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 2006 AMENDENTS TO ARTICLES OF ASSOCIATION

HIGHLIGHTS

- The revenue of Shandong Molong Petroleum Machinery Company Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") amounted to RMB1,014,037,000, which represents a growth of 30.6% as compared with last year.

- Profit attributable to equity holders of the parent amounted to RMB139,404,000 representing an increase by approximately 63.6% as compared with last year.

- Earnings per share of the Group amounted to RMB0.215 representing an increase by 52.5% as compared with last year.

- The Board of Directors (the "Board") recommended the payment of a final dividend of RMB0.22 per share. Together with the interim dividend of RMB0.015 per share, the total dividend for the financial year ended 31 December 2006 will be RMB0.235 per share. It is recommended that two shares be issued to each shareholder, whose name appears on the register of members of the Company as at a specific date to be decided, for each share held as payment of the final dividend of RMB0.20, the balance of the final dividend in the amount of RMB0.02 per share will be paid in cash.

- The Board recommended the conversion of RMB129,599,600 in the capital reserve fund into the Company's share capital by issuing new shares to the shareholders whose names appear on the register of members of the Company as at a specific date to be decided on the basis of two new shares for each existing share held by the shareholder.

Annual Results

The Group recorded impressive business growth during the year. For the year ended 31 December 2006, the Group achieved revenue of RMB1,014,037,000, representing an increase of approximately 30.6% as compared with last year. Over the same period, the profit attributable to equity holders of the parent and earnings per share were approximately RMB139,404,000 and RMB0.215, representing an increase of approximately 63.6% and 52.5%, respectively, as compared with last year. All of these achievements clearly demonstrated the persistent effort made by the Group in developing its business.

Business Review

The 250,000-tonne casing production facilities of the Group successfully completed trial production at the end of March 2006 and was put into full production in the fourth quarter of 2006. The construction and production of the 250,000-tonne casing production facilities enabled the Group to grasp the development opportunities arising from the increase in the demand of petroleum drilling and extraction machinery and related accessories. In addition, as the first H share company which successfully migrated from the Growth Enterprise Market ("**GEM**") to the Main Board of the Stock Exchange of Hong Kong ("**Stock Exchange**"), dealings in the H shares of the Company on the Main Board commenced on 7 February 2007.

In terms of market expansion, the Group's main customers are major oil fields in China, including Xinjiang Oil Field (新疆油田), Daqing Oil Field (大慶油田), Changqing Oil Field (長慶油田), Liaohe Oil Field (遼河油田), Qinghai Oil Field (青海油田), Huabei Oil Field (華北油田) and Jilin Oil Field (吉林油田), all of which are branch 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) and Jianghan Oil Field (江漢油田) all of them which are branch oil fields of China Petroleum & Chemical Corporation (collectively, "**Sinopec Group**"). Sales to the above oil fields under PetroChina Group and Sinopec Group accounted for approximately 61% of the Group's total revenue by value. Solid and renowned client base has brought a stable income to the Group. In terms of an overseas market, with the Group's continued effort to further expand such a market, there was a rapid increase in both the number of and the business with overseas customers in 2006. At present, the Group has established a long-term cooperative relationship with approximately 30 overseas agencies and oil field service companies. There has been a significant increase in the exports of the Group's products to overseas regions, such as North America, Europe and Southeast Asia. For the financial year ended 31 December 2006, the Group's revenue generated from exports increased significantly, which accounted for approximately 39% of the Group's total sales revenue. Such increase formed a solid foundation for the Group to further expand the overseas market in the future.

Based on its successful application of the Enterprise Resources Planning ("**ERP**") system, the Company installed the Product Data Management ("**PDM**") system and Computer Aided Process Planning ("**CAPP**") system in 2006 in order to further enhance the management of the entire operation in terms of research and development, production process, supply, manufacture and sales of its products. The PDM system and CAPP system can automatically provide the product's dynamic data during the entire business process and achieve integrated management and establish a solid foundation for company's information management.

For the financial year ended 31 December 2006, the Group was awarded a number of accreditations by relevant PRC governmental authorities, banks and tax bureaux including 「2006年山東省機械工業百強企業」, 「山東省製造業資訊化示範企業」, 「山東省高新技術企業」, 「山東省就業和社會保障先進民營企業」,「濰坊市2006年度工業百強企業」,「濰坊市誠信民營企業」,「濰坊市A級納稅企業」, 「2006-2007年度重點培育和發展山東省出口名牌」, 「山東省銀行最佳信貸誠信客戶」, 「壽光市特大型企業」 and 「AAA級信用企業」. The Group was also listed as one of the 2006 Top 100 Listed Companies with the Highest Growth Rate. The above accreditations have demonstrated the recognition of the Group's outstanding results in the People's Republic of China.

Prospects

The Company is the first H share company which successfully migrated from the GEM to the Main Board of Stock Exchange. Dealings in the H shares of the Company on the Main Board commenced on 7 February 2007. The Directors believe that Company's migration from GEM to Main Board will enhance its image and recognition in the international capital market, attract more professional investors and improve the Group's financing capability. It will also elevate the Company's image in the international and domestic petroleum drilling and extraction machinery markets and is favorable to the Company in terms of its efforts in expanding the market and facilitating international cooperation.

According to the report published in "International Energy Outlook 2006" by the US Department of Energy Information Administration, the global demand for crude oil has continued to increase. The demand for crude oil is expected to increase from 0.8 billion barrels per day in 2003 to 0.98 billion barrels per day in 2015. Such increase is primarily due to the sharp increase in the demand from non-OECD (Organisation for Economic Co-operation and Development) countries (such as the People's Republic of China), which leads to corresponding increase in both global and domestic investments in crude oil extraction. Coupled with rapid economic development in China, Chinese government has increased the investment in the exploitation and production of oil and gas in order to produce and reserve more crude oil to meet its demand arising from the economic development. The Directors believe that the increasing global demand for crude oil and the corresponding increase in the capital for oil drilling will directly promote the development in the petroleum drilling and extraction machinery industry.

Looking forward, the Group will continue to invest in its business, conduct research and develop products, heighten its productivity and increase its marketing activities in order to grasp business opportunities.

With regard to the product research and development, the Group will strengthen the development of high grade oil well pipes and casings, oil well pipe products of various specifications, as well as API (the American Petroleum Institute) series of oil well pumps and oil well pumping machines in 2007, improve the quality of the Group's products and enhance the Group's competitive strength in the industry.

With respect to the development of new products, in order to secure business opportunities and explore more resources to increase the Group's revenue, the Group will, based on its techniques in the production of oil drilling machinery, actively conduct research to develop the production techniques of natural gas and coal gas drilling and extraction machinery according to the market demand for natural gas and coal gas.

With respect to the expansion of production capabilities, the Group's 250,000-tonne casing production facilities are expected to achieve 60% of its total production capacity in 2007 and to achieve its maximum annual production capacity within three years.

In terms of the expansion of the domestic market, apart from maintaining and consolidating relationships with existing customers, the Group will further develop potential customers. For overseas markets, with the Group's successful expansion into new markets such as Russia, Canada and the United Arab Emirates and so on, the Group will continue to observe and study the booming overseas markets strengthen marketing activities and actively engage in new product launches to expand the Group's market coverage.

With its competitive strength, the Group will be able to capture business opportunities and provide high quality petroleum drilling and extraction machinery and accessories to global petroleum extraction companies to achieve the best interests of the shareholders.

AUDITED CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	**2006** *RMB'000*	2005 *RMB'000*
REVENUE	5	**1,014,037**	776,522
Cost of sales		**(778,488)**	(596,113)
Gross profit		**235,549**	180,409
Other income and gain	5	**14,946**	8,497
Selling and distribution costs		**(28,254)**	(24,853)
Administrative expenses		**(33,790)**	(33,162)
Other expenses		**(14,588)**	(11,928)
Finance costs	7	**(12,089)**	(3,444)
PROFIT BEFORE TAX	6	**161,774**	115,519
Tax	8	**(19,100)**	(27,271)
PROFIT FOR THE YEAR		**142,674**	88,248
Attributable to:			
Equity holders of the parent	9	**139,404**	85,227
Minority interests		**3,270**	3,021
		142,674	88,248
DIVIDENDS			
Interim	10	**9,708**	12,982
Proposed final	10	**12,960**	11,016
		22,668	23,998
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT — Basic (RMB)	11	**0.215**	0.141

AUDITED CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	**2006**	**2005**
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**505,155**	326,114
Investment properties		**7,664**	8,037
Prepaid land lease payments		**19,709**	20,201
Intangible asset		**253**	273
Available-for-sale investment		**50**	50
Deferred tax assets		**8,942**	5,238
Total non-current assets		**541,773**	359,913
CURRENT ASSETS			
Inventories	12	**447,579**	213,854
Trade receivables	13	**169,878**	75,744
Bills receivable		**3,786**	15,164
Prepayments, deposits and other receivables		**37,808**	14,681
Due from related parties		**—**	21,977
Pledged deposits		**219,254**	147,630
Cash and bank balances		**34,138**	110,166
Total current assets		**912,443**	599,216

	Notes	2006 RMB'000	2005 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	14	**611,721**	421,189
Other payables and accruals		**59,024**	38,877
Tax payable		**18,740**	23,355
Interest-bearing bank loans		**135,000**	50,000
Due to related parties		**22,966**	10,642
Total current liabilities		**847,451**	544,063
NET CURRENT ASSETS		**64,992**	55,153
TOTAL ASSETS LESS CURRENT LIABILITIES		**606,765**	415,066
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**70,000**	—
NET ASSETS		**536,765**	415,066
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital		**64,800**	64,800
Reserves		**450,844**	334,359
Proposed final dividend		**12,960**	11,016
		528,604	410,175
MINORITY INTERESTS		**8,161**	4,891
TOTAL EQUITY		**536,765**	415,066

NOTES TO FINANCIAL STATEMENTS

31 December 2006

1. CORPORATE INFORMATION

Shandong Molong Petroleum Machinery Company Limited (the "**Company**") is a limited liability Company incorporated in the People's Republic of China (the "**PRC**"). The registered office of the Company is located at No. 99 Beihai Road, Shouguang City, Shandong Province, the PRC.

During the year, the Company and its subsidiaries (the "**Group**") were involved in the design, manufacture and sale of petroleum extraction machinery and related accessories, which included oil well pipes, oil well sucker rods, oil well pumps, casing and oil well pumping machines.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain equity investments. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

3.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

3.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2-Group Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital, quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The Standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires disclosure of the information about the entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008 respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. The Group's operating business is with customers based in Mainland China, the United States, Europe and other countries. Each of the Group's geographical segments represents customer destinations to which the Group sells products or provides services which are subject to risks and returns that are different from those of the other geographical segments. No further business segment information is presented as over 90% of the Group's operations relate solely to the sale of petroleum machinery.

In determining the Group's geographical segments revenues are attributed to the segments based on the locations of the customers.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following table presents revenue, profit and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005:

	The PRC		United States		Europe		Others		Consolidated	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue:										
Sales to external customers	**618,613**	560,992	**163,547**	101,284	**118,288**	69,497	**113,589**	44,749	**1,014,037**	776,522
Other revenue	**5,346**	2,609	**—**	—	**—**	—	**—**	—	**5,346**	2,609
Total revenue from continuing operation	**623,959**	563,601	**163,547**	101,284	**118,288**	69,497	**113,589**	44,749	**1,019,383**	779,131
Segment results	**125,092**	113,252	**32,894**	23,270	**26,172**	12,840	**28,483**	8,803	**212,641**	158,165
Unallocated income (a)									**9,600**	5,888
Unallocated expenses (a)									**(48,378)**	(45,090)
Finance costs									**(12,089)**	(3,444)
Profit before tax									**161,774**	115,519
Tax									**(19,100)**	(27,271)
Profit for the year									**142,674**	88,248

(a) Mainly represent sundry revenue and corporate expenses, as well as the depreciation of fixed assets.

5. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gain are as follows:

	Notes	Group **2006** *RMB'000*	**2005** *RMB'000*
Revenue			
Sale of petroleum extraction and drilling machinery		**1,014,037**	776,522
Other income			
Subcontract income		**288**	342
Bank interest income	6	**3,887**	2,048
Government subsidies	(i)	**—**	710
VAT refund	(ii)	**5,376**	2,165
Gross rental income	6	**690**	153
Sale of scrap and raw materials	(iii)	**4,187**	1,910
Others		**337**	965
		14,765	8,293
Gain			
Gain on disposal of items of property, plant and equipment	6	**181**	204
		14,946	8,497

Notes:

(i) Government subsidies for the year ended 31 December 2005 represented an export subsidy and a product innovation subsidy, which amounted to RMB160,400 and RMB550,000 respectively.

(ii) VAT refund for the years ended 31 December 2006 and 2005 represented VAT received by Weifang Molong Drilling Equipment Company Limited (濰坊墨龍鑽採設備有限公司) ("Molong Drilling Equipment"), which was approved by the Ministry of Civil Affairs of Shandong Province (山東省民政廳) as a welfare enterprise (民政福利企業). According to the tax document Guo Shui Fa [1994] No.155, "*Notice about the levy of turnover tax of welfare enterprises issued by the State Tax Bureau*" ("國家稅務局關於民政福利企業徵收流轉稅問題的通知"), the output VAT paid by Molong Drilling Equipment was refundable.

(iii) Sale of scrap and raw materials for the years ended 31 December 2006 and 2005 represented sale of scrap and used metals to related parties and third parties. The price was at the fixed rate prescribed by the relevant authorities of the PRC. If no fixed price is prescribed by the relevant authorities of the PRC, the sales price will be negotiated and agreed by both parties with reference to the then prevailing market price.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Group	
	Notes	**2006**	**2005**
		RMB'000	*RMB'000*
Cost of inventories sold		**778,488**	596,113
Depreciation		**26,339**	13,382
Amortisation of intangible asset		**284**	39
Recognition of prepaid land lease payments		**492**	276
Research and development costs:			
Current year expenditure		**11,667**	5,724
Minimum lease payments under operating leases:			
Plant and machinery		**558**	108
Land and buildings located in the PRC		**81**	434
		639	542
Auditors' remuneration		**1,020**	1,000
Employee benefits expense (including directors' remuneration):			
Wages and salaries		**33,184**	24,403
Pension scheme contributions		**3,531**	5,015
		36,715	29,418
Foreign exchange differences, net		**2,403**	1,314
Impairment of accounts receivable/(reversal of provision)		**(3,264)**	3,714
Rental income	5	**(690)**	(153)
Bank interest income	5	**(3,887)**	(2,048)
Gain on disposal of items of property, machinery and equipment	5	**(181)**	(204)

7. FINANCE COSTS

	Group	
	2006	**2005**
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years	**12,089**	3,444

8. TAX

The Company is located in Mainland China and as a result is subject to the PRC corporate income tax at a rate of 33% on its assessable profits. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the year.

Molong Drilling Equipment, the Company's subsidiary, was approved by the Ministry of Civil Affairs of Shandong Province (山東省民政廳) as a welfare enterprise (民政福利企業) and hence was entitled to a full exemption from corporate income tax for years 2005 and 2006 respectively according to the tax document Cai Shui Zi [1994] No.1 *Notice about the several preferential policies on corporate income tax* ("關於企業所得稅若干優惠政策的通知").

	Group	
	2006	**2005**
	RMB'000	*RMB'000*
Current — PRC tax charge for the year	**22,804**	32,509
Deferred	**(3,704)**	(5,238)
Total tax charge for the year	**19,100**	27,271

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of RMB110,226,000 (2005: RMB58,039,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

	2006	**2005**
	RMB'000	*RMB'000*
Interim — RMB0.015 (2005: RMB0.02) per ordinary share	**9,708**	12,982
Proposed final — RMB0.02 (2005: RMB0.017) per ordinary share	**12,960**	11,016
	22,668	23,998

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of RMB139,404,000 (2005: RMB85,227,000), and the weighted average number of ordinary shares in issue during the year which is 647,998,000 (2005: 604,798,000).

No diluted earnings per share amounts have been presented for the year as no diluting events existed during the year.

12. INVENTORIES

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**118,855**	60,670	**106,740**	44,757
Work in progress	**205,967**	60,466	**200,360**	56,569
Finished goods	**122,757**	92,718	**113,209**	75,148
	447,579	213,854	**420,309**	176,474

None of the above balances was carried at net realisable value.

13. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of three months, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within three months	**155,018**	73,461	**153,223**	73,055
Three to six months	**14,145**	999	**14,145**	999
Six months to one year	**715**	1,284	**715**	1,284
	169,878	75,744	**168,083**	75,338

14. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within three months	**362,625**	237,954	**358,783**	219,720
Three to six months	**234,639**	173,551	**234,183**	172,959
Six months to one year	**6,843**	4,752	**6,588**	4,206
One to two years	**2,667**	3,946	**2,704**	3,924
Two to three years	**4,947**	986	**4,852**	986
	611,721	421,189	**607,110**	401,795

The Group and the Company's bills payable of RMB485,481,000 (2005: RMB325,711,000) were secured by the pledge of certain of the time deposits amounting to RMB219,254,000 (2005: RMB147,630,000). The trade payables are non-interest-bearing and are normally settled on terms of six months.

15. CAPITAL COMMITMENTS

	Group and Company	
	2006	**2005**
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Land and buildings	**6,147**	25,549
Plant and machinery	**46,292**	120,790
	52,439	146,339

16. PLEDGE OF ASSETS

There were no assets pledged for bank loans at the balance sheet date.

17. CONTINGENT LIABILITIES

As at 31 December 2005 and 2006, neither the Group, nor the Company had any significant contingent liabilities.

18. COMPARATIVE AMOUNT

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Auditor's Opinion

For the year ended 31 December 2006, the financial statements of the Company and the Group have been audited by Ernest & Young which issued the audit report without qualifications.

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 2006, the Company has complied with all the code provisions, and where applicable the recommended best preactices of the Code on corporate Governance Practices" as set out in Appendix 14 of Listing Rules of the Stock Exchange. Please refer to Corporate Governance Report in the Annual Report for the year ended 31 December 2006 for more details.

The Audit Committee (its members include three independent non-executive Directors) of the Company held five meetings in the year of 2006 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 2006.

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 14 of the Listing Rules and requiries 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 has complied with the required standard of securities transactions by the Directors set out in the Model Code for the year of 2006.

Dividend

The proposed final dividend for the year ended 31 December 2006 is RMB0.22 per share. Such final dividend will be satisfied by (a) the payment of RMB0.02 (inclusive of applicable tax) per share in cash; and (b) the allotment of new shares (credited as fully paid) by way of scrip dividend on the basis of two new shares of RMB0.10 each for each existing share of RMB0.10 held by the shareholders ("**Scrip Dividend Scheme**"), both to shareholders of the Company whose names appear on the register of members of the Company (including both holders of domestic shares and H shares) as at a specific date to be decided.

The Scrip Dividend Scheme is conditional upon the following:

(i) the passing of a special resolution to approve the Scrip Dividend Scheme by the shareholders of the Company at each of the AGM and separate class meetings for holders of domestic shares and H shares;

(ii) the approval of the Scrip Dividend Scheme by the relevant governmental authorities of the People's Republic of China; and

(iii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new H shares.

Based on the number of issued shares of the Company, being 647,998,000 shares (including 401,722,000 domestic shares and 246,276,000 H shares) of RMB0.10 each, upon completion of the Scrip Dividend Scheme, 1,295,996,000 new shares (including 803,444,000 new domestic shares and 492,552,000 new H shares) of RMB 0.10 each shall be issued.

Bonus Issue of Shares

Apart from the Scrip Dividend Scheme, the Board of Directors also proposes to convert RMB129,599,600 in the capital reserve fund of the Company into share capital by issuing new shares to the shareholders of the Company on the basis of two new shares for each existing share held by them as at a specific date to be decided (the "**Bonus Issue**"). The amount standing in the capital reserve fund account of the Company as at 31 December 2006 was approximately RMB177,712,000 and the remaining balance in the capital reserve fund account after the above proposed conversion will be approximately RMB48,112,400.

The completion of the Bonus Issue is subject to the satisfaction of the same conditions for the Scrip Dividend Scheme as set out above.

Based on the number of issued shares of the Company, being 647,998,000 shares (including 401,722,000 domestic shares and 246,276,000 H shares) of RMB0.10 each, upon completion of the Bonus Issue, an additional 1,295,996,000 new shares (including 803,444,000 new domestic shares and 492,552,000 new H shares) of RMB0.10 each shall be issued. In relation to the calculation of the number of new shares to be issued, shareholders are hereby informed that the issue price for each new share shall be nominal vale of RMB0.10 each.

It is uncertain as to how prompt the approval of the Scrip Dividend Scheme and/or the Bonns Issue by the relevant governmental authorities of the People's Republic of China would be. Investors should exercise caution in their dealings in the securities of the Company.

Proposed Amendments to the Articles of Association

The Directors propose that the articles of association of the Company be amended to reflect the increase in the registered capital and change in the share capital structure of the Company following the completion of the Scrip Dividend Scheme and the Bonus Issue.

Based on the number of Shares in issue of the Company, being 647,998,000 shares (including 401,722,000 domestic shares and 246,276,000 H shares) of RMB0.10 each, upon completion of the Scrip Dividend Scheme and the Bonus Issue, the registered capital of the Company shall be increased from RMB64,799,800 to RMB323,999,000. The shareholding structure of the Company is as follows: the total number of ordinary shares of the Company is 3,239,990,000, comprising of 2,008,610,000 domestic shares which represent 61.99% of the total number of shares of the Company, and 1,231,380,000 H shares which represent 38.01% of the total number of shares of the Company.

The coming into effect of such proposed amendments to the Articles of Association is conditional upon:

(i) the passing of a special resolution to approve the amendments by Shareholders at the AGM;

(ii) the completion of the Scrip Dividend Scheme and the Bonus Issue; and

(iii) the approval from the Ministry of Commerce of the People's Republic of China of the amendments;

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 2006.

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 2006 will be despatched to shareholders on or about 9 April 2007 and will be available on the company's website at http://www.molonggroup.com and the website of the Stock Exchange.

By order of the Board of Directors
Zhang En Rong
Chairman

Shandong, the PRC
29 March 2007

As at announcement period, the executive Directors are Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long, Mr. Xie Xin Cang; the independent executive Directors are Mr. Chen Jian Xiong, Mr. Wang Ping and independent non-executive Directors are Mr. Qin Xue Chang, Mr. Yan Yi Zhuang and Mr. Loke Hoi Lam.

"Please also refer to the announcement published in Wen Wei Po (Chinese) and South China Morning Post (English) on 30 March 2007."

* *For identification purpose only*