山東墨龍石油機械股份有限公司
Shandong Molong Petroleum Machinery Company Limited*

*(A Sino-foreign joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 568)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

## HIGHLIGHTS

The revenue of the Group amounted to approximately RMB2,041,376,000, which represents a decrease of 26.00% as compared with last year.

Profit attributable to equity holders of the parent amounted to approximately RMB268,315,000 representing a decrease by approximately 12.26% as compared with last year.

Earnings per share of the Group amounted to RMB0.82 representing a decrease by 11.83% as compared with last year.

The Board recommended the payment of a final dividend of RMB0.12 per share (before tax).

The board of directors of Shandong Molong Petroleum Machinery Company Limited (the "Company") the Board is pleased to announce the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2009 (the "Reporting Period").

## 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 | 4 | **78,136** | 17,119 |
| Distribution expenses | | **(64,957)** | (59,892) |
| Administrative expenses | | **(52,427)** | (95,335) |
| Gain on fair value change of foreign currency forward contracts | | **310** | 5,270 |
| Other expenses | | **(307)** | (1,787) |
| Finance costs | 5 | **(30,316)** | (49,015) |
| Share of results of associate | | **247** | 332 |
| Profit before taxation | | **324,280** | 353,256 |
| Income tax expense | 6 | **(50,458)** | (33,857) |
| Profit for the year | 7 | **273,822** | 319,399 |
| Other comprehensive income: | | | |
| Exchange differences arising on translation of foreign operations | | **74** | 185 |
| Total comprehensive of 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 |
| Final dividends recognised as distribution: RMB0.02 (2008: RMB0.015) per ordinary share | 8 | **65,785** | 49,339 |
| Proposed final dividends: RMB0.12 (2008: RMB0.02) per ordinary share | | **39,471** | 65,785 |
| | | | (Restated) |
| Earnings per share — basic | 9 | **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 | | **1,307,306** | 1,009,695 |
| Deposit paid for acquisition of property, plant and equipment | | **1,534** | 3,504 |
| Prepaid lease payments | | **150,415** | 91,083 |
| Goodwill | | **142,973** | 142,973 |
| Intangible assets | | **35,535** | 11,429 |
| Investment in an associate | | **2,436** | 2,339 |
| Available-for-sale investments | | **10,000** | 10,000 |
| Long term prepayment | | **—** | 3,275 |
| Deferred tax assets | | **17,092** | 27,913 |
| | | **1,667,291** | 1,302,211 |
| **Current assets** | | | |
| Inventories | 10 | **713,655** | 795,938 |
| Trade and other receivables | 11 | **528,195** | 543,764 |
| Bills receivables | 11 | **34,631** | 32,115 |
| Prepaid lease payments | | **2,960** | 2,100 |
| Amount due from an associate | | **4,364** | 531 |
| Derivative financial instruments | | **—** | 49,650 |
| Pledged bank deposits | | **183,918** | 413,967 |
| Bank balances and cash | | **121,592** | 195,133 |
| | | **1,589,315** | 2,033,198 |
| **Current liabilities** | | | |
| Trade and bills payables | 12 | **718,799** | 1,155,378 |
| Other payables and accrued charges | | **96,064** | 125,518 |
| Dividend payables | | **39,592** | 29,736 |
| Derivative financial instruments | | **—** | 44,380 |
| Bank borrowings — due within one year | | **467,649** | 253,522 |
| Other borrowings | | **—** | 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 | | **580,000** | 550,000 |
| Deferred tax liabilities | | **10,470** | 19,364 |
| | | **590,470** | 569,364 |
| | | **1,313,634** | 1,110,023 |

| | 2009 | 2008 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Capital and reserves** | | |
| Share capital | **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 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2009*

### 1. GENERAL

The Company was established in the People's Republic of China ("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.

### 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.

**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 3) 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

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 owership 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. 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.

**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** |
| Share of results of associate | | | | | | **247** |
| Unallocated corporate expenses | | | | | | **(59,693)** |
| Finance costs | | | | | | **(30,316)** |
| Profit before taxation | | | | | | **324,280** |

| | For the year ended 31 December 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Tubings | Casings | Three kinds of pumping units | Petroleum machinery | Others | Total for reportable segments |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *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.

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, 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.

**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 assets | **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.

**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 |

**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.

## 4. 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 RMB30,000,000 received from the local financial bureau of Shanguang 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) represented the VAT received by 濰坊墨龍鑽採設備有限公司 (Weifang Molong Drilling Equipment Company Limited) ("Molong Drilling Equipment"), a subsidiary of the Group, which was approved by 國家稅務總局 (State Administration of Taxation) as a welfare enterprise (民政福利企業). According to the tax document Cai Shui [2007] No.92, "Notice about the levy of turnover tax of welfare enterprises for the purpose of encouraging employment for the disabled issued by the State Tax Bureau" (《關於促進殘疾人就業稅收優惠政策的通知》), the output VAT paid by Molong Drilling Equipment was refundable.

Pursuant to a tax document Cai Shui [2008] No.157, "Notice about the levy of natural 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, were 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.

## 5. 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.

## 6. INCOME TAX EXPENSE

| | 2009 | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| The income tax expense comprises: | | |
| Current taxation | **48,531** | 40,283 |
| Deferred taxation | **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.

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)* | (30,195) |
| Tax exemption granted to a welfare enterprise for the year | (106) |
| Additional tax benefit on research and development expenses | (1,413) |
| Tax effect of expenses not deductible for tax purpose | 956 |
| Tax effect of income not taxable for tax purpose | (1,677) |
| Effect of different tax rates of subsidiaries | 13,449 |
| Decrease in opening deferred tax assets resulting from decrease in applicable tax rate | 1,419 |
| Others | (1,564) |
| Income tax expense for the year | 33,857 |

*Note*: Pursuant to the relevant tax rules and regulations, the Company claimed PRC enterprise income tax credits on 40% of the acquisition cost of certain qualified plant and machinery as PRC enterprise income tax expenses.

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

## 7. 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 | **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 |

## 8. DIVIDEND

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *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 3,289,240,200 shares before consolidation of shares which is effective on 7 January 2010.

## 9. 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.

## 10. 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 |

## 11. 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 |

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 petroleum extraction machinery and related accessories. 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 |

**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 |

## 12. 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 | 2008 |
|---|---|---|
| | *RMB'000* | *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). 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.

## 13. CAPITAL COMMITMENTS

| | 2009 | 2008 |
|---|---|---|
| | *RMB'000* | *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 |

### 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, 3N80S Anti-H2S 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 (十堰市佳囱液壓機械有限公司), 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, $3^1/_2$" 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, $3^{1}/_{2}$" 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 ML110TTHigh anti-collapse Casing, ML80SS Anti-H2S 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, CO2 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.

**Significant Investments**

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

## SIGNIFICANT ITEMS

### Proposed A Share Issue

The resolution of proposed A share issue and the relevant authorizations was approved by the Shareholders at the first Extraordinary General Meeting and the Class Meetings held on 8 January 2009 by the Company. The Company has submitted to the China Securities Regulatory Commission ("CSRC") an application for the A share issue which is currently under review by CSRC.

### Corporate Governance

The Company is committed to the establishment of a good corporate governance standard. The principles of corporate governance adopted by the Company emphasize a quality Board, sound internal control, and transparency and accountability to all shareholders. For the year ended 31 December 2009, the Company has complied with all the code provisions, and where applicable the recommended best practices of the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Please refer to the Corporate Governance Report in the Annual Report for the year ended 31 December 2009 for more details.

The Audit Committee (its members include three independent non-executive Directors) of the Company held two meetings in the year of 2009 to discuss matters such as the accounting standards and practices adopted by the Group, internal control and financial reportings. The Audit Committee has reviewed the audited annual results for the year ended 31 December 2009.

### Director's Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules and requires the Directors to follow the Model Code while conducting securities transactions. Such requirements also apply to the Company's management. The Company has made specific enquiries to all Directors and confirmed that all of the Directors had complied with the required standard of securities transactions by the Directors set out in the Model Code for the year of 2009.

### Dividend

The proposed final dividend for the year ended 31 December 2009 is RMB0.12 per share (before tax).

### Purchase, Sale or Redemption of Securities

Neither the Company nor its subsidiary had purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2009.

**Closure of Register of Members of H Shares**

The register of members of H shares of the Company ("H Shares'") will be closed from 26 February 2010 to 28 March 2010 (both days inclusive) during which period no transfer of the H Shares will be effected.

In order to be entitled to attend and vote at the forthcoming annual general meeting and the H Shares Class Meeting of the Company to be convened on 28 March 2010 and to the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the registrar for H Shares (for holders of H Shares), Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 25 February 2010.

**Publication of the Results Announcement and the Annual Report on the websites of the Stock Exchange and the Company**

This announcement of the final results for year ended 31 December 2009 is published on the websites of the Stock Exchange at h*ttp://www.hkexnews.hk* under "Latest Listed Company Information" and the Company at *http://www.molonggroup.com*. The Annual Report for the year ended 31 December 2009 of the Company containing all the information required by the Listing Rules will be despatched to shareholders of the Company and published on the aforesaid websites in due course.

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

Shandong, People's Republic of China
5 February 2010

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

* *For identification purpose only*