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This announcement, for which the Directors of Shandong Molong Petroleum Machinery Company Limited 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 Shandong Molong Petroleum Machinery Company Limited. 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.



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)

**PROPOSED VOLUNTARY WITHDRAWAL OF LISTING
ON THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED,
PROPOSED LISTING ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF INTRODUCTION,
PROPOSED REDUCTION OF THE MINIMUM NOTICE PERIOD
IN RESPECT OF THE PROPOSED WITHDRAWAL,
PROPOSED GRANT OF NEW GENERAL MANDATE
AND PROPOSED REVOCATION OF EXISTING GENERAL MANDATE,
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE
COMPANY AND
PROPOSED DECLARATION OF INTERIM DIVIDEND AND
CLOSURE OF REGISTER OF MEMBERS**

Sponsor



Guotai Junan Capital Limited

The Company is proposing to list the H Shares on the Main Board by way of introduction. On 11 July 2006, the Board announced that an application for the Proposed Introduction was submitted to the Stock Exchange and the Stock Exchange was informed of the Company's intention to implement the Proposed Withdrawal subject to certain conditions. Immediately following the Proposed Withdrawal, the listing of the H Shares on the GEM will be withdrawn and the H Shares will be listed on the Main Board.

In connection with the Proposed Withdrawal and Proposed Introduction, the Company proposes to seek shareholders' approval relating to the Proposed Withdrawal, the Proposed Introduction, the proposed reduction of the notice period for the Proposed Withdrawal under Rule 9.19(3) of the GEM Listing Rules, the proposed amendments to the Existing Articles, the proposed grant of the Share Issue Mandate and the proposed revocation of the Existing General Mandate. The Stock Exchange informed the Sponsor on 17 October, 2006 that the Listing Committee had granted an approval in principle of the listing of, and permission to deal in, the H Shares on the Main Board. The Circular containing the EGM Notice and notices convening the separate Class Meetings will be despatched to the Shareholders on 19 October, 2006. The Listing Document issued in connection with the Proposed Introduction will also be despatched to the Shareholders, for information purposes only, on 19 October, 2006.

Warning:

There is no assurance that permission will be obtained from the Stock Exchange for the Proposed Introduction. Shareholders and potential investors should be aware that the implementation of the Proposed Withdrawal and the Proposed Introduction are subject to the conditions set out below being fulfilled and thus may or may not become effective. Accordingly, the Proposed Withdrawal and the Proposed Introduction may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the H Shares.

Proposed declaration of interim dividend and closure of register of members

Subject to the approval of the Shareholders at the EGM, the Board proposes to declare and pay an interim dividend of RMB1.5 cents per share in respect of the six months ended 30 June 2006 to the Shareholders whose names appear on the register of members of the Company on 4 December 2006. The interim dividend will be payable on or before 29 December 2006. The register of members of the Company will be closed from 5 November 2006 to 5 December 2006, both days inclusive, during which period no share transfer shall be effected. The interim dividend as declared should not be taken as an indication of the level of profit or dividend for the full year. In order to qualify for the interim dividend and attending the EGM, all instruments of transfer accompanied by the relevant share certificates must be lodged with the Company's H Share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, No. 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 3 November 2006

An ordinary resolution in relation to the proposed declaration of interim dividend will be put forth for consideration by the Shareholders.

INTRODUCTION

On 11 July 2006, the Board announced that an application for the Proposed Introduction was submitted to the Stock Exchange and the Stock Exchange was informed of the Company's intention to implement the Proposed Withdrawal subject to certain conditions. The Stock Exchange informed the Sponsor on 17 October 2006 that the Main Board Listing Committee had granted an approval in principle of the proposed listing of the H Shares on the Main Board.

In connection with the Proposed Withdrawal and Proposed Introduction, the Company proposes to seek shareholders' approval relating to the Proposed Withdrawal, the Proposed Introduction, the proposed reduction of the notice period for the Proposed Withdrawal under Rule 9.19(3) of GEM Listing Rules, the proposed amendments to the Existing Articles, the proposed grant of the Share Issue Mandate, the proposed revocation of the Existing General Mandate and the proposed declaration of interim dividend. The Circular containing the EGM Notice and notices convening the separate Class Meetings will be despatched to the Shareholders on 19 October 2006.

THE PROPOSED WITHDRAWAL AND THE PROPOSED INTRODUCTION

On 11 July 2006, the Sponsor had on behalf of the Company submitted an advance booking form to the Stock Exchange for the listing of, and permission to deal in, on the Main Board 246,276,000 H Shares in issue.

The Stock Exchange informed the Sponsor on 17 October 2006 that the Main Board Listing Committee had granted an approval in principle of the listing of, and permission to deal in, the H Shares on the Main Board. Immediately following the Proposed Withdrawal, the listing of the H Shares on the GEM will be withdrawn and the H Shares as mentioned in the immediately preceding paragraph will be listed on the Main Board.

WAIVER FROM STRICT COMPLIANCE WITH THE MINIMUM NOTICE PERIOD IN RESPECT OF THE PROPOSED WITHDRAWAL

Pursuant to Rule 9.19 of the GEM Listing Rules, an issuer that has an alternative listing on another regulated, regularly operating, open stock exchange or securities market recognised for this purpose by the Stock Exchange, may not voluntarily withdraw its listing on GEM unless:

- (i) the prior approval of the shareholders of the issuer has been obtained by way of an ordinary resolution passed at a duly convened meeting of the shareholders of the issuer; and
- (ii) the prior approval of holders of H Shares and holders of Domestic Shares has been obtained at the separate Class Meetings; and
- (iii) the issuer has given its shareholders and holders of H Shares and holders of Domestic Shares at least three months' notice of the proposed withdrawal of listing.

In connection with the Proposed Withdrawal, the Company has applied to, and the Stock Exchange has granted, a waiver from strict compliance with the minimum three months' notice required under Rule 9.19(3) of the GEM Listing Rules, subject to the fulfillment of the following conditions:

- (i) the prior approval of the Shareholders for the reduction in the notice period for the Proposed Withdrawal to at least five clear Business Days shall have been obtained;
- (ii) in respect of the H Shares, there is no change in the board lot size, the share certificates, the share registrar and the trading currency in connection with the proposal to transfer its listing status; and
- (iii) there is no other fact that leads the Stock Exchange to believe that the reduced notice period is not feasible.

Accordingly, the EGM and the separate Class Meetings are respectively convened to seek the approval of the Shareholders for, amongst other things, the Proposed Withdrawal and the proposed reduction in the notice period for the Proposed Withdrawal. After Shareholders' approval shall have been obtained, a notice of the Proposed Withdrawal will be published at least five clear Business Days from the date on which the Shareholders shall have approved the Proposed Withdrawal at the EGM and separate Class Meetings.

The Directors consider that it is in the best interests of the Shareholders and the Company as a whole that the notice period for the Proposed Withdrawal be reduced so that the Proposed Withdrawal and the Proposed Introduction can be carried out as soon as practicable after obtaining the relevant approvals from the Shareholders at the EGM and the Class Meetings as well as from the CSRC.

CONDITIONS OF THE PROPOSED WITHDRAWAL AND THE PROPOSED INTRODUCTION

The implementation of the Proposed Withdrawal and the Proposed Introduction are conditional upon, amongst other things:

- (i) the Main Board Listing Committee granting approval for the listing of, and permission to deal in, the H Shares on the Main Board as mentioned under the paragraph headed "The Proposed Withdrawal and the Proposed Introduction" above;
- (ii) the CSRC granting approval for the listing of the H Shares on the Main Board;
- (iii) the passing of special resolutions at the EGM and the separate Class Meetings to approve, amongst other things, the Proposed Withdrawal, the Proposed Introduction and the proposed reduction in the notice period for the Proposed Withdrawal;
- (iv) the publication of a notice of the Proposed Withdrawal after obtaining the approval of Shareholders referred to in condition (iii) above not less than five clear Business Days from the date on which the Shareholders shall have approved the Proposed Withdrawal at the EGM and separate Class Meetings

- (v) the GEM Listing Committee granting a waiver for the reduction of the notice period for the Proposed Withdrawal from a minimum of three months under Rule 9.19(3) of GEM Listing Rules to at least five clear business days from the date on which the Shareholders shall have approved the Proposed Withdrawal at the EGM and the separate Class Meetings and the fulfillment of such waiver by the Company; and
- (vi) the obtaining of all other relevant consents (if any) which are required in connection with the implementation of the Proposed Withdrawal and the Proposed Introduction and fulfillment of all conditions which may be attached to such consents.

EFFECTS OF THE PROPOSED WITHDRAWAL AND THE PROPOSED INTRODUCTION

Subject to the fulfillment of the conditions set out in the immediately preceding paragraph, it is expected that dealings in the H Shares on GEM will cease at 9:30 a.m. on the Effective Date and dealings in the H Shares on the Main Board will commence at 9:30 a.m. on the Effective Date. The Company will make an announcement after the EGM and the respective Class Meetings to publish the results of the EGM and the respective Class Meetings and other information on the Proposed Withdrawal and the trading arrangements of the H Shares with respect to the Proposed Withdrawal and the Proposed Introduction. The Company will also issue a notice of the Proposed Withdrawal from the date on which the Shareholders shall have approved the Proposed Withdrawal at the EGM and the respective Class Meetings.

The Proposed Withdrawal and the Proposed Introduction will have no effect on the existing share certificates in respect of the H Shares which will continue to be good evidence of legal title and will not involve any transfer or exchange of the existing share certificates. The Directors propose no change to be made to the board lot size, trading currency of the H Shares and the share registrar of the H Shares in connection with the Proposed Withdrawal and the Proposed Introduction. The H Shares will continue to be traded in board lots of 4,000 H Shares. **Please note that if and when the H Shares are listed on the Main Board, you may be required to sign a new client agreement with your stockbrokers.**

Please also note that the continuing obligations of listed issuers under the Main Board Listing Rules and the GEM Listing Rules are not the same. Under the GEM Listing Rules, the Company is required to publish its quarterly results on the internet website operated by the Stock Exchange. Upon the listing of the H Shares on the Main Board, the Company will cease the practice of quarterly reporting and will follow the relevant requirements of the Main Board Listing Rules which include, amongst other things, through paid announcements in newspapers generally circulated in Hong Kong, publish its interim results and annual results within three months and four months from the end of the relevant period or financial year-end respectively. The Directors are of the view that following the reporting requirements under the Main Board Listing Rules will provide investors and the Shareholders with a high degree of transparency and a more complete picture of the performance of the Group during the relevant period. The Directors also believe that the cessation of quarterly reporting would save significant publishing costs and other related expenses, and enable management to devote greater management time to other key aspects of the operation of the Company's business.

REASONS FOR THE PROPOSED WITHDRAWAL AND THE PROPOSED INTRODUCTION

The Group is principally engaged in the design, manufacture and sale of petroleum drilling and extracting machinery and related accessories. Since the listing of the H Shares on GEM in April 2004, the Group has experienced significant growth and has established strong market positions in each of its primary business segments. Nevertheless, the Directors believe that the listing of the H Shares on the Main Board will help to enhance the profile of the Group and increase the trading liquidity of the H Shares. The Directors consider that the listing of the H Shares on the Main Board will be beneficial to the future growth, financing flexibility and business development of the Company. No change in the business of the Group is contemplated by the Directors following the Proposed Introduction.

The Proposed Introduction will not involve any issue of new H Shares by the Company.

EXPECTED TIMETABLE

The expected timetable for the Proposed Withdrawal and the Proposed Introduction is set out below:

Despatch of the circular, the notices convening the EGM and the separate Class Meetings and the related forms of proxy and reply slips to the Shareholders	Thursday, 19 October 2006
Despatch of the Listing Document to the Shareholders	Thursday, 19 October 2006
Latest time for lodgement with the instrument of transfer accompanied by the relevant share certificate in order to qualify for the interim dividend and attending the EGM and/or the Separate Class Meetings	4:00 p.m. on Friday, 3 November 2006
Closure of register of members (both days inclusive) from	Sunday, 5 November 2006
to	Tuesday, 5 December 2006
Latest time for return of related reply slips for the EGM and the separate Class Meetings	Tuesday, 14 November 2006
Latest time for lodgement of related forms of proxy for the EGM and the separate Class Meetings	9:00 a.m. on Monday, 4 December 2006
EGM	9:00 a.m. on Tuesday, 5 December 2006

Class meeting of holders of H Shares10:00 a.m. on Tuesday, 5 December 2006

Class meeting of holders of Domestic
Shares11:00 a.m. on Tuesday, 5 December 2006

Date of the announcement of results of the EGM and
the separate Class Meetings which are to be published
in The Standard (in English), Hong Kong Economic Times
(in Chinese) and on the GEM websiteWednesday, 6 December 2006

Notice of the Proposed Withdrawal on or beforeWednesday, 6 December 2006

The CSRC granting approval for the listing of
the H Shares on the Main Board on or beforeTuesday, 2 January 2007

Date of the announcement in respect of
the CSRC granting approval for the listing of
the H Shares on or beforeTuesday, 2 January 2007

Last day of dealing in the H Shares on GEM4:00 p.m. on Tuesday,
9 January 2007

Withdrawal of listing of the H Shares on GEM effective from ..9:30 a.m. on Wednesday,
10 January 2007

Dealings in the H Shares on the Main Board to commence on ..9:30 a.m. on Wednesday,
10 January 2007

Notes:

1. All times and dates refer to Hong Kong local times and dates.
2. Shareholders will be informed by public announcement of any changes in the above expected timetable.

WAIVERS FROM STRICT COMPLIANCE WITH RULES 10.07(1)(a) AND 10.08 OF THE MAIN BOARD LISTING RULES

In connection with the Proposed Introduction, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the restrictions on further issues of securities within six months of listing on the Main Board as required by Rule 10.08 of the Main Board Listing Rules and a consequential waiver from strict compliance with the restrictions under Rule 10.07(1)(a) of the Main Board Listing Rules in respect of the deemed disposal of H Shares by the controlling shareholders upon the issue of securities by the Company within six months of listing on the Main Board subject to the following conditions:

- (i) any issue of H Shares (or convertible securities) during the first six months after listing on the Main Board must be either for cash to fund a specific acquisition or as part or full consideration for an acquisition;
- (ii) the acquisition must be for assets or business(es) that will contribute to the growth of the operations of the Group; and
- (iii) Zhang En Rong, the controlling shareholder of the Company, should not cease to be a controlling shareholder of the Company upon the issue of Shares within six months of the listing on the Main Board.

The Company has applied to the Stock Exchange for waivers from strict compliance with Rules 10.07(1)(a) and 10.08 of the Main Board Listing Rules for the following reasons:

- (i) the Company will not raise any new funds pursuant to the Proposed Introduction. Therefore, the Shareholders would not suffer any dilution of their interests as a result of the Company's listing on the Main Board;
- (ii) Mr. Zhang En Rong, the controlling shareholder of the Company, has not disposed of any H Shares since the Company was established and intends not to dispose of any Shares owned by him within 6 months after the H Shares are listed on the Main Board; and
- (iii) the interests of the Shareholders are protected since any further issue of H Shares by the Company would be subject to Shareholders' approval as required under Rule 19A.38 of the Main Board Listing Rules.

FINANCIAL INFORMATION ON THE GROUP

Liquidity and capital resources

The Company has historically met its working capital and other capital requirements principally from cash provided by operations, while raising the remainder of its requirements primarily through bank borrowings and equity market.

The following table presents selected cash flow data of the Company for the three years ended 31 December 2003, 2004 and 2005 and the four months ended 30 April 2006.

Cash flows

	Years ended 31 December			Four months ended 30 April	
	2003	2004	2005	2005	2006
	<i>(Unaudited)</i>				
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflow from operating activities	41,388	35,434	302,623	73,454	(25,783)
Net cash outflow from investing activities	(49,871)	(44,660)	(273,851)	(102,838)	(113,463)
Net cash inflow from financing activities	7,831	3,667	99,394	31,900	50,808
Cash and cash equivalents at end of the year/period	63,087	57,528	185,694	60,044	97,256

The Company has cash and cash equivalents of approximately RMB97.26 million as at 30 April 2006, and reported a net cash outflow from operating activities of approximately RMB25.78 million during the four months ended 30 April 2006. The capital commitments as at 30 April 2006 related primarily to the construction of the new casing production line. The Company intends to fund the construction of the new casing production line from the proceeds from the placing of additional H Shares in May 2005, internal resources and bank borrowings. The Company continuously manages its liquidity situation to ensure that it is adequate to meet its expansion plans.

Capital commitments

	Group and Company			
	As at 31 December		As at 30 April	
	2003	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for:				
Land and buildings	—	37,144	25,549	7,695
Plant and machinery	1,923	90,640	120,790	62,748
Intangible assets	—	186	—	—
	1,923	127,970	146,339	70,443
Authorized, but not contracted for:				
Plant and machinery	—	43,750	—	—
	<u>1,923</u>	<u>171,720</u>	<u>146,339</u>	<u>70,443</u>

Indebtedness

Borrowings

As at the close of business on 31 July 2006, being the latest practicable date for the purpose of indebtedness, the used and unused banking facilities of the Group are RMB158 million and RMB367 million respectively.

Commitments

As at 30 April 2006, the Group's operating lease commitment was approximately RMB3,138,000. On the same date, the Group had capital expenditure commitments of approximately RMB70,443,000.

Except as described above, the Group did not have any outstanding loan capital, mortgages, charges, bank overdrafts, finance leases or hire purchase commitments, guarantee indemnities or other material contingent liabilities at the close of business on 30 April 2006.

Working capital

The Directors, after due and careful enquiry, are of the opinion that, taking into consideration the financial resources available to the Company including its internally generated funds, the Company has sufficient working capital in the next 12 months, commencing from the date of the Listing Document.

Net tangible assets

The following statement shows the Group's net tangible assets as at 30 April 2006 which has been prepared based on the audited consolidated net assets of the Group as at 30 April 2006, shown in the accountants' report of the Group set out in Appendix I to the Listing Document.

Audited net tangible assets of the Group as at 30 April 2006 (<i>Note 1</i>)	<u><u>RMB450,727,000</u></u>
Audited net tangible asset value per share (<i>Note 2</i>)	<u><u>RMB0.696</u></u>

Notes:

1. The audited net tangible assets of the Group as at 30 April 2006 is arrived at based on the audited consolidated net assets of the Group from the Accountants' Report set out in the section headed "Accountants' Report" in Appendix I to the Listing Document.
2. The net tangible asset value per Share has been arrived at based on the 647,998,000 Shares in issue at the date of the Listing Document as if such Shares were outstanding through the financial period ended 30 April 2006.

AMENDMENTS TO THE EXISTING ARTICLES

In connection with the Proposed Introduction, to remove references to GEM, to comply with various provisions of the Main Board Listing Rules and to make other immaterial changes to the Existing Articles, the Board proposes to seek the approval of the Shareholders for the amendments to the Existing Articles at the EGM. The provisions of the amended Existing Articles will comply with the relevant requirements of the Main Board Listing Rules. Set out below are details of the principal significant amendments to be effected:

1. the consequential amendments to the Existing Articles as a result of the Proposed Introduction;
2. the amendments to the Existing Articles in order to comply with the provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Main Board Listing Rules;
3. the amendments to the Existing Articles in order to comply with Rule 13.39(3) of the Main Board Listing Rules; and
4. any consequential amendments to the New Articles as the Board may consider necessary.

The above amendments to the Existing Articles are conditional upon:

- (i) the passing of a special resolution by the Shareholders at the EGM to approve the amendments to the Existing Articles;
- (ii) the approval from the Ministry of Commerce on the amendments to the Existing Articles; and
- (iii) the commencement of dealings in the H Shares on the Main Board.

GENERAL MANDATE

The Directors are of the view that as the Existing General Mandate make specific references to GEM, in connection with the Proposed Introduction on the Main Board, special resolutions will be proposed at the EGM to revoke the Existing General Mandate and to grant to the Directors the Share Issue Mandate. The Share Issue Mandate will expire upon the earlier of (i) the conclusion of the next annual general meeting of the Company; or (ii) the passing of a special resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors by the relevant resolutions.

The Directors confirm that they have not exercised the Existing General Mandate to issue Shares after they were granted to the Directors pursuant to resolutions passed at the annual general meeting of the Company held on 12 May 2006 and that they have no present intention to exercise the Existing General Mandates prior to the Proposed Introduction.

PROPOSED DECLARATION OF INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

Subject to the approval of the Shareholders at the EGM, the Board proposes to declare and pay an interim dividend of RMB1.5 cents per share in respect of the six months ended 30 June 2006 to the Shareholders whose names appear on the register of members of the Company on 4 December 2006. The interim dividend will be payable on or before 29 December 2006. The register of members of the Company will be closed from 5 November 2006 to 5 December 2006, both days inclusive, during which period no share transfer shall be effected. The interim dividend as declared should not be taken as an indication of the level of profit or dividend for the full year. In order to qualify for the interim dividend and attending the EGM, all instruments of transfer accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, No. 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 3 November 2006.

An ordinary resolution in relation to the proposed declaration of interim dividend will be put forth for consideration by the Shareholders.

THE EGM AND CLASS MEETINGS

Special resolutions will be proposed at the EGM to consider and, if thought fit, approve, amongst other things, the following:

- (i) the Proposed Withdrawal;
- (ii) the Proposed Introduction;
- (iii) the proposed reduction in the notice period for the Proposed Withdrawal;
- (iv) the proposed revocation of the Existing General Mandate;
- (v) the proposed granting of the Share Issue Mandate to the Directors; and
- (vi) the proposed amendments to the Existing Articles.

Ordinary resolution will also be proposed at the EGM for the proposed declaration of the interim dividend.

In addition, special resolution will be proposed at each of the Class Meetings to consider and, if thought fit, approve, amongst other things, the Proposed Introduction and the Proposed Withdrawal.

The votes to be taken at the EGM and the separate Class Meetings will be taken by poll.

For the purposes of the EGM and the separate Class Meetings, the register of members of the Company will be closed from 5 November 2006 to 5 December 2006 (both dates inclusive), during which no transfer of Shares will be registered. Accordingly, holders of H Shares and holders of Domestic Shares whose names appear on the register of members of the Company at the close of business on 3 November 2006 shall have the right to attend the EGM and the separate Class Meetings.

RECOMMENDATION

The Board considers that the Proposed Introduction, the Proposed Withdrawal, the proposed reduction in the notice period for the Proposed Withdrawal, the proposed revocation of the Existing General Mandate, the proposed grant of the Share Issue Mandate, the proposed amendments to the Existing Articles, and the proposed declaration and payment of interim dividend to be in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of all the resolutions to be proposed at the EGM and the separate Class Meetings.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below, unless the context otherwise requires:

“associate(s)”	has the meaning given to it by the Main Board Listing Rules
“Board”	The board of Directors
“Business Day”	a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for business of dealing in securities
“Class Meetings”	the separate class meetings of the holders of H Shares and holders of Domestic Shares to be held at 10:00 a. m. and 11:00 a. m., respectively, on 5 December 2006 or any adjournment thereof
“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
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	the ordinary domestic share(s) with a nominal value of RMB0.10 each in the registered share capital of the Company which are subscribed for in RMB

“Effective Date”	expected to be on 10 January 2007, the date on which the Proposed Withdrawal and the Proposed Introduction become effective
“EGM”	an extraordinary general meeting of the Company to be held at No.99 Beihai Road, Shouguang City, Shandong Province, the People’s Republic of China on 5 December 2006 at 9:00 a.m. or any adjournment thereof
“EGM Notice”	the notice convening the EGM
“Existing Articles”	the existing articles of association of the Company as amended from time to time
“Existing General Mandate”	the general mandate to issue Shares granted to the Directors pursuant to the relevant resolution passed at the annual general meeting of the Company held on 12 May 2006
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	The listing committee of the Stock Exchange on GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended from time to time
“Group”	the Company and its subsidiaries (as defined in the GEM Listing Rules)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the overseas listed foreign invested shares with a nominal value of RMB0.10 each in the registered share capital of the Company, which are subscribed for and traded in Hong Kong dollar
“Latest Practicable Date”	16 October 2006, being the latest practicable date prior to the publishing of this announcement for the purpose of ascertaining certain information contained in this announcement
“Listing Document”	the listing document dated 19 October 2006 to be issued by the Company in connection with the Proposed Introduction
“Main Board Listing Committee”	The listing committee of the Stock Exchange

“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time, and any applicable practice notes, supplementary guidance or other regulations issued by the Stock Exchange
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“PRC”	the People’s Republic of China, which for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Introduction”	the proposed listing of the H Shares on the Main Board by way of introduction pursuant to the Main Board Listing Rules
“Proposed Withdrawal”	the proposed voluntary withdrawal of the listing of the H Shares on GEM
“RMB”	Renminbi, the lawful currency for the time being of the PRC
“Share(s)”	Domestic Share(s) and/or H Share(s), as the case may be
“Shareholder(s)”	holder(s) of the Shares
“Share Issue Mandate”	a general mandate proposed to be granted to the Directors to allot, issue and otherwise deal with Shares not exceeding 20% of the aggregate amount of Domestic Shares in issue and 20% of the aggregate nominal amount of the H Shares in issue as at the date of the passing of the relevant special resolution as set out in the EGM Notice
“Sponsor”	Guotai Junan Capital Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America

“%”

Per cent.

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

Shandong, the PRC, 17 October 2006

* *for identification purpose only*

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 Xue Chang, Yan Yi Zhuang and Loke Yu alias Loke Hoi Lam.

Unless otherwise specified in this announcement, amounts denominated in RMB have been translated, for the purpose of illustration only, into HK\$ as HK\$1.00 = RMB1.04.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting.