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SFC obtains court order against Shandong Molong Petroleum Machinery Company Limited

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The Securities and Futures Commission (SFC) has obtained a court order in the Court of First Instance requiring Shandong Molong Petroleum Machinery Company Limited (Shandong Molong) to reconstitute its audit committee and to appoint an independent external auditor to review its internal control and financial reporting procedures after the company accepted that it had falsely and substantially inflated its financial position in six results announcements (Notes 1 to 3).

The SFC is also seeking disqualification orders against the company's seven current and former senior officers allegedly responsible for a scheme to inflate the company's financial position (Note 4).

The action follows an investigation into Shandong Molong's window-dressing of key financial information, including the company's profit, in its unaudited quarterly and half-yearly results announcements for the first three quarters of 2015 and 2016. As a result, the results announcements falsely and misleadingly portrayed a relatively healthy picture of Shandong Molong when in fact the company was suffering losses.

The SFC alleges that Shandong Molong's business or affairs have been conducted in a manner involving defalcation, misfeasance or other misconduct, resulting in the company's shareholders not having been given all the information as they might reasonably expect and/or being unfairly prejudicial to the company's shareholders.

End

Notes:

1. Shandong Molong was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 15 April 2004, and changed its listing to the Main Board on 7 February 2007. It is principally engaged in the manufacture and sales of pipe products, pumping equipment and petroleum machinery.
2. The legal proceedings were commenced under section 214 of the Securities and Futures Ordinance (SFO).
3. Under section 214 of the SFO, the court may, among other things, make orders (i) requiring the carrying out of any acts; and (ii) to disqualify a person from being a director or being involved, directly or indirectly, in the management of any corporation for a period of up to 15 years, if the person is found to be wholly or partly responsible for the company's affairs having been conducted in a manner, amongst other conduct, involving defalcation, fraud, misfeasance or other misconduct towards the company or its members.
4. The SFC alleges that the seven senior officers were, at the material time, the instigators or the mastermind of a scheme for the inflation of the profits of Shandong Molong or were knowingly involved or at least acquiesced and/or turned a blind eye to the same by, among other things, overstating revenue and understating costs for the financial years of 2015 and 2016.

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