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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: 8261)

PLACING OF 108,000,000 NEW H SHARES

Sole Bookrunner and Lead Manager



Guotai Junan Securities (Hong Kong) Limited

Joint Financial Advisers



Guotai Junan Capital Limited

Deloitte.

德勤

Deloitte & Touche Corporate Finance Ltd.

On 26 April 2005, the Company entered into the Placing Agreement with the Lead Manager in relation to the Placing, pursuant to which, the Lead Manager has agreed to place 108,000,000 new H Shares, on a fully underwritten basis, at the Placing Price. The Placing Shares represent approximately 20.0% of the existing issued share capital of the Company and approximately 16.7% of the issued share capital of the Company, as enlarged by the issue of the Placing Shares. The Placing Price of HK\$0.92 per H Share represents (a) a discount of 8.0% to the closing price of HK\$1.0 per H Share as quoted on GEM on 25 April 2005, being the trading day immediately preceding the date of the Placing Agreement; and (b) a discount of approximately 6.9% to the average closing price of HK\$0.988 per H Share for the 5 trading days as quoted on GEM immediately preceding the date of the Placing Agreement.

The Placing Shares will be subscribed by more than six independent professional and institutional investors and are fully underwritten by the Lead Manager.

The net proceeds of the Placing, after deducting the related commission and expenses, will be approximately HK\$94.8 million. The Company intends to use all of the net proceeds from the Placing for the purchase of a full set of new production facilities for producing casing and related accessories. The net Placing Price is approximately HK\$0.878 per H Share.

The Placing Shares will be issued under the specific mandate granted to the Directors at the special general meeting of the Company and the separate Class Meetings held on 14 February 2005. The Company has obtained the approval of the CSRC on 18 April 2005 for the issue of not more than 108,000,000 Placing Shares.

The Company has applied for a suspension of trading of its H Shares on GEM from 9:30 a.m. on 26 April 2005 pending the publication of this announcement. Application has been made to the Stock Exchange for a resumption of trading of the H Shares on GEM with effect from 9:30 a.m. on 28 April 2005.

Reference is made to the announcements of the Company dated 22 December 2004 and 14 February 2005.

On 26 April 2005, the Company entered into the Placing Agreement with the Lead Manager in relation to the Placing. Information relating to the Placing is set out below:

The Placing Agreement

Date: 26 April 2005

Parties: (i) the Company; and
(ii) Guotai Junan Securities (Hong Kong) Limited

The Placing

The Lead Manager has agreed to act as sole placing agent of the Company to procure, on a fully underwritten basis, professional, institutional or other investors (including their respective ultimate beneficial owners, where applicable) who are independent of and not connected with any promoter, supervisor, director, chief executive, management shareholder or substantial shareholder (as those terms are defined in the GEM Listing Rules) of the Company or any of its subsidiaries or any of their respective associates, to subscribe for 108,000,000 Placing Shares, failing which the Lead Manager has agreed to subscribe for the unplaced portion of the Placing Shares. The Placing Shares will be subscribed by more than six independent professional and institutional investors. The Lead Manager and its ultimate beneficial owner, are independent of and not connected with any promoter, supervisor, director, chief executive, management shareholder or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates. The Lead Manager is entitled to an underwriting commission amounting to 3.5% of the proceeds of the Placing.

Number of Placing Shares

108,000,000 H Shares, representing: (a) approximately 78.1% of the existing H Shares in issue and approximately 20.0% of the issued share capital of the Company immediately prior to the Placing; and (b) approximately 43.9% of the H Shares and 16.7% of the total issued share capital of the Company as enlarged by the issue of the Placing Shares.

Placing Price

HK\$0.92 per Placing Share, representing: (a) a discount of 8.0% to the closing price of HK\$1.0 per H Share of the Company as quoted on GEM on 25 April 2005, being the trading day immediately preceding the date of the Placing Agreement; and (b) a discount of approximately 6.9% to the average closing price of HK\$0.988 per H Share for the 5 trading days as quoted on GEM immediately preceding the date of the Placing Agreement.

The Placing Price and the underwriting commission were agreed after arm's length negotiations between the Company and the Lead Manager with reference to the recent trading prices of the H Shares on GEM.

Conditions of the Placing

The Placing is conditional upon, inter alia, the GEM Listing Committee granting listing of and permission to deal in the Placing Shares on GEM and there being no breach of any of the representations, warranties and undertakings in any material respect by the Company under the Placing Agreement. Pursuant to the termination provisions contained in the Placing Agreement, the Lead Manager has the right to terminate the Placing Agreement at any time on or prior to 9:00 a.m. on 9 May 2005 upon the occurrence of certain force majeure events.

Lock-up

The Company has undertaken to the Lead Manager that it will not, prior to the expiry of six months from the Placing Completion Date, allot or issue, or agree to allot or issue H Shares or other securities of the Company or grant or agree to grant any options, warrants or other rights to subscribe for or convert or exchange into H Shares or other securities of the Company or repurchase H Shares or other securities of the Company (either conditionally or unconditionally, or directly or indirectly, or otherwise) or announce any intention to do so during the six months immediately following the Placing Completion Date unless the prior written consent of the Lead Manager has been obtained.

Completion of the Placing

Completion is expected to take place on or before the Placing Completion Date.

Shareholding Structure of the Company

Holders of Shares	As at the date of the Placing Agreement		Upon completion of the Placing on the Placing Completion Date	
	Number of Shares in '000	%	Number of Shares in '000	%
Holder of Domestic Shares				
Zhang En Rong	279,517	51.8	279,517	43.1
Li Fu Long	34,216	6.3	34,216	5.3
Zhang Yun San	30,608	5.7	30,608	4.7
Xie Xin Cang	21,410	4.0	21,410	3.3
Liu Yun Long	14,670	2.7	14,670	2.3
Cui Huan You	9,238	1.7	9,238	1.4
Liang Yong Qiang	6,819	1.3	6,819	1.1
Kaiyuan Oil	5,244	0.9	5,244	0.8
Holder of H Shares				
H Shares in issue	138,276	25.6	138,276	21.3
new H Shares proposed to be issued			<i>Note</i> 108,000	16.7
			<i>Note</i>	
Total	<u>539,998</u>	<u>100.0</u>	<u>647,998</u>	<u>100.0</u>

Note: shares held by the public.

The Company currently does not expect there would be any new substantial shareholder as a result of completion of the Placing. In the event that there would be such new substantial shareholder, the Company will make a further announcement setting out the relevant information.

Specific mandate to issue the Placing Shares

The Placing Shares will be issued under the specific mandate to issue not less than 54,000,000 and not more than 108,000,000 new H Shares given by the shareholders of the Company to the Directors at the special general meeting of the Company and the separate Class Meetings held on 14 February 2005, respectively. The Company has obtained the approval of the CSRC on 18 April 2005 for the issue of not more than 108,000,000 Placing Shares. The approval from the CSRC is unconditional. Under the approval of the CSRC, the Company is required to carry out the Placing in compliance with all applicable laws, regulations and rules and to submit a report to the CSRC within 15 business days after completion of the Placing.

Ranking of the Placing Shares

The Placing Shares, when issued and fully paid, will rank pari passu in all respects with the existing H Shares in issue on the Placing Completion Date, including the right to receive all dividends and distributions declared, paid or made on or after the Placing Completion Date.

Reasons for the Placing

The Company is principally engaged in the design, manufacture and sale of petroleum extracting machinery and related accessories. The Group's objectives are to further consolidate its position as a prime manufacturer of petroleum extracting machinery and related accessories in the PRC market, to explore the international market and to become a world-class petroleum extracting machinery manufacturer. Pursuant to the China Statistical Yearbook 2004, the market demand for oil in terms of total energy consumption in the PRC has risen from 18% in 1996 to 22.7% in 2003. The Directors expect that the demand for petroleum extracting machinery and related accessories will continue to be strong in the foreseeable future.

As stated in the Prospectus, the Group intends to develop new product lines through research and development. The Group has carried out research and development for new products, in particular, super-strength oil well sucker rods, special seamless oil well pipes and casing (石油套管).

The Company started to develop casing product in 2003. In June 2004, the Company appointed an independent technical design institute in the PRC to carry out feasibility study on the latest market development on petroleum extracting machinery, in particular, casing and related accessories. Later, in October 2004, the Group invested approximately RMB2.6 million from its internal resources to install a processing line for producing casing with an annual production capacity of approximately 10,000 tonnes. At present, the Company intends to raise additional funds through the Placing to purchase a full set of new production line for producing casing with an annual production capacity of approximately 250,000 tonnes and related accessories so as to expand such business. The Company expects to sell casing products and related accessories to its existing major customers as well as overseas customers.

The Company estimates that the cost of machineries and equipment relating to the full production line for producing casing and related accessories will be approximately RMB132 million (or equivalent to approximately HK\$124.5 million).

The Directors are of the view that the purchase of the full production line of casing and related accessories is broadly in line with the business objectives and strategies as stated in the section headed "Statement of Business Objectives" of the Prospectus.

The Directors consider that the Placing represents a good opportunity for the Company to raise further funds and also broaden its shareholder and capital bases. The Company has not engaged in any fund raising activities since the date of the listing of the H Shares of 15 April 2004.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Placing Agreement are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

Use of proceeds

The amount to be raised from the Placing, after deducting the related commission and expenses, will be approximately HK\$94.8 million. The Company intends to use all of the net proceeds from the Placing for the purchase of a full set of new production facilities for producing casing and related accessories.

The Directors intend to finance the shortfall between the cost of the subject machineries and equipment and the net proceeds from the Placing by bank borrowings.

The total commission and expenses related to the Placing amount to approximately HK\$4.5 million, which are determined based on arm's length negotiations between the Company and the relevant professional parties involved in the Placing. The net Placing Price is approximately HK\$0.878 per H Share.

The Directors are of the view that the application of the net proceeds from the Placing for the proposed purchase of a full set of new production facilities for producing casing and related accessories is in the interests of the Company. As at the date of this announcement, the Company has not entered into any agreements, memorandum of understanding or letter of intent in relation to the proposed use of proceeds from the Placing.

Application for listing

Application will be made to the GEM Listing Committee for listing of, and permission to deal in, the Placing Shares on GEM.

Suspension and resumption of trading

The Company has applied for a suspension of trading of its H Shares on GEM from 9:30 a.m. on 26 April 2005 pending the publication of this announcement. Application has been made to the Stock Exchange for a resumption of trading of the H Shares on GEM with effect from 9:30 a.m. on 28 April 2005.

Definitions

“associates”	has the meaning as defined in the GEM Listing Rules
“Class Meetings”	the respective class meetings of the holders of H Shares and holders of Domestic Shares convened and held by the Company on 14 February 2005 in respect of the Placing
“Company”	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 PRC with limited liability and whose H Shares are listed on GEM

“CSRC”	China Securities Regulatory Commission
“Directors”	the directors of the Company
“Domestic Shares”	ordinary domestic share(s) of nominal value of RMB0.10 each in the registered capital of the Company which are subscribed for in Renminbi
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign invested shares of RMB0.10 each in the share capital of the Company
“Kaiyuan Oil”	勝利油田凱源石油開發有限責任公司 (Shengli Oil Field Kaiyuan Oil Exploitation Company Limited), a limited liability company established in the PRC. It is owned as to 65.71% by 勝利油田同利實業公司 (Shengli Oil Field Tongli Industrial Company Limited), a collectively-owned enterprise established in the PRC and as to 34.29% by 東營武康機械廠 (Dongying Wukang Machinery Factory), a collectively-owned enterprises established in the PRC
“Lead Manager”	Guotai Junan Securities (Hong Kong) Limited, who is not a connected person (as defined in the GEM Listing Rules) of the Company and is independent of and not connected with any promoter, supervisor, director, chief executive, management shareholder or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates
“Placing”	the placing of the Placing Shares pursuant to the Placing Agreement
“Placing Agreement”	the placing and underwriting agreement between the Company and the Lead Manager dated 26 April 2005 in relation to the Placing
“Placing Completion Date”	12 May 2005 or such other time or date as the Company and the Lead Manager shall otherwise agree in writing
“Placing Price”	HK\$0.92 per H Share
“Placing Shares”	the placing of 108,000,000 new H Shares at the Placing Price
“PRC”	the People’s Republic of China
“Prospectus”	the Company’s prospectus dated 30 March 2004

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“HK\$”

Hong Kong dollars, the lawful currency of Hong Kong

By Order of the Board
Shandong Molong Petroleum Machinery Company Limited
Zhang En Rong
Chairman

Shandong, the PRC, 27 April 2005

As at the date of this announcement, the executive Directors of the Company are Zhang En Rong, Lin Fu Long, Zhang Yun San, Xie Xin Cang; the non-executive Directors are Chen Jian Xiong and Wang Ping; and the independent non-executive Directors are Qin Yue Chang, Yan Yi Zhuang and Loke Yu alias Loke Hoi Lam.

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