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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)

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTION

CONTINUING CONNECTED TRANSACTIONS

On 22 September 2005, the Company and Weihai Baolong, a non wholly-owned subsidiary of Maolong Machinery, entered into an Oil Well Pipe and Casing Billets Supply Agreement for the supply of oil well pipe and casing billets from Weihai Baolong. Pursuant to the Oil Well Pipe and Casing Billets Supply Agreement, it has been agreed that the supply price of oil well pipe and casing billets charged by Weihai Baolong to the Company will be the then prevailing market price less an agreed discount of not more than RMB100/ton. The Oil Well Pipe and Casing Billets Supply Agreement shall become effective from the date of the EGM and remain in force up to 31 December 2007, subject to the approval of the independent Shareholders at the EGM.

On 22 September 2005, the Company and Molong Equipment, a non wholly-owned subsidiary of Maolong Machinery, entered into the Metallurgy Accessories Supply Agreement for the supply of metallurgy accessories from Molong Equipment. Pursuant to the Metallurgy Accessories Supply Agreement, it has been agreed that the price at which metallurgy accessories are supplied to the Company by Molong Equipment will be at the fixed rates prescribed by the relevant authorities of the PRC (if any). If no fixed rates are prescribed by the relevant authorities of the PRC, the purchase price will be negotiated and agreed by both parties with reference to the then prevailing market price, subject to adjustments. The Metallurgy Accessories Supply Agreement shall become effective from the date of the EGM and remain in force up to 31 December 2007, subject to the approval of the independent Shareholders at the EGM.

On 22 September 2005, the Company and Molong Equipment, a non wholly-owned subsidiary of Maolong Machinery, entered into the Scrap and Used Metals Supply Agreement for the sale of scrap and used metals to Molong Equipment. Pursuant to the Scrap and Used Metals Supply Agreement, it has been agreed that the price at which scrap and used metals are supplied by the Company to Molong Equipment will be at the fixed rates prescribed by the relevant authorities of the PRC (if any). If no fixed rates are prescribed by the relevant authorities of the PRC, the purchase price will be negotiated and agreed by both parties with reference to the then prevailing market price, subject to adjustments. The Scrap and Used Metals Supply Agreement shall become effective from the date of the EGM and remain in force up to 31 December 2007, subject to the approval of the independent Shareholders at the EGM.

Zhang En Rong and Zhang Yun San are connected persons of the Company pursuant to Rule 20.11(1) of the GEM Listing Rules. Pursuant to Rule 20.11(4)(b) of the GEM Listing Rules, as Zhang Yun Qi is the son of Zhang En Rong and the brother of Zhang Yun San, he is regarded as the associate of the Directors and accordingly, is also a connected person of the Company. As Zhang Yun Qi is interested in approximately 53.15% of the equity interest in Maolong Machinery, Maolong Machinery is deemed to be a connected person of the Company.

Since Molong Equipment is a subsidiary of Maolong Machinery, Molong Equipment is also deemed to be a connected person of the Company.

According to the GEM Listing Rules, each of the transactions mentioned above will constitute a continuing connected transaction of the Company and will be subject to the requirements of reporting, announcement and independent shareholders' approval as required by Rules 20.45, 20.46, 20.47 and 20.48 of the GEM Listing Rules.

CONNECTED TRANSACTION

On 22 September 2005, the Company and Molong Equipment, a non wholly-owned subsidiary of Maolong Machinery, entered into the Machinery Accessories Supply Agreement for the supply of machinery accessories from Molong Equipment. The total consideration payable by the Company to Molong Equipment for the supply of machinery accessories, pursuant to the Machinery Accessories Supply Agreement shall be approximately RMB33,000,000 (equivalent to approximately HK$31,731,000) and will be settled in cash monthly in arrears. The Machinery Accessories Supply Agreement shall become effective from the approval of the independent Shareholders at the EGM.

Since Molong Equipment is deemed to be a connected person of the Company, the transaction constitutes a connected transaction of the Company under Rule 20.13(1) of the GEM Listing Rules.

Approvals will be sought from independent Shareholders at the EGM in relation to the resolutions approving the above continuing connected transactions (including their respective caps) and connected transaction. As such, Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long, Mr. Xie Xin Cang, Mr. Liu Yun Long and their respective associates (as the case may be) holding approximately 58.7% of the equity interests in the Company will abstain from voting in respect of the above resolutions. Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long, Mr. Xie Xin Cang and Mr. Liu Yun Long will abstain from voting in respect of the above resolutions because each of them, being the shareholders of the Company, is interested or is deemed to be interested in the equity interests of Maolong Machinery. Please refer to the definition of Maolong Machinery for their respective shareholding in Maolong Machinery.

A circular containing, among other things, further details of the non-exempt continuing connected transactions and the connected transaction, the terms of the relevant agreements, a letter from the independent financial adviser containing its advice to the independent Directors and the recommendations of the independent Directors together with a notice convening the EGM will be despatched to the Shareholders as soon as practicable.

CONTINUING CONNECTED TRANSACTIONS

THE OIL WELL PIPE AND CASING BILLETS SUPPLY AGREEMENT

Date of the Oil Well Pipe and Casing Billets Supply Agreement

22 September 2005

Parties to the Oil Well Pipe and Casing Billets Supply Agreement

Purchaser: The Company is principally engaged in the design, manufacture and sale of petroleum extraction machinery and related accessories

Seller: Weihai Baolong, a non wholly-owned subsidiary of Maolong Machinery, is principally engaged in the sale and manufacture of special metallic materials for petroleum

Oil well pipe and casing billets to be purchased

Pursuant to the Oil Well Pipe and Casing Billets Supply Agreement, Weihai Baolong agreed to sell and the Company has agreed to purchase oil well pipe and casing billets at the following terms:

Parties: Weihai Baolong as seller

The Company as purchaser

Subject: Pursuant to the Oil Well Pipe and Casing Billets Supply Agreement, Weihai Baolong has agreed to supply to the Company oil well pipe and casing billets.

Term:	The Oil Well Pipe and Casing Billets Supply Agreement is effective from the date of the EGM to 31 December 2007 (both dates inclusive), subject to the approval of the independent Shareholders at the EGM.
Price:	Pursuant to the Oil Well Pipe and Casing Billets Supply Agreement, it has been agreed that the supply price of oil well pipe and casing billets charged by Weihai Baolong to the Company will be the prevailing market price less an agreed discount of not more than RMB100/ton. The above discount is determined as a result of the commercial negotiation between the Company and Weihai Baolong. The current prevailing market price is approximately RMB3,800/ton and hence the supply price of oil well pipe and casing billets charged by Weihai Baolong to the Company has been agreed to be RMB3,700/ton ("**Oil Well Pipe and Casing Billets Supply Price**").
Historical figures:	There were no sales of oil well pipe and casing billets by Weihai Baolong to the Company up to the date of the Announcement.
Other significant terms:	(1) The Company shall make payments to Weihai Baolong in cash monthly in arrears; (2) In the event that defects are found in the oil well pipe and casing billets supplied by Weihai Baolong, Weihai Baolong has agreed to exchange new oil well pipe and casing billets to the Company for free of charge or indemnify the losses incurred by the Company in respect of the defects; and (3) Weihai Baolong has agreed to be responsible for distributing oil well pipe and casing billets to the factory of the Company, the costs of which would be borne by the Company.

The Oil Well Pipe and Casing Billets Annual Cap Amounts

The Directors expect that the maximum aggregate annual value of sales of oil well pipe and casing billets by Weihai Baolong to the Company under the Oil Well Pipe and Casing Billets Supply Agreement is estimated not to exceed RMB38,000,000 (equivalent to approximately HK$36,538,000) for the two months ending 31 December 2005, RMB750,000,000 (equivalent to approximately HK$721,153,000) and RMB930,000,000 (equivalent to approximately HK$894,231,000) (each, an "**Oil Well Pipe and Casing Billets Annual Cap**") respectively for each of the two years ending 31 December 2007 which represents the target purchases agreed between the Company and Weihai Baolong.

Set out below is the calculation of and the basis for the Oil Well Pipe and Casing Billets Annual Cap for the 2 months ending 31 December 2005 and 2 years ending 31 December 2007:

	Projected production capacity of special seamless oil well pipes and casing *(ton)*	Production efficiency rate on the consumption of oil well pipe and casing billets to manufacture the special seamless oil well pipes and casing during the course of production *(note 3)*	Projected oil well pipe and casing billets to be consumed by the Group *(ton)*	Projected oil well pipe and casing billets to be purchased from Weihai Baolong *(ton)*	Oil Well Pipe and Casing Billets Annual Cap *(RMB)*
For the two months ending 31 December 2005	10,000 *(note 1)*	Approximately 86.9%	11,500	10,000 *(note 4)*	38,000,000 *(note 5)*
For the year ending 31 December 2006	210,000 *(notes 1 and 2)*	Approximately 86.9%	242,000	200,000 *(note 4)*	750,000,000 *(note 5)*
For the year ending 31 December 2007	310,000 *(notes 1 and 2)*	Approximately 86.9%	356,000	250,000 *(note 4)*	930,000,000 *(note 5)*

Notes:

(1) The annual volume of special seamless oil well pipes of the Company produced is expected to be approximately 60,000 tons in 2005 and the annual production capacity of special seamless oil well pipes of the Company is expected to be constant for the two years ending 31 December 2007 because the existing production facilities of the special seamless oil well pipes have reached their optimum production capacity.

(2) The construction of new 250,000-ton casing production facilities of the Company is expected to be completed at the end of 2005. It is anticipated that the annual production capacity of casing of the Company will be approximately 150,000 tons for the year 2006 and approximately 250,000 tons for the year 2007. The Directors expect that there will be an increase in the production capacity for the year 2007 after the new production facilities have gone through a certain testing period in 2006.

(3) Oil well pipe and casing billets are the main raw materials for the production of special seamless oil well pipes and casing.

(4) The Group expects to purchase the oil well pipe and casing billets from both independent third parties and Weihai Baolong in order to avoid the risk of relying on a single supplier.

(5) A buffer of not more than 5% in excess of the Group's expected total value of the purchase from Weihai Baolong has been taken into account for reaching the Oil Well Pipe and Casing Billets Annual Cap.

Reason for the transaction

The Group is engaged in the design, manufacture and sale of petroleum extraction machinery and related accessories. Oil well pipe and casing billets are used in the production of special seamless oil well pipes and casing.

As the annual volume of special seamless oil well casing produced by the Company has increased and is anticipated to continue to increase in future as set out in sub-paragraph (3) under the paragraph headed "The Oil Well Pipe and Casing Billets Annual Cap Amounts" above, the demand for oil well pipe and casing billets will increase accordingly. The Directors expect to secure long term and steady relationships with Weihai Baolong since the long-term suppliers enable a stable supply of raw materials to the Company which in turn guarantee a smooth production of the Company's products.

The Board (including the independent non-executive Directors) also believes the terms and conditions of the Oil Well Pipe and Casing Billets Supply Agreement have been negotiated on an arm's length basis and on normal commercial terms which are no less favourable than terms available from independent third parties since (a) Weihai Baolong has agreed to ensure timely supply of oil well pipe and casing billets according to the demands of the Company; (b) in the event that defects are found in the oil well pipe and casing billets supplied by Weihai Baolong, Weihai Baolong has agreed to exchange new oil well pipe and casing billets to the Company for free of charge or indemnify the losses incurred by the Company in respect of the defects; (c) the performance of oil well pipe and casing billets supplied by Weihai Baolong is suitable for the production of special seamless oil well pipes and casing of the Company and Weihai Baolong has agreed to set up a research and development centre for oil well pipe and casing billets to enhance the quality of oil well pipe and casing billets to be supplied to the Company; and (d) the supply price will be lower than the prevailing market price. The Board considers that the above help the Group to save its production costs, including but not limited to, the costs of raw materials and research and development costs. The Company can source the oil well pipe and casing billets from the independent third parties.

In this connection, the Board (including the independent non-executive Directors) considers that the Oil Well Pipe and Casing Billets Supply Agreement is made in the ordinary and usual course of business of the Company and the terms of the Oil Well Pipe and Casing Billets Supply Agreement would be beneficial to the operation of the Company in terms of supply of raw materials and are in the interest of the Company and its Shareholders, taken as a whole.

Compliance requirements

According to the GEM Listing Rules, the transaction mentioned above will constitute a continuing connected transaction of the Company and will be subject to the requirements of reporting, announcement and independent shareholders' approval as required by Rules 20.45, 20.46, 20.47 and 20.48 of the GEM Listing Rules. As such, Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long, Mr. Xie Xin Cang, Mr. Liu Yun Long and their respective associates (as the case may be) will abstain from voting in respect of the resolution approving this transaction at the EGM.

THE METALLURGY ACCESSORIES SUPPLY AGREEMENT

Date of the Metallurgy Accessories Supply Agreement

22 September 2005

Parties to the Metallurgy Accessories Supply Agreement

Purchaser: The Company is principally engaged in the design, manufacture and sale of petroleum extraction machinery and related accessories

Seller: Molong Equipment, a non wholly-owned subsidiary of Maolong Machinery, is principally engaged in the production and sale of electrical equipment set and casting products

Metallurgy accessories to be purchased

Pursuant to the Metallurgy Accessories Supply Agreement, Molong Equipment has agreed to sell and the Company has agreed to purchase metallurgy accessories at the following terms:

Parties: Molong Equipment as seller

The Company as purchaser

Subject: Pursuant to the Metallurgy Accessories Supply Agreement, Molong Equipment has agreed to supply to the Company metallurgy accessories.

Term: The Metallurgy Accessories Supply Agreement is effective from the date of the EGM to 31 December 2007 (both dates inclusive), subject to the approval of the independent Shareholders at the EGM.

Price: Pursuant to the Metallurgy Accessories Supply Agreement, it has been agreed that the price at which metallurgy accessories (which include plug, guide, piecing roll, rolling roll, disk, bar, SMR roll and straightening roll) are supplied to the Company by Molong Equipment will be as follows:

(1) if the metallurgy accessories are subject to any fixed rates prescribed by the relevant authorities of the PRC ("**Prescribed Rates**"), the unit price of the relevant metallurgy accessories will adopt the Prescribed Rates. If the Prescribed Rates increase after the Company places its orders with Molong Equipment, the Prescribed Rates at the time of the placing of the order will be adopted. If the Prescribed Rates decrease after the Company places its orders but before delivery of metallurgy accessories by Molong Equipment, the Prescribed Rates at the time of delivery will be adopted;

(2) if the metallurgy accessories are not subject to any Prescribed Rates, the price will be negotiated and agreed by both parties with reference to the Market Price (as defined below); and

(3) the market price ("**Market Price**") is the prevailing market price for the same type of metallurgy accessories provided by independent third parties in their ordinary course of business over the same period.

Under normal circumstances, the price of metallurgy accessories could be adjusted once annually by reference to the actual price of the relevant metallurgy accessories of the previous year plus an amount calculated based on the price index published by Weifang City Statistics Bureau. Where the price of the relevant metallurgy accessories suffers significant fluctuations (increase/decrease of more than 10%), the price could be re-negotiated between the parties.

Currently, there is no prevailing Prescribed Rates and the Market Price is approximately RMB11,600/ton. The Group has been purchasing metallurgy accessories from independent third parties, but Molong Equipment has agreed to provide a discount of RMB500 per ton for the supply of metallurgy accessories. Hence, the supply price of metallurgy accessories charged by Molong Equipment to the Company is RMB11,100/ton ("**Metallurgy Accessories Supply Price**").

Historical figures:	There were no sales of metallurgy accessories by Molong Equipment to the Company up to the date of the Announcement.
Other significant terms:	(1) The Company shall make payments to Molong Equipment in cash monthly in arrears; and
	(2) Molong Equipment has agreed to be responsible for distributing metallurgy accessories to the Company, the costs of which would be borne by Molong Equipment; the Company has agreed to be responsible for the expenses for inspecting the metallurgy accessories delivered.

The Metallurgy Accessories Annual Cap Amounts

There will be no sales of metallurgy accessories by Molong Equipment to the Company for the year ending 31 December 2005.

The Directors expect that the maximum aggregate annual value of sales of metallurgy accessories by Molong Equipment to the Company under the Metallurgy Accessories Supply Agreement is estimated not to exceed RMB22,000,000 (equivalent to approximately HK$21,154,000) and RMB27,000,000 (equivalent to approximately HK$25,962,000) (each, a "**Metallurgy Accessories Annual Cap**") respectively for each of the two years ending 31 December 2007 which represents the target purchases agreed between the Company and Molong Equipment.

Set out below is the calculation of and basis for the Metallurgy Accessories Annual Cap for the two years ending 31 December 2007:

	Projected volume of purchase of metallurgy accessories for the special seamless oil well pipes *(ton)* *(note 1)*	**Market price of metallurgy accessories for the special seamless oil well pipes** *(RMB)*	**Total purchase amount of metallurgy accessories for the special seamless oil well pipes** *(RMB)*	**Projected volume of purchase of metallurgy accessories for the special seamless casing** *(ton)* *(note 1)*	**Market price of metallurgy accessories for the special seamless casing** *(RMB)*	**Total purchase amount of metallurgy accessories for special seamless casing** *(RMB)*	**Metallurgy Accessories Annual Cap** *(RMB)*
For the year ending 31 December 2006	218 *(note 2)*	18,798	3,988,964 *(note 3)*	1,675 *(note 4)*	10,897	17,414,975 *(note 3)*	22,000,000 *(note 5)*
For the year ending 31 December 2007	218 *(note 2)*	18,798	3,988,964 *(note 3)*	2,094 *(note 4)*	10,897	21,771,318 *(note 3)*	27,000,000 *(notes 5 and 6)*

Notes:

(1) Metallurgy accessories are the accessories required for the two production lines of special seamless oil well pipes and casing.

(2) The annual volume of special seamless oil well pipes of the Company produced is expected to be approximately 60,000 tons in 2005 and the annual production capacity of the special seamless oil well pipes of the Company is expected to be constant for the two years ending 31 December 2007 because the existing production facilities of the special seamless oil well pipes have reached their optimum production capacity.

(3) The total purchase amount has deducted an agreed discount of RMB500 per ton.

(4) The construction of new 250,000-ton casing production facilities of the Company is expected to be completed at the end of 2005 and it is anticipated that the annual production capacity of casing of the Company will be approximately 150,000 tons for the year 2006 and approximately 250,000 tons for the year 2007. The Directors expect that there will be an increase in the production capacity for the year 2007 after the new production facilities have gone through a certain testing period in 2006.

(5) A buffer of not more than 5% in excess of the Group's expected total value of the purchase from Molong Equipment has been taken into account for reaching the Metallurgy Accessories Annual Cap.

(6) The Metallurgy Accessories Supply Price of RMB11,100 is calculated by reference to (1) the Metallurgy Accessory Annual Cap for the year ending 31 December 2007, divided by the total purchase volume of metallurgy accessories for special seamless oil well pipes and casing for the same year; and (2) the agreed discount of RMB500 per ton.

Reason for the transaction

Metallurgy accessories are important accessories used for the proper operation of the production lines of special seamless oil well pipes and casing.

As the annual volume of special seamless oil well casing produced by the Company has increased and is anticipated to continue to increase in future as set out in sub-paragraph (3) under the paragraph headed "The Metallurgy Accessories Annual Cap Amounts" above, the demand for metallurgy accessories will increase accordingly. The Directors consider that long term and steady relationships with suppliers are of importance to the Company as they enable a stable supply of accessories to the Company which in turn guarantee the proper operation of the production lines of special seamless oil well pipes and casing.

The Board (including the independent non-executive Directors) also believes the terms and conditions of the Metallurgy Accessories Supply Agreement have been negotiated on an arm's length basis and on normal commercial terms which are no less favourable than terms available from independent third parties since (a) Molong Equipment has agreed to be responsible for the expenses for distributing metallurgy accessories to the Company; (b) the performance of metallurgy accessories supplied by Molong Equipment is suitable for the production lines of special seamless oil well pipes and casing of the Company; and (c) the Metallurgy Accessories Supply Price will not be higher than the Market Price and the price of the same products purchased by the Company from independent third parties in its normal course of business over the same period. The Board considers that the above help the Group to save its costs, including but not limited to, the production costs. The Company can source the metallurgy accessories from the independent third parties.

In this connection, the Board (including the independent non-executive Directors) considers that the Metallurgy Accessories Supply Agreement is made in the ordinary and usual course of business of the Company and the terms of the Metallurgy Accessories Supply Agreement would be beneficial to the operation of the Company in terms of supply of raw materials and are in the interest of the Company and its Shareholders, taken as a whole.

Compliance requirements

According to the GEM Listing Rules, the transaction mentioned above will constitute a continuing connected transaction of the Company and will be subject to the requirements of reporting, announcement and independent shareholders' approval as required by Rules 20.45, 20.46, 20.47 and 20.48 of the GEM Listing Rules. As such, Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long, Mr. Xie Xin Cang, Mr. Liu Yun Long and their respective associates (as the case may be) will abstain from voting in respect of the resolution for approving this transaction at the EGM.

THE SCRAP AND USED METALS SUPPLY AGREEMENT

Date of the Scrap and Used Metals Supply Agreement

22 September 2005

Parties to the Scrap and Used Metals Supply Agreement

Purchaser:	Molong Equipment, a non wholly-owned subsidiary of Maolong Machinery, is principally engaged in the production and sale of electrical equipment set and casting products
Seller:	The Company, is principally engaged in the design, manufacture and sale of petroleum extraction machinery and related accessories

Scrap and used metals to be sold

Pursuant to the Scrap and Used Metals Supply Agreement, the Company has agreed to sell and Molong Equipment has agreed to purchase scrap and used metals at the following terms:

Date of agreement:	22 September 2005
Parties:	The Company as seller Molong Equipment as purchaser
Subject:	Pursuant to the Scrap and Used Metals Supply Agreement, the Company has agreed to supply to Molong Equipment scrap and used metals.
Term:	The Scrap and Used Metals Supply Agreement is effective from the date of the EGM to 31 December 2007 (both dates inclusive), subject to the approval of the independent Shareholders at the EGM.

Price: Pursuant to the Scrap and Used Metals Supply Agreement, it has been agreed that the price at which scrap and used metals are supplied to Molong Equipment by the Company will be as follows:

(1) if the scrap and used metals are subject to any fixed rates prescribed by the relevant authorities of the PRC ("**Prescribed Rates**"), the unit price of the relevant scrap and used metals will adopt the Prescribed Rates. If the Prescribed Rates increase after Molong Equipment places its orders with the Company, the Prescribed Rates at the time of the placing of the order will be adopted. If the Prescribed Rates decrease after Molong Equipment places its orders but before delivery of scrap and used metals by the Company, the Prescribed Rates at the time of delivery will be adopted;

(2) if the scrap and used metals are not subject to any Prescribed Rates, the price will be negotiated and agreed by both parties with reference to the Market Price (as defined below); and

(3) the market price ("**Market Price**") is the prevailing market price charged by the Company to independent third parties for scrap and used metals over the same period.

Under normal circumstances, the price of scrap and used metals could be adjusted once annually by reference to the actual price of the scrap and used metals of the previous year plus an amount calculated based on the price index published by Weifang City Statistics Bureau. Where the price of the relevant scrap and used metals suffers significant fluctuations (increase/decrease of more than 10%), the price could be re-negotiated between the parties.

Currently, there is no prevailing Prescribed Rate and the Market Price is approximately RMB1,930/ton and the supply price of scrap and used metals charged by the Company to Molong Equipment has been agreed to be RMB1,930/ton ("**Scrap and Used Metals Supply Price**").

The Group has been providing scrap and used metals to both independent third parties and Molong Equipment.

Historical figures: For each of the two years ending 31 December 2004, the total sales of scrap and used metals by the Company to Molong Equipment was approximately RMB541,000 (equivalent to approximately HK$520,000) and approximately RMB622,000 (equivalent to approximately HK$598,000). For the seven months ending 31 July 2005, the total sales of scrap and used metals by the Company to Molong Equipment was approximately RMB656,000 (equivalent to approximately HK$631,000).

Other significant terms:	(1)	Molong Equipment shall make payments to the Company in cash monthly in arrears; and
	(2)	The Company has agreed to be responsible for the expenses for distributing scrap and used metals to Molong Equipment, and Molong Equipment has agreed to be responsible for the expenses for inspecting the scrap and used metals delivered.

The Scrap and Used Metals Annual Cap Amounts

The Directors expect that the maximum aggregate annual value of sales of scrap and used metals to Molong Equipment by the Company under the Scrap and Used Metals Supply Agreement is estimated not to exceed RMB5,000,000 (equivalent to approximately HK$4,808,000) for the two months ending 31 December 2005, RMB19,200,000 (equivalent to approximately HK$18,462,000) and RMB28,200,000 (equivalent to approximately HK$27,115,000) (each, a "**Scrap and Used Metals Annual Cap**") respectively for each of the two years ending 31 December 2007 which represents the target sales agreed between the Company and Molong Equipment.

The Directors expect that there will be a substantial increase in the Scrap and Used Metals Annual Cap from 2006 to 2007 on the basis that (1) the scrap and used metals are side products generated during the production process of special oil well pipes and casing, whereas scrap and used metals are the main raw materials for producing Molong Equipment's casting products; (2) the casing production capacity of the Group is expected to be increased from approximately 150,000 tons for the year 2006 to approximately 250,000 tons for the year 2007, as explained below; and (3) the production capacity of Molong Equipment has increased and is anticipated to continue to increase in future which has resulted and will result in an increase in demand of scrap and used metals.

Set out below is the calculation of and the basis for the Scrap and Used Metals Annual Cap for the two months ending 31 December 2005 and 2 years ending 31 December 2007:

	Projected production capacity of special seamless oil well pipes and casing *(ton)*	**The yield of the scrap and used metals generated during the course of production on the consumption of oil well pipe and casing billets** *(note 3)*	**Projected scrap and used metals to be supplied by the Group** *(ton)*	**Scrap and Used Metals Annual Cap** *(RMB)*
For the two months ending 31 December 2005	10,000	4.52%	2,500 *(note4)*	5,000,000 *(note 5)*
For the year ending 31 December 2006	210,000 *(notes 1 and 2)*	4.52%	9,800	19,200,000 *(note 5)*
For the year ending 31 December 2007	310,000 *(notes 1 and 2)*	4.52%	14,600	28,200,000 *(note 5)*

Notes:

(1) The annual volume of special seamless oil well pipes of the Company produced is expected to be approximately 60,000 tons in 2005 and the annual special seamless oil well pipes production capacity is expected to be constant for the two years ending 31 December 2007 because the existing production facilities of the special seamless oil well pipes have reached their optimum production capacity.

(2) The construction of new 250,000-ton casing production facilities of the Company is expected to be completed at the end of 2005. It is anticipated that the annual production capacity of casing will be approximately 150,000 tons for the year 2006 and approximately 250,000 tons for the year 2007. The Directors expect that there will be an increase in the production capacity for the year 2007 after the new production facilities have gone through a certain testing period in 2006.

(3) Scrap and used metals are side products generated during the production process of special seamless oil well pipes and casing, whereas scrap and used metals are the main raw materials for producing Molong Equipment's casting products.

(4) Apart from the scrap and used metals of approximately 450 tons generated during the course of production, certain scrap and used metals of approximately 2,050 tons, which are at present stored in the warehouse of the Group, would be supplied to Molong Equipment after the approval is sought from the independent Shareholders at the EGM.

(5) A buffer of not more than 5% in excess of the Group's expected total value of the supply has been taken into account for reaching the Scrap and Used Metals Annual Cap.

Reason for the transaction

Molong Equipment is principally engaged in the production and sale of electrical equipment set and casting products, and scrap and used metals are the main raw materials for producing its casting products. The Company is engaged in the design, manufacture and sale of petroleum extraction machinery and related accessories, and scrap and used metals are the side products generated during the production process of special seamless oil well pipes and casing.

As the production capacity of Molong Equipment has increased and is anticipated to continue to increase in future which has resulted and will result in an increase in demand of scrap and used metals and, at the same time, it is expected that the amount of scrap and used metals generated by the Group will increase as the production capacity of casing of the Company has increased and is anticipated to continue to increase in future as set out in sub-paragraph (3) under the paragraph headed "The Scrap and Used Metals Annual Cap Amounts" above. The Directors consider that long term relationship with Molong Equipment in the supply of scrap and used metals is of importance to the Company as this can enable a stable demand of scrap and used metals from Molong Equipment which in turn generates a smooth income from sales of the Company's side products.

The Board (including the independent non-executive Directors) also believes the terms and conditions of the Scrap and Used Metals Supply Agreement have been negotiated on an arm's length basis and on normal commercial terms which are no less favourable than terms offered to independent third parties since the Scrap and Used Metals Supply Price will not be lower than that of the same products sold by the Company to independent third parties in its normal course of business over the same period.

In this connection, the Board (including the independent non-executive Directors) considers that the Scrap and Used Metals Supply Agreement is made in the ordinary and usual course of business of the Company and the terms of the Scrap and Used Metal Supply Agreement would be beneficial to the operation of the Company and are in the interest of the Company and its Shareholders, taken as a whole.

Compliance requirements

According to the GEM Listing Rules, the transaction mentioned above will constitute a continuing connected transaction of the Company and be subject to the requirements of announcement and independent shareholders' requirements as required by Rules 20.45, 20.46, 20.47 and 20.48 of the GEM Listing Rules. As such, Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long, Mr. Xie Xin Cang, Mr. Liu Yun Long and their respective associates (as the case may be) will abstain from voting in respect of the resolution approving this transaction at the EGM.

BACKGROUND

RELATIONSHIP WITH MAOLONG MACHINERY, WEIHAI BAOLONG AND MOLONG EQUIPMENT

Maolong Machinery is a limited liability company established in the PRC on 1 August 2000. It is principally engaged in the production and sale of oil equipment and accessories, high pressure isolation switches, high pressure electric appliances, and related equipment sets; processing and sale of alloy accessories since establishment. Maolong Machinery is owned as to 53.15% by Mr. Zhang Yun Qi and as to 46.85% by 12 other shareholders. Zhang Yun Qi is the brother of Zhang Yun San and the son of Zhang En Rong. He is also the director of Maolong Machinery. Zhang Yun San and Zhang En Rong are Directors and management shareholders holding in aggregate approximately 47.8% of the equity interest in the Company. Pursuant to Rule 20.11(1) of the GEM Listing Rules, Zhang En Rong and Zhang Yun San are connected persons of the Company. As Zhang Yun Qi is the son of Zhang En Rong and the brother of Zhang Yun San, he is deemed to be an associate of the Directors and accordingly, is also a connected person of the Company. As Zhang Yun Qi is interested in approximately 53.15% of the equity interest in Maolong Machinery, Maolong Machinery is deemed to be a connected person of the Company.

Weihai Baolong, a non wholly-owned subsidiary of Maolong Machinery, is owned as to 95% by Maolong Machinery and 5% by Molong Equipment. Given that Maolong Machinery is deemed to be a connected person of the Company and Weihai Baolong is a subsidiary of Maolong Machinery, Weihai Baolong is also deemed to be a connected person of the Company.

Molong Equipment, also a non wholly-owned subsidiary of Maolong Machinery, is owned as to 55% by Maolong Machinery and 45% by an independent third party. Given that Maolong Machinery is deemed to be a connected person of the Company and Molong Equipment is a subsidiary of Maolong Machinery, Molong Equipment is also deemed to be a connected person of the Company.

CONNECTED TRANSACTION

THE MACHINERY ACCESSORIES SUPPLY AGREEMENT

Date of the Machinery Accessories Supply Agreement

22 September 2005

Parties to the Machinery Accessories Supply Agreement

Purchaser:	The Company is principally engaged in the design, manufacture and sale of petroleum extraction machinery and related accessories
Seller:	Molong Equipment, a non wholly-owned subsidiary of Maolong Machinery, is principally engaged in the production and sale of electrical equipment set and casting products

Machinery accessories to be purchased

Pursuant to the Machinery Accessories Supply Agreement, Molong Equipment has agreed to sell and the Company has agreed to purchase machinery accessories at the following terms:

Parties:	Molong Equipment as seller The Company as purchaser
Subject:	Pursuant to the Machinery Accessories Supply Agreement, Molong Equipment has agreed to sell to the Company machinery accessories (such as high pressure cupboards, low pressure electric appliances, electric appliances and related equipment sets).
Term:	The Machinery Accessories Supply Agreement is effective from the approval of the independent Shareholders at the EGM.
Price:	Pursuant to the Machinery Accessories Supply Agreement, it has been agreed that the aggregate price at which the machinery accessories are supplied to the Company by Molong Equipment is RMB33,000,000 (equivalent to approximately HK$31,731,000) ("**Supply Price**") which is determined with reference to the prevailing market price and is not higher than that of the same products sold by Molong Equipment to independent third parties in its normal course of business over the same period. A buffer of not more than 5% in excess of the Group's expected total value of the purchase from Molong Equipment has been taken into account for reaching the Supply Price.
Other significant terms:	(1) Molong Equipment shall deliver the machinery accessories to the Company on the dates specified in the Machinery Accessories Supply Agreement;

(2) the quality and technological standard of the machinery accessories supplied by Molong Equipment to the Company shall comply with the relevant national standard in the PRC; and

(3) Molong Equipment has agreed to be responsible for the expenses for distributing the machinery accessories to the Company; and the Company has agreed to be responsible for the expenses for inspecting the machinery accessories delivered.

Consideration of the purchase of machinery accessories from Molong Equipment

The total consideration payable by the Company to Molong Equipment for the acquisition of machinery accessories pursuant to the Machinery Accessories Supply Agreement shall be approximately RMB33,000,000 (equivalent to approximately HK$31,731,000) and will be settled in cash. The consideration is determined with reference to the prevailing market price and is not higher than that of the same products sold by Molong Equipment to independent third parties in its normal course of business over the same period.

Reason for the transaction

The Company selected a supplier for the supply of the machinery accessories through a bidding process. The Directors advised that the bidding price from Molong Equipment is lower than those of the other suppliers. Therefore, the Company has decided to enter into the Machinery Accessories Supply Agreement with Molong Equipment for the supply of the machinery accessories.

Compliance requirements

As Molong Equipment is deemed to be a connected person of the Company, the transaction constitutes a connected transaction of the Company under Rule 20.13(1) of the GEM Listing Rules and will be subject to the requirements of reporting, announcement and independent shareholders' approval.

GENERAL

Approvals will be sought from independent Shareholders at the EGM in relation to the resolutions approving the above continuing connected transactions (including their respective caps) and connected transaction and voting by way of poll. As such. Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long, Mr. Xie Xin Cang, Mr. Liu Yun Long and their respective associates (as the case may be) will abstain from voting in respect of the above resolutions. Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long, Mr. Xie Xin Cang and Mr. Liu Yun Long will abstain from voting in respect of the above resolutions because each of them, being the shareholders of the Company, is interested or is deemed to be interested in the equity interests of Maolong Machinery. Please refer to the definition of Maolong Machinery for their respective shareholdings in Maolong Machinery.

A circular containing, among other things, further details of the non-exempt continuing connected transactions and the terms of the relevant agreements, a letter from the independent financial adviser containing its advice to the independent Directors and the recommendations of the independent Directors together with a notice convening the EGM will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

"Board"	the board of directors of the Company
"Company"	山東墨龍石油機械股份有限公司 (Shandong Molong Petroleum Machinery Company Limited)
"Director(s)"	director(s) of the Company
"EGM"	extraordinary general meeting of the Company
"GEM"	the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiary
"Machinery Accessories Supply Agreement"	an agreement entered into between the Company and Molong Equipment on 22 September 2005 in relation to the supply of machinery accessories to the Company by Molong Equipment
"Maolong Machinery"	壽光懋隆機械電氣有限公司 (Shouguang Maolong Machinery Company Limited), a limited liability company established in the PRC. The shareholders of Maolong Machinery are Zhang Zhi Jun (張志軍), Zhang Guang He (張光和), Zhang Jin Sheng (張錦生), Guo Huan Ran (國煥然), Ren Chun Qing (任春清), Li Bao Hui (李寶惠), Zhang Jin Chuan (張金川), Zhang Yun Qi (張雲起), Lin Fu Long (林福龍), Zhang Yun San (張雲三), Xie Xin Cang (謝新倉), Liu Yun Long (劉雲龍) and Cui Huan You (崔煥友), who are interested in 1.96%, 2.10%, 1.86%, 4.85%, 1.86%, 6.11%, 6.46%, 53.15%, 6.46%, 6.46%, 1.94%, 4.85% and 1.94% respectively of the registered capital of Maolong Machinery. Among the shareholders of Maolong Machinery, (i) Lin Fu Long (林福龍), Zhang Yun San (張雲三), Xie Xin Cang (謝新倉), Liu Yun Long (劉雲龍) and Cui Huan You (崔煥友) are also shareholders of the Company who are interested in 6.34%, 5.67%, 3.96%, 2.72% and 1.71% respectively of the registered capital of the Company; (ii) Lin Fu Long (林福龍), Zhang Yun San (張雲三) and Xie Xin Cang (謝新倉) are Directors; and (iii) Li Bao Hui (李寶惠) is the supervisor of the Company and the wife of Xie Xin Cang (謝新倉)
"Metallurgy Accessories Supply Agreement"	an agreement entered into between the Company and Molong Equipment on 22 September 2005 in relation to the supply of metallurgy accessories to the Company by Molong Equipment
"Molong Equipment"	壽光墨龍機電設備有限公司 (Shouguang Molong Electro-mechanical Equipment Company Limited), a sino-foreign joint venture established in the PRC in which Maolong Machinery and Mr. Fang is interested in 55% and 45% respectively of its registered capital. Mr. Fang is an independent third party

"Oil Well Pipe and Casing Billets Supply Agreement"	an agreement entered into between the Company and Weihai Baolong on 22 September 2005 in relation to the supply of oil well pipe and casing billets to the Company by Weihai Baolong
"PRC" or "China"	the People's Republic of China and for the purpose of this announcement excludes Hong Kong, Macau Special Administrative Region and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Scrap and Used Metals Supply Agreement"	an agreement entered into between the Company and Molong Equipment on 22 September 2005 in relation to the supply of scrap and used metals to Molong Equipment by the Company
"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Weihai Baolong"	威海寶隆石油專材有限公司 (Weihai Baolong Special Petroleum Materials Co., Ltd.) (formerly known as 威海見龍鋼鐵有限公司 (Weihai Jianlong Iron & Steel Co., Ltd.)

Unless otherwise defined, an exchange rate of HK$1.00 = RMB1.04 is adopted in this announcement, for illustration purposes only.

By Order of the Board
Shandong Molong Petroleum Machinery Company Limited
Chan Wing Nang, Billy
Company Secretary

PRC, 22 September 2005

The announcement, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to 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.

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

This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting.