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: 568)**

# ANNUAL RESULT ANNOUNCEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

**HIGHLIGHTS**

The revenue of the Group amounted to RMB2,703,906,835.19, which represents a growth of approximately 30.27% as compared with last year.

Profit attributable to equity holders of the Company amounted to RMB276,149,165.54 representing an increase by approximately 2.92% as compared with last year.

Earnings per share of the Group amounted to RMB0.81 representing a decrease by approximately 1.22% as compared with last year.

The Board recommended the payment of a final dividend of RMB0.15 per share (before tax).

The board of directors (the "Board") of Shandong Molong Petroleum Machinery Company Limited (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010.

The financial information set out in this announcement below does not constitute the Group's statutory financial statements for the year ended 31 December 2010, but represents an extract from those financial statements. The financial information has been reviewed by the audit committee of the Company (the "Audit Committee") and agreed by the Group's external auditors, Deloitte Touche Tohmatsu Certified Public Accountants Ltd., Certified Public Accountants, PRC.

Unless specified otherwise, the financial information of the Company was stated in RMB Yuan.

## CONSOLIDATED INCOME STATEMENTS

*For the year ended 31 December 2010*

| | *Note* | **2010** | 2009 (Restated) |
|---|---|---|---|
| **Total revenue from operations** | *4* | **2,703,906,835.19** | 2,075,551,285.67 |
| **Total costs of operations** | | **2,427,381,354.95** | 1,805,362,399.46 |
| Operating cost | | **2,237,506,663.67** | 1,678,634,536.19 |
| Business tax and surcharges | | **4,812,307.46** | 3,706,491.83 |
| Selling expenses | | **51,360,828.52** | 61,250,637.79 |
| Administrative expenses | | **91,383,971.04** | 63,829,412.03 |
| Finance costs | *6* | **44,341,872.74** | 10,656,881.54 |
| Asset impairment losses | *7* | **(2,024,288.48)** | (12,715,559.92) |
| Gains from changes in fair value | | **—** | (5,270,000.00) |
| Investment income | | **191,250.95** | 5,827,137.15 |
| Including: Gains from investment in associates and joint ventures | | **191,250.95** | 247,137.15 |
| **Operating profit** | | **276,716,731.19** | 270,746,023.36 |
| Add: Non-operating income | *8* | **50,431,757.52** | 54,154,013.57 |
| Less: Non-operating expenses | | **2,664,687.26** | 619,598.32 |
| **Total profit** | *9* | **324,483,801.45** | 324,280,438.61 |
| Less: Income tax expenses | *10* | **47,503,492.81** | 50,458,156.21 |
| **Net profit** | | **276,980,308.64** | 273,822,282.40 |
| **Other comprehensive income** | | **269,875.82** | 73,998.29 |
| **Total comprehensive income** | | **277,250,184.46** | 273,896,280.69 |
| **Net profit attributable to** | | | |
| Shareholders of the Company | | **276,149,165.54** | 268,315,157.33 |
| Minority interests | | **831,143.10** | 5,507,125.07 |
| **Total comprehensive income attributable to** | | | |
| Shareholders of the Company | | **276,402,773.53** | 268,388,521.29 |
| Minority interests | | **847,410.93** | 5,507,759.40 |
| **Earnings per share:** | *11* | | |
| Basic earnings per share | | **0.81** | 0.82 |
| Diluted earnings per share | | **N/A** | N/A |
| **Proposed final dividends per share** | *12* | **0.15** | 0.12 |

## CONSOLIDATED BALANCE SHEETS

*As at 31 December 2010*

| | *Note* | **2010** | 2009 (Restated) |
|---|---|---|---|
| **Current assets** | | | |
| Cash and bank balances | | **892,286,589.93** | 305,509,495.54 |
| Bills receivable | | **19,120,729.91** | 34,631,397.12 |
| Accounts receivable | *13* | **500,867,640.05** | 455,109,180.76 |
| Prepayments | | **158,601,512.56** | 54,615,164.00 |
| Dividends receivable | | **150,000.00** | — |
| Other receivable | | **30,281,650.63** | 24,369,143.50 |
| Inventory | | **743,553,547.47** | 713,655,725.39 |
| Other current assets | | **41,054,637.00** | — |
| **Total current assets** | | **2,385,916,307.55** | 1,587,890,106.31 |
| **Non-current assets** | | | |
| Long-term equity investment | | **12,477,279.82** | 12,436,028.87 |
| Fixed assets | | **1,648,583,610.99** | 908,171,388.20 |
| Construction in progress | | **131,446,242.52** | 391,594,169.80 |
| Construction materials | | **—** | 7,540,351.49 |
| Intangible assets | | **249,918,129.97** | 165,630,624.75 |
| Goodwill | | **142,973,383.21** | 142,973,383.21 |
| Deferred income tax assets | | **15,095,861.12** | 17,091,629.15 |
| Other non-current assets | | **—** | 23,279,221.87 |
| **Total non-current assets** | | **2,200,494,507.63** | 1,668,716,797.34 |
| **Total assets** | | **4,586,410,815.18** | 3,256,606,903.65 |

| | Note | 2010 | 2009 (Restated) |
|---|---|---|---|
| **Current liabilities** | | | |
| Short-term borrowings | | **712,866,417.20** | 274,648,512.00 |
| Bills payable | | **482,816,088.17** | 373,611,268.50 |
| Accounts payable | *14* | **501,771,570.34** | 345,188,404.83 |
| Advance receipts | | **34,721,719.22** | 52,528,174.61 |
| Salaries payable | | **17,839,689.76** | 15,713,925.78 |
| Taxes payable | | **29,428,377.89** | 40,385,354.67 |
| Interests payable | | **955,547.63** | 563,315.00 |
| Dividends payable | | **23,788,680.00** | 39,591,725.86 |
| Other payables | | **25,991,912.66** | 17,271,010.07 |
| Non-current liabilities due within 1 year | | **—** | 193,000,000.00 |
| **Total current liabilities** | | **1,830,180,002.87** | 1,352,501,691.32 |
| **Net current assets** | | **555,736,304.68** | 235,388,414.99 |
| **Total assets less current liabilities** | | **2,756,230,812.31** | 1,904,105,212.33 |
| **Non-current liabilities** | | | |
| Long-term loans | | **—** | 580,000,000.00 |
| Deferred income tax liabilities | | **13,027,452.38** | 10,470,001.64 |
| **Total non-current liabilities** | | **13,027,452.38** | 590,470,001.64 |
| **Total liabilities** | | **1,843,207,455.25** | 1,942,971,692.96 |
| **Shareholders' equity** | | | |
| Share capital | | **398,924,200.00** | 328,924,200.00 |
| Capital reserve | | **1,248,406,190.92** | 121,667,859.42 |
| Surplus reserve | | **140,393,447.06** | 108,376,005.02 |
| Undistributed profit | | **898,749,873.79** | 694,089,054.29 |
| Foreign currency translation differences | | **(483,325.64)** | (736,933.63) |
| **Total equity attributable to shareholders of the Company** | | **2,685,990,386.13** | 1,252,320,185.10 |
| Minority interests | | **57,212,973.80** | 61,315,025.59 |
| **Total shareholders' equity** | | **2,743,203,359.93** | 1,313,635,210.69 |

## CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

*For the year ended 31 December 2010*

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Attributable to the shareholders of the Company | | | | | | |
| | Share capital | Capital reserve | Surplus reserve | Undistributed profit | Translation differences | Minority interests | Total equity |
| **Balance at the beginning of year** | 328,924,200.00 | 121,667,859.42 | 108,376,005.02 | 694,089,054.29 | (736,933.63) | 61,315,025.59 | 1,313,635,210.69 |
| **Net profit** | – | – | – | 276,149,165.54 | – | 831,143.10 | 276,980,308.64 |
| **Other comprehensive income** | – | – | – | – | 253,607.99 | 16,267.83 | 269,875.82 |
| **Total comprehensive income** | – | – | – | 276,149,165.54 | 253,607.99 | 847,410.93 | 277,250,184.46 |
| **Contribution from shareholders and reduction of capital** | | | | | | | |
| Capital injection from shareholders | 70,000,000.00 | 1,126,738,331.50 | – | – | – | – | 1,196,738,331.50 |
| Equity settled share expenses charged to equity | – | – | – | – | – | – | – |
| Others | – | – | – | – | – | – | – |
| **Profit distribution** | | | | | | | |
| Transfer to surplus reserves | – | – | 32,017,442.04 | (32,017,442.04) | – | – | – |
| Distribution to shareholders | – | – | – | (39,470,904.00) | – | (4,949,462.72) | (44,420,366.72) |
| Others | – | – | – | – | – | – | – |
| **Transfer of shareholders' equity** | | | | | | | |
| Transfer of capital reserve to share capital | – | – | – | – | – | – | – |
| Transfer of surplus reserves to share capital | – | – | – | – | – | – | – |
| Surplus reserves making up of losses | – | – | – | – | – | – | – |
| Others | – | – | – | – | – | – | – |
| **Balance at the end of the current year** | 398,924,200.00 | 1,248,406,190.92 | 140,393,447.06 | 898,749,873.79 | (483,325.64) | 57,212,973.80 | 2,743,203,359.93 |

| | 2009 (Restated) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Attributable to the shareholders of the Company | | | | | | |
| | Share capital | Capital reserve | Surplus reserve | Undistributed profit | Translation differences | Minority interests | Total equity |
| **Balance at the beginning of year** | 328,924,200.00 | 121,667,859.42 | 80,086,723.93 | 519,848,018.05 | (810,297.59) | 60,307,266.19 | 1,110,023,770.00 |
| **Net profit** | — | — | — | 268,315,157.33 | — | 5,507,125.07 | 273,822,282.40 |
| **Other comprehensive income** | — | — | — | — | 73,363.96 | 634.33 | 73,998.29 |
| **Total comprehensive income** | — | — | — | 268,315,157.33 | 73,363.96 | 5,507,759.40 | 273,896,280.69 |
| **Contribution from shareholders and reduction of capital** | | | | | | | |
| Capital injection from shareholders | — | — | — | — | — | — | — |
| Equity settled share expenses charged to equity | — | — | — | — | — | — | — |
| Others | — | — | — | — | — | — | — |
| Profit distribution | | | | | | | |
| Transfer to surplus reserves | — | — | 28,289,281.09 | (28,289,281.09) | — | — | — |
| Distribution to shareholders | — | — | — | (65,784,840.00) | — | (4,500,000.00) | (70,284,840.00) |
| Others | — | — | — | — | — | — | — |
| **Transfer of shareholders' equity** | | | | | | | |
| Transfer of capital reserve to share capital | — | — | — | — | — | — | — |
| Transfer of surplus reserves to share capital | — | — | — | — | — | — | — |
| Surplus reserves making up of losses | — | — | — | — | — | — | — |
| Others | — | — | — | — | — | — | — |
| **Balance at the end of the current year** | 328,924,200.00 | 121,667,859.42 | 108,376,005.02 | 694,089,054.29 | (736,933.63) | 61,315,025.59 | 1,313,635,210.69 |

## NOTES TO THE CONSOLIDATED FINACIAL STATEMENTS

*For the year ended 31 December 2010*

### 1. GENERAL

The Company was established in the People's Republic of China ("PRC") with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Small and Medium-sized Enterprises Board of Shenzhen Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the design, manufacture and sale of petroleum extraction machinery and related accessories, which included oil well pipes, oil well sucker rods, oil well pumps and oil well pumping machines.

### 2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The Company's financial statements were used to be prepared in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP") for disclosure purposes. According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" published by the Stock Exchange in December 2010, with effect from this financial year, the Company decided to prepare its financial statements in accordance with the "Accounting Standards for Business Enterprises" and other related regulations issued by the China Ministry of Finance ("PRC Accounting Standards"). The adoption of PRC Accounting Standards has been applied retrospectively and the comparative financial information for the year ended 31 December 2009 is converted in accordance with PRC Accounting Standards.

The Group's financial statements have been prepared on a going concern basis and based on the actual transactions and matters incurred; in accordance with the PRC Accounting Standards, Information Disclosure Rule 15 of Public Offerings Company — Financial Reporting General Provisions (2010 Amendments) issued by China Securities Regulatory Commission ("CSRC") and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) ("Hong Kong Companies Ordinance"); and the accounting policies and estimates of the Group.

## 3. CHANGES IN ACCOUNTING POLICIES AND ITS EFFECT

| Content and reasons for changes in accounting policies | Name of statement items affected | Amounts affected |
|---|---|---|
| Relevant expenses directly attributable to business combination | | |
| Prior to 1 January 2010, for business combination not under common control, all relevant costs directly attributable to business combination were included in the combined financial statements as the business combination cost, and recognized as initial investment cost of long-term equity investment in the Company's financial statements. | | |
| According to the requirements under "Enterprise Accounting Standard Interpretation No. 4", since 1 January 2010, for business combination not under common control, all intermediate fees such as audit, legal services and assessment and consultation incurred during business combination and other relevant management fees are both included in profit or loss for the period in the combined financial statements and the company's financial statements upon occurrence. | | |
| The Group adopts future applicable method to calculate the above changes in accounting policies. | None | Nil |

## 4. TOTAL REVENUE FROM OPERATIONS

The total revenue from operations consists of operating revenue and revenue from other operation. The operating revenue only represents the net amounts received and receivables for goods sold and services rendered by the Group to outside customers, less trade discounts during the year.

Analysis of the Group's operating revenue during the year is as follows:

| | **2010** | 2009 (Restated) |
|---|---|---|
| **Products** | | |
| Casing and Tubing | **2,126,589,473.71** | 1,725,410,397.39 |
| Three kinds of pumping units | **111,655,198.06** | 105,720,191.88 |
| Petroleum machinery | **148,493,859.41** | 83,505,727.48 |
| Others | **266,008,024.38** | 126,740,593.92 |
| Total | **2,652,746,555.56** | 2,041,376,910.67 |

## 5. SEGMENT INFORMATION

In accordance with the disclosure requirements of 《Enterprise Accounting Standards No. 35 — Segment Reporting 企業會計準則第35號－分部報告》, operating segment has been identified on the basis of internal organization structure, management requirements and internal reporting policies. The reporting segments are determined on the basis of operating segments. An operating segment represents a component of the Group that satisfied both of the following criteria: 1) it engages in business activities from which it may earn revenue and incur expenses; and 2) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

### (1) Segment Reporting

According to the internal organization structure, management requirements and internal reporting system of the Group, the Group's operating segments are divided into 4 reportable segments. The Group's management regularly evaluates the operating results of these reportable segments to determine the resources to be allocated and evaluates its results. Each of the Group's reportable segments includes casing, tubing, three kinds of pumping units, petroleum machinery and others.

Segment reporting information is disclosed in accordance with the accounting policies and measurement standards adopted fot reporting to the management by each segment, which are consistent with the accounting policies and measurement basis for preparing financial statements.

Transfer and transaction among segments are measured on the basis of actual transaction price. Segment income and segment expenses are recognized on the basis of actual income and expense of each segment. Segment assets or liabilities are allocated in accordance with assets attributable to such operating segment used or liabilities attributable to such operating segment incurred during normal course of operation of the operating segment.

*Segment reporting information–2010*

| | Casing and Tubing | Three kinds of pumping units | Petroleum machinery | Other | Unallocated items | Inter-segment elimination | Total |
|---|---|---|---|---|---|---|---|
| Operation Revenue | | | | | | | |
| External transaction income | **2,126,589,473.71** | **111,655,198.06** | **148,493,859.41** | **317,168,304.01** | **–** | **–** | **2,703,906,835.19** |
| Income for inter-segment transaction | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Total segment operation revenue | **2,126,589,473.71** | **111,655,198.06** | **148,493,859.41** | **317,168,304.01** | **–** | **–** | **2,703,906,835.19** |
| Total operation revenue presented | **2,126,589,473.71** | **111,655,198.06** | **148,493,859.41** | **317,168,304.01** | **–** | **–** | **2,703,906,835.19** |
| Segment costs | **1,765,924,819.79** | **90,804,594.44** | **128,124,277.00** | **307,689,470.44** | **(887,650.50)** | **–** | **2,291,655,511.17** |
| Segment operating profit | **360,664,653.92** | **20,850,603.62** | **20,369,582.41** | **9,478,833.57** | **887,650,50** | | **412,251,324.02** |
| Adjustment items: | | | | | | | |
| Administrative expenses | **–** | **–** | **–** | **–** | **91,383,971.04** | **–** | **91,383,971.04** |
| Finance expenses | **–** | **–** | **–** | **–** | **44,341,872.74** | **–** | **44,341,872.74** |
| Investment income | **–** | **–** | **–** | **–** | **191,250.95** | **–** | **191,250.95** |
| Operation Profit | **360,664,653.92** | **20,850,603.62** | **20,369,582.41** | **9,478,833.57** | **(134,646,942.33)** | **–** | **276,716,731.19** |
| Non-operation income | **–** | **–** | **–** | **–** | **50,431,757.52** | **–** | **50,431,757.52** |
| Non-operation expenditure | **–** | **–** | **–** | **–** | **2,664,687.26** | **–** | **2,664,687.26** |
| Total Profit | **360,664,653.92** | **20,850,603.62** | **20,369,582.41** | **9,478,833.57** | **(86,879,872.07)** | **–** | **324,483,801.45** |
| Income tax | **–** | **–** | **–** | **–** | **47,503,492.81** | **–** | **47,503,492.81** |
| Net profit | **360,664,653.92** | **20,850,603.62** | **20,369,582.41** | **9,478,833.57** | **(134,383,364.88)** | **–** | **276,980,308.64** |
| Total segment assets | **2,879,744,594.66** | **105,967,422.92** | **590,841,404.05** | **89,847,662.69** | **920,009,730.87** | **–** | **4,586,410,815.18** |
| Total segment liabilities | **974,692,381.05** | **25,778,108.93** | **54,523,677.02** | **37,575,191.04** | **750,638,097.21** | **–** | **1,843,207,455.25** |
| Supplementary Information: | | | | | | | |
| Depreciation | **83,113,141.70** | **2,415,819.56** | **4,718,452.52** | **–** | **8,434,913.32** | | **98,682,327.10** |
| Amortize | **11,051,502.34** | **–** | **1,026,556.64** | **–** | **–** | **–** | **12,078,058.98** |
| Interest Income | **–** | **–** | **–** | **–** | **5,112,478.99** | **–** | **5,112,478.99** |
| Interest cost | **–** | **–** | **–** | **–** | **65,978,204.21** | **–** | **65,978,204.21** |
| Impairment losses recognized in previous year: | **(1,136,637.98)** | **–** | **–** | **–** | **(887,650.50)** | **–** | **(2,024,288.48)** |
| Non-current assets other than long-term equity investment | **2,064,014,359.04** | **41,443,738.55** | **18,487,846.47** | **48,975,422.63** | **15,095,861.12** | | **2,188,017,227.81** |
| Capital expenditure | **634,988,815.03** | **489,529.51** | **40,232,058.22** | **–** | **16,890,017.19** | **–** | **692,600,419.95** |
| Consist of: Expenses on construction in progress | **558,871,719.53** | **476,572.51** | **8,099,611.62** | **–** | **–** | **–** | **567,447,903.66** |
| Expenses on purchase of fixed assets | **22,100,646.12** | **12,957.00** | **3,042,453.43** | **–** | **2,194,380.64** | **–** | **27,350,437.19** |
| Expenses on purchase of intangible assets | **54,016,449.38** | **–** | **29,089,993.17** | **–** | **14,695,636.55** | **–** | **97,802,079.10** |
| Non-cash expenses other than depreciation and amortization | **–** | **–** | **–** | **–** | **–** | **–** | **–** |

*Segment reporting information-2009 (restated)*

| | Casing and Tubing | Three kinds of pumping units | Petroleum machinery | Other | Unallocated items | Inter-segment elimination | Total |
|---|---|---|---|---|---|---|---|
| External transaction income | 1,725,410,397.79 | 105,720,191.88 | 83,505,727.48 | 160,914,968.52 | — | — | 2,075,551,285.67 |
| Income for inter-segment transaction | — | — | — | — | — | — | — |
| Total segment operation revenue | 1,725,410,397.79 | 105,720,191.88 | 83,505,727.48 | 160,914,968.52 | — | — | 2,075,551,285.67 |
| Total operation revenue presented | 1,725,410,397.79 | 105,720,191.88 | 83,505,727.48 | 160,914,968.52 | — | — | 2,075,551,285.67 |
| Segment costs | 1,434,216,218.05 | 83,449,032.90 | 67,994,740.73 | 150,663,100.61 | (5,446,986.40) | — | 1,730,876,105.89 |
| Segment operating profit | 291,194,179.74 | 22,271,158.98 | 15,510,986.75 | 10,251,867.91 | 5,446,986.40 | | 344,675,179.78 |
| Adjustment items: | | | | | | | |
| Administrative expenses | — | — | — | — | 63,829,412.03 | — | 63,829,412.03 |
| Finance expenses | — | — | — | — | 10,656,881.54 | — | 10,656,881.54 |
| Profit or Loss from change in fair value | — | — | — | — | (5,270,000.00) | — | (5,270,000.00) |
| Investment income | — | — | — | — | 5,827,137.15 | — | 5,827,137.15 |
| Operation Profit | 291,194,179.74 | 22,271,158.98 | 15,510,986.75 | 10,251,867.91 | (68,482,170.02) | — | 270,746,023.36 |
| Non-operation income | — | — | — | — | 54,154,013.57 | | 54,154,013.57 |
| Non-operation expenditure | — | — | — | — | 619,598.32 | | 619,598.32 |
| Total Profit | 291,194,179.74 | 22,271,158.98 | 15,510,986.75 | 10,251,867.91 | (14,947,754.77) | — | 324,280,438.61 |
| Income tax | — | — | — | — | 50,458,156.21 | | 50,458,156.21 |
| Net profit | 291,194,179.74 | 22,271,158.98 | 15,510,986.75 | 10,251,867.91 | (65,405,910.98) | — | 273,822,282.40 |
| Total segment assets | 2,555,535,530.11 | 99,702,731.07 | 71,128,823.48 | 195,202,665.43 | 335,037,153.56 | — | 3,256,606,903.65 |
| Total segment liabilities | 724,690,747.61 | 30,188,836.27 | 60,543,228.94 | 29,275,325.64 | 1,098,273,554.50 | — | 1,942,971,692.96 |
| Supplementary Information: | | | | | | | |
| Depreciation | 71,045,514.39 | 2,798,034.35 | 2,179,592.78 | | 14,491,228.20 | | 90,514,369.72 |
| Amortize | 2,931,316.81 | | | | 8,275,538.82 | | 11,206,855.63 |
| Interest Income | — | — | — | — | 17,077,509.81 | | 17,077,509.81 |
| Interest cost | — | — | — | — | 47,919,108.93 | | 47,919,108.93 |
| Impairment losses recognized in previous year: | (7,140,573.52) | — | (128,000.00) | — | (5,446,986.40) | — | (12,715,559.92) |
| Non-current assets other than long-term equity investment | 1,531,256,406.31 | 45,832,304.09 | 19,111,144.52 | 42,989,284.40 | 17,091,629.15 | | 1,656,280,768.47 |
| Capital expenditure | 74,320,892.28 | 19,658.12 | 3,188,033.88 | — | 392,173,806.17 | — | 469,702,390.45 |
| Consist of: Expenses on construction in progress | 11,160,135.90 | — | — | — | 340,011,557.12 | — | 351,171,693.02 |
| Expenses on purchase of fixed assets | 33,437,497.91 | 19,658.12 | 3,188,033.88 | — | 11,593,768.59 | — | 48,238,958.50 |
| Expenses on purchase of intangible assets | 29,723,258.47 | — | — | — | 40,568,480.46 | — | 70,291,738.93 |
| Non-cash expenses other than depreciation and amortization | — | — | — | — | — | — | — |

**(2) External transaction income by location of income source and non-current assets by location of assets**

In 2010 and 2009, all of the Group's external transaction income were from China and overseease, while all assets were located in China, hence the external transaction income by location of income source is disclosed as follows:

| | 2010 | 2009 (Restated) |
|---|---|---|
| Domestic external transaction income | **1,754,207,623.85** | 1,342,706,722.24 |
| Foreign external transaction income | **949,699,211.34** | 732,844,563.43 |
| Total | **2,703,906,835.19** | 2,075,551,285.67 |

## 6. FINANCE COSTS

| | 2010 | 2009 (Restated) |
|---|---|---|
| Interest expenses | **65,978,204.21** | 47,919,108.93 |
| Less: Capitalized interest expenses | **26,583,267.92** | 17,602,842.64 |
| Less: Interest income | **5,112,478.99** | 17,077,509.81 |
| Foreign exchange difference | **6,584,539.78** | (3,894,351.98) |
| Other | **3,474,875.66** | 1,312,477.04 |
| Total | **44,341,872.74** | 10,656,881.54 |

Borrowing cost capitalized during the year is calculated by applying a capitalization rate of 5.40% (2009: 5.76%) per annum to expenditure on qualifying assets.

## 7. ASSETS IMPAIRMENT LOSSES

| | 2010 | 2009 (Restated) |
|---|---|---|
| Provision of bad debt | **(513,766.81)** | (11,061,162.98) |
| Including: accounts receivable | **(513,766.81)** | (8,461,162.98) |
| Other accounts receivable | **—** | (2,600,000.00) |
| Provision of allowance for inventory | **(1,510,521.67)** | (1,654,396.94) |
| including: Raw materials | **(1,395,116.85)** | 383,578.58 |
| Finished product | **41,242.13** | (2,288,013.33) |
| Work-in-progress | **(156,646.95)** | 250,037.81 |
| Total | **(2,024,288.48)** | (12,715,559.92) |

## 8. NON-OPERATING REVENUE

| | 2010 | 2009 (Restated) |
|---|---|---|
| Total income on disposal of non-current assets | **1,624,848.11** | 8,134,381.98 |
| Of which: Income on disposal of fixed assets | **1,624,848.11** | 8,134,381.98 |
| Government grants | **47,330,650.51** | 45,167,903.47 |
| Income from penalty | **261,980.70** | 821,728.11 |
| Others | **1,214,278.20** | 30,000.01 |
| Total | **50,431,757.52** | 54,154,013.57 |

## 9. TOTAL PROFIT

Total profit has been arrived at after charging (crediting):

| | 2010 | 2009 (Restated) |
|---|---|---|
| Staff costs (including director's remuneration) | **88,941,714.99** | 69,438,112.77 |
| Amortisation of intangible assets | **12,078,058.98** | 11,775,944.36 |
| Auditors remuneration (included in administrative expenses) | **800,000.00** | 600,000.00 |
| Recognised cost of inventories | **2,237,506,663.67** | 1,678,634,536.19 |
| Depreciation on fixed assets | **98,682,327.10** | 90,514,369.72 |
| Research and development expenses (Included in administrative expenses) | **25,522,276.35** | 11,775,944.36 |
| Loss (Gain) on disposal of fixed assets | **(498,622.95)** | 7,821,635.16 |

## 10. INCOME TAX EXPENSES

| | 2010 | 2009 (Restated) |
|---|---|---|
| Current income tax | | |
| — PRC | **42,950,274.04** | 48,530,504.19 |
| Deferred tax expenses | **4,553,218.77** | 1,927,652.02 |
| Total | **47,503,492.81** | 50,458,156.21 |

The Company was subject to the PRC enterprise income tax at a rate of 15% (2009: 15%) as the Company was classified as new technology enterprise.

Hong Kong Profits Tax has been provided for the subsidiary in Hong Kong at 16.5% on the estimated assessable profits.

## 11. EARNINGS PER SHARE

| | **2010** | 2009 (Restated) |
|---|---|---|
| Calculated based on net profit attributable to the equity holders of the Company: | | |
| Basic earnings per share | **0.81** | 0.82 |
| Diluted earnings per share | **N/A** | N/A |
| Calculated based on net profit attributable to equity holders of the Company on the going concern basis: | | |
| Basic earnings per share | **0.81** | 0.82 |
| Diluted earnings per share | **N/A** | N/A |

## 12. DIVIDENDS

| | **2010** | 2009 (Restated) |
|---|---|---|
| Dividends recognized as distribution during the year 2009 final: RMB0.12 (2009: 2008 final dividend RMB0.02) per ordinary share | **39,470,904.00** | 65,784,840.00 |

The final dividend of RMB0.15 in respect of the year ended 31 December 2010 (2009: final dividend of RMB0.12) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

The final dividend per share for 2008 was based on 3,289,242,000 shares before consolidation of shares which has been effective on 7 January 2010.

## 13. ACCOUNTS RECEIVABLE

| | **2010** | 2009 (Restated) |
|---|---|---|
| Accounts receivables | **507,656,952.73** | 462,412,260.25 |
| Provision for bad debts | **6,789,312.68** | 7,303,079.49 |
| Total | **500,867,640.05** | 455,109,180.76 |

Prior to the acceptance of new customers, the Group applies internal credit assessment policies to access the credit quality of potential customers and formulates credit limit. Apart from requiring new customers to pay in advance, the Group formulates different credit policies according to different customers. The credit period is generally three months, and can be extended to six months for major customers.

The following is an aged analysis of accounts receivable net of provision for bad debts:

| | 2010 | 2009 (Restated) |
|---|---|---|
| Within 90 days | **318,161,277.33** | 272,656,562.84 |
| 91 to 180 days | **91,426,774.99** | 67,653,346.18 |
| 181 to 365 days | **59,912,276.89** | 63,724,636.65 |
| 1 to 2 years | **16,100,799.42** | 49,761,119.92 |
| 2 to 3 years | **14,132,192.03** | 1,289,864.23 |
| Over 3 years | **1,134,319.39** | 23,650.94 |
| Total | **500,867,640.05** | 455,109,180.76 |

## 14. ACCOUNTS PAYABLE

The following is an aged analysis of accounts payable:

| | 2010 | 2009 (Restated) |
|---|---|---|
| Within 90 days | **366,639,331.36** | 212,471,780.71 |
| 91 to 180 days | **61,406,899.83** | 34,467,261.2 |
| 181 to 365 days | **36,551,945.99** | 48,511,017.58 |
| 1 to 2 years | **16,068,602.25** | 34,856,100.52 |
| 2 to 3 years | **10,926,875.98** | 4,320,296.22 |
| Over 3 years | **10,177,914.93** | 10,561,948.60 |
| Total | **501,771,570.34** | 345,188,404.83 |

## 15. COMMITMENT

As at 31 December 2010, the Group has the capital expenditure commitment as follows:

| | 2010 | 2009 (Restated) |
|---|---|---|
| Contracted but not recognized in financial statements | | |
| — Commitment on acquisition and construction of long-term assets | **75,560,023.34** | 173,726,109.99 |

## 16. CONTINGENT LIABILITIES

In the year ended 31 December 2010 and 2009, the Company did not have significant contingent liabilities.

## 17. POST — BALANCE SHEET EVENTS

On 11 February 2011, the Company commenced the first Extraordinary General Meeting, on which, it was resolved to pass the resolution on using of RMB220,000,000.00 raised by the initial offering of A Shares and the implementation of oil well pipe processing project by its subsidiary, Weihai Baolong Company, as well as the resolution on using RMB256,738,331.50 raised by the initial offering of A Shares to supplement the liquidity.

**Annual Results**

The Group recorded impressive business growth during the year. For the year ended 31 December 2010, the Group achieved revenue of RMB2,703,906,835.19, representing an increase of approximately 30.27% as compared with last year. Over the same period, the profit attributable to equity holders of the Company and earnings per share were RMB276,149,165.54 and RMB0.81 respectively, representing approximately an increase of 2.92% and decrease 1.22%, respectively, as compared with last year. All of these achievements clearly demonstrated the persistent effort made by the management and employees of the Group in developing its business.

**Business Review**

In terms of capacity promotion, the 250,000-tonne oil casing production line reached its full designed production capacity in 2009, and brought a substantial growth in oil casing output and the production capacity of high-added value non-API casing of the Group. At the same time, "180mm special petroleum pipes technical reconstruction Project" (the "180mm Project"), which has commenced operation and production on 30 December 2010, the A Share proceeds-funded project, in which the Group intends to invest approximately RMB720 million, will release 60% of its newly increased capacity in 2011, which will be beneficial to the substantial growth in the production capacity of the Company, and in turn beneficial to the future development of the business and the competitiveness of the Group.

In terms of domestic market expansion, the Group's main customers are major oil fields in the PRC, including Daqing Oil Field (大慶油田), Changqing Oil Field (長慶油田), Xinjiang Oil Field (新疆油田), Liaohe Oil Field (遼河油田), Qinghai Oil Field (青海油田), Talimu Oil Field (塔里木油田), Huabei Oil Field (華北油田), Jidong Oil Field (冀東油田) and Jilin Oil Field (吉林油田), all of which are oil fields of PetroChina Company Limited and its subsidiaries (collectively, "PetroChina Group"), as well as Shengli Oil Field (勝利油田), Zhongyuan Oil Field (中原油田), Jiangsu Oil Field (江蘇油田) and Jianghan Oil Field (江漢油田), all of which are oil fields of China Petroleum & Chemical Corporation and its subsidiaries (collectively, "Sinopec Group"). During the period under review, the Group increased its efforts to cooperate with existing oil field customers, and gained positive market evaluation, Sales to the above oil fields under the PetroChina Group and the Sinopec Group accounted for approximately 23.65% of the Group's sales revenue.

After the oil well pipes fully entering into CNOOC Limited and its subsidiaries (collectively, "CNOOC Group"), the Group had supplied more than 7,768 tonnes of products with sales revenue of more than RMB41,720,000 to CNOOC Group, which signifies the increasing market share of the Company in the offshore oil market during the period under review.

After the large volume of the Company's products such as casing, oil well pumps and oil well sucker rods to Shanxi Yanchang Petroleum (Group) Co., Ltd. ("Yanchang Petroleum") in the last year, the Company has continued to maintain close and long-term cooperative relationships with Yanchang Petroleum with sales of 43,000 meters oil well sucker rods.

During the current year, the cooperation between the Group with the four major domestic oil groups increased greatly, and further implemented our stated strategies of overall cooperation with the four major domestic oil groups.

In addition, the Company's products such as oil well pipes, oil well pumps and oil well pumping machines have continually being supplied to customers such as Zhongyu Group (中裕集團), and Lanyan Coalbed Methane Corp (蘭焰煤層氣有限公司). With the rapid scale development of the emerging field of coalbed gas, the demand for the Company's products will continue to increase.

In terms of overseas market, after the financial crisis, the overseas market began to gradually recover. During the year, with overcoming the negative effect of American anti-dumping measures, the Group further strengthened the existing markets including Southeast Asia, Middle East and South America, while the Group continued to step up its efforts in developing its business to regions such as South America, North Africa and Australia and had achieved good performance. To expand the overseas market, the Group's newly developed customers including Samasu International Oil Corporation in Sudan (the staple market is Sudan), Steel Force Far East Ltd. (the staple market is Columbia), CORPAC (the staple market is Columbia), France TFE (the staple market is North Africa), Marubeni Corporation (the staple market is Southeast Asia countries such as Thailand), LG International Corp. in Korea (the staple market is Australia), Mid-Continent Tubular Pte. Ltd. in Singapore (the staple market is Australia) and 3 Wins Asia Oil-field Equipment Purchasing Service Company in Hong Kong (the staple market is Australia). The Group continued to establish and maintain good and long-term cooperative relationships with many overseas stock companies and oil field service companies, which in turn boosted the sales of the Group's products in the overseas markets. For the financial year ended 31 December 2010, the Group's revenue generated from exports accounted for approximately 35.80% of the Group's total sales revenue. Such increase formed a solid foundation for the Group to further expand its overseas market in the future.

In terms of the development of new products, the Group continued to increase its efforts to develop high-end products and strengthened technological cooperation with research institutes such as Xi'an Jiaotong University, Xi'an Pipe Material Research Institute of PetroChina Group. Meanwhile the Company was recognized in 2010 as the "Province-class Enterprise Technical Center of Shandong Privince" by the Commission of Industry and Information Technology of Shandong Province, and was approved by the Ministry of Human Resources and Social Security of the PRC to set up the "Shandong Molong post-doctoral research station", which will improve the research strength to a new level. With these strengths, the Company increased its efforts to develop new products, expand product mix and enrich product categories, and has successively developed products including casing and tubing which can use in acidic environment to meet the requirement of Canada Directive010 , for tubing with special OD coupling, line pipe with special performance, nickel plating anticorrosive sucker rod, non-API special sucker rod, nickeled polish rod, high-pressure boiler tube, low/medium-pressure boiler tube, high-pressure chemical fertilizer pipe, tube for conveyance of fluid, high-performance impeller with high-emissions, all of which have completed trial production and sold to domestic and overseas markets, with the nickel plating anticorrosive sucker rod being included in the Province-class technology innovation projects of Shandong province. The $CO_2$ corrosion resistant 9Cr Tubing and

Casing which is currently being developed was included in the Weifang technology innovation projects of Shandong province. In addition, the Company achieved a breakthrough in the development of new products and applications: seve products including "Processing of Drill Pipe End Upsetting", "self-locking sucker rod preventing flipping", "prevent tripping device of sucker rod", "Anti-bending and compression OCTG threading connector", "Anti-spurting and grit oil-well pump with inner-leakage oil function", "anti-corrosion and wearable pump barrel" and "High-sealing OCTG threading connector" were awarded patents in the PRC, and three patent applications for "anti-twisting and gluing OCTG threading connector", " sucker rod", and "sheradizing OCTG coupling" were officially accepted by the State Intellectual Property Office of the PRC.

**Prospects**

1. **The development trend of the industry to which the Company belongs and the strategic plans for the Company's future development**

   According to the data disclosed in the "World Energy Outlook" released by the U.S. International Energy Agency, a steady economic growth worldwide is expected and the demand for crude oil will still keep a growth trend, reaching 110 million barrels daily in the year 2025 with global oil consumption growing at the rate of 1.4% per year to the year of 2025 while the yearly growth of the oil production is 1.25%, being a litter lower than the oil consumption yearly growth. Therefore from the medium to long run analysis, the scale of oil exploration and drilling special equipment industry will continue to expand, with a promising market. According to the forecast of the "World Energy Outlook" released by the U.S. International Energy Agency, China's oil consumption will maintain 3.5% growth per year to the year of 2025, which is higher than the global growth rate.

   Meanwhile, the U.S. International Energy Agency states that to avoid the oil crisis and to deal with the increase in demand and the decline in the output of oil, there is a need to invest heavily in the crude oil production industry, to update the basic infrastructure and to improve the oil extraction ability of existing facilities over the next 20 years.

   The Group considers that with the global economy beginning to recover, and the oil industry as one of the pillar industries of the PRC, with the government of the PRC also expressly encouraging the investment in petroleum industry in its "Twelfth Five-Year Plan", the petroleum industry will keep solid growth under these policies, and the petroleum machinery industry in which the Company operates will definitely benefits from these policies. The Group will continue to input more resources into new projects and research and development of the technology of high end products and the production technology so as to guarantee product quality, reserve high-quality technology and enhance accessory production capacity. Subject to ensuring the continuing growth in the domestic market, the Group will continue to consolidate the overseas markets.

2. **In line with its strategic plans, the work of the Company will focus on the following areas in 2011**

1. In respect of product research and development, the Group plans to further enhance its efforts on the research and development of high value-added products non-API products of self propriety series. The Group will continue to place its focus on the development of new products such as high end aluminum casings (strong and highly bearable), strong anti-pressure +anti-$H_2S$ corrosion casing, L80-9Cr anti-$CO_2$ corrosion casing, ultra 13Cr and anti-$H_2S$+$CO_2$ corrosion casing, ML110-9Cr anti-$CO_2$ corrosion casing, API acid conduit pipes, grouping tubular premium connections into series, thermal well casing, floating single-cylindrical pipes, petroleum cracking pipes, thin layer high pressure boiler pipes to satisfy customized needs for the Group's products of various kinds of domestic and foreign customers, expanding the proportion of high-end products and thereby strengthening the profitability and competitiveness of the Group's products.

2. In respect of new product exploration, the Group will, being knowledgable of the rich petroleum exploration machinery and technology as well as the demand for natural gas products, actively research on natural gas products of higher level in accordance with the special requirements and development trend of natural gas and coalbed methane by the market. For coalbed methane exploration equipment, the Group has already formulated its foundation and will research on appropriate low-cost product with better customization on users, thus enhancing our competitive edges in the industry.

3. In respect of production capacity, the "180 mm Project" has commenced production at the end of December 2010. With 60% newly added production capacity to be released in 2011, the Company's production capacity will be raised sharply, which is constructive to the enhancement of the profitability and market competitiveness of the Company.

4. In respect of domestic market, apart from consolidating the existing domestic customer relationship, the Group will further explore new customers with potential. Leveraging on the strength brought by the enhancement of production volume and the fruitful result of high-end products, more efforts will be put on oil casing in domestic market to expand market shares. Emphasis will be placed to promote the subsequent co-operation with Yanzhang oil fields and oil fields under CNOOC Group to strive for larger share.

5. In respect of foreign market, the Group will thoroughly consider the trading policy of the various oil producing nations and the development and demand of overseas regional market, increasing the development in markets such as South America, Middle East and Africa to diversify market concentration. Meanwhile, long-term co-operation with foreign inventory operators with market resources, service advantages and good reputations will also be reinforced. With the successful exploration of new markets such as Middle East, South America, Africa and Australia, the Company is confident to continue to expand the market coverage of the Group via enhancement in marketing activities and active introduction of new products.

## Significant Investments

In the year ended 31 December 2010, the 180mm Project which has been invested by the Company using the net proceeds of its A Shares issue has commenced operation and production.

## Acquisition and Disposals during the Year and Future Investment Plans

In the year ended 31 December 2010, the Group did not have other relevant acquisition, disposals or significant investment plans.

## Corporate Governance

The Company is committed to the establishment of a good corporate governance standard. The principles of corporate governance adopted by the Company emphasize a quality Board, sound internal control, and transparency and accountability to all shareholders. For the year ended 31 December 2010, the Company has complied with all the code provisions, and where applicable the recommended best practices of the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Please refer to the Corporate Governance Report in the Annual Report for the year ended 31 December 2010 for more details.

The Audit Committee (its members include three independent non-executive directors of the Company) held two meetings in the year of 2010 to discuss such matters as the accounting standards and practices adopted by the Group, internal control and financial reporting matters, and reviewed the audited annual results for the year ended 31 December 2010.

## Director's Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules and requires the Directors to follow the Model Code while conducting securities transactions. Such requirements also apply to the Company's management. The Company has made specific enquiries to all Directors and has confirmed that all of the Directors have complied with the required standard of securities transactions by the Directors set out in the Model Code for the year of 2010.

## Purchase, sale or redemption of securities

Neither the Company nor its subsidiary has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2010.

## Closure of Register of Members of H Shares

The register of members of H shares of the Company ("H Shares"') will be closed from 20 April 2011 to 20 May 2011 (both days inclusive) during which period no transfer of the H Shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting to be convened on 20 May 2011, all completed transfer forms accompanied by the relevant share certificates must be lodged with the registrar for H Shares (for holders of H Shares), Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 19 April 2011.

## Publication of the Results Announcement and the Annual Report on the website of Stock Exchange

This announcement is published on the website of the Stock Exchange. The annual report for the year ended 31 December 2010 will be dispatched to shareholders as soon as possible and will be available on the company's website at http://www.molonggroup.com and the website of the Stock Exchange and Shenzhen Stock Exchange.

By order of the Board of Directors
**Zhang En Rong**
*Chairman*

Shandong, the PRC
29 March 2011

*As at the date of this announcement, the Board is comprised of Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long and Mr. Xie Xin Cang as executive directors of the Company, Mr. Chen Jian Xiong and Mr. Wang Ping as non-executive directors of the Company and Mr. John Paul Cameron, Ms Wang Chun Hua and Mr. Chau Shing Yim David as independent non-executive directors of the Company.*

* *For identification purpose only*