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)

2005

THIRD QUARTERLY REPORT

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This report, for which the directors of Shandong Molong Petroleum 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, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Achieved turnover of approximately RMB520,459,000 for the nine months ended 30 September 2005, which represents a growth of approximately 47.9%, as compared to that of the same period last year.
- The net profit increased by approximately 29.9% to approximately RMB58,080,000, as compared to that of the same period last year.
- Earnings per share of the Group was approximately RMB9.7 cents for the nine months ended 30 September 2005.
- The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2005.

THIRD QUARTERLY RESULTS (UNAUDITED)

The board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to announce the unaudited results of Shandong Molong Petroleum Machinery Company Limited (the "**Company**") and its subsidiary (collectively, the "**Group**") for the ninth-month period ended 30 September 2005.

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and nine months ended 30 September 2005

The unaudited results of the Group for the three months and nine months ended 30 September 2005, respectively, together with the unaudited comparative figures for the corresponding periods in 2004 are as follows:

		Three months ended 30 September		**Nine months ended 30 September**	
		2005	2004	**2005**	2004
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	(2)	**196,593**	136,295	**520,459**	352,001
Cost of sales		**(140,432)**	(112,079)	**(395,810)**	(280,057)
Gross profit		**56,161**	24,216	**124,649**	71,944
Other revenue and gains		**452**	1,142	**4,360**	9,771
Sales and distribution costs		**(5,797)**	(5,990)	**(15,137)**	(12,721)
Administrative expenses		**(6,621)**	(3,144)	**(16,888)**	(8,630)
Other operating expenses		**(3,117)**	(1,491)	**(4,730)**	(4,219)
Profit from operating activities		**41,078**	14,733	**92,254**	56,145
Finance costs		**(861)**	(1,250)	**(2,538)**	(3,823)
Profit before taxation		**40,217**	13,483	**89,716**	52,322
Taxation	(3)	**(18,423)**	7,060	**(30,105)**	(5,630)
Net profit after taxation		**21,794**	20,543	**59,611**	46,692
Attributable to:					
Shareholders of the Company		**21,524**	19,643	**58,080**	44,703
Minority interest		**270**	900	**1,531**	1,989
Earnings per share - basic (RMB cents)	(4)	**3.3**	3.6	**9.7**	9.2
Interim dividend paid per share (RMB cents)		**N/A**	N/A	**2.0**	2.0

NOTES:

1. BASIS OF PRESENTATION

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

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "**PRC**") on 30 December 2001 and its H shares were listed on the GEM on 15 April 2004 (the "**Listing**"). On 5 July 2004, the Company became a Sino-foreign joint stock limited company.

The unaudited financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules.

The principal accounting policies used in the preparation of the unaudited financial statements are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2004, except that the Company has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new **HKFRS**") which are effective for accounting periods commencing on or after 1 January 2005.

The Directors considered that the adoption of the new HKFRS has had no material effect on how the results for the current or prior accounting periods are prepared and presented, except HKAS 17 "Leases" as explained below.

The adoption of revised HKAS 17 has resulted in a change of accounting policy relating to the reclassification of lease premium for land from fixed assets to operating leases. The up-front prepayments made for the lease premium for land are expensed in the profit and loss account on a straight line basis over the period of the lease or when there is impairment, the impairment loss is expensed in the profit and loss account. In previous years, the lease premium for land was accounted for at cost less accumulated depreciation and accumulated impairment losses and included in properties of fixed assets. HKAS 17 has been applied retrospectively.

Effects of adopting HKAS 17 on the condensed consolidated profit and loss account are as follows:

	Three months ended 30 September		**Nine months ended 30 September**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Increase /(decrease) in net profit	**Nil**	Nil	**Nil**	Nil
Increase /(decrease) in earnings per share	**Nil**	Nil	**Nil**	Nil

2. TURNOVER AND SEGMENT INFORMATION

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.

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. Save as disclosed below, no further business segment information is presented as over 90% of the Group's revenue and assets relate to the sale of petroleum machinery.

	Three months ended 30 September		**Nine months ended 30 September**	
By geographical area	**2005**	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**152,485**	106,612	**374,747**	281,830
United States	**26,581**	10,608	**69,619**	42,850
Other Countries	**17,527**	19,075	**76,093**	27,321
TOTAL	**196,593**	136,295	**520,459**	352,001

3. TAXATION

	Three months ended 30 September		**Nine months ended 30 September**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
The charge comprises PRC income tax	**18,423**	(7,060)	**30,105**	5,630

The Group is located in the PRC and as a result is 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 review period.

The subsidiary of the Company, namely, Weifang Molong Drilling Equipment Company Limited ("**Molong Drilling Equipment**") was approved by the Ministry of Civil Affairs of Shandong Province as a welfare enterprise and hence is entitled to a full exemption from corporate income tax according to the document No: Caishui (1994) 1 which was issued by the Ministry of Finance, PRC and the State Administration of Taxation, PRC. The local tax administration has requested that the exemption is only granted when the application for tax exemption is approved by it. Molong Drilling Equipment has made provision for corporate income tax of RMB7,688,000 at the statutory tax rate of 33%. Presently, the application for tax exemption is in process.

The Group has no significant unprovided deferred tax as at 30 September 2004 and 2005.

4. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of approximately RMB21,524,000 and RMB58,080,000 for the three months and nine months ended 30 September 2005 (2004: RMB19,643,000 and RMB44,703,000) and on the weighted average number of approximately 596,174,000 (2004: 488,265,000) shares in issue during the period.

Diluted earnings per share is not presented for the three months and nine months ended 30 September 2004 and 2005 as there were no potential dilutive securities in existence during the relevant periods.

5. CAPITAL COMMITMENTS

	30 September 2005 RMB'000	31 December 2004 RMB'000
Contracted, but not provided for:		
Land and buildings	**—**	37,144
Plant and machinery	**129,832**	90,640
Intangible assets	**—**	186
	129,832	127,970
Authorized, but not contracted for:		
Plant and machinery	**—**	43,750
	129,832	171,720

6. CONTINGENT LIABILITIES

As at 30 September 2005, the Group did not have any significant contingent liabilities.

7. GEARING RATIO

As at 30 September 2005, the Group's gearing ratio was approximately 48.1% (31 December 2004: 47.2%) which is calculated based on the Group's total liabilities of approximately RMB369.8 million (31 December 2004: approximately RMB220.4 million) and total assets of approximately RMB768.9 million (31 December 2004: approximately RMB467.1 million).

8. **FOREIGN EXCHANGE EXPOSURE**

For the nine months ended 30 September 2005, approximately 28.0% 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.

9. **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group has achieved an encouraging result during the period under review. For the nine months ended 30 September 2005, the Group recorded an unaudited turnover of approximately RMB520,459,000 (2004: RMB352,001,000) and an unaudited net profit of approximately RMB58,080,000 (2004: RMB44,703,000). Compared to the corresponding period in the previous year, the turnover has a growth of approximately RMB168,458,000 or 47.9%, and the net profit has a growth of approximately RMB13,377,000 or 29.9%.

For the three months ended 30 September 2005, the Group recorded an unaudited turnover of approximately RMB196,593,000 (2004: RMB136,295,000) and an unaudited net profit of approximately RMB21,524,000 (2004: RMB19,643,000). Compared to the corresponding period in the previous year, the turnover has a growth of RMB60,298,000 or 44.2%, and the net profit has a growth of RMB1,881,000 or 9.6%.

Business Review

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

With the continuously increase of the business of the Group, and after the oil well casing is put into production, oil well pipes and casing will become the main products of the Company, and the billets will become the main raw material. In this regard, the annual output of special seamless oil well pipes and casing is anticipated to continue to increase. To reduce the cost of purchase, the long-term and steady suppliers are indispensable. In September 2005, the Company and Weihai Baolong Special Petroleum Materials Company Limited ("**Weihai Baolong**"), a non wholly-owned subsidiary of Maolong Machinery, entered into a supply agreement for the supply of oil well pipes and casing billets from Weihai Baolong; the supply price will be the then prevailing market price less a discount of RMB100/ton. The above agreement can not only guarantee the quantity and the quality of the billets which will be supplied to the Company, but also can reduce the cost of purchase. It will also benefit the research and development of new steel castings for our oil well pipes, thereby enhancing our profitability and overall competitiveness.

During the period under review, as regards the domestic customers, the Group expanded its market reach to two special zones, Taimu Oil Field（塔里木油田）and Jidong Oil Field（冀東油田）, both owned by PetroChina Company Limited and its subsidiaries (collectively, "**PetroChina Group**"), and several customers in the oversea market as well. The sales in domestic market and oversea market to the total turnover is 72% and 28%, respectively, increasing rapidly at the rate of 33% and 108%, comparing with the same period of last year.

Outlook

The Group is confident of the future of the petroleum machinery industry. With the rapid development of global economy, the demand for crude oil and the output of oil field keep growing, the market demand of petroleum extraction machinery will keep increasing steadily.

The Group will capture the opportunity, and enhance the competitive capability continuously through the strategies of capacity enhancement, improvement of product quality, strengthening the research and development capability, enhancing market exploration strength and controlling the cost. Meanwhile, it will continue to exploit the domestic and oversea markets, accelerate the development of business, and bring good return to shareholders.

MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENT

During the period under review, the Group had no material acquisition/disposal or significant investments.

BANK FACILITIES AND PLEDGE OF ASSETS

As at 30 September 2005, the Group had bank loans amounting to RMB10,000,000. In addition, the Agricultural Bank of China (Shandong Branch), Bank of China (Shandong Branch), CITIC Industrial Bank and Weifang Commercial Bank have granted credit facilities amounting to RMB47,500,000, RMB50,000,000, RMB62,500,000 and RMB31,600,000 to the Group, respectively, which have not been utilized.

EMPLOYEES

A breakdown of the number of employees of the Group by function for nine months ended 30 September 2005 was set out below:

	Nine months ended 30 September	
	2005	2004
Research and development	**49**	47
Production	**1,270**	936
Quality control	**89**	78
Sales and marketing	**52**	52
Administration	**168**	156
Total	**1,628**	1,269

The Group keeps a close watch on the levels of remuneration and benefits, rewarding its staff according to merit. It also offers its employees training and development opportunities to upgrade their abilities.

ADVANCE TO AN ENTITY

Advance to PetroChina

Trade receivables in the amount of approximately RMB39.1 million and note receivables in the amount of approximately RMB5.0 million were owed from an independent third party, PetroChina Group, as of 30 September 2005.

Advance to Sinopec

Trade receivables in the amount of approximately RMB26.1 million and note receivables in the amount of approximately RMB15.3 million were owed from an independent third party, China Petroleum & Chemical Corporation and its subsidiaries (collectively, "**Sinopec Group**"), as of 30 September 2005.

As confirmed by the Directors, the trade receivables and note 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 and note receivables were unsecured, interest free and had a credit terms of between 30 to 150 days.

AUDIT COMMITTEE

The Company set up an audit committee (the "**Audit Committee**") on 20 March 2004, and made amendments to its written terms of reference on 18 January 2005 in compliance with the provisions as set out in Rules C.3.1 to C.3.3 of the "Code on Corporate Governance Practices" set out in Appendix 15 of the GEM Listing Rules. The primary duty of the Audit Committee is to review and supervise external auditors, financial information, financial reporting system and internal control procedures. The Audit Committee comprises 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 discussed with the management in respect of accounting principles and practices adopted by the Group, the internal control and financial reporting matters, including review on the unaudited results as of 30 September 2005.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a model code of practice with standards not lower than those as required under rules 5.48 to 5.67 of the GEM Listing Rules for securities transactions by Directors. The Company has confirmed after making due enquiries with all the Directors in accordance with the code of practice that all the Directors have complied with the standard of dealings and model code of practice in relation to the securities transaction by Directors.

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

As at 30 September 2005, the interests or short positions of the Directors, supervisors (the "**Supervisors**") and chief executive of the Company (the "**Chief Executive**") in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which 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 the Stock Exchange, will be as follows:

Long positions in shares of the Company

Name	**Type of interests**	**Number of shares** (Note)	**Percentage of domestic shares**	**Percentage of total registered share capital**
Zhang En Rong	Personal	279,517,000	69.58%	43.14%
Lin Fu Long	Personal	34,216,000	8.52%	5.28%
Zhang Yun San	Personal	30,608,000	7.62%	4.72%
Xie Xin Cang	Personal	21,410,000	5.33%	3.30%

(Note: All are domestic shares)

Save as disclosed above, to the best knowledge of the Directors, none of the Directors, the Supervisors or Chief Executive had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), 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 rules 5.46 to 5.48 of the GEM Listing Rules or section 352 the SFO to be entered in the register of interests reserved to therein.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or Supervisors or their respective associates (as defined under the GEM Listing Rules) was granted by the Company or its subsidiary any rights or options to acquire any shares in or debentures of the Company or had exercised any such rights as at 30 September 2005.

SHARE OPTION SCHEME

The Company does not have any share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, so far as the Directors are aware, the following persons (other than Directors or Chief Executive) 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%	—	43.14%
Li Xiu Fen (Note 2)	Interests of spouse	34,216,000	8.52%	—	5.28%
Zhang Xin Lan (Note 3)	Interests of spouse	30,608,000	7.62%	—	4.72%
Li Bao Hui (Note 4)	Interests of spouse	21,410,000	5.33%	—	3.30%
Peter Cundill & Associates (Bermuda) Ltd. (Note 5)	Investment manager	76,760,000	—	31.17%	11.8%
RAB Energy Fund Limited (Note 5)	Investment manager	33,832,000	—	13.74%	5.22%
Cheah Cheng Hye (Note 5)	Corporate interests controlled by the significant shareholder	22,178,000	—	9.01%	3.42%
Value Partners Limited (Note 5)	Investment manager	22,178,000	—	9.01%	3.42%
Commonwealth Bank of Australia (Note 5)	Corporate interests controlled by the significant shareholder	13,052,000	—	5.30%	2.01%

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 Directors, Supervisors or Chief Executive who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

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

COMPLIANCE ADVISER'S INTERESTS

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 interests in the share capital of the Company as at 30 September 2005 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.

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 nine months ended 30 September 2005.

DIRECTORS

As of 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 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.

By order of the Board of
Shangdong Molong Petroleum Machinery Company Limited
Zhang En Rong
Chairman

Shandong, the PRC
9 November 2005