

Enforcement

Market Misconduct Tribunal

During the quarter, the Market Misconduct Tribunal (MMT) found that the following companies and persons failed to make timely disclosure of inside information:

- Fujikon Industrial Holdings Limited, its chairman and chief executive officer Yeung Chi Hung and its chief financial officer and company secretary Chow Lai Fung. They were fined a total of \$1.5 million.
- Health and Happiness (H&H) International Holdings Ltd and its chairman and executive director Luo Fei. They were fined \$1.6 million each.

Court proceedings

We commenced legal proceedings under section 214 of the Securities and Futures Ordinance (SFO) to disqualify the former chief financial officer, company secretary and executive director of Fujian Nuoqi Co., Ltd., Au Yeung Ho Yin, for failing to inquire into improper withdrawals of the company's proceeds from its initial public offering, alert the company's board of directors, and ensure that the information disclosed about the use of the proceeds in the company's 2013 annual report was accurate.

We commenced criminal proceedings against Leung Pak Keung, a practising solicitor, for alleged insider dealing in the shares of CASH Financial Services Group Limited.

We commenced criminal proceedings against Brilliance Capital Management Limited and its sole director Law Sai Hung for holding out as carrying on a business in a regulated activity, advising on corporate finance, without a licence.

The Eastern Magistrates' Court convicted and fined:

- Chan Wai Chuen, former chief financial officer, company secretary and an executive director of DBA Telecommunication (Asia) Holdings Limited, for his role in a false or misleading statement in the company's results announcement published in 2013.

- Tsoi Wan for manipulating the calculated opening price of Hang Seng Index futures contracts.

The Court of Appeal (CA) dismissed the application by Andrew Left of Citron Research for leave to appeal to the Court of Final Appeal against the determinations of the MMT¹.

The Court of Final Appeal dismissed the application of Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, for leave to appeal against the judgment of the CA ordering a retrial by the MMT on Cheng's suspected insider dealing in the shares of China Gas Holdings Limited.

Disciplinary actions

We disciplined five licensed corporations and four representatives during the quarter, resulting in total fines² of \$39.5 million.

Sponsor failures

We reprimanded and fined China Merchants Securities (HK) Co., Limited \$27 million for failing to discharge its sponsor obligations in the listing application of China Metal Recycling (Holdings) Limited.

Anti-money laundering requirements

We banned Su Xiqiang, former head of retail brokerage and responsible officer of Guosen Securities (HK) Brokerage Company, Limited, from re-entering the industry for 10 months for failure to ensure the company's compliance with anti-money laundering and counter financing of terrorism regulatory requirements when handling third-party fund deposits.

Internal control deficiencies

We reprimanded and fined China Merchants Securities (HK) Co., Limited \$5 million for regulatory breaches and internal control failings related to mishandling client money.

¹ On 26 August 2016, the MMT found Left culpable of disclosing false or misleading information inducing transactions in a report on Evergrande Real Estate Group Limited published in June 2012.

² Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

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Other regulatory breaches

- We reprimanded and fined Credit Suisse (Hong Kong) Limited and Credit Suisse AG a total of \$2.8 million for failing to comply with the disclosure requirements for publishing research reports.
- We suspended the licence of Oei Hong Eng, the chairperson and a responsible officer of Gransing Securities Co., Limited for eight months for attempting to create a false or misleading appearance of active trading in securities.
- We reprimanded and fined Nine Masts Capital Limited \$1.2 million for failures relating to the short selling of Yuzhou Properties Company Limited's shares.
- We banned Wang Can, former licensed representative of China Galaxy International Securities (Hong Kong) Co., Limited for 30 months and fined him for breaching the firm's staff dealing policy.
- We banned Wong Ka Hang, a former licensed representative of Haitong International Futures Limited, for nine months for trading in a client's account without written authorisation.

Securities and Futures Appeals Tribunal

The Securities and Futures Appeals Tribunal affirmed our decision to reprimand and fine FT Securities Limited \$3.5 million for regulatory breaches and internal control failures in the preparation and publication of research reports.

Restriction notices

We issued restriction notices to 19 brokers prohibiting them from dealing with or processing assets held in client accounts related to suspected market manipulation in the shares of China Ding Yi Feng Holdings Limited or Smartac Group China Holdings Limited respectively.

Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,579 requests for trading and account records from intermediaries in the quarter. In addition, we published nine 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.

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Enforcement activities

	Quarter ended 30.6.2019	Quarter ended 31.3.2019	Change (%)	Quarter ended 30.6.2018	YoY change (%)
S179 ^a inquiries commenced	9	7	28.6	5	80
S181 ^b inquiries commenced (number of letters sent)	62 (2,579)	69 (2,340)	10.2	75 (2,152)	19.8
S182 ^c directions issued	52	52	0	60	-13.3
Investigations started	55	58	-5.2	61	-9.8
Investigations completed	37	52	-28.8	57	-35.1
Individuals and corporations charged in criminal proceedings	3	1	200	4	-25
Criminal charges laid	5	5	0	37	-86.5
Notices of Proposed Disciplinary Action ^d issued	8	9	-11.1	2	300
Notices of Decision ^e issued	15	7	114.3	12	25
Individuals and corporations subject to ongoing civil proceedings ^f	100	101	-1	110	-9.1
Compliance advice letters issued	64	52	23.1	49	30.6
Cases with search warrants executed	6	6	0	6	0

^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.