

# Enforcement

## Court proceedings

Following an appeal against the lower court's decision, the Court of Appeal granted compensation orders under section 214<sup>1</sup> of the Securities and Futures Ordinance (SFO) against three former directors<sup>2</sup> of EganaGoldpfeil (Holdings) Limited, who were ordered to pay \$622 million to the company for its loss of funds resulting from their misconduct and failure to act in the best interest of the company.

We obtained a disqualification order in the Court of First Instance (CFI) under section 214 of the SFO against Lin Supeng, a former director of Anxin-China Holdings Limited, for failures in ascertaining the company's financial position. Lin was disqualified from serving as a director or taking part in the management of any corporation in Hong Kong for eight years.

We obtained final orders from the CFI under section 213<sup>3</sup> of the SFO against three boiler room fraudsters<sup>4</sup> purportedly operating from Hong Kong. The Court appointed administrators to distribute approximately \$4.3 million in six bank accounts frozen by us to 75 investors.

The Eastern Magistrates' Court acquitted Leung Pak Keung, a practising solicitor, of five charges of insider dealing in the shares of CASH Financial Services Group Limited.

The Eastern Magistrates' Court issued a warrant to arrest Zeng Lingxi for her failure to appear in Court to answer two charges of obstructing our search operation. Zeng is allegedly a member of a syndicate operating social media ramp and dump scams involving the manipulation of shares of a Hong Kong listed company.

## Market Misconduct Tribunal

The Market Misconduct Tribunal (MMT) fined China Medical & HealthCare Group Limited<sup>5</sup> and six of its former and current directors<sup>6</sup> a total of \$4.2 million for failing to disclose inside information as soon as reasonably practicable. Two of the directors were

disqualified from being a listed company director for up to eight months. The company and the six directors were ordered to pay our investigation and legal costs as well as the costs of the MMT proceedings. The MMT also ordered the directors to attend an SFC-approved training programme on directors' duties and corporate governance.

Following a retrial, the MMT found that Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, had engaged in insider dealing in the shares of China Gas Holdings Limited. Cheng was disqualified from being a director or taking part in the management of a listed company and was banned from dealing in securities in Hong Kong for 54 months. The MMT also ordered disgorgement of the profit of \$2.95 million gained by Cheng from insider dealing and that the MMT reports be referred to the Hong Kong Institute of Certified Public Accountants with a recommendation to take disciplinary action against Cheng.

The MMT banned Charles Yiu Hoi Ying and Marian Wong Nam, two former executives of Asia Telemedia Limited, from dealing in securities in Hong Kong for three years for insider dealing in the company's shares and ordered to disgorge \$4.2 million from them for the losses they had avoided. The MMT also disqualified Yiu from acting as a director or taking part in the management of a listed company for three years. The MMT further recommended that The Hong Kong Institute of Chartered Secretaries<sup>7</sup> take disciplinary action against Wong.

## Disciplinary actions

During the quarter, we disciplined four corporations and three individuals, including two responsible officers and one regulated person, resulting in total fines of \$5 million.

1 Under section 214 of the SFO, the SFC may seek disqualification, compensation and other orders for breaches of duty by current and former directors of listed corporations.

2 David Wong Wai Kwong, Peter Lee Ka Yue and Chik Ho Yin.

3 Section 213 of the SFO empowers the court to make a broad range of orders including injunctive relief and other civil remedies on the application of the SFC.

4 Broadspan Securities, Shepherds Hill Partners, Hong Kong and Rich Futures (HK) Limited.

5 Formerly known as COL Capital Limited

6 Wong Peng Chong, Kong Muk Yin, Chong Sok Un, Zhang Jian, Ma Wah Yan and Lau Siu Ki. Wong was disqualified from being a listed company director for eight months and Kong for six.

7 Now known as The Hong Kong Chartered Governance Institute.

## Enforcement

### Reprimanded and fined for internal control deficiencies

Company	Breaches	Fine
Deutsche Securities Asia Limited	Issued incorrect statements to prime brokerage clients and delayed reporting the failures to the SFC	\$2.45 million
Ewarton Securities Limited	Failed to diligently supervise an account executive and put in place adequate and effective internal controls to detect and prevent unauthorised activities and ensure client orders were given priority over employee orders	\$1.5 million
Optimas Capital Limited	Failed to ensure that short position reports for a collective investment scheme under its management were accurate and compliant with the requirements under the Securities and Futures (Short Position Reporting) Rules	\$1.05 million

### Other regulatory breaches

We revoked the licence of IDS Forex HK Limited after its sole shareholder, Kim Sunghun, was convicted of illegal fundraising and fraud in Korea. We also banned the company's former co-chief executive officers, Chung Wooman and Ki Bonggan, from re-entering the industry for life.

We suspended the licence of Lun Sheung Nim of GEO Securities Limited for 7.2 months for failing to discharge his duties as a responsible officer and a member of the senior management of the firm.

### Securities and Futures Appeals Tribunal

The Securities and Futures Appeals Tribunal allowed the application for review by Cai Hongping, former Executive Officer and Managing Director of UBS AG, against our decision to ban him from re-entering the industry for five years for failing to discharge his supervisory duties as the principal in the listing application of China Metal Recycling (Holdings) Limited.

### Joint operation with the Police

We conducted a joint operation with the Commercial Crime Bureau of the Hong Kong Police Force in April against a syndicate suspected of operating ramp and dump market manipulation schemes and committing fraud. We searched a Hong Kong listed company's office premises and its senior executives' residences. Four people, including three of the company's senior executives, were arrested by the Police for suspected conspiracy to defraud using bogus transactions to embezzle over \$19 million.

### Warning against social media investment scams

In April, we concluded an online campaign which simulated the experience of being drawn into social media investment scams. Web banners featured language commonly used to lure potential victims to join scam-related chat groups and directed viewers to the SFC's webpage warning against these scams. Over 24,000 viewers clicked on the web banners. We also organised three community outreach events with the Police's Anti-Deception Coordination Centre to raise public awareness.

We issued a circular to licensees in June reminding them of their obligation under the Code of Conduct<sup>8</sup> to notify us of suspected ramp and dump scams.



SFC-Police community outreach event

<sup>8</sup> The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

## Enforcement

### Warning of unregulated virtual asset platforms

In July, we issued a statement to clarify that no entity in the Binance group is licensed or registered to conduct regulated activities in Hong Kong. Binance has offered trading services in stock tokens<sup>9</sup> in a number of jurisdictions. Where stock tokens are “securities”, it may be an offence to offer them to the Hong Kong public without the SFC’s authorisation or registration. The statement urged investors to be extremely careful if they plan to invest in stock tokens offered on unregulated platforms.

### Enforcement cooperation with the CSRC

In June, we held the eleventh high-level meeting on enforcement cooperation with the China Securities Regulatory Commission (CSRC) via video conference. We discussed the latest developments including changes and cooperation arrangements for high-priority cases. We reached a consensus on adjustments to our mutual enforcement cooperation mechanism and also exchanged views on information sharing, staff training and the representative action mechanism to protect the collective interests of investors in securities disputes as set out under the Mainland’s new Securities Law.

### Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,319 requests for trading and account records from intermediaries in the quarter. In addition, we published four high shareholding concentration announcements to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.



SFC webpage warning against online investment scams

<sup>9</sup> Stock tokens are virtual assets which are represented to be backed by depository portfolios of overseas listed stocks. The prices of the tokens closely track the performance of the stocks. In Hong Kong, stock tokens are likely to be “securities” under the SFO and if so, they are subject to the regulatory remit of the SFC.

## Enforcement

### Enforcement activities

	Quarter ended 30.6.2021	Quarter ended 31.3.2021	Change (%)	Quarter ended 30.6.2020	YoY change (%)
S179 <sup>a</sup> inquiries commenced	15	13	15.4	10	50
S181 <sup>b</sup> inquiries commenced (number of letters sent)	63 (2,319)	55 (1,808)	28.3	55 (2,366)	-2
S182 <sup>c</sup> directions issued	59	49	20.4	30	96.7
Investigations started	62	53	17	33	87.9
Investigations completed	31	37	-16.2	61	-49.2
Individuals and corporations charged in criminal proceedings	2	1	100	2	0
Criminal charges laid	18	17	5.9	3	500
Notices of Proposed Disciplinary Action <sup>d</sup> issued	10	9	11.1	4	150
Notices of Decision <sup>e</sup> issued	7	9	-22.2	12	-41.7
Individuals and corporations subject to ongoing civil proceedings <sup>f</sup>	170	179	-5	155	9.7
Compliance advice letters issued	36	49	-26.5	55	-34.5
Cases with search warrants executed	20	14	42.9	2	900

a Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

b Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including information identifying the ultimate clients, the particulars and instructions relating to the transactions.

c Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

d A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

e A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

f As of the last day of the period.