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 2011

HIGHLIGHTS

As at 31 December 2011, the revenue of the Company together with its subsidiaries (collectively the "**Group**") amounted to RMB 2,738,691,830.21, which represents a growth of approximately 1.29% as compared with last year.

Profit attributable to equity holders of the Company amounted to RMB 168,330,282.50 representing a decrease by approximately 39.04% as compared with last year.

Earnings per share of the Group amounted to RMB 0.42 representing an increase by approximately 48.15% as compared with last year.

The Board proposed to dispatch to the holders of H Shares and the holders of A Shares whose names appear on the registers of members of the Company on the Record Date with (i) a cash dividend of RMB1.00 (tax inclusive) for every ten (10) Shares held by way of capitalization of retained earnings as at 31 December 2011; (ii) a bonus issue of shares on the basis of ten (10) bonus share (the "**Bonus Share**") for every ten (10) Shares held by way of capitalization of share premium in the amount of RMB398,924,200 (the "**Bonus Issue**"). The Bonus Issue shall be subject to the approval by the Shareholders at the AGM and the listing of, and the dealing in, the Bonus H Shares to be issued under the Bonus Issue shall be subject to the approval of the Hong Kong Stock Exchange.

Further details of the Bonus Issue are set out in a separate announcement of the Company dated 29 March 2012, which is published in the website of the Company and the Stock Exchange.

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 2011.

The financial information set out in this announcement below does not constitute the Group’s statutory financial statements for the year ended 31 December 2011, 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 2011

	Note	**2011**	2010
Total revenue from operations		**2,738,691,830.21**	2,703,906,835.19
Including: operating revenue	*4*	**2,738,691,830.21**	2,703,906,835.19
Total costs of operations		**2,572,677,653.23**	2,427,381,354.95
Including: Operating cost		**2,407,671,724.80**	2,237,506,663.67
Business tax and surcharges		**1,931,536.70**	4,812,307.46
Selling expenses		**57,586,499.79**	51,360,828.52
Administrative expenses		**87,944,411.71**	91,383,971.04
Finance costs	*6*	**14,649,473.96**	44,341,872.74
Asset impairment losses	*7*	**2,894,006.27**	(2,024,288.48)
Gains from changes in fair value			
Investment income		**253,344.29**	191,250.95
Including: Gains from investment in associates and joint ventures		**253,344.29**	191,250.95
Operating profit		**166,267,521.27**	276,716,731.19
Add: Non-operating income	*8*	**34,476,972.35**	50,431,757.52
Less: Non-operating expenses		**679,969.16**	2,664,687.26
Including: Loss from disposal of non-current assets		**429,020.39**	2,123,471.06
Total profit	*9*	**200,064,524.46**	324,483,801.45
Less: Income tax expenses	*10*	**31,022,289.46**	47,503,492.81
Net profit		**169,042,235.00**	276,980,308.64
Net profit attributable to shareholders of the Company		**168,330,282.50**	276,149,165.54
Minority interests		**711,952.50**	831,143.10
Earnings per share:	*11*		
Basic earnings per share		**0.42**	0.81
Diluted earnings per share		**N/A**	N/A
Other comprehensive income		**570,763.42**	269,875.82
Total comprehensive income		**169,612,998.42**	277,250,184.46
Total comprehensive income attributable to owners of the Company		**168,843,969.55**	276,402,773.53
Total comprehensive income attributable to minority interests		**769,028.87**	847,410.93
Dividends	*12*	**0.10**	0.15

CONSOLIDATED BALANCE SHEETS

As at 31 December 2011

	Note	**2011**	2010
Current assets			
Cash and bank balances		**413,632,018.60**	892,286,589.93
Bills receivable		**73,528,915.23**	19,120,729.91
Accounts receivable	*13*	**460,164,130.15**	500,867,640.05
Prepayments		**42,127,891.20**	158,601,512.56
Dividends receivable			150,000.00
Other receivable		**29,820,567.73**	30,281,650.63
Inventory		**1,176,981,854.52**	743,553,547.47
Other current assets		**72,538,796.17**	41,054,637.00
Total current assets		**2,268,794,173.60**	2,385,916,307.55
Non-current assets			
Long-term equity investment		**12,580,624.11**	12,477,279.82
Fixed assets		**1,831,368,142.96**	1,648,583,610.99
Construction in progress		**83,523,080.85**	131,446,242.52
Intangible assets		**333,019,939.03**	249,918,129.97
Goodwill		**142,973,383.21**	142,973,383.21
Deferred income tax assets		**16,672,092.94**	15,095,861.12
Total non-current assets		**2,420,137,263.10**	2,200,494,507.63
Total assets		**4,688,931,436.70**	4,586,410,815.18
Current liabilities			
Short-term borrowings		**710,502,077.23**	712,866,417.20
Bills payable		**383,690,165.06**	482,816,088.17
Accounts payable	*14*	**616,716,194.34**	501,771,570.34
Advance receipts		**20,713,521.63**	34,721,719.22
Salaries payable		**19,905,460.32**	17,839,689.76
Taxes payable		**35,749,257.97**	29,428,377.89
Interests payable		**5,557,955.40**	955,547.63
Dividends payable			23,788,680.00
Other payables		**22,561,056.57**	25,991,912.66
Total current liabilities		**1,815,395,688.52**	1,830,180,002.87
Non-current liabilities			
Deferred income tax liabilities		**11,518,019.83**	13,027,452.38
Other non-current liabilities		**9,040,000.00**	
Total non-current liabilities		**20,558,019.83**	13,027,452.38
Total liabilities		**1,835,953,708.35**	1,843,207,455.25
Shareholders' equity			
Share capital		**398,924,200.00**	398,924,200.00
Capital reserve		**1,248,424,858.42**	1,248,406,190.92
Surplus reserve		**157,965,274.48**	140,393,447.06
Undistributed profit		**989,669,698.87**	898,749,873.79
Foreign currency translation differences		**30,361.41**	(483,325.64)
Total equity attributable to shareholders of the Company		**2,795,014,393.18**	2,685,990,386.13
Minority interests		**57,963,335.17**	57,212,973.80
Total shareholders' equity		**2,852,977,728.35**	2,743,203,359.93
Total liabilities and shareholders' equity		**4,688,931,436.70**	4,586,410,815.18

CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2011

	2011						
	Attributable to the shareholders of the Company					Minority interests	Total equity
	Share capital	Capital reserve	Surplus reserve	Undistributed profit	Translation differences		
I .Balance at the end of **the previous 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
II. Changes in the current year							
(1)Net profit	-	-	-	168,330,282.50	-	711,952.50	169,042,235.00
(2)Other comprehensive income	-	-	-		513,687.05	57,076.37	570,763.42
Sub-total of (1) and (2)	-	-	-	168,330,282.50	513,687.05	769,028.87	169,612,998.42
(3) Shareholder's capital injection and capital reduction							
1. Capital injection from shareholders							
2. Equity settled share expenses charged to equity							
3. Others	-	18,667.50	-	-	-	(18,667.50)	
(4) Profit distribution							
1. Transfer to surplus reserves	-	-	17,571,827.42	(17,571,827.42)	-	-	-
2. Distribution to shareholders	-	-	-	(59,838,630.00)	-	-	(59,838,630.00)
3. Others							
(5) Transfer of shareholders' equity							
1. Transfer of capital reserve to share capital							
2. Transfer of surplus reserves to share capital							
3. Surplus reserves making up of losses							
4. Others							
Ⅲ. Balance at the end of the current year	398,924,200.00	1,248,424,858.42	157,965,274.48	989,669,698.87	30,361.41	57,963,335.17	2,852,977,728.35

	2010						
	Attributable to the shareholders of the Company					Minority interests	Total equity
	Share capital	Capital reserve	Surplus reserve	Undistributed profit	Translation differences		
I .Balance at the end of **the previous 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
II.Changes in the current yea							
(1)Net profit				276,149,165.54		831,143.10	276,980,308.64
(2)Other comprehensive income					253,607.99	16,267.83	269,875.82
Sub-total of (1) and (2)				276149,165.54	253607.99	847410.93	277250184.46
(3) Shareholder's capital injection and capital reduction							
1. Capital injection from shareholders	70000000.00	1126738331.50					1196738331.50
2. Equity settled share expenses charged to equity							
3. Others							
(4) Profit distribution							
1. Transfer to surplus reserves			32,017,442.04	(32,017,442.04)			
2. Distribution to shareholders				(39470904.00)		(4949462.72)	(44420366.72)
3. Others							
(5) Transfer of shareholders' equity							
1. Transfer of capital reserve to share capital							
2. Transfer of surplus reserves to share capital							
3. Surplus reserves making up of							

losses							
4. Others							
Ⅲ. Balance at the end of the current year	398924200.00	1248406190.92	140393447.06	898749873.79	(483325.64)	57,212,973.80	2,743,203,359.93

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 "**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 business of the Group is designing, manufacturing and selling petroleum extraction machinery and related accessories, including 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, 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 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	None	Nil

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.		

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 discount during the year.

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

Products	**2011**	**2010**
Casing and Tubing	2,334,253,537.27	2,126,589,473.71
Three kinds of pumping units	78,296,157.27	111,655,198.06
Petroleum machinery	165,947,013.60	148,493,859.41
Others	105,618,832.00	266,008,024.38
Total	2,684,115,540.14	2,652,746,555.56

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 to the accounting policies and measurement standards adopted for 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-2011

	Casing and Tubing	Three kinds of pumping units	Petroleum machinery	Other	Unallocated Items	Intersegment elimination	Total
Operation revenue							
External transaction income	2,334,253,537.27	78,296,157.27	165,947,013.60	160,195,122.07	-	-	2,738,691,830.21
Income for inter-segment transaction	-	-	-	-	-	-	-
Total Segment Operation Revenue	2,334,253,537.27	78,296,157.27	165,947,013.60	160,195,122.07	-	-	2,738,691,830.21
Total operation revenue presented	2,334,253,537.27	78,296,157.27	165,947,013.60	160,195,122.07	-	-	2,738,691,830.21
Segment Costs	2,111,666,214.36	67,047,080.77	141,583,732.74	149,947,779.69	(161,040.00)	-	2,470,083,767.56
Segment operating profit	222,587,322,.91	11,249,076.50	24,363,280.86	10,247,342.38	161,040.00	-	268,608,062.65
Adjustment items:							
Administrative Expenses	-	-	-	-	87,944,411.71	-	87,944,411.71
Finance expenses	-	-	-	-	14,649,473.96	-	14,649,473.96
Investment income	-	-	-	-	253,344.29	-	253,344.29
Operation profit presented	222,587,322,.91	11,249,076.50	24,363,280.86	10,247,342.38	(102,179,501.38)	-	166,267,521.27
Non-operation income	-	-	-	-	34,476,972.35	-	34,476,972.35
Non-operation expenditure	-	-	-	-	679,969.16	-	679,969.16
Total Profit	222,587,322,.91	11,249,076.50	24,363,280.86	10,247,342.38	(68,382,498.19)	-	200,064,524.46
Income tax	-	-	-	-	31,022,289.46	-	31,022,289.46
Net profit	222,587,322,.91	11,249,076.50	24,363,280.86	10,247,342.38	(99,404,787.65)	-	169,042,235.00
Total segment assets	3,704,280,140.19	119,942,369.19	254,215,259.92	167,608,931.75	442,884,735.65	-	4,688,931,436.70
Total segment liabilities	978,297,235.93	25,998,192.73	59,814,850.84	44,265,376.39	727,578,052.46	-	1,835,953,708.35
Supplementary Information:							
Depreciation	127,351,622.79	3,421,346.61	7,251,470.22	-	8,965,906.75	-	146,990,346.37
Amortization	21,446,606.22	-	-	376,794.69	4,112,252.89	-	25,935,653.80

Interest Income	-	-	-	-	(11,521,908.44)	-	(11,521,908.44)
Interest cost	-	-	-	-	28,496,324.62	-	28,496,324.62
Impairment losses recognized in current year:	3,289,143.71	-	-	(234,097.44)	(161,040.00)	-	2,894,006.27
Non-current assets other than long-term equity investment	2,120,244,420.03	66,547,725.59	141,046,466.49	63,045,933.94	16,672,092.94	-	2,407,556,638.99
Capital expenditure	324,648,269.44	3,072,365.76	7,431,471.53	-	66,616,209.83	-	401,768,316.56
Consist of： Expenses on construction in progress	241,059,062.92	-	-	-	14,009,879.85	-	255,068,942.77
Expenses on purchase of fixed assets	18,335,572.93	3,072,365.76	7,431,471.53	-	9,380,447.64	-	38,219,857.86
Expenses on purchase of intangible assets	65,253,633.59	-	-	-	43,225,882.34	-	108,479,515.93
Non-cash expenses other than depreciation and amortization	-	-	-	-	-	-	-

Segment reporting information-2010

	Casing and Tubing	Three kinds of pumping units	Petroleum machinery	Other	Unallocated items	Intersegment 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 presented	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
Amortization	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	2,064,014,259.04	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							

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

In 2011 and 2010, all of the Group’s external transaction income was from China and overseas, while all assets were located in China, hence the external transaction income by location of income source is disclosed as follows:

Items	2011	2010
Domestic external transaction income	1,708,533,817.17	1,754,207,623.85
Foreign external transaction income	1,030,158,013.04	949,699,211.34
Total	2,738,691,830.21	2,703,906,835.19

6. Finance costs

Items	2011	2010
Interest expenses (bank borrowings due within one year)	28,496,324.62	65,978,204.21
Less：Capitalized interest expenses	4,746,373.93	26,583,267.92
Less：Interest income	11,521,908.44	5,112,478.99
Foreign exchange difference	(1,394,006.70)	6,584,539.78
Other	3,815,438.41	3,474,875.66
Total	14,649,473.96	44,341,872.74

Borrowing cost capitalized during the year is calculated by applying a capitalization rate of 5.73% (2010: 5.40%) per annum to expenditure on qualifying assets.

7. Assets impairment losses

Items	2011	2010
Provision of bad debt	2,227,325.85	(513,766.81)
Including: accounts receivable	2,227,325.85	(513,766.81)
Other accounts receivable	-	
Provision of allowance for inventory	666,680.42	(1,510,521.67)
Including：Raw materials	774,172.97	(1,395,116.85)
Finished product	(33,984.45)	41,242.13
Work-in-progress	(73,508.10)	(156,646.95)
Total	2,894,006.27	(2,024,288.48)

8. Non-operating revenue

Items	2011	2010
Total income on disposal of non-current assets	152,697.88	1,624,848.11
Of which: Income on disposal of fixed assets	152,697.88	1,624,848.11
Government grants	31,474,069.50	47,330,650.51
Income from penalty	1,562,707.27	261,980.70
Others	1,287,497.70	1,214,278.20
Total	34,476,972.35	50,431,757.52

9. Total profit

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

Items	2011	2010
Staff costs (including director's remuneration)	119,973,126.87	88,941,714.99
Amortization of intangible assets	25,935,653.80	12,078,058.98
Auditors remuneration (included in administrative expenses)	1,100,000.00	800,000.00
Recognized cost of inventories	2,407,671,724.80	2,237,506,663.67
Depreciation on fixed assets	146,990,346.37	98,682,327.10
Research and development expenses (Included in administrative expenses)	15,057,324.94	25,522,276.35
Loss(Gain) on disposal of fixed assets	(276,322.51)	(498,622.95)

10. Income tax expenses

Items	2011	2010
Current income tax	34,107,953.83	42,950,274.04
—Hong Kong	120,470.56	
—Chinese mainland	33,987,483.27	42,950,274.04
Deferred tax expenses	(3,085,664.37)	4,553,218.77
Total	31,022,289.46	47,503,492.81

The Company was subject to the PRC enterprise income tax at a rate of 15% (2010: 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

Items	2011	2010
Calculated based on net profits attributable to the equity holders of the Company:		
Basic earnings per share	0.42	0.81
Diluted earnings per share	**N/A**	**N/A**
Calculated based on net profits attributable to equity holders of the Company on the going concern basis:		
Basic earnings per share	0.42	0.81
Diluted earnings per share	**N/A**	**N/A**

12. Dividends

Items	2011	2010
Dividends recognized as distribution during the year 2011 final dividend: RMB0.10(2011:2010 final dividend RMB0.15) per ordinary share(Before taxes)	39,892,420.00	59,838,630.00

The final dividend of RMB 0.10 in respect of the year ended 31 December 2011 (2010: final dividend of RMB0.15 in respect of the year ended 31 December 2010) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

13. Accounts receivables

Items	2011	2010
Accounts receivables	469,113,379.75	507,656,952.73
Provision for bad debts	8,949,249.60	6,789,312.68
Total	460,164,130.15	500,867,640.05

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:

Aging	2011	2010
Within 1 year	444,600,302.69	469,500,329.21
1 to 2 years	8,210,585.63	16,100,799.42
2 to 3 years	3,889,060.09	14,132,192.03
Over 3 years	3,464,181.74	1,134,319.39
Total	460,164,130.15	500,867,640.05

14. Accounts payables

The following is an aged analysis of accounts payables:

Aging	2011	2010
Within 1 year	554,887,296.45	464,598,177.18
1 to 2 years	41,850,903.42	16,068,602.25
2 to 3 years	5,317,135.68	10,926,875.98
Over 3 years	14,660,858.79	10,177,914.93
Total	616,716,194.34	501,771,570.34

15. Commitment

As at 31 December 2011, the Group has the capital expenditure commitment as follows:

Items	2011	2010
Contracted but not recognized in financial statements -Commitment on acquisition and construction of long-term assets	45,726,786.00	75,560,023.34

16. Contingent liabilities

In the year ended 31 December 2011 and 2010, the Company did not have significant contingent liabilities.

17. Proposed Bonus Issue

Pursuant to the resolutions passed at a meeting of the Board held on 29 March 2012, The Board proposed to dispatch to the holders of H Shares and the holders of A Shares whose names appear on the registers of members of the Company on the Record Date with (i) a cash dividend of RMB1.00 (tax inclusive) for every ten (10) Shares held by way of capitalization of retained earnings as at 31 December 2011; (ii) a bonus issue of shares on the basis of ten (10) bonus share (the "**Bonus Share**") for every ten (10) Shares held by way of capitalization of share premium in the amount of RMB398,924,200 (the "**Bonus Issue**"). The Bonus Issue shall be subject to the approval by the Shareholders at the general meeting and the listing of, and the dealing in, the Bonus H Shares to be issued under the Bonus Issue shall be subject to the approval of the Hong Kong Stock Exchange.

Further details of the Bonus Issue are set out in a separate announcement of the Company dated 29 March 2012, which is published in the website of the Company and the Stock Exchange.

Annual Results

For the year ended 31 December 2011, the Group achieved revenue of RMB2,738,691,830.21, representing an increase of approximately 1.29% as compared with last year. Over the same period, the profit attributable to equity holders of the Company and earnings per share were RMB168,330,282.50 and RMB 0.42 respectively, representing approximately a decrease of 39.04% and decrease 48.15%, respectively, as compared with last year.

Business Review

The Company reported RMB2,738,691,830.21 in operating revenue for the year 2011, representing a 1.29% growth compared with the previous year. Total profit in 2011 of RMB 200,060,000, representing a 38.34% decrease compared with the previous year; the net profit attributable to shareholders of the Company in 2011 decreased by 39.04% as compared with the previous year to RMB168,330,282.50. The net profit of the Company after non-recurring profit and loss was RMB139,720,000, decreased by 44.52% compared with last year.

(1) In terms of production capacity, our A Share proceeds-funded project, the "180mm special petroleum pipes technical reconstruction project" (the "**180mm Project**"), has successfully been put into production in 2011, which, netting the influence of the products' structure, has achieved the anticipated target. The project will also substantially increase the production capacity of the oil tubular of the Company and in turn strengthen the future development of business and the competitiveness of the Group.

(2) In terms of domestic market expansion, the Group's main customers are major oil fields in the PRC, including the 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 the 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 reporting period, the Group increased its efforts to cooperate with existing oil field customers, and gained wide market evaluation. The sales to the above oil fields under the PetroChina Group and the Sinopec Group accounted for approximately 29.60% of the Group's sales revenue.

During the reporting period, the Group successfully bid for an order of 14,016 tons of oil country tubular goods ("**OCTG**") (including 1,090 tons of non-API OCTGs), which account for 40.05% of the total target tender from CNOOC for the first half of 2011, which has significantly increased the market share of the Company in the offshore oil market.

The cooperation between the Group and China National Petroleum Corporation ("CNPC") was further strengthened. During the reporting period, the OCTG of the Company has entered into the coalbed gas market of CNPC and the gas field of Changqing Oil Field respectively, the non-API OCTGs entered into CNPC and become a qualified supplier of CNPC. The fluid seamless tubes also entered into the OCTG market successfully, and have been massively used in Changqing Oil Field, Daqing Oil Field, Qinghai Oil Field, Liaohe Oil Field and Xinjiang Oil Field.

During the current year, the cooperation between the Group with the four major domestic oil groups has greatly increased, and further implemented the 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 its customers such as Zhongyu Group (中裕集團) and Shanxi Qinshui Lanyan Coalbed Methane Corp (山西沁水蘭焰煤層氣有限公司) . Due to the rapid development of the scales of the field of coalbed gas, the demand for the Company’s products will continue to increase. Meanwhile, the sales of the non-oil well tubes and seamless tubes have also increased largely, the sales volume approached to 100,000 tons, including 6,842.75 tons of high alloy pipes.

(3) In terms of overseas market, during the reporting period, apart from further strengthening the existing markets and customers, the Group also continued to increase its efforts in developing its business in other regions including the Middle East, South America, North Africa and Australia. The Group has also developed new customers which are major in sales of casing and tubing, line pipe products and sucker rods. In addition, during the reporting period, the casing and tubing of the Group has achieved the product certification from many well-known international oil companies, including Abu Dhabi National Oil Company, Total S.A. Company, Ecuador Oil Company, Oman Western Oil Company and Venezuela Oil Company. The sucker rod has also achieved the production certification of Thailand National Oil Company. With the development of new customers and achieving the production certifications of international oil companies, the Group has further expanded its market shares in the overseas market, and increases its popularity in the international oil drilling equipment market. Currently, the Group has established and maintained good and long-term cooperative relationships with many overseas stock companies and oil field service companies, which in turn boosted the sales of its products in the overseas markets. During the reporting period, the Group’s revenue generated from exports accounted for

approximately 38.38% of the Group's total sales revenue.

(4) In terms of development of new products, with the scientific research advantages of "Province-class Enterprise Technical Center of Shandong Province" and "Shandong Molong post-doctoral research station", the Group continued to strengthen its technological cooperations with research institutes such as Xi'an Jiaotong University, Northeastern University, and Xi'an Goods Research Institute of CNPC to increase its efforts to develop high-end products, expand product structures and enrich product categories. The Group has successively developed products including MLT-3 anti-twisting and galling tube, ML90SS Auti-H2S tube, Acid-resisting casing, suspension monomer pillar tube, axle tubes for car, cracking tube, thin-wall high-pressure boiler tube, seamless ferrite alloy steel tubes for high temperature, nickel plating anticorrosion sucker rod, anti-gas sucker rod, oil well pumps with large passage and high efficiency, rod-type oil well pumps with fixed gas emission in bottom, three-way valve, non-return valve, Orbit valve (奥比特閥) and duplex stainless steel pulleys, all of which have been completed the production trials and have been sold to domestic and overseas market. In particular, ML110SS anti-H2S corrosive casing and tubing, highly wearable and anti-corrosion cast iron cylinder casting, anti-low temperature and anti-H2S valves and ultra-high temperature bearable and anti-twisting sucker rod have been classified as the province-level technology innovation projects of the Shandong Province. The pumping unit, oil-well pump, and Tubing and Casing were classified as "Famous-brand product of the Shandong Province". Moreover, the Company has achieved national patents in seven new product's researches including "adjustable fixture for the use in three-way valves", "non-standard oil pipes for the use in lined tube made of macromolecular materials", "automatic lifting devices for tube drift", "subsequent guidance devices for seamless steel pipes and mills (utility model)", "zincized coupling", "anti-twisting and gluing oil tubing connectors" and "sucking rods", and the Company's three patent applications including "tools for quenching of metal parts", "subsequent guidance devices for seamless steel pipes and mills (invention)" and "production method for clean steel" have officially been 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 2012

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 and 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 casing (strong and high 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 anto-CO_2 corrosion casing, API acid conduit pipes, economy special thread casing, and anti-corrosion special casing satisfy customized needs for the development of oil, natural gas, shale Gas, and Coalbed Methane of various kinds of domestic and foreign customers.

2、In respect of new product exploration, the Group will actively research on suitable products of higher level in accordance with the special requirement and development trend of natural gas, shale 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, base on the operation in 2011, with the high-end equipment performance, the “180mm Special Project” combined with the research and development of high-end productions, improved the Company’s production capacity, and enhance the profitability and market competitiveness of the Company.

4、In respect of domestic market, the Group will further strengthen the good cooperation relationship with CNPC Group, Sinopec Group, CNOOC, and Yanchang Petroleum, expanded the markets of shale gas and Coalbed Methane equipment, safety device for coal mining industry, and high-pressure boiler tube.

5、In respect of foreign market, the Group will thoroughly consider the trading policy of 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 its market concentration. Meanwhile, long-term co-operation with foreign inventory operators with market resources, service advantages and good reputations will also be reinforced, and the market share will be improved.

Significant Investments

In the year ended 31 December 2011, The Company did not have any significant investments.

Acquisition and Disposals during the Year and Future Investment Plans

In the year ended 31 December 2011, 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 2011, 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**"). The Company advises that it has been introducing, and continues to introduce, measures to comply with the recent changes to the Listing Rules relating to corporate governance. Please refer to the Corporate Governance Report in the Annual Report for the year ended 31 December 2011 for more details.

The Audit Committee (its members include three independent non-executive directors of the Company) held four meetings in the year of 2011 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 2011.

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 2011.

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 2011.

Closure of Register of Members of H Shares

The register of members of H shares of the Company ("**H Shares**") will be closed from 26 April 2012 to 25 May 2012 (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 and the class meetings of the Company, 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 25 April 2012.

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 2011 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 2012

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. Xiao Qing Zhou 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*