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 liacility)

(Stock Code: 8261)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at "www.hkgem.com" in order to obtain up-to-date information on GEM-listed issuers.

This announcement, 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 GEM of the Stock Exchange (the "GEM 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- The H Shares of the Company were successfully listed on GEM of the Stock Exchange on 15 April 2004.
- For the year ended 31 December 2004, the Group's turnover increased significantly to approximately RMB487,688,000, which representing an approximate 61.34% growth as compared to the previous year, and the Group's net profit from ordinary activities attributable to shareholders increased by approximately 39.54% to approximately HK$61,366,000 as compared to the previous year.
- Earnings per share of the Company and its subsidiary (collectively, the "Group") was approximately RMB0.122 for the year ended 31 December 2004.
- The board of Directors (the "Board") has recommended a final dividend of RMB0.015 per share which is subject to approval by shareholders of the Company in the forthcoming annual general meeting.

THE FINANCIAL STATEMENTS

Results

The Directors are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2004, together with the comparative audited figures for the year 2003, as follows:

Consolidated Profit and Loss Account

For the year ended 31 December 2004

	Notes	**2004** **RMB'000**	2003 RMB'000
TURNOVER	2	**487,688**	302,274
Cost of sales		**(391,030)**	(226,872)
Gross profit		**96,658**	75,402
Other revenue and gains	2	**15,458**	21,995
Selling and distribution costs		**(20,128)**	(11,299)
Administrative expenses		**(14,300)**	(11,099)
Other operating expenses		**(7,540)**	(10,914)
PROFIT FROM OPERATING ACTIVITIES	3	**70,148**	64,085
Finance costs	4	**(4,572)**	(4,738)
PROFIT BEFORE TAX		**65,576**	59,347
Tax	5	**(1,485)**	(13,197)
PROFIT BEFORE MINORITY INTERESTS		**64,091**	46,150
Minority interests		**(2,725)**	(2,173)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	6	**61,366**	43,977
DIVIDENDS	**7**		
Interim		**10,806**	—
Proposed final		**8,100**	—
EARNINGS PER SHARE – Basic	8	**RMB0.122**	RMB0.109

Consolidated Balance Sheet

As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
NON-CURRENT ASSETS			
Fixed assets		**133,458**	87,043
Intangible assets		**112**	—
Long term investments		**50**	6,050
		133,620	93,093
CURRENT ASSETS			
Inventories		**140,284**	67,985
Trade receivables		**89,871**	55,319
Notes receivables		**—**	4,500
Other receivables		**15,321**	54,871
Due from related parties		**—**	10,429
Pledged deposits		**61,886**	34,072
Cash and cash equivalents		**26,077**	63,087
		333,439	290,263
CURRENT LIABILITIES			
Trade and bills payables		**169,096**	120,321
Other payables and accruals		**20,206**	47,256
Tax payable		**302**	6,880
Interest-bearing bank loans		**30,000**	65,000
Due to related parties		**811**	—
		220,415	239,457
NET CURRENT ASSETS		**113,024**	50,806
TOTAL ASSETS LESS CURRENT LIABILITIES		**246,644**	143,899
NON CURRENT LIABILITIES			
Interest-bearing bank loans		**—**	25,000
MINORITY INTERESTS		**1,090**	4,814
NET ASSETS		**245,554**	114,085
CAPITAL AND RESERVES			
Issued capital		**54,000**	40,500
Reserves		**183,454**	73,585
Proposed final dividend	7	**8,100**	—
SHAREHOLDERS' EQUITY		**245,554**	114,085

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Note	Issued share capital RMB'000	Capital reserve RMB'000	Statutory reserve fund* RMB'000	Statutory welfare fund* RMB'000	Enterprise expansion fund RMB'000	Retained earnings RMB'000	Subtotal of reserves RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2003		40,500	21,278	3,476	2,322	10	2,522	29,608	—	70,108
Net profit for the year		—	—	—	—	—	43,977	43,977	—	43,977
Transfer from retained earnings to statutory fund		—	—	4,107	2,058	—	(6,165)	—	—	—
Written back on disposal		—	(651)	—	(10)	(10)	671	—	—	—
At 31 December 2003		40,500	20,627	7,583	4,370	—	41,005	73,585	—	114,085
Issue of new shares		13,500	89,169	—	—	—	—	89,169	—	102,669
Share issue expenses		—	(21,760)	—	—	—	—	(21,760)	—	(21,760)
Net profit for the year		—	—	—	—	—	61,366	61,366	—	61,366
Transfer from retained earnings to statutory fund		—	—	8,456	3,649	—	(12,105)	—	—	—
Interim dividend	7	—	—	—	—	—	(10,806)	(10,806)	—	(10,806)
Proposed final dividend	7	—	—	—	—	—	(8,100)	(8,100)	8,100	—
At 31 December 2004		54,000	88,036	16,039	8,019	—	71,360	183,454	8,100	245,554

* The Company and its subsidiaries are required to follow the laws and regulations of the PRC and their articles of association to provide for certain statutory funds, namely the statutory reserve fund and the statutory welfare fund, which are appropriated from net profit after tax, but before dividend distribution at the discretion of their board of directors on at least 10% and 5% of net profit, respectively. The statutory reserve fund is provided for each entity until the balance of such fund has reached 50% of the entity's registered capital. The statutory reserve fund may only be used, upon approval by the relevant authority, to offset accumulated losses or to increase capital. The statutory welfare fund is only permitted to be used for special bonuses or for the collective welfare of the employees. Assets acquired through this fund are not treated as assets of the Group.

Notes to the Financial Statements

Year ended 31 December 2004

1. Segment Information

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. The Group's operating business is with customers based in the PRC, the United States, and other countries. Each of the Group's geographical segments represents customer destinations to which the Group sells products or provides services which are subject to risks and returns that are different from those of the other geographical segments. No further business segment information is presented as over 90% of the Group's operations relate solely to the sale of petroleum machinery.

In determining the Group's geographical segments, assets are attributed to the segments based on the location of the assets instead of the location of the customers.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following table presents revenue, and profit and certain asset, liability and expenditure information for the Group's geographical segments.

Group

	PRC		United States		Unallocated		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue:								
Sales to external customers	**398,351**	256,478	**52,052**	42,972	**37,285**	2,824	**487,688**	302,274
Other revenue	**1,768**	4,593	**—**	—	**—**	—	**1,768**	4,593
Total	**400,119**	261,071	**52,052**	42,972	**37,285**	2,824	**489,456**	306,867
Segment results	**96,204**	53,159	**11,536**	12,303	**4,907**	491	**112,647**	65,953
Unallocated income (a)							**13,690**	17,402
Unallocated expenses (a)							**(56,189)**	(19,270)
Profit from operating activities							**70,148**	64,085
Finance costs							**(4,572)**	(4,738)
Profit before tax							**65,576**	59,347
Tax							**(1,485)**	(13,197)
Profit before minority interests							**64,091**	46,150
Minority interests							**(2,725)**	(2,173)
Net profit from ordinary activities attributable to shareholders							**61,366**	43,977

(a) Mainly represent sundry revenue and corporate expenses, as well as the depreciation of fixed assets.

1. **Segment Information (continued)**

	PRC		United States		Unallocated		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment assets	**448,916**	383,356	**17,269**	—	**874**	—	**467,059**	383,356
TOTAL ASSETS							**467,059**	383,356
Segment liabilities	**210,416**	264,457	**—**	—	**9,999**	—	**220,415**	264,457
TOTAL LIABILITIES							**220,415**	264,457
For the years ended 31 December 2003 and 2004:								
Depreciation and amortisation	**9,177**	5,943	**—**	—	**—**	—	**9,177**	5,943
Impairment losses recognised in the profit and loss account	**—**	—	**—**	—	**—**	—	**—**	—
Capital expenditure	**55,772**	53,321	**—**	—	**—**	—	**55,772**	53,321
Provision against obsolete inventories	**—**	20	**—**	—	**—**	—	**—**	20
Provision/(Write-back of provision) for doubtful debts	**—**	969	**—**	—	**—**	—	**—**	969

2. Turnover Revenue and Gains

Turnover represents the invoiced value of goods sold, and after allowances for goods returned and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

Revenue from the following activities has been included in turnover: An analysis of turnover, other revenue and gains is as follows:

		Group	
		2004	2003
	Notes	**RMB'000**	RMB'000
Turnover			
Sale of petroleum machineries		**487,688**	302,274
		487,688	302,274
Other revenue			
Subcontracting income		**1,568**	4,491
Investment income from a trust investment		**289**	—
Interest income		**1,029**	893
Government grants and subsidies	(i)	**3,019**	2,391
VAT refund	(ii)	**9,168**	10,039
Rental income		**98**	98
Insurance claim/Compensation income		**—**	863
Others		**185**	562
		15,356	19,337
Gains			
Gain on disposal of subsidiaries		**—**	2,658
Gain on disposal of fixed asset		**102**	—
		15,458	21,995

Notes:

(i) Government grants and subsidies for the year ended 31 December 2004 represented export subsidy and bonus for being successfully listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which amounted to RMB 1,219,000 and RMB 1,800,000 respectively. Government grants and subsidies for the year ended 31 December 2003 mainly consisted of export subsidy, new product development subsidy and enterprise technology subsidy.

(ii) Shouguang Molong Machinery Company Limited(壽光市墨龍機械有限公司) ("Molong Machinery") was approved by the Ministry of Civil Affairs of Shandong Province(山東省民政廳)as a welfare enterprise(民政福利企業). According to the tax document Guo Shui Fa [1994] No.155, "Notice about the levy of turnover tax of welfare enterprises issued by the State Tax Bureau"《國家稅務局關於民政福利企業徵收流轉稅問題的通知》, the output value added tax ("VAT") paid by Molong Machinery is refundable.

3. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	2004	2003
	RMB'000	RMB'000
Auditors' remuneration	**600**	1
Cost of inventories sold	**391,030**	226,872
Depreciation	**9,169**	5,943
Loss on disposal of subsidiaries	**—**	(2,658)
Amortisation of an intangible asset	**8**	—
Minimum lease payments under operating leases:		
Land and buildings located in the PRC	**267**	267
Provision/(reversal of provision) against obsolete inventory	**(150)**	20
Provision for doubtful debts	**2,171**	969
Preliminary expenses	**8**	779
Research and development costs: current year expenditure	**3,983**	4,232
Staff costs (including directors' remuneration):		
Wages and salaries	**16,675**	11,182
Retirement benefits cost	**1,765**	1,416
	18,440	12,598
Rental income	**(98)**	(98)
Interest income	**(1,016)**	(893)

4. Finance Costs

	Group	
	2004	2003
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	**4,572**	4,738

5. Tax

The Company is located in the People's Republic of China ("PRC") and as a result are subject to PRC corporate income tax at a rate of 33% on its assessable profits. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the year.

The Company's subsidiaries, namely, Molong Machinery and Weifang Molong Drilling Equipment Company Limited（濰坊墨龍鑽採設備有限公司）("Molong Drilling Equipment") were approved by the Ministry of Civil Affairs of Shandong Province（山東省民政廳）as a welfare enterprise（民政福利企業）and hence were entitled to a full exemption from corporate income tax for year 2003 and 2004 according to the tax document Cai Shui Zi [1994] No.1《關於企業所得税若干優惠政策的通知》.

	2004	2003
	RMB'000	RMB'000
Group		
Total current — PRC tax charge for the year	**12,818**	13,197
Tax exemption granted for prior year	**(11,333)**	—
	1,485	13,197

5. Tax (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the PRC in which the Company and its subsidiaries is domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, is as follows:

	2004 RMB'000	2003 RMB'000
Profit before tax	**65,576**	59,347
Tax at the statutory tax rate	**21,640**	19,585
Income not subject to tax	**(539)**	—
Expenses not deductible for tax	**37**	849
Tax exemption granted to welfare enterprise for prior year	**(11,333)**	—
Tax exemption granted to welfare enterprise for current year	**(1,617)**	—
Adjustments in respect of current tax of previous period	**(680)**	—
Tax exemption of purchased fixed assets used for qualified technological improvement projects	**(6,023)**	(6,360)
Gain on disposal of subsidiaries not taxable for income tax purpose	**—**	(877)
Actual income tax	**1,485**	13,197
At the effective tax rate	**2%**	22%

6. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was RMB114,706,000 (2003: RMB17,131,000).

7. Dividends

	2004 RMB'000	2003 RMB'000
Interim – RMB 0.02 (2003: Nil) per ordinary share	**10,806**	—
Proposed final-RMB0.015 (2003:Nil) per ordinary share	**8,100**	—

The proposed final dividend for the year is subject to the approval by the Company's shareholders at the forthcoming annual general meeting.

8. Earnings Per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of RMB61,366,000 (2003: RMB 43,977,000), and the weighted average of 501,261,934 (2003: 405,000,000) ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

No diluted earnings per share amounts have been presented for the year as no diluting events existed during the year.

9. **Reserves**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Pursuant to the relevant laws and regulations for business enterprises, a portion of the profits of the Group's entities which are incorporated in the PRC has been transferred to the statutory reserve fund and statutory welfare fund which are restricted as to use.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The successful listing of the Company on the GEM of the Stock Exchange on 15 April 2004 represented not only an important milestone for the Group in 2004 but also a significant progress in the Group's development, marking a new era of the Group. By utilising the proceeds from the listing, the Group was able to further enhance the core competitiveness of the Group both domestically and internationally and capture its edge in both product development and industrial expansion in the petroleum extraction machinery industry.

Following the listing, the Group's productivity improved significantly with the injection of additional resources into the Group, among which, the production of oil well sucker rods and oil well pipes have surpassed the production targets as originally set out in the prospectus of the Company dated 30 March 2004 (the "Prospectus"), while projects of special seamless oil well pipes and super-strength oil well sucker rods have also been put into operation ahead of schedule and achieved inspiring results.

In terms of market exploration, currently, the Group's customers are mainly oil fields of the subsidiaries or branches of PetroChina Company Limited ("PetroChina") and China Petroleum & Chemical Corporation ("Sinopec"), including Daqing Oil Field (大慶油田), Shengli Oil Field (勝利油田), Xinjiang Oil Field (新疆油田), Zhongyuan Oil Field (中原油田) and Liaohe Oil Field (遼河油田). Apart from consolidating relationships with the existing customers, the Group also further explored new domestic and overseas markets, including the Changqing Oil Field (長慶油田) in Shaanxi province, North America, the United Kingdom, Russia, France, Indonesia, the Middle East, Brunei, Egypt and Syria successfully. During the year under review, the turnover of the Group generated from exporting its products to overseas market increased significantly, laying a solid foundation for the Group's future development of overseas markets.

During the year under review, the Group has signed a "Letter of Intent of Co-operation" with Petroleum Pipe Co. Ltd. of the United Kingdom to sell the Group's products to overseas markets through its international sales network. The management believes that, through the strategic co-operation, the Group's market share can be further enhanced.

Since its incorporation, the Group has been placing great emphasis on maintaining close relationship with its customers as well as providing them with value-added services. During the year under review, the Group has successfully implemented the Enterprise Resources Planning ("ERP") system which has facilitated internal communications, improved the efficiency in resources deployment and the quality of management and provided the latest market and product information for its international and domestic customers.

In order to apply the capital resources in the most cost-effective way and to cater for future development, the Group conducted business restructuring during the year under review. The Company and Shouguang Maolong Machinery Company Limited(壽光懋隆機械電氣有限公司)("Maolong Machinery") resolved to liquidate Shouguang Molong Machinery Company Limited (壽光市墨龍機械有限公司) ("Molong Machinery") and to transfer its assets and businesses relating to the oil well sucker rods and oil well pumps to a newly incorporated subsidiary of the Company, Weifang Molong Drilling Equipment Company Limited(濰坊墨龍鑽採設備有限公司) ("Molong Drilling Equipment"). As Molong Drilling Equipment is entitled to enjoy a simplified tax regime in the PRC, the Group can reduce its operating expenses and improve its cash flow position. The Board believes that the above business restructuring is beneficial to the long term development of the Group.

In addition, the management considers that quality of raw materials is vital in ensuring the high quality of the Group's products. During the year under review, the Group has entered into a "Strategic Co-operation Agreement" with the largest supplier of the Group, pursuant to which the supply of raw materials was secured.

During the year under review, the Group also obtained a number of accreditations from the People's Government of Shandong Province and the Agricultural Bank of China, including "Top 50 Industrial Enterprises of Weifang City in 2004", "Top 100 Sales Income and Tax Paying Enterprises in Shandong Province for three consecutive years", "Class A Tax Paying and Good Credit Entity" and "AAA Good Credit Enterprise".

Prospects

Owing to the increase in the global demand for petroleum, the impact of political instability and occurrence of terrorist activities, the price of crude oil continued to increase in 2004. In addition, the rapid development of the economy in the PRC has further boosted the market demand for crude oil.

According to the "China Statistics Yearbook 2004", the proportion of petroleum to total energy consumption in the PRC has increased from 18% in 1996 to 22.7% in 2003. The PRC is currently the world's second largest crude oil consuming country. The PRC Government has been paying more attention to petroleum resources and has indicated that it will implement special policies in providing funds and resources to the petroleum industry in order to promote the development of petroleum industry, increase petroleum reserves and stabilise supplies of petroleum resources. The management are of the view that, if the policies are implemented successfully, the domestic petroleum extraction machinery and related accessories industry will grow rapidly. It will also bring unlimited business opportunities to the Group.

In order to maintain the Group's market competitiveness, the Group will continue to invest in its business, conduct research and development of new products, improve its productivity and expand the Group's production capacity by constructing new production facilities. At the same time, the Group will also increase its marketing activities in order to further expand the market coverage in both domestic and overseas markets. The Directors believe that by virtue of its advantages in product research and development and production capacity, the Group will be able to capture business opportunities, provide high quality petroleum extraction machinery and accessories for domestic and overseas petroleum extraction companies and generate satisfactory returns to the Shareholders, as it did in the past.
Prospects

Financial review

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

Turnover

For the year ended 31 December 2004, the Group's turnover increased significantly as a result of increasing market demand in petroleum machinery industry. The Group's turnover was approximately RMB302 million for the year ended 31 December 2003 and surged to approximately RMB488 million for the year ended 31 December 2004, which was principally derived from the sale of oil well pipes, oil well sucker rods, oil well pumps, casing, oil well pumping machines and other petroleum extraction machinery accessories.

As compared to the previous year, the Group's turnover rapidly increased due to the growing sales of oil well pipes. In addition, oil well pipes, oil well sucker rods and casing were successfully launched into new overseas markets. The Directors believe that the Group's commitment in providing quality products is crucial in maintaining its competitive edge in the PRC and overseas markets.

Gross Profit

The Group's gross profit increased from approximately RMB75 million for the year ended 31 December 2003 to approximately RMB97 million for the year ended 31 December 2004, representing an increase of approximately 28.19% as compared to the previous year. The substantial growth was mainly due to the rapid increase in turnover.

Consolidated Gross Profit Margin

The consolidated gross profit margin of the Group decreased from approximately 24.94% for the year ended 31 December 2003 to approximately 19.82% for the year ended 31 December 2004, representing a decrease of approximately 5%. The main reason for the slight decrease in the consolidated gross profit margin was the change of the products mix of the Group. Compared to other products' gross profit margins, the gross profit margin of oil well pipes was approximately 15.3%, which is relatively lower. Owing to the huge demand for oil well pipes, speedy market development as well as enhancement of production capacity, the turnover of oil well pipes increased rapidly from RMB 134,500,000 in 2003 to RMB261,500,000 in 2004 , the ratio in the total turnover increased from 44.5% in 2003 to 53.6% in 2004.

Net Profit from Ordinary Activities Attributable to Shareholders

The Group's net profit from ordinary activities attributable to Shareholders increased from approximately RMB44 million for the year ended 31 December 2003 to approximately RMB61 million for the year ended 31 December 2004, representing an increase of approximately 39.54% as compared to the previous year. The substantial increase was mainly due to the rapid increase in turnover and gross profit.

Cost of Sales

The Group's cost of sales increased from approximately RMB227 million for the year ended 31 December 2003 to approximately RMB391 million for the year ended 31 December 2004, representing an increase of approximately 72.36% as compared to the previous year. The significant increase in cost of sales was mainly attributable to the growth of the Group's turnover, resulted in the increase of transportation costs by approximately RMB5 million for the year ended 31 December 2004.

Administrative Expenses

The Group's administrative expenses increased from approximately RMB11 million for the year ended 31 December 2003 to approximately RMB14 million for the year ended 31 December 2004, representing an increase of approximately 28.84% as compared to the previous year. The increase in administrative expenses was mainly attributable to the increase in the cost of emoluments and staff benefits by approximately RMB1 milion for the year ended 31 December 2004.

Finance Costs

The finance costs of the Group for the year ended 31 December 2004 was approximately RMB5 million, representing approximately 0.94% of the Group's total turnover and a decrease of approximately RMB0.17 million over last year. The decrease in finance costs was principally due to the Group's enhancement of capital control.

Research and Development Costs

The research and development costs of the Group for the year ended 31 December 2004 was approximately RMB3,983,000, representing approximately 0.82% of the Group's total turnover and a decrease of approximately RMB249,000 over last year.

Liquidity and Financial Resources

The Group generally financed its operations and investment activities by internal financial resources and banking facilities provided by banks in the PRC. As at 31 December 2004, the Group had outstanding bank loans of approximately RMB30,000,000.

As at 31 December 2004, the Group had a net cash and cash equivalents of approximately RMB26 million (2003: approximately RMB63 million) and pledged deposits of approximately RMB62 million (2003: approximately RMB34 million). Net current assets of the Group was approximately RMB113 million (2003: approximately RMB51 million). The Directors consider that the Group has sufficient financial resources to meet its liabilities and commitments.

Gearing Ratio

The Group's gearing ratio was approximately 47.10% (2003: 69.0%) which is calculated based on the Group's total liabilities of approximately RMB220 million (2003: approximately RMB264 million) and Shareholders' interests, minority interests and liabilities of approximately RMB467 million (2003: approximately RMB383 million).

Pledge of Assets

The bank loan of RMB 15,000,000 was secured by certain equipment of the Group.

Contingent Liabilities

As at 31 December 2004, the Group did not have any material contingent liabilities. (2003: RMB 6,000,000) The Company has provided counter-guarantee to Shandong International Trust and Investment Corporation ("SDITIC") in relation to the guarantee granted by SDITIC to the Company for bills payable of RMB6,000,000 as at 30 June 2004. The counter-guarantee provided by the Company to SDITIC is by way of pledging the Company's beneficiary interests under a Fund Management Trust Agreement entered into between the Company and SDITIC dated 27 September 2003.

Banking Facilities

As at 31 December 2004, the Group had bank loans amounting to RMB30,000,000 including a loan amounting to RMB15,000,000 secured by certain equipment of the Group and an unsecured loan amounting to RMB15,000,000 of the Company. In addition, the Agricultural Bank of China and CITIC Industrial Bank has granted credit facilities amounting to RMB150,000,000 and RMB40,000,000 to the Group, respectively, which have not been utilised.

Foreign Exchange Exposure

For the financial year ended 31 December 2004, approximately 18.3% of the Group's operating revenue is denominated in US dollars and the rest are denominated in RMB. The cost of sales and capital of the Group are mainly denominated in RMB. The official exchange rate between US dollars and RMB has generally been stable in recent years. The Directors consider that the Group's exposure to fluctuation in foreign exchange rate was minimal and, accordingly, the Group did not employ any financial instruments for hedging purposes.

Segment Information

An analysis of the Group's turnover and segment results by geographical segment for the year ended 31 December 2004 is set out in note 1 to the financial statements.

Capital Commitment

As at 31 December 2004, the Group had contracted capital commitments of approximately RMB128 million (2003: approximately RMB2million) in respect of fixed assets.

Employees

As at 31 December 2004, the Group had a total of 1,308 employees (31 December 2003: 1,105). For the year ended 31 December 2004, staff costs including directors' remuneration were approximately RMB16,675,000 (31 December 2003: RMB11,182,000). The Group's employment and remuneration policies remain unchanged from those described in the Prospectus. The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits are also provided to the employees by the Company.

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

Significant Investments

There were no significant investments held by the Group as at 31 December 2004.

Material Acquisitions and Disposals during the Year and Future Plans for Investment

Save for the business restructuring by way of liquidation of the Group's subsidiary, Molong Machinery and the transfer of its assets and the businesses relating to oil well sucker rods and oil well pumps to a newly established subsidiary, Molong Drilling Equipment, the Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2004.

Comparison of Business Objectives with Actual Business Progress

The net proceeds from the placing and public offer of H shares by the Company on 15 April 2004, which amounted to approximately HK$76.35 million, was intended to be used by the Directors as stated in the Prospectus and out of which approximately HK$5.4 million was used for general working capital. As at 31 December 2004, the Group has utilised the proceeds as follows:

	Proposed use of proceeds as at 31 December 2004 as stated in the Prospectus HK$ million	**Actual amount used as at 31 December 2004** HK$ million	**Remaining proceeds as at 31 December 2004** HK$ million
Research and development	**4.70**	**5.20**	**1.20**
Expansion of production capacity	**21.50**	**37.30**	**—**
Production improvement and development	**22.00**	**22.50**	**0.80**
Sales and marketing	**0.55**	**1.55**	**0.40**
Human resources	**0.70**	**0.90**	**0.60**
Certification	**0.10**	**0.10**	**0.40**
Total	**49.55**	**67.55**	**3.40**

The Group has accelerated its production capacity expansion and certain projects were completed prior to their scheduled time as set out in the Prospectus owing to the rising demand for petroleum extraction machinery. In this regard, certain investment costs, which were initially expected to be expended in 2005 and 2006, were utilised accordingly.

Comparisons of the business objectives set out in the Prospectus with the actual business progress for the period from 22 March 2004 to 31 December 2004 are as follows:

Business objectives as stated in Prospectus	***Actual business progress***
Research and development	
Technology for production of super-strength oil well sucker rod	Technology for production of super-strength oil well sucker rod has been developed
Energy conservation technology in oil well pumping machines	Energy conservation technology has been developed
To develop a packer jointly with the Zhongyuan Institute	The development of the packer has been completed
To continue research and development on petroleum extraction machinery and related accessories	The planned research and development has been achieved

Business objectives as stated in Prospectus	Actual business progress
Expansion of production capacity	
To achieve annual production capacity of oil well pumps to approximately 10,000 units	The planned annual production capacity has been achieved
To achieve annual production capacity of oil well sucker rods to approximately 3,000,000 meters	The annual production capacity of oil well sucker rods has been increased to approximately 3,500,000 meters
To achieve annual production capacity of oil well pumping machines to approximately 200 units	The planned annual production capacity has been achieved
To achieve annual production capacity of oil well pipes to approximately 35,000 tons	The annual production capacity of oil well pipes has been increased to approximately 55,000 tons
To maintain annual production capacity of underground petro-electric pumps to approximately 200 units	The planned annual production capacity has been maintained
To maintain annual production capacity of blade-guide pulleys to approximately 150,000 sets	The planned annual production capacity has been maintained
To achieve annual production capacity of valves to approximately 60,000 pieces	The planned annual production capacity has been achieved
To maintain annual production capacity of fluid injection pumps to approximately 300 units	The planned annual production capacity has been maintained
To achieve annual production capacity of mud pump steel sleeves to approximately 33,000 pieces	The planned annual production capacity has been achieved
To complete the construction of new production facilities for super-strength oil well sucker rods and to achieve annual production capacity to approximately 40,000 tons	The construction of new production facilities for super-strength oil well sucker rods has been completed and the planned annual production capacity has been achieved
To construct new production facilities for special seamless oil well pipes	Successfully developed special seamless oil well pipes. The construction of new production facilities has been completed with an annual production capacity of approximately 60,000 tons

Business objectives as stated in Prospectus	***Actual business progress***
Production improvement and development	
To develop oil well pipes which can withstand high pressure	Successfully developed oil well pipes which can withstand high pressure. The construction of new production facilities has been completed with an annual production capacity of approximately 60,000 tons
To develop advance and reliable oil well sucker rods by utilising high quality steel raw materials and to construct the production facilities for oil well sucker rods	The development of advanced and reliable oil well suck rods and the construction of relevant production facilities completed
To enhance oil well pumps performance under specific oil well conditions, such as anti-corrosion, sand-proof, etc.	The objective has been achieved
To enhance system operations for oil well pumping machines	The objective has been achieved
Sales and marketing	
To refine and increase the speed for the Group's official website and to further understand domestic and foreign market of petroleum machinery	The Group's official website has been revamped and its speed has also been increased
To reinforce current sales network (domestic and foreign) and simultaneously to further explore markets in North America and the Middle East by sending sales principals to North America and the Middle East	Sales principals have been sent to North America and the Middle East, sales agents were appointed and direct business relationships with certain clients have been established
Human resources	
To expand the Group's work force by recruiting high caliber individuals from time to time	The objective, including the recruitment of suitable personnel responsible for research and development, production, quality control, sales and marketing and administration, has been achieved
Certification	
To obtain new and/or renew existing National Industrial Product Manufacturing Licenses for oil well pumps, oil well sucker rods and oil well pumping machines	The renewal of existing National Industrial Product Manufacturing Licenses has been completed

Disclosure under GEM Listing Rules 17.15 to 17.21

Under the Chapter 17.15 of the GEM Listing Rules, the following disclosure obligation arises, among other situations, where any of the percentage ratios of the relevant advance to an entity from the issuer or any of its subsidiaries exceeds 8%.

Loans advanced, and guarantees given for facilities granted, to entities by the Group which individually exceeded 8% of the relevant percentage ratios under Rule 17.15 of the GEM Listing Rules as at 31 December 2004 are as follows:

Advance to PetroChina

Trade receivables in the amount of approximately RMB47,805,000 were owed from an independent party, PetroChina Company Limited ("PetroChina") and its subsidiaries as at 31 December 2004. Such receivables exceeded 8% of the relevant percentage ratio(s).

As confirmed by the Directors, the trade receivables referred to above were resulted from the sale of the Group's products to such customers in the ordinary course of business of the Group. The trade receivables were unsecured, interest free and had credit terms of between 30 to 150 days.

Disclosure of Directors' Interests in Shares

As at 31 December 2004, the interests and short positions of the Directors and any chief executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and to the Stock Exchange, will be as follows:

Long positions in shares of the Company

Name	Type of interest	Number of domestic shares	Percentage of domestic shares	Percentage of total registered share capital
Zhang En Rong	Personal	279,517,000	69.58%	51.76%
Lin Fu Long	Personal	34,216,000	8.52%	6.34%
Zhang Yun San	Personal	30,608,000	7.62%	5.67%
Xie Xin Cang	Personal	21,410,000	5.33%	3.96%

Other than as disclosed above, none of the Directors and chief executives had any interests or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or will be required pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 to 5.68 of the GEM Listing Rules or section 352 of the SFO to be entered in the register of interests referred to therein.

Substantial Shareholders

As at 31 December 2004, so far as the Directors are aware, the following persons (other than Directors or chief executives of the Company) had interests or short positions in the shares and 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 to be kept under section 336 of the SFO:

Long positions in shares

Name	Type of interests	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered capital
Zhang Xiu Lan (Note 1)	Interests of spouse	279,517,000	69.58%	—	51.76%
Li Xiu Fen (Note 2)	Interests of spouse	34,216,000	8.52%	—	6.34%
Zhang Xin Lan (Note 3)	Interests of spouse	30,608,000	7.62%	—	5.67%
Li Bao Hui (Note 4)	Interests of spouse	21,410,000	5.33%	—	3.96%
Martin Currie Investment Management Limited (Note 5)	Investment manager	15,696,000	—	11.36%	2.91%
Martin Currie China Hedge Fund Limited (Note 5)	Investment manager	12,264,000	—	8.87%	2.27%
UBS AG (Note 5)	Investment manager	12,264,000	—	8.87%	2.27%
Peter Cundill & Associates (Bermuda) Ltd. (Note 5)	Investment manager	63,700,000	—	46.07%	11.80%

Note 1: Zhang Xiu Lan is the wife of Zhang En Rong and is taken to be interested in the 279,517,000 domestic shares held by Zhang En Rong under the SFO.

Note 2: Li Xiu Fen is the wife of Lin Fu Long and is taken to be interested in the 34,216,000 domestic shares held by Lin Fu Long under the SFO.

Note 3: Zhang Xin Lan is the wife of Zhang Yun San and is taken to be interested in the 30,608,000 domestic shares held by Zhang Yun San under the SFO.

Note 4: Li Bao Hui is the wife of Xie Xin Cang and is taken to be interested in the 21,410,000 domestic shares held by Xie Xin Cang under the SFO.

Note 5: Interests in H shares.

Save as disclosed above, so far as the Directors are aware, there are no other persons not being a Director or chief executive of the Company who had interests or short positions in the shares and 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.

Corporate Governance

The Company has complied throughout the period under review with the provisions on board practice and procedures in the GEM Listing Rules, which was substantially revised with effect from 1 January 2005. Subject to the transitional arrangements, the Company will comply with the revised GEM Listing Rules, in particular, the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules, from the financial year commencing on 1 January 2005.

Competing Interests

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

Compliance Adviser's Interest

As updated and notified by the Company's Compliance Adviser, Deloitte & Touche Corporate Finance Limited (the "Compliance Adviser"), neither the Compliance Adviser, nor its directors, employees or associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Company as at 31 December 2004 pursuant to Rule 6.36 of the GEM Listing Rules.

Pursuant to an agreement dated 29 March 2004 entered into between the Company and the Compliance Adviser, the Compliance Adviser will receive a fee for acting as the Company's retained sponsor for the period from 15 April 2004 to 31 December 2006 or until the agreement is terminated in accordance with the terms and conditions set out therein.

Audit Committee

The Company established an audit committee on 20 March 2004 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting procedures and internal control system of the Group. The audit committee comprises the three independent non-executive Directors, namely Mr. Qin Xue Chang, Mr. Yan Yi Zhuang and Mr. Loke Yu alias Loke Hoi Lam. Mr. Qin Xue Chang is the chairman of the audit committee.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the audited results of the Group for the year ended 31 December 2004.

Purchase, Sale or Redemption of Securities

Neither the Company nor its subsidiary has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2004.

By order of the Board
Shandong Molong Petruleum Machinery Company Limited
Zhang En Rong
Chairman

Shandong, the PRC, 16 March 2005

This announcement will remain on the GEM website on the "Latest Company Announcements" page or 7 days form the day of its posting.

As at the date of this announcement, the directors of the Company are:

Executive Directors

Mr. Zhang En Rong
Mr. Zhang Yun San
Mr. Lin Fu Long
Mr. Xie Xin Cang

Non-executive Directors

Mr. Chen Jian Xiong
Mr. Wang Ping

Independent non-executive Directors

Mr. Qin Xue Chang
Mr. Yan Yi Zhuang
Mr. Loke Yu alias Loke Hoi Lam