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)

2010

INTERIM REPORT

* *For identification purpose only*

This report, for which the directors of Shandong Molong Petroleum Machinery Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company (the "Directors"), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

HIGHLIGHTS

- Achieved a revenue of approximately RMB1,318,845,000 for the six months ended 30 June 2010, which represents an increase of approximately 47.11% as compared to RMB896,527,000 in the same period last year.

- The net profit was approximately RMB120,900,000 with a decrease of approximately 13.70% as compared to RMB140,088,000 in the same period last year.

- Earnings per share of the Group were approximately RMB0.37 yuan for the six months ended 30 June 2010.

- The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2010.

The board of directors of Shandong Molong Petroleum Machinery Company Limited (the "Company") (the "Board") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2010 (the "period under review").

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

The unaudited results of the Group for the six months ended 30 June 2010 together with the unaudited comparative figures for the corresponding period in 2009 are as follows:

		Six months ended 30 June	
		2010	2009
	Notes	**RMB'000**	RMB'000
Revenue	(2)	**1,318,845**	896,527
Cost of sales		**(1,120,341)**	(695,917)
Gross profit		**198,504**	200,610
Other income and gains	(3)	**33,016**	53,518
Distribution expenses		**(23,103)**	(42,466)
Administrative expenses		**(32,382)**	(30,417)
Gain on fair value change of foreign currency forward contracts		**—**	310
Other expenses		**(9,862)**	(3,137)
Finance costs		**(19,551)**	(12,637)
Share of results of associate		**—**	(90)
Profit before taxation	(4)	**146,622**	165,691
Taxation	(5)	**(24,672)**	(24,401)
Profit for the period		**121,950**	141,290
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**6**	78
Total comprehensive income for the period		**121,956**	141,368
Profit for the period attributable to:			
Owners of the Company		**120,900**	140,088
Non-controlling interests		**1,050**	1,202
		121,950	141,290
Total comprehensive income attributable to:			
Owners of the Company		**120,905**	140,101
Non-controlling interests		**1,051**	1,267
		121,956	141,368
Earnings per share — basic (RMB yuan)	(6)	**0.37**	0.42

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	**As at 30 June 2010 RMB'000 (unaudited)**	As at 31 December 2009 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,505,455**	1,307,306
Deposit paid for acquisition of property, plant and equipment		**—**	1,534
Prepaid lease payments		**169,138**	150,415
Intangible assets		**40,574**	35,535
Goodwill		**142,973**	142,973
Investment in an associate		**2,436**	2,436
Available-for-sale investment		**10,000**	10,000
Deferred tax assets		**11,210**	17,092
Other non-current assets		**5,000**	—
		1,886,786	1,667,291
CURRENT ASSETS			
Inventories	(7)	**791,460**	713,655
Trade and other receivables	(8)	**853,380**	528,195
Bills receivables	(8)	**9,761**	34,631
Prepaid lease payments		**2,126**	2,960
Amount due from an associate		**—**	4,364
Pledged bank deposits		**216,013**	183,918
Bank balances and cash		**65,902**	121,592
		1,938,642	1,589,315

	Notes	As at 30 June 2010 RMB'000 (unaudited)	As at 31 December 2009 RMB'000 (audited)
CURRENT LIABILITIES			
Trade and bills payables	(9)	**810,946**	718,799
Other payables and accrued charges		**124,017**	96,064
Dividend payable		**23,789**	39,592
Bank borrowings — due within one year		**834,930**	467,649
Tax payable		**20,720**	30,398
Total current liabilities		**1,814,402**	1,352,502
NET CURRENT ASSETS		**124,240**	236,813
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,011,026**	1,904,104
NON-CURRENT LIABILITIES			
Bank borrowings — due after one year		**610,000**	580,000
Deferred tax liabilities		**9,856**	10,470
Total non-current liabilities		**619,856**	590,470
NET ASSETS		**1,391,170**	1,313,634
CAPITAL AND RESERVES			
Share capital		**328,924**	328,924
Reserves		**1,004,830**	923,395
Equity attributable to owners of the Company		**1,333,754**	1,252,319
Non-controlling interests		**57,416**	61,315
TOTAL EQUITY		**1,391,170**	1,313,634

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Net cash (outflow)/inflow from operating activities	**(68,761)**	59,618
Net cash outflow from investing activities	**(268,200)**	(191,523)
Net cash inflow from financing activities	**281,271**	195,259
Net increase/(decrease) in cash and cash equivalents	**(55,690)**	63,354
Cash and cash equivalents at the beginning of the period	**121,592**	195,133
Cash and cash equivalents at the end of the period	**65,902**	258,487
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**65,902**	80,346
Time deposits with original maturity of less than three months when acquired, pledged	**—**	178,141
	65,902	258,487

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the Company								
	Share capital	**Capital reserve**	**Statutory surplus reserve**	**Retained profits**	**Translation reserve**	**Dividend reserve**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	328,924	121,668	80,087	454,063	(811)	65,785	1,049,716	60,307	1,110,023
Profit for the period	—	—	—	140,088	—	—	140,088	1,202	141,290
Exchange differences arising on translation of foreign operations	—	—	—	—	13	—	13	65	78
Dividend paid	—	—	—	—	—	(65,785)	(65,785)	(4,500)	(70,285)
At 30 June 2009	328,924	121,668	80,087	594,151	(798)	—	1,124,032	57,074	1,181,106
At 1 January 2010	328,924	121,668	108,376	654,618	(737)	39,471	1,252,320	61,315	1,313,635
Profit for the period	—	—	—	120,900	—	—	120,900	1,050	121,950
Exchange differences arising on translation of foreign operations	—	—	—	—	5	—	5	1	6
Dividend paid	—	—	—	—	—	(39,471)	(39,471)	(4,950)	(44,421)
At 30 June 2010	**328,924**	**121,668**	**108,376**	**775,518**	**(732)**	**—**	**1,333,754**	**57,416**	**1,391,170**

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in Renminbi unless otherwise stated)

1. General Information and Basis of Preparation

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

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 30 December 2001 and its H shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM") on 15 April 2004. On 5 July 2004, the Company has authorized to become a Sino-foreign joint stock limited company. The Company transferred from the GEM to the Main Board of the Stock Exchange on 7 February 2007.

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The principal accounting policies used in the preparation of the condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

In current interim period, the Group has applied. for the first time, the following new or revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[5]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

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 HKAS 39 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 not affect the classification and measurement of the Group's financial assets.

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

2. Segment Information

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

	For the six months ended June 2010					
	Tubings RMB'000	Casings RMB'000	Three kinds of pumping Units RMB'000	Petroleum machinery RMB'000	Other RMB'000	Consolidated RMB'000
Segment revenue	**287,363**	**708,964**	**46,663**	**57,322**	**218,533**	**1,318,845**
Segment result	**42,358**	**105,307**	**9,654**	**14,261**	**3,821**	**175,401**
Unallocated corporate income						**33,016**
Unallocated corporate expenses						**(42,244)**
Finance costs						**(19,551)**
Profit before taxation						**146,622**

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

3. Other income and Gains

	Six months ended 30 June	
	2010 **RMB'000** **(Unaudited)**	2009 RMB'000 (Unaudited)
Sale of materials	**1,028**	286
Technology transfer fees	**—**	4,305
Bank interest income	**2,071**	9,845
Government subsidies	**17,237**	37,097
Valued-added tax ("VAT" refund) refund	**11,997**	1,576
Others	**683**	409
Total	**33,016**	53,518

4. Profit Before Taxation

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**1,120,341**	695,917
Depreciation of property, plant and equipment	**47,251**	43,227
(Write-back of provision)/provision against inventories	**(1,741)**	5,816
Reversed of allowance for trade receivables	**(431)**	(10,756)
Research and development costs	**6,524**	8,347

5. Taxation

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 People's Republic of China (the "PRC") Law on Enterprise Income Tax promulgated on 16 March 2007, the Company is entitled to a concessionary rate of income tax at 15% over 3 years, beginning on 1 January 2008.

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

Weifang Molong Drilling Equipment Company Limited ("Molong Drilling Equipment"), according to the tax document Cai Shui Zi [2007] No. 92 (財稅字[2007]92號文), with effect from 1 July 2007, Molong Drilling Equipment was entitled to claim twice of salaries paid to its disabled employees when calculating the PRC corporate income tax.

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current taxation	**18,211**	20,579
Deferred taxation	**6,461**	3,822
	24,672	24,401

6. Earnings Per Share

The calculation of the basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB120,900,000 for the six months ended 30 June 2010 and on the weighted average number of 328,924,200 shares in issue during the period.

7. Inventories

	30 June 2010 RMB'000 (unaudited)	31 December 2009 RMB'000 (audited)
Raw materials	**242,890**	202,850
Work in progress	**278,882**	283,133
Finished goods	**269,688**	227,672
Total	**791,460**	713,655

8. Trade and Other Receivables and Bills Receivables

	30 June 2010 RMB'000 (unaudited)	31 December 2009 RMB'000 (audited)
Trade receivables	**547,847**	450,746
Deposits and other receivables	**65,656**	24,369
Prepayments	**239,877**	53,080
	853,380	528,195
Bills receivables	**9,761**	34,631
	863,141	562,826

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 analysis of the trade receivables by age, presented based on invoice date.

	30 June 2010 RMB'000 (unaudited)	31 December 2009 RMB'000 (audited)
Trade receivables		
Within three months	**437,684**	373,572
Three to six months	**53,223**	17,920
Six months to one year	**12,606**	8,179
Over one year	**44,334**	51,075
Total	**547,847**	450,746

Bills receivables are all aged within six months.

9. Trade and Bills Payables

An aged analysis of trade and bills payables by age, presented based on invoice date, is as follows:

	30 June 2010 RMB'000 (unaudited)	31 December 2009 RMB'000 (audited)
Trade and bill payables		
Within three months	**458,694**	373,466
Three to six months	**272,867**	259,822
Six months to one year	**37,073**	42,232
More than one year	**42,312**	43,279
Total	**810,946**	718,799

As at 30 June 2010, the Group's bills payables of RMB372,122,000 (31 December 2009: RMB373,611,000) were secured by the pledge of certain time deposits amounting to RMB179,058,000 (31 December 2009: RMB183,918,000). The average credit period on purchase is six months.

10. Capital Commitments

	30 June 2010 RMB'000 (unaudited)	31 December 2009 RMB'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**170,644**	173,726

11. Foreign currency risk

The Group's risks for foreign currency fluctuations mainly arises from certain trade payables, and cash and cash equivalents calculated in currencies other than RMB, the functional currency.

12. Related Party Transactions

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

13. Contingent Liabilities

As at 30 June 2010, the Group did not have any significant contingent liabilities

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2010, the Group recorded an unaudited revenue of approximately RMB1,318,845,000 (2009: approximately RMB896,527,000), representing an increase of approximately RMB422,318,000 or an increase of 47.11% as compared to the corresponding period in the previous year, and net profit of approximately RMB120,900,000 (2009: approximately RMB140,088,000) with a decrease of 13.70% as compared to the corresponding period last year, in which net profit from operation was approximately RMB107,623,000, representing an increase of 11.55% from RMB96,476,000 over the corresponding period last year.

During the period under review, the revenue derived from domestic sales was RMB919,415,000, an increase of 88.28% as compared to the corresponding period in the previous year, and accounted for 69.71% of the total revenue during the period under review. Meanwhile, the revenue derived from overseas markets was RMB399,470,000, a decrease of 2.15% as compared to the corresponding period in the previous year and accounted for 30.29% of the total revenue during the period under review.

	For the six months ended 30 June 2010		For the six months ended 30 June 2009	
Region	**Revenue RMB'000**	**percentage (%)**	Revenue RMB'000	percentage (%)
PRC	**919,415**	**69.71**	488,313	54.47
United States	**229,580**	**17.41**	230,031	25.66
Japan	**13,476**	**1.02**	58,479	6.52
Other countries	**156,374**	**11.86**	119,704	13.35
Total	**1,318,845**	**100.00**	896,527	100.00

During the period under review, the gross profit was RMB198,504,000, basically equal to RMB200,610,000 during the same period in 2009. Consolidated gross profit margin was 15.05%, compared to 22.38% in the same period in 2009. The decrease in gross margin was mainly due to the significant increase in the production volume of a subsidiary as compared to the corresponding period last year. This has not only secured the supply of raw materials for the Group's internal use, but also generated a revenue of RMB217,880,000 from the external sales of the excessive products. However, the Group's consolidated gross profit margin reduced and it was attributable to the lower gross profit margin of such products in which the gross profit margin of its key products of tubing and casings were 17.04% and 17.13% respectively, declining from 19.57% and 19.79% respectively as recorded in last year. This was mainly resulted from the time lag between the sales price adjustment and the time in which the raw materials fluctuated. After the price adjustment of the products in June, the gross profit margin of tubing and casing were 20.32% and 21.43% respectively, higher than the annual average last year.

During the period under review, the selling expenses was RMB23,103,000, an decrease of 45.60% as compared to RMB42,466,000 during the same period in 2009. The decrease in the selling expenses was due to the realization of the benefit of the market expansion measures we have taken amid the gradual recovery of the market.

During the period under review, the administrative expenses was RMB32,382,000, an increase of 6.46% as compared to RMB30,417,000 during the same period in 2009. The increase in administrative expenses was mainly due to the increase in the amortisation of intangible assets.

During the period under review, finance costs was RMB19,551,000, an increase of 54.71% from RMB12,637,000 during the same period in 2009. The increase was mainly due to the increase in bank loans resulting from expansion of the Group's production and sales capacity.

As at the end of the period under review, the cash and cash equivalent was RMB65,902,000, representing a decrease of RMB55,690,000 from RMB121,592,000 as at the end of 2009, in which net cash inflow from the operation activities was RMB –68,761,000 which was mainly attributable to the prepayment of RMB200,000,000 made to the raw materials suppliers for purchase of raw materials after the determination of the raw material prices during the period. Net cash outflow from the investment business was RMB268,200,000, and this was mainly attributable to the investment expenses for the construction of 180mm designated oil pipes re-construction project. Net cash inflow from the financing activities was RMB281,271,000. This was mainly attributable to increase in bank loans for the prepayment made to suppliers at the price fixed, and increase in working capital loan for the expansion of the production and sales capacity.

Business Review

Main Business

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

Release of Production Capacity

During the period under review, the 250,000-tonne oil casing production line has reached its full designed production capacity, and the output of it reached 126,000 tonnes. The release of the full potential of the production capacity of such production line has allowed the substantial increase in the production of oil casing and the production capacity of high value-added non-API casing of the Group, which are beneficial to the Group's profitability and market competitiveness.

Enhance Marketing Strategies and Expand Domestic and Overseas Markets

Domestic market development

The Group's current major customers are oil fields operated by the two oil groups in the domestic markets, namely PetroChina Company Limited and its subsidiaries (collectively "PetroChina Group"), which own oil fields including Xinjiang Oil Field (新疆油田), Daqing Oil Field (大慶油田), Changqing Oil Field (長慶油田), Liaohe Oil Field (遼河油田), Tarim Oilfield (塔里木油田), Qinghai Oil Field (青海油田), Huabei Oil Field (華北油田) and Jilin Oil Field (吉林油田), and China Petroleum & Chemical Corporation and its subsidiaries (collectively "Sinopec Group"), which own oil fields including Shengli Oil Field (勝利油田), Zhongyuan Oil Field (中原油田), Jiangsu Oil Field (江蘇油田), Jianghan Oil Field (江漢油田) etc.. During the period under review, the Group had once again become one of the seven major providers of finished oil well pipers in oil business in China, which laid solid foundation to increase the shares of the Group's products in the domestic market. Meanwhile, the Group actively promoted the cooperation in the ocean oil well-pipes and petroleum machinery aspects with CNOOC Limited and its subsidiaries (collectively "CNOOC Group"), and Shanxi Yanchang Petroleum (Group) Co., Ltd. (i.e. Yanchang Petroleum, 延長石油), and further implemented stated strategies of overall cooperation with the four major domestic oil groups.

During the period under review, the Group introduced various products to the market. For example, 80S tubing was supplied to Chuanqing Drilling, 12Cr1MoVG high-pressure boiler tubing was supplied to Tianjin Zhicheng Xinda Company Limited (天津至誠信達有限公司) and Tianjin YaDiEr Iron & Steel Trading Co., Ltd. (天津雅迪爾鋼鐵貿易有限公司); and 20# steel high-pressure fertilizer tubing was supplied to Qinghai Oil Field. The developments of new products and customers laid good foundation to enhance the market competitiveness of the Company's products.

In the emerging coal and coalbed gas exploitation market, the Company's products such as oil casing pipes, oil well pumps, oil well pumping machines and hydraulic supporting tubes have been successfully supplied in mass quantity to new customers such as Tianjin Baoye Steel Tube Company Limited (天津寶冶鋼管有限公司),Hubei Shenhe Hydraulic Machinery Company Limited (湖北神河液壓機械有限公司),Tianjin Shuofeng Steel Tube Company Limited (天津碩豐鋼管有限公司),Tianjin Haoyuan Weiye Steel Tube Company Limited (天津浩源偉業鋼管有限公司), Linyi Zhongkuang Jinding Co., Ltd. (臨沂中礦金鼎有限公司), Shandong Tiansheng Mine Equipment Co., Ltd. (山東天晟煤礦裝備有限公司), Henan Middlings Pipe Industry Co., Ltd. (河南中煤管業有限公司) and Shan Dong Xin Mei Machinery Co., Ltd. (山東新煤機械有限公司). With the rapid scale development of the emerging field of coalbed gas extraction, the demand for the Company's products will continue to increase.

Overseas markets

During the period under review, overcoming effect of the financial crisis, the Group further strengthened markets including Southeast Asia, the 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, Central Africa and had achieved good performance. The nickel plating corrosion resistant sucker rod was supplied to the Canadian market. The Group continued to establish and maintain good cooperative relationships with several international oil companies, which in turn boosted the sales of its products in the overseas markets.

Comprehensive Development of New Products

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

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

During the period under review, the Group continued to increase its efforts to develop high-end products and strengthened technological cooperation with research institutes such as Xi'an Jiaotong University, Xi'an Pipe Material Research Institute of PetroChina Group, Xi'an Maurer Petroleum Engineering Material Lab and China University of Petroleum (East China). The Group actively expanded the product structure, enriched product categories and gradually develop new products, such as L80-1Cr tubing, 80S tubing, nickel plating corrosion resistant sucker rod, 12Cr1MoVG high pressure boiler pipes, 20# aluminium high pressure chemical fertilizer pipes, which have been produced under mass production; 73 special couplings oil pipes and BNS acid conduit pipes which have been examined and tested by the authorities on the mainland and are in the pipeline for mass production; as well as Q125-1 high end aluminium casings and ML125TT strong anti-pressure casings which are currently being examined and tested by the authorities on the mainland.

Proposed A Share Issue

The A share proposal and relevant authorizations had been approved at the annual general meeting and the class meetings held on 28 March 2010 by the Company. The Company is compiling the relevant materials and will choose a good opportunity to submit the application for A share issue to the China Securities Regulatory Commission.

Major Acquisitions/Disposals and Significant Investment

During the period under review, the Group had no major acquisition or disposal and significant investments.

Outlook

International Monetary Fund (IMF) updated the World Economic Outlook on 8 July, where it forecasted that an approximately 4.5% and 4.25% growth in the world economy this year and next year will be recorded, respectively. As compared with the forecast last quarter, IMF raised its forecast of this year by 0.5%, implying buoyant economic activities in the first half of the year. IMF also believed that the risk of global deflation was considerably low, and the oil price would probably reach US$75.3 per barrel by the end of the year.

The 2010 Energy Blue Book which was newly published by Social Sciences Academic Press indicates that oil supply in China will grow steadily, and although the demand slowed down in the short term, it is expected to rise in the long term.

With the recovery of the economy, the global demand for petroleum will increase, which will stimulate oil fields exploitation to increase output, to increase the market demand for petroleum drilling and extraction machinery, and to bring better development for the petroleum machinery industry. Hence the Group will continue to capture opportunities and further enhance its competitive capability through various strategies, including introduction of new products and high value-added products, improvement of product quality, strengthening of its research and development capability, enhancement of market promotion and adoption of effective cost control. Meanwhile, the Group will continue to develop its domestic and overseas markets in order to increase its market share in the industry.

Looking forward, the Group will continue to focus on its business of petroleum drilling and extraction machinery, and continue to research in and develop new products which respond to customers' needs. It will suitably increase the scale of the production, and continue to develop the petroleum and natural gas and the coal mine methane drilling and extraction equipment industry.

Progress of High Grade Special Petroleum Pipes Technical Reconstruction Project

As at the date of this report, the "180mm special petroleum pipes technical reconstruction project" (the "180 Project") has completed investment of RMB590,180,000. After the completion of the 180 project, the Group is expected to produce additional 300,000 tonnes high grade special petroleum pipes per year, which will reach in the next 3 years, and will change the status of the limited capacity of the Company.

Bank Facilities and Pledge of Assets

As at 30 June 2010, the Group had bank credit loans amounting to RMB1,057,000,000. In addition, ten banks, including the Agricultural Bank of China (Shandong Branch), have granted credit facilities totaling RMB1,763,000,000 to the Group. None of these credit facilities have been utilized.

Employees

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

	As of 30 June	
	2010	2009
Research and development	**70**	66
Production	**2,258**	2,197
Quality control	**144**	183
Sales and marketing	**63**	68
Administration	**178**	188
Total	**2,713**	2,702

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

CORPORATE GOVERNANCE

The Company has complied throughout the period under review with the code provisions set out in the Code on Corporate Governance (the "Code") contained in Appendix 14 of the Listing Rules without any deviation. None of the Directors is aware of any information that would reasonably suggest that the Company is not or was not in compliance with the Code at any time during the period under review.

Audit Committee

The Audit Committee is mainly responsible for monitoring the completeness of the Company's financial statements, reviewing the Company's internal control system and its execution, through review of work undertaken by the internal and external auditors, evaluating financial information and related disclosures.

The Audit Committee consists of three independent non-executive Directors, namely Mr. Chau Shing Yim David, Mr. John Paul Cameron and Ms. Wang Chun Hua. Mr. Chau Shing Yim David is the Chairman of the Audit Committee. The Audit Committee held one meeting during the period under review with an attendance rate of 100%.

The Audit Committee has reviewed the Group's unaudited financial statements and monitored internal control system and its execution for the six months ended 30 June 2010.

Remuneration and Evaluation Committee

The primary duty of the Remuneration Committee is to submit proposals to the Board on the overall remuneration policy and structure in respect of the Directors and members of the senior management of the Company and to determine the specific remuneration for all executive Directors and members of the senior management.

The Remuneration Committee consists of three independent non-executive Directors: Mr. Chau Shing Yim David, Mr. John Paul Cameron and Ms. Wang Chun Hua, and one executive Director, Mr. Zhang Yun San. Mr. John Paul Cameron is the Chairman of the Remuneration Committee.

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

Nomination Committee

The principal rights and duties of the Nomination Committee are to regularly review the structure, size and composition (including skill, knowledge and experience) of the Board and to make recommendations to the Board on any intended change.

The Nomination Committee consists of three independent non-executive Directors: Mr. Chau Shing Yim David, Mr. John Paul Cameron and Ms. Wang Chun Hua, and one executive Director, Mr. Zhang Yun San. Ms. Wang Chun Hua is the Chairman of the Nomination Committee.

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

Model Code for Securities Transaction by Directors of Listed Issuer

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

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

As at 30 June 2010, the interest and short positions of the Directors, supervisors (the "Supervisors") and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the required standard of dealings by Directors as set out to in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the domestic shares of the Company:

	Type of Interest	Number of domestic shares *(Note)*	Percentage of domestic shares *(%)*	Percentage of total registered share capital *(%)*
Zhang En Rong *(Executive Director)*	Beneficial	139,758,500	69.58	42.49
Lin Fu Long (*Executive Director)*	Beneficial	17,108,000	8.52	5.20
Zhang Yun San *(Executive Director)*	Beneficial	15,304,000	7.62	4.65
Xie Xin Cang *(Executive Director)*	Beneficial	10,705,000	5.33	3.25

Notes : Unlisted shares.

Save as disclosed above, as at 30 June 2010, to the best knowledge of the Directors, none of the Directors, the Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or were required, pursuant to section 352 of the SFO to be entered in the register referred to therein, or which were required, pursuant to the requirements as set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange.

OTHER DISCLOSURE INFORMATION

Anti-dumping Lawsuit

On 29 April 2009, the United States announced that an investigation on anti-dumping and anti-subsidies with respect to the oil well pipes exported from China to the United States would be undertaken. The Company has engaged professional attorneys to actively respond to the lawsuit in order to safeguard the legitimate interests of the Company. During the period under review, the U.S. Department of Commerce and International Trade Committee issued a final verdict for anti-dumping and anti-subsidies that the subsidy rate and the anti-dumping rate applicable to the Company was 13.41% and 32.07%, respectively.

On 24 August 2009, Canada undertook an investigation on anti-dumping and anti-subsidies for oil pipes originally produced in or exported from China. During the period under review, Canada Border Services Agency has issued a final ruling on the case of anti-dumping and anti-subsidies. The subsidy rate and the anti-dumping rate applicable to the Company were 90.69% and 2.20% respectively.

In response to the impacts on the Company with respect to the anti-dumping and anti-subsidies measures in North America, the Company furthered its efforts in developing markets in North Africa, Central Africa and South America while securing its position in the domestic and established markets. Meanwhile, the Company also speeded up the development of its new products in order to develop high-end products designated for users, with an aim to offset the adverse impact of trade friction. The revenue generated from the export of oil pipes and casings to Canada increased 141.02% to RMB141,271,000 and the sales income for the products exported to the US was RMB517,384,000 (in which, the income from oil pipes and casings was RMB3,158,000). This has secured the long-term favourable development of its export trade.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

None of the Directors or Supervisors or their respective associates (as defined by 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 as at 30 June 2010.

Share Option Scheme

The Company does not have any share option scheme.

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 the PRC, the Board held the 16th Board meeting of the 2nd Session of the Board on 29 December 2009 according to the authorization provided to 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.

Substantial Shareholders

As at 30 June 2010, so far as known to the Directors, Supervisors or chief executives of the Company, the following persons (other than Directors, Supervisors or chief executives of the Company) had, or were deemed or taken to have interests or short positions in the shares and underlying shares and debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register to be kept under section 336 of the SFO:

Long positions in the H Shares of the Company:

	Capacity	Number of H shares	Approximate percentage of total issued H Shares capital (%)	Approximate percentage of total issued Share capital (%)
Paul G. Desmarais *(Note 1)*	Interest of controlled corporation	28,673,200	22.39	8.72
Nordex Inc. *(Note 1)*	Interest of controlled corporation	28,673,200	22.39	8. 72
Gelco Enterprises Ltd.	Interest of controlled corporation	28,673,200	22.39	8. 72
Power Corporation of Canada *(Note 1)*	Interest of controlled corporation	28,673,200	22.39	8. 72
Power Financial Corporation *(Note 1)*	Interest of controlled corporation	28,673,200	22.39	8. 72
IGM Financial Incorporation *(Note 1)*	Interest of controlled corporation	28,673,200	22.39	8. 72
Martin Currie (Holdings) Limited *(Note 2)*	Interest of controlled corporation	11,378,000	8.88	3.46
Cheah Capital Management Limited *(Note 3)*	Interest of controlled corporation	9,077,200	7.08	2. 76
Cheah Company Limited *(Note 3)*	Interest of controlled corporation	9,077,200	7.08	2. 76
Hang Seng Bank Trustee International Limited *(Note 3)*	Trustee	9,077,200	7.08	2. 76
Value Partner Group Limited *(Note 3)*	Interest of controlled corporation	9,077,200	7.08	2. 76
Value Partner Limited *(Note 3)*	Investment Manager	9,077,200	7.08	2. 76
Cheah Cheng Hye *(Note 3)*	Interest of founder of discretionary trust	9,077,200	7.08	2. 76
To Hau Yin *(Note 3)*	Interest of spouse	9,077,200	7.08	2. 76

Notes:

1. According to the disclosure of interest notices filed by Paul G Desmarais., Gelco Enterprises Ltd., IGM Financial Inc., Nordex Inc., Power Corporation of Canada and Power Financial Corporation, each of these parties/companies is interested in 28,673,200 H shares of the Company as at 30 June 2010. Among these 28,673,200 H Shares in which these companies are deemed to have interest, 26,773,200 H Shares were directly held by Mackenzie Cundill Investment Management Ltd. and 1,900,000 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. To the best of the Directors' knowledge and belief and according to the disclosure of interest notices filed by Martin Currie (Holdings) Limited, the company is interested in 11,378,000 H Shares of the Company as at 30 June 2010. Among these 11,378,000 H Shares, 5,022,000 H Shares were directly held by Martin Currie Inc and 6,356,000 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 fi led 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 30 June 2010.

   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 Hy

So far as is known to the Directors, Supervisors or chief executive, there are no other persons (not being a Director, Supervisor or chief executive of the Company) who held shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register required to be kept under section 336 of the SFO.

Competing Interests

None of the Directors or the management shareholders of the Company and their respective associates (as defined in the Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

Interim Results

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010.

Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2010.

Sufficiency of Public Float

According to information of the Company available to the public and to the knowledge of the Board, the Board confirms that the Company has maintained a sufficient public float up to the date of this report.

Directors

As at the date of this announcement, the executive Directors of the Company are Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long and Mr. Xie Xin Cang; the non-executive Directors are Mr. Chen Jian Xiong and Mr. Wang Ping; and the independent non-executive Directors are Mr. Chau Shing Yim David, Mr. John Paul Cameron and Ms. Wang Chun Hua.

By order of the Board of Directors
Zhang En Rong
Chairman

Shandong, the PRC
23 July 2010