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**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)

**CLARIFICATION ANNOUNCEMENT ON  
ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

Reference is made to the announcement of **Shandong Molong Petroleum Machinery Company Limited** (the “Company”) dated 30 March 2017 (the “Announcement”) regarding the final results for the year ended 31 December 2016. Capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

The below shall be added into the Announcement:

**(1) NOTES TO THE FINANCIAL STATEMENTS**

**2. Basis for preparation of financial statements**

*Going concern Basis*

The Group incurred a loss of RMB650,705,700 in its consolidated financial statements during the year 2016. As at 31 December 2016, the Group's current liabilities in its consolidated financial statements exceeded its total current assets by RMB15,834,865,000. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

In view of the aforesaid, the Company has already considered the future liquidity and available capital source of the Company when evaluating whether the Group has sufficient financial resources to conduct its operations as a going concern or not.

In order to improve the liquidity and cash flow of the Company so as to maintain its operations as a going concern, the Company has implemented or is going to implement the following measures:

- (1) On 30 March 2017, Mr. Zhang Enrong (the controlling shareholder of the Company), who owns 235,617,000 A shares of the Company in issue (representing 29.53% of the entire issued capital the Company), entered into an irrevocable deed of undertaking for financial support (the “Deed of Undertaking”) and also agreed that:
  - (a) as at 30 March 2017, the loan owed by the Group to Mr. Zhang Enrong amounted to RMB150,000,000 (the “Shareholder Loan”). Mr. Zhang Enrong has guaranteed that he will not demand the Group to repay the Shareholder Loan unless the financial condition of the Group has significantly improved with sufficient funds for repayment;
  - (b) from the date of signing of the Deed of Undertaking by Mr. Zhang Enrong, whenever it is necessary for Shandong Molong, the controlling shareholder will obtain funds by taking reasonable measures such as pledging the shares of Shandong Molong and provide to Shandong Molong for its operating requirements, repayment of loans and refinancing;
  - (c) other than the purposes as mentioned in item (1)(b) above, Mr. Zhang Enrong will not pledge and/or sell his shares of Shandong Molong to any other party. At the same time, the controlling shareholder will provide financial support to Shandong Molong with his other financial capability or potential financial capability until Shandong Molong has sufficient funds to operate and repay its financial debts due.
- (2) The Group is actively exploring new investment and business opportunities, aiming to gain profit and obtain sufficient operating funds.
- (3) Currently, the Group is adopting various measures to reduce its production cost. It also puts greater efforts on market expansion and widening financing channels, so as to enhance the market position of the Group and diversify its source of income.

Taking into account all the aforesaid measures, the Company is of the view that there will be sufficient funds for maintaining normal production and operation. Hence, it is reasonable to prepare the financial statements on a going concern basis.

#### **17. Investigation proceedings conducted by the China Securities Regulatory Commission against the controlling shareholder, the general manager and the Company**

On 8 February 2017, the China Securities Regulatory Commission (the “CSRC”) served Notices of Investigation (Ref.: Lu Zheng Diao Cha Zi No. [2017] 001 and Lu Zheng Diao Cha Zi No.[2017] 002) on Mr. Zhang Enrong, the controlling shareholder of the Company, and Mr. Zhang Yunsan, the general manager of the Company for their suspected breaches of

securities laws and regulations. The CSRC has decided to initiate investigation proceedings against Mr. Zhang Enrong and Mr. Zhang Yunsan in accordance with the relevant provisions of the Securities Law of the People's Republic of China.

On 21 March 2017, the CSRC served a Notice of Investigation (Ref.: Lu Zheng Diao Cha Zi No. [2017] 003) on the Company for its suspected breaches of securities laws and regulations. The CSRC has decided to initiate investigation proceedings against the Company in accordance with the relevant provisions of the Securities Law of the People's Republic of China.

## **(2) EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT**

The following is an extract of the independent auditor's report on the Group's annual financial statements for the year ended 31 December 2016:

### **Material Uncertainty Related to Continue as a Going Concern**

We draw your attention to Note III.2 to the financial statements, which indicates that Shandong Molong incurred a consolidated loss of RMB650,705,700 in 2016 and, as of 31 December 2016, Shandong Molong's current liabilities exceeded its total assets by RMB15,834,865,000. These conditions indicate that a material uncertainty exists that may cast significant doubt on Shandong Molong's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Emphasis of Matter**

We draw your attention to Note XV.4 to the financial statements. The CSCRC has decided to initiate investigation proceedings against Shandong Molong, the controlling shareholder and the general manager of the Company. Up to the date of this report, the investigation has not yet finished and there are uncertainties relating to the outcome of the investigation. Our opinion is not modified in respect of this matter.

In addition, the following is an extract of the report on the Group's internal control prepared by the independent auditor of the Group in accordance with the "Enterprise Internal Control Audit Guidelines" and the applicable standards issued by the Chinese Certified Public Accountants:

### **Matters resulting in adverse opinion**

Material defect refers to a defect or a combination of defects in internal control that may result in material misstatement in financial statements which cannot be timely avoided, discovered and rectified.

The Company's internal control of financial reporting has the following material defects:

For the first three quarters in 2016, the Company did not implement effective internal control policy and procedure on part of operating revenue recognition and measurement, as well as the operating cost settlement. The aforesaid material defect has resulted in misstatement of operating revenue and operating cost in the financial statements. The management has adjusted relevant items on the financial statements when preparing the financial statements for 2016. Moreover, on 30 March 2017, the Board of the Company resolved to approve the correction and restatement for the first quarterly report, interim report and third quarterly report of 2016. The multiple occurrences of the misstatement in operating revenue and operating cost as abovementioned revealed that there is a material defect in internal control of the relevant financial reporting.

Effective internal control can provide a reasonable assurance for the authenticity and completeness of financial reporting and the relevant information. The aforesaid material defect has resulted in deficiency in internal control of Shandong Molong.

The management of Shandong Molong has identified the aforesaid material defect, which has been included in the internal control evaluation report of the Company. When auditing the financial statements of Shandong Molong for 2016, we have taken into consideration of the impact of the aforesaid material defect on the nature, time arrangement and scope of audit procedures. This report did not affect our audit report on the financial statements of Shandong Molong for 2016 dated 30 March 2017.

#### **Audit opinion on internal control of financial reporting**

We consider that, owing to the existence of the aforesaid material defect and its impact on achieving internal control objectives, Shandong Molong fails to maintain an effective internal control of financial reporting in all major aspects as at 31 December 2016 in accordance with the "Basic Standards for Enterprise Internal Control" and the relevant regulations.

Save for the aforesaid, the contents of the Announcement remain the same.

By order of the Board  
**Shandong Molong Petroleum Machinery Company Limited\***  
**Chan Wing Nang, Billy**  
*Company Secretary*

Shandong, the PRC  
10 April 2017

*As at the date of this announcement, the executive directors are Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Guo Huan Ran and Mr. Yang Jin; the non-executive directors are Mr. Guo Hong Li, Ms. Wang Chun Hua and the independent non-executive directors are Mr. Qin Xue Chang., Mr. Ji Yan Song and Ms. Quan Yu Hua.*

\* For identification purpose only