Baolong Recyclable Resource Company Limited), subsidiaries of the Group, are entitled to a refund of the VAT tax paid of approximately RMB5,522,000 (2008: nil) in relation to the sales of the recycled products with effect from 1 January 2009.

7. Finance Costs

	2009	2008
	RMB'000	RMB'000
Interest on bank and other borrowings wholly repayable within five years	**47,919**	51,750
Less: Amount capitalised in construction in progress	**(17,603)**	(2,735)
	30,316	49,015

Borrowing costs capitalised during the year arose from the general borrowing pool and are calculated by applying a capitalisation rate of 5.4% (2008: 6.3%) per annum to expenditure on qualifying assets.

8. Income Tax Expense

	2009	2008
	RMB'000	RMB'000
The income tax expense comprises:		
Current taxation	**48,531**	40,283
Deferred taxation *(note 30)*	**1,927**	(6,426)
	50,458	33,857

The Company was named as one of the Shandong Province New and High Technical Enterprise (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.

For the subsidiaries located in Mainland China, they are subject to the PRC enterprise 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.

8. Income Tax Expense *(continued)*

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

Year ended 31 December 2009

	RMB'000
Profit before taxation	**324,280**
Tax at statutory tax rate of 15%	**48,642**
Tax exemption granted to a welfare enterprise for the year	**(621)**
Additional tax benefit on research and development expenses *(note)*	**(1,047)**
Tax effect of expenses not deductible for tax purpose	**736**
Tax effect of income not taxable for tax purpose	**(3,015)**
Effect of different tax rates of subsidiaries	**6,242**
Others	**(479)**
Income tax expense for the year	**50,458**

Note: Pursuant to the relevant tax rules and regulations, the Company can obtain additional tax benefit, which is equivalent to 50% of the research and development expenses incurred for the development of new products and advanced technology development.

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 1)*	(30,195)
Tax exemption granted to a welfare enterprise for the year	(106)
Additional tax benefit on research and development expenses *(note 2)*	(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

Notes:

(1) 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 as PRC enterprise income tax expenses.

(2) Pursuant to the relevant tax rules and regulations, the Company can obtain additional tax benefit, which is equivalent to 50% of the research and development expenses incurred for the development of new products and advanced technology development.

The statutory tax rate represent the statutory tax rate of the Company, which generated majority assessable profit for the Group.

9. Profit for the Year

	2009	2008
	RMB'000	RMB'000
Profit for the year has been arrived at after charging:		
Auditors' remuneration	**400**	600
Allowance for trade receivables	**—**	24,576
Amortisation of intangible asset	**5,632**	941
Depreciation of property, plant and equipment	**89,567**	65,669
Loss on disposal of property, plant and equipment (included in other expenses)	**—**	600
Release of prepaid lease payments	**2,278**	2,050
Research and development costs (included in administrative expenses)	**11,164**	18,245
Rental expense	**67**	—
Staff costs, including directors' emoluments *(note 10)*	**69,438**	77,827
and after crediting:		
Reversal of allowance for inventories	**1,654**	4,138
Reversal of allowance for trade receivables	**8,461**	—
Reversal of allowance for other receivables	**2,600**	219

10. Directors' and Supervisors' Emoluments

The emoluments paid or payable on each of the 16 (2008: 12) directors and supervisors were as follows:

	Independent executive directors						Independent non-executive directors						Supervisors				
	Zhang En Rong	Zhang Yun San	Lin Fu Long	Xie Xin Cang	Wang Ping	Chen Jian Xiong	Qin Xue Chang***	Yan Yi Zhuang***	Loke Yu, alias Loke Hoi Lam****	Wang Chun Hua*	John Paul Cameron*	Chau Shing Yim, David**	Li Bao Hui***	Liu Huai Duo*	Liu Wan Fu	Fan Ren Yi	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2009																	
Fees	—	—	—	—	—	—	**12**	**21**	**2**	**21**	**55**	**84**	—	—	—	—	**195**
Basic salaries and allowances	**550**	**417**	**247**	**267**	—	—	—	—	—	—	—	—	—	**47**	**22**	**11**	**1,564**
Retirement scheme contributions	—	**3**	**3**	**3**	—	—	—	—	—	—	—	—	—	**3**	—	—	**9**
Total	**550**	**420**	**250**	**270**	—	—	**12**	**21**	**2**	**21**	**55**	**84**	—	**50**	**22**	**11**	**1,768**
2008																	
Fees	—	—	—	—	—	—	30	60	90	N/A	N/A	N/A	—	N/A	—	—	180
Basic salaries and allowances	550	415	245	295	—	—	—	—	—	N/A	N/A	N/A	60	N/A	20	10	1,595
Retirement scheme contributions	—	5	5	5	—	—	—	—	—	N/A	N/A	N/A	—	N/A	—	—	15
Total	550	420	250	300	—	—	30	60	90	N/A	N/A	N/A	60	N/A	20	10	1,790

* These directors and the supervisor were appointed on 12 May 2009
** The director was appointed on 8 January 2009
*** These directors and the supervisor were resigned on 12 May 2009
**** The director was resigned on 8 January 2009

No directors waived any emoluments for the years ended 31 December 2008 and 2009.

11. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2008: three) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining one (2008: two) individual was as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other benefits	**287**	585
Retirement benefit scheme contributions	**3**	10
Total emoluments	**290**	595

The emolument(s) was within the band from HK$ nil to HK$1 million for both years.

12. Dividend

	2009 RMB'000	2008 RMB'000
Dividends recognised as distribution during the year:		
2008 final: RMB0.02 (2008: 2007 final dividend RMB0.015) per ordinary share	**65,785**	49,339

The final dividend of RMB0.12 in respect of the year ended 31 December 2009 (2008: final dividend of RMB0.02 in respect of the year ended 31 December 2008) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

The final dividend per share for 2008 and 2007 is based on 3,289,242,000 shares before consolidation of shares which is effective on 7 January 2010 (see note 31).

13. Earnings Per Share

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

	2009	2008
	RMB'000	RMB'000
Earnings attributable to owners of the Company for the purpose of basic earnings per share	**268,315**	305,811

	Number of shares	
	2009	2008
	'000	'000
		(Restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**328,924**	328,924

	2009	2008
	RMB	RMB
		(Restated)
Weighted average earnings per share	**0.82**	0.93

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the consolidation of shares which is effective on 7 January 2010 (see note 31).

14. Property, Plant and Equipment

	Buildings RMB'000	Plant and machinery RMB'000	Manufacturing equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2008	150,777	520,120	8,381	11,664	232,229	923,171
Additions	16,264	73,139	3,772	1,770	157,321	252,266
Disposals	—	(3,820)	(283)	(832)	—	(4,935)
Reclassifications	36,380	210,856	31,975	—	(279,211)	—
At 31 December 2008	203,421	800,295	43,845	12,602	110,339	1,170,502
Additions	6,991	26,660	4,775	2,317	356,097	396,840
Disposals	(12,180)	(1,238)	(129)	(3,811)	—	(17,358)
Reclassifications	14,444	52,442	415	—	(67,301)	—
At 31 December 2009	212,676	878,159	48,906	11,108	399,135	1,549,984
DEPRECIATION AND IMPAIRMENT						
At 1 January 2008	12,459	77,432	3,722	5,095	—	98,708
Provided for the year	8,151	51,064	4,534	1,920	—	65,669
Disposals	—	(2,704)	(210)	(656)	—	(3,570)
At 31 December 2008	20,610	125,792	8,046	6,359	—	160,807
Provided for the year	9,814	66,532	8,454	5,714	—	90,514
Disposals	(4,248)	(928)	(108)	(3,359)	—	(8,643)
At 31 December 2009	26,176	191,396	16,392	8,714	—	242,678
CARRYING VALUES						
At 31 December 2009	186,500	686,763	32,514	2,394	399,135	1,307,306
At 31 December 2008	182,811	674,503	35,799	6,243	110,339	1,009,695

The above items of property, plant and equipment other than construction in progress are depreciated on a straight line basis at the following rates per annum:

Buildings	Over the shorter of the term of lease, or 20 years
Plant and machinery	2–20 years
Manufacturing equipment	3–5 years
Motor vehicles	5 years

The Group's buildings are all situated in Shouguang and Weihai, Shandong Province, the PRC.

The Group is in the process of applying for the property ownership certificate for buildings with carrying value of RMB8,906,000 (2008: RMB11,573,000).

15. Prepaid Lease Payments

The Group's prepaid lease payments at the end of the reporting period comprise of leasehold land outside Hong Kong under medium-term lease.

	2009	2008
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current assets	**2,960**	2,100
Non-current assets	**150,415**	91,083
	153,375	93,183

The Group is in the process of applying for the land use right for prepaid lease payments with carrying value of RMB23,279,000 (2008: RMB1,614,000).

16. Goodwill

	RMB'000
COST AND CARRYING VALUES	
At 1 January 2008, 31 December 2008 and 31 December 2009	142,973

The carrying amount of goodwill of RMB142,973,000 as at 31 December 2009 is allocated to the cash generating unit ("CGU") of the Group's operations relate to the sale of petroleum machinery. The management of the Group determine that there is no impairment of its goodwill at 31 December 2009.

The basis of the recoverable amount of the CGU and its major underlying assumptions are summarised below:

The recoverable amount of the CGU is determined based on a value-in-use calculation. That calculation uses cash flow projects based on budgets approved by management covering a 6-year period, and discount rate of 10% (2008: 10%) per annum. No growth rate is presumed in estimating the cash flows beyond the 6-year period. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

For the year ended 31 December 2009

17. Intangible Assets

	Development costs	Software	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
At 1 January 2008	—	1,022	—	1,022
Additions	11,993	—	—	11,993
At 31 December 2008	11,993	1,022	—	13,015
Additions	29,723	—	15	29,738
At 31 December 2009	41,716	1,022	15	42,753
AMORTISATION				
At 1 January 2008	—	645	—	645
Provided for the year	600	341	—	941
At 31 December 2008	600	986	—	1,586
Provided for the year	5,596	36	—	5,632
At 31 December 2009	6,196	1,022	—	7,218
CARRYING VALUES				
At 31 December 2009	35,520	—	15	35,535
At 31 December 2008	11,393	36	—	11,429

Development costs were internally generated and have definite useful lives. Such intangible assets are amortised on a straight line basis over five years.

18. Investment in an Associate

	2009 RMB'000	2008 RMB'000
Share of net assets — unlisted	**2,436**	2,339

Details of the Group's principal associate as at 31 December 2009 and 2008 are as follows:

Name	Legal form of business	Place of establishment or registration/ operation	Percentage of registered capital indirectly held by the Company	Registered capital	Principal activities
克拉瑪依亞龍石油泵有限公司 (Kelamayi Ya Long Oil Pump Company Limited) ("Yalong Oil Pump")	Limited enterprise	PRC	30%	RMB4,500,000	Manufacture and sale of oil well pumps

The summarised financial information of the Group's associate is set out below:

Financial position

	2009 RMB'000	2008 RMB'000
Total assets	**12,379**	8,992
Total liabilities	**(4,310)**	(1,409)
Net assets	**8,069**	7,583
Group's share of net assets of associate	**2,436**	2,339

Results for the year

	2009 RMB'000	2008 RMB'000
Revenue	**14,166**	17,470
Profit for the year	**875**	1,105
Other comprehensive income	**—**	—
Group's share of profits and other comprehensive income of associate for the year	**247**	332

19. Available-for-sale Investments

	2009	2008
	RMB'000	RMB'000
Unlisted equity investment, at cost:		
壽光彌河水務有限公司 (Shouguang Mihe Water Company Limited) ("Mihe Water")	**10,000**	10,000

The unlisted equity investment of the Group at 31 December 2009 and 2008 represented a 9.73% equity interest held in Mihe Water, which was established in the PRC on 5 November 2007 with a registered capital of RMB102,800,000. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

20. Inventories

	2009	2008
	RMB'000	RMB'000
Raw materials	**202,850**	255,092
Work in progress	**283,133**	281,316
Finished goods	**227,672**	259,530
	713,655	795,938

21. Trade and Other Receivables and Bills Receivables

	2009	2008
	RMB'000	RMB'000
Trade and other receivables:		
Trade receivables	**450,746**	443,387
Deposits and other receivables	**24,369**	6,125
Prepayments	**53,080**	94,252
	528,195	543,764
Bills receivables	**34,631**	32,115
	562,826	575,879

21. 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 following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2009	2008
	RMB'000	RMB'000
Within three months	**373,572**	390,444
Three to six months	**17,920**	24,255
Six months to one year	**8,179**	19,060
Over one year	**51,075**	9,628
	450,746	443,387

Bills receivables are all aged within six months.

Trade receivables at the end of the reporting period mainly comprise amounts receivable from sales of tubings and casings products, and petroleum extraction machinery. No interest is charged on the trade receivables.

Before accepting any new customer, the Group will apply an internal credit assessment policy to assess the potential customer's credit quality and define credit limits by customer. The directors consider that those trade receivables that are neither past due nor impaired are recoverable in view of their payment history and credit worthiness.

Included in trade receivables are debtors with carrying amounts of approximately RMB59,254,000 (2008: RMB28,688,000) which are past due as at the reporting date 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. Included in RMB59,254,000 is an amount of approximately RMB25,002,000 (2008: nil) due from one of the debtors which are past due originally and the debtor has signed the repayment agreement with the Group currently and the whole balance will be repayable before 31 December 2010. The Group does not hold any collateral over these balances.

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

	2009	2008
	RMB'000	RMB'000
One to six months past due	**8,179**	19,060
Six months to over one year past due	**51,075**	9,628
	59,254	28,688

21. Trade and Other Receivables and Bills Receivables *(continued)*

Movement in the allowance for doubtful debts

	2009	2008
	RMB'000	RMB'000
At 1 January	**28,534**	3,958
Allowance made	**6,504**	28,526
Amounts written off as uncollectible	**(12,769)**	—
Allowance reversed	**(14,965)**	(3,950)
At 31 December	**7,304**	28,534

At 31 December 2009, trade receivables amounting to approximately RMB19,649,000 (2008: RMB50,644,000) 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:

	2009	2008
	RMB'000	RMB'000
United States Dollars	**177,188**	165,295
Euro	**3,703**	7,783

22. Amount due from an Associate

The amount is of trade nature, unsecured, interest-free and repayable on demand. The amount is aged within three months.

23. Derivative Financial Instrument

	2009		2008	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Foreign currency forward contracts	—	—	49,650	44,380

At 31 December 2009, the Group has no outstanding foreign currency forward contracts.

24. Bank Balances and Cash/Pledged Bank Deposits

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Bank balances are interest bearing at respective saving deposits rate in the PRC, and the effective interest rates of the Group's bank balances ranged from 0.36% to 1.98% (2008: 0.36% to 0.72%) per annum.

At 31 December 2009, bank balances amounting to approximately RMB183,918,000 (2008: RMB413,967,000) were pledged to banks for securing bank facilities granted to the Group. The pledged bank balances carry interest rates ranged from 0.36% to 1.98% (2008: 0.36% to 0.72%) per annum.

The Group's pledged bank deposits and bank balances and cash which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2009 **RMB'000**	2008 RMB'000
Hong Kong Dollars	**17**	20
United States Dollars	**2,711**	18,335

25. Trade and Bills Payables

The following is an aged analysis by invoice date of trade and bills payables at the end of the reporting period:

	2009 **RMB'000**	2008 RMB'000
Within three months	**373,466**	529,074
Three to six months	**259,822**	568,194
Six months to one year	**42,232**	17,132
Over one year	**43,279**	40,978
	718,799	1,155,378

The Group's bills payable of RMB373,611,000 (2008: RMB770,211,000) were secured by the pledge of certain of the time deposits amounting to RMB183,918,000 (2008: RMB413,967,000) (note 24). 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.

For the year ended 31 December 2009

26. Other Payables and Accrued Charges

	2009	2008
	RMB'000	RMB'000
Advance from customers	**52,528**	36,623
Payroll payable	**15,714**	23,440
Other payables	**27,259**	48,839
Balance of consideration paid for acquisition of subsidiaries	**—**	14,510
Accruals	**563**	2,106
	96,064	125,518

Other payables are interest-free.

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

	2009	2008
	RMB'000	RMB'000
Hong Kong Dollars	**—**	1,646

27. Bank Borrowings

	2009	2008
	RMB'000	RMB'000
The bank borrowings are repayable as follows:		
On demand or within one year	**467,649**	253,522
More than one year, but not exceeding two years	**380,000**	550,000
More than two years, but not exceeding three years	**50,000**	—
More than three years, but not exceeding four years	**150,000**	—
	1,047,649	803,522
Less: Amount due within one year shown under current liabilities	**467,649**	253,522
	580,000	550,000
Secured	**19,649**	50,644
Unsecured	**1,028,000**	752,878
	1,047,649	803,522

27. Bank Borrowings *(continued)*

In addition, the Group has variable-rate borrowings which carry interest at variable rate based on the interest rates quoted by the People's Bank of China.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2009	2008
Effective interest rates:		
Fixed-rate borrowings	**4.25% to 5.76%**	6.12% to 7.49%
Variable-rate borrowings	**2.83% to 5.31%**	5.75% to 7.47%

The Group's bank borrowings of RMB19,649,000 (2008: RMB50,644,000) were secured by certain of the trade receivables amounting to RMB19,649,000 (2008: RMB50,644,000) (note 21).

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

	2009	2008
	RMB'000	RMB'000
United States Dollars	**19,649**	62,878

28. Other Borrowing

In prior year, the other borrowing was a short-term loan which was unsecured, bearing fixed interest rate at 7.2% per annum and repayable within one year.

29. Dividend Payable

The amount represents dividend payable to certain domestic shareholders in respect of year ended 31 December 2008 (2008: in respect of year ended 31 December 2007).

30. Deferred Taxation

For the purposes of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2009	2008
	RMB'000	RMB'000
Deferred tax assets	**17,092**	27,913
Deferred tax liabilities	**(10,470)**	(19,364)
	6,622	8,549

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Fair value adjustment arising from acquisition of subsidiaries	Allowance on fixed assets	Allowance on inventories	Allowance on receivables	Accrued expenses	Deferred development costs	Derivative financial instruments	Unrealised profit	Depreciation in excess o depreciation allowance	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	(13,284)	10,318	3,136	1,430	224	—	—	—	299	2,123
Effect of change in tax rate	—	—	(910)	(300)	(90)	—	—	—	(119)	(1,419)
Credit (charge) to profit or loss	2,112	(488)	(806)	3,761	(134)	45	(1,535)	5,070	(180)	7,845
At 31 December 2008	(11,172)	9,830	1,420	4,891	—	45	(1,535)	5,070	—	8,549
Credit (charge) to profit or loss	968	(635)	(384)	(3,756)	3,001	730	1,535	(3,386)	—	(1,927)
At 31 December 2009	**(10,204)**	**9,195**	**1,036**	**1,135**	**3,001**	**775**	**—**	**1,684**	**—**	**6,622**

31. Share Capital

	Number of ordinary shares '000	RMB'000
Ordinary shares of RMB0.1 each		
Authorised, issued and fully paid:		
— at 1 January 2008, 31 December 2008 and 31 December 2009		
Domestic Shares	2,008,610	200,861
H Shares	1,280,632	128,063
	3,289,242	328,924

Domestic Shares and H Shares in issue are the ordinary shares in the share capital of the Company. Domestic Shares and H Shares rank pari passu with each other in all respects.

Pursuant to the resolutions passed by the shareholders at the extraordinary general meeting of the Company on 8 January 2009 and by the directors on 29 December 2009, every 10 shares of the Company of RMB0.1 each in issue was consolidated into one new share of RMB1.0 each effective from 7 January 2010. As at the date of this report, the total number of shares in issue is 328,924,200 after the consolidation.

32. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years. The capital structure of the Group consists of cash and cash equivalents, borrowings, and equity attributable to owners of the Group, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall structure through the payment of dividends, new share issues and share repurchases as well as the issue of new debt or the redemption of existing debt.

33. Financial Instruments

(a) Categories of financial instruments

	2009	2008
	RMB'000	RMB'000
Financial assets		
Fair value through profit or loss (FVTPL)	—	49,650
Loans and receivables (including cash and cash equivalents)		
Trade and other receivables	**471,046**	447,411
Bills receivables	**34,631**	32,115
Amount due from an associate	**4,364**	531
Pledged bank deposits	**183,918**	413,967
Bank balances and cash	**121,592**	195,133
	815,551	1,089,157
Available-for-sale investments	**10,000**	10,000
Financial liabilities		
Fair value through profit or loss (FVTPL)	—	44,380
Other financial liabilities at amortised cost		
Trade and bills payables	**718,799**	1,155,378
Other payables	**77,123**	78,898
Dividend payable	**39,592**	29,736
Bank borrowings	**1,047,649**	803,522
Other borrowings	—	15,000
	1,883,163	2,082,534

33. Financial Instruments

(b) Financial risk management and policies

The Group's major financial instruments include trade and other receivables, bills receivables, amount due from an associate, pledged bank deposits, bank balances and cash, trade and bills payable, other payables, bank and other borrowings and derivative financial instruments. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments include market risk (currency risk), credit risk and liquidity risk and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

Certain subsidiaries of the Group have foreign currency sales and purchases and certain trade receivables, bank deposits, other payables and bank borrowings are denominated in foreign currencies other than the respective functional currencies of the relevant group entities and thus expose the Group to foreign currency risk. The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

The carrying amounts of the Group's significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong Dollars	**17**	20	**—**	1,646
United States Dollars	**179,900**	183,630	**19,649**	62,878
Euro	**3,703**	7,783	**—**	—

Sensitivity analysis

The Group is mainly exposed to the effect of fluctuation in Hong Kong Dollars, United States Dollars and Euro. The following table details the Group's sensitivity to a 5% increase and decrease in the functional currency exchange rates of the relevant group entities against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency exchange rates. A negative number below indicates a decrease in post-tax profit for the year where the functional currencies of the relevant group entities strengthen 5% against relevant foreign currency. For a 5% weakening of the functional currencies of the relevant group entities against the relevant foreign currency, there would be an equal and opposite impact on the profit, and the balances below would be positive.

33. Financial Instruments *(continued)*

(b) Financial risk management and policies *(continued)*

Market risk *(continued)*

Foreign currency risk (continued)

Sensitivity analysis *(continued)*

	2009	2008
	RMB'000	RMB'000
Hong Kong dollars	**(1)**	68
United States Dollars	**(6,967)**	(5,160)
Euro	**(157)**	(331)

Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank loans (see note 27). The management considers the Group's exposure of the variable-rate bank loans and bank balances and deposits to interest rate risk is not significant as they have a short maturity period.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 27). The management monitors interest rate exposure and will consider repay the fixed-rate bank borrowings when significant interest rate exposure is anticipated.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of lending rate announced by The People's Bank of China arising from the Group's RMB denominated borrowings.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the amount of variable-rate bank loans and bank balances at the end of the reporting period was the amount outstanding for the whole year. 100 basis point (2008: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis point (2008: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2009 would decrease/increase by RMB3,255,000 (2008: decrease/increase RMB14,823,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

33. Financial Instruments *(continued)*

(b) Financial risk management and policies *(continued)*

Credit risk management

As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are reputable banks or banks with high credit-ratings.

Credit risk is concentrated as 18% (2008: 15%) and 40% (2008: 45%) of the total trade receivables are due from the Group's largest customer and the five largest customers within the manufacture and sales of tubings and casings business segment. However, the management considers, based on the strong financial background and good creditability of those debtors, there are no significant credit risks.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on borrowings as a significant source of liquidity.

As at 31 December 2009, the Group has available unutilised bank borrowings facilities of approximately RMB911,605,000 (2008: RMB412,985,000).

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

In addition, the following table details the Group's expected maturity for some of its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

33. Financial Instruments *(continued)*

(b) Financial risk management and policies *(continued)*

Liquidity risk management *(continued)*

Liquidity tables (continued)

The amounts included below for variable interest rate instruments for non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Moreover, the following tables for 2008 detail the Group's liquidity analysis for its derivative financial instruments. The table for 2008 has been drawn up based on the undiscounted contractual net cash inflows and (outflows) on derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments was prepared based on the contractual maturities as the management considered that the contractual maturities were essential for an understanding of the timing of the cash flows of derivatives.

	Effective interest rate %	On demand or less than 3 months RMB'000	3 months to 1 year RMB'000	More than 1 year RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount at 31.12.2009 RMB'000
2009						
Non-derivative financial assets						
Trade and other receivables	—	332,901	138,145	—	471,046	471,046
Bills receivables	—	20,811	13,820	—	34,631	34,631
Amount due from an associate	—	4,364	—	—	4,364	4,364
Pledged bank deposits	—	—	183,918	—	183,918	183,918
Bank balances and cash	—	121,592	—	—	121,592	121,592
		479,668	335,883	—	815,551	815,551
Non-derivative financial liabilities						
Trade and bills payables	—	(411,292)	(307,507)	—	(718,799)	(718,799)
Other payables	—	(72,614)	(4,509)	—	(77,123)	(77,123)
Dividend payable	—	(39,592)	—	—	(39,592)	(39,592)
Bank borrowings						
— Fixed rate	5.20	—	(357,000)	(328,235)	(685,235)	(663,000)
— Variable rate	5.30	(81,614)	(46,653)	(267,040)	(395,307)	(384,649)
		(605,112)	(715,669)	(595,275)	(1,916,056)	(1,883,163)

33. Financial Instruments *(continued)*

(b) Financial risk management and policies *(continued)*

Liquidity risk management *(continued)*

Liquidity tables (continued)

	Effective interest rate %	On demand or less than 3 months RMB'000	3 months to 1 year RMB'000	More than 1 year RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount at 31.12.2008 RMB'000
2008						
Non-derivative financial assets						
Trade and other receivables	—	439,888	7,523	—	447,411	447,411
Bills receivables	—	26,276	5,839	—	32,115	32,115
Amount due from an associate	—	531	—	—	531	531
Pledged bank deposits	—	—	413,967	—	413,967	413,967
Bank balances and cash	—	195,133	—	—	195,133	195,133
		661,828	427,329	—	1,089,157	1,089,157
Non-derivative financial liabilities						
Trade and bills payables	—	(422,472)	(732,906)	—	(1,155,378)	(1,155,378)
Other payables	—	(108,634)	—	—	(108,634)	(108,634)
Bank borrowings						
— Fixed rate	6.59	(158,310)	(26,648)	(373,065)	(558,023)	(523,522)
— Variable rate	6.39	(50,937)	(34,153)	(212,552)	(297,642)	(280,000)
Other borrowings	7.20	(15,270)	—	—	(15,270)	(15,000)
		(755,623)	(793,707)	(585,617)	(2,134,947)	(2,082,534)
Derivative-net settlement						
Foreign currency forward contracts						
— inflows	—	—	49,650	—	49,650	49,650
— outflows	—	—	(44,380)	—	(44,380)	(44,380)
		—	5,270	—	5,270	5,270

(c) Fair value

The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The fair value of derivative financial instruments are determined based on the valuation provided by counterparty financial institutions for equivalent instruments.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

34. Retirement/Pension Scheme Benefits

	2009 RMB'000	2008 RMB'000
Salaries and other benefits	**68,873**	72,206
Retirement benefit scheme contributions	**6,509**	5,621
Less: amount capitalised	**(5,944)**	—
Total	**69,438**	77,827

As stipulated by the laws, orders and regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal governments for its staff. Currently, the Group is required to make contributions to the retirement plans at a rate of 20% (2008: 20%) of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension, to be paid by the municipal governments, equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. When the staff leaves the positions, the Group is not entitled to recover the contributions paid in respect of their pension scheme benefits.

35. Operating Leases

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009 RMB'000	2008 RMB'000
Within one year	**400**	—
In the second to fifth years inclusive	**1,600**	—
Over five years	**1,333**	—
	3,333	—

Operating lease payments represent rentals payable by the Group for certain of its premises. Leases are negotiated for an average term of 5 years (2008: nil) and rentals are fixed for an average of 5 years (2008: nil).

36. Capital Commitments

	2009 RMB'000	2008 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**173,726**	255,727

37. Related Party Transactions

(a) In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group has the following material transaction with related party during the year:

	2009	2008
	RMB'000	RMB'000
Sales of goods:		
Yalong Oil Pump (an associate of the Group)	**7,912**	6,856

(b) In 2008, credit facilities of RMB250 million granted from banks from 21 September 2007 to 21 September 2008 were secured by a personal guarantee given by Mr. Zhang En Rong, a director of the Company. No such guarantee was noted for the year ended 31 December 2009.

(c) Compensation of key management personnel:

The remuneration of directors and other members of key management during the year is as follows:

	2009	2008
	RMB'000	RMB'000
Short-term employee benefits	**2,547**	2,645
Post employment benefit	**21**	45
	2,568	2,690

Further details of directors' remuneration are included in note 10 to the financial statements.

For the year ended 31 December 2009

38. Particulars of Subsidiaries of the Company

Details of the Company's subsidiaries at 31 December 2009 and 2008 are as follows:

Name of subsidiary	Place of establishment or incorporation/ operations	Issued and fully paid up share/registered capital	Percentage of registered capital held by the Company directly %	indirectly %	Principal activities
Molong Drilling Equipment	PRC	RMB6,000,000	100	—	Manufacture and sales of petroleum extraction machinery
MPM International Limited	Hong Kong	HK$7,800,000	90	—	Trading
壽光寶隆石油器材有限公司 (Shouguang Baolong Petroleum Material Company Limited)	PRC	RMB150,000,000	70	—	Manufacture and sales of casting pipes
壽光懋隆機械電氣有限公司 (Shouguang Maolong Machinery Company Limited)	PRC	RMB12,380,000	100	—	Manufacture and sales of oil extraction machinery accessories
壽光墨龍機電設備有限公司 (Shouguang Molong Electro-mechanical Equipment Company Limited)	PRC	US$1,000,000	—	97.5	Manufacture and sales of oil extraction machinery accessories
壽光懋隆廢舊金屬回收有限公司 (Shouguang Maolong Old Metals Recycle Company Limited) ("Maolong Recycle")	PRC	RMB500,000	10	90	Trading of scrap metals
Weihai Baolong Company Limited	PRC	RMB10,000,000	—	99.9	Manufacture and sales of special petroleum metal materials
文登市寶隆再生資源有限公司 (Wendeng Baolong Recyclable Resource Company Limited)	PRC	RMB300,000	—	99.99	Trading of scrap metals

None of the subsidiaries had issued any debt securities at the end of the year.

39. Other Events

(1) Pursuant to the extraordinary general meeting held on 8 January 2009, the Company applied to the China Securities Regulatory Commission (the "CSRC") and such other PRC authorities for the issue of not more than 70 million A shares of RMB1 each to individuals, legal persons and institutions with A share accounts at Shenzhen Stock Exchange (except those who are prohibited from subscribing for A shares pursuant to the relevant PRC laws and regulations and other applicable regulatory requirements). The Company has submitted to the CSRC an application for A share issue which is waiting for further review by the CSRC.

(2) In April 2009, seven American oil pipe manufacturing companies and United Steelworkers of America brought anti-dumping and anti-subsidies lawsuit to U.S. Department of Commerce and International Trade Committee about the Oil Country Tubular Goods products which were exported from China to the United States. The Company was not classified as a mandatory respondent company to the anti-dumping and anti-subsidies investigation. In January 2010, U.S. Department of Commerce and International Trade Committee issued final verdict for anti-subsidies. Up to the date of this report, the U.S. Department of Commence and International Trade Committee has not issued final verdict for anti-dumping. The Directors of the Company believe that this matter will only adversely affect the future sales of the Group to the United States.

40. Event after the Reporting Period

Pursuant to the resolutions passed by the shareholders at the extraordinary general meeting of the Company on 8 January 2009 and by the directors on 29 December 2009, every 10 shares of the Company of RMB0.1 each in issue was consolidated into one new share of RMB1.0 each effective from 7 January 2010. As at the date of this report, the total number of shares in issue is 328,924,200 after the consolidation.