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# REGULATORY NEWSLETTER

2024 Vol.9



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Though the Mid-Autumn Festival, a time for reflection and celebration, has come and gone, we would like to take a moment to express our heartfelt appreciation for your ongoing trust in our services. Much like the full moon signifies unity and harmony, ComplianceDirect remain committed to being your steadfast partner in navigating the complexities of compliance and regulatory requirements.

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## REGULATORY UPDATES

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### **Circular to intermediaries -**

#### **HKEX's annual rehearsal for trading system recovery**

**13 August 2024**

Hong Kong Exchanges and Clearing Limited (HKEX) will conduct its annual rehearsal for emergency trading system recovery in its securities market from 11:00 am to 3:10 pm on 7 September 2024 (Saturday). The rehearsal will cover the following processes under the Hong Kong investor identification regime (HKIDR):

1. Submission of the BCAN-CID Mapping File and Reporting Forms to the data repository of the Stock Exchange of Hong Kong (SEHK) (applicable to all Relevant Regulated Intermediaries<sup>1</sup>(RRIs)); and
2. BCAN tagging for order submission to SEHK's trading system (applicable to RRI who are Exchange Participants (EPs) only).

All RRI are encouraged to participate in the rehearsal to become familiar with the contingency procedures and related operational matters upon the simulated service outage on SEHK's trading system.

For the avoidance of doubt, only RRI who are EPs should submit the Notification Form for Participation

in 2024 Market Rehearsal before the rehearsal, and the Rehearsal Evaluation Reply Form after completing the rehearsal. No enrolment will be required for non-EP RRIIs. Please refer to SEHK's [Circular](#) dated 13 August 2024 for details.

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## **Circular to licensed corporations - Revised financial return form**

**23 August 2024**

The SFC published a revised version of the financial return form which is required to be submitted by licensed corporations under section 56 of the Securities and Futures (Financial Resources) Rules. The revisions are primarily driven by the Securities and Futures (Financial Resources) (Amendment) Rules 2023 for the Type 13 regulated activity regime

Financial return form

A Gazette notice (see [Annex](#)) was published to specify that, with effect from 1 November 2024, the electronic version of the revised financial return form shall be used for submitting a return in respect of any period ending on or after 24 October 2024 and it supersedes the electronic form in the notice gazetted on 25 May 2023 (G.N. 3132).

The electronic version of the revised form is available on the SFC website:

<https://www.sfc.hk/en/Forms/Intermediaries/Financial-returns>

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## **Circular to Licensed Corporations in relation to list of prescribed persons who have reached the clearing threshold under the clearing and record keeping rules for the OTC derivatives regime**

**30 August 2024**

An updated list of prescribed persons who have reached the clearing threshold under the Securities and Futures (OTC Derivative Transactions - Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules has been posted on the website of the Securities and Futures Commission (SFC) today.

The list is available at:

<http://www.sfc.hk/web/EN/rules-and-standards/otc-derivatives-regulatory-regime/>

The list is compiled based on information currently available to the Hong Kong Monetary Authority (HKMA) and/or the SFC. Please refer to the disclaimer set out in the aforesaid list.

The list may be updated from time to time by the HKMA and the SFC as appropriate and relevant.

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## ENFORCEMENT NEWS

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### **Wanted core member of ramp-and-dump syndicate arrested**

**5 August 2024**

A suspected core member of a sophisticated ramp and dump syndicate, wanted by the SFC and subject to an arrest warrant since October 2022, was arrested today in a joint operation of the SFC and the Police.

The 55-year-old man, who had been placed on the "Have you seen these people?" on the SFC's website, was arrested after a report was filed to the SFC.

The suspect is detained pending the hearing in the Eastern Magistrates' Court. Eleven other individuals including suspected masterminds connected to the case had been charged earlier. They will be tried in the District Court

The SFC's Executive Director of Enforcement, Mr Christopher Wilson, said: "The successful arrest of the suspect demonstrates our close collaboration with the Police and the importance of cooperation from the public in providing the SFC with useful information and intelligence to bring suspected wrongdoers to justice."

"We would also like to urge the public to report to the SFC as soon as possible any suspicious persons who have been placed on the SFC's watchlist as such information may be helpful in enabling us to carry out further action without delay," Mr Wilson added.

No further comment on the case will be made at this stage.

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### **Market Misconduct Tribunal finds China Forestry's former chairman and CEO culpable for disclosure of false or misleading information and former CEO for insider trading**

**7 August 2024**

The Market Misconduct Tribunal (MMT) has found Mr Li Kwok Cheong and Mr Li Han Chun, former chairman and chief executive officer (CEO) of China Forestry Holdings Company Limited (China

Forestry), culpable for disclosing false or misleading information in China Forestry's IPO prospectus and its annual results announcement and annual report for the year ended 31 December 2009, inducing transactions in the company's shares.

The MMT found that China Forestry's IPO prospectus and its 2009 annual results announcement and annual report contained numerous false or misleading statements covering China Forestry's turnover generating activities, profit, plantation assets and bank balances. Specifically, China Forestry's reported turnover was overstated by 91.56% and 99.99% for the years ended 31 December 2008 and 2009.

The MMT also found that the purported customers of China Forestry were either non-existent or not genuine, and the company engaged in a substantial and ongoing falsification of documents, including the forestry rights certificates, logging permits and bank statements, to conceal the false statements.

The MMT concluded that Li Han Chun and Li Kwok Cheong knew such statements were false or misleading when authorising the issuance of the IPO prospectus and the 2009 annual results announcement and annual report.

The MMT also found Li Han Chun and his investment vehicle, Top Wisdom Overseas Holdings Limited, engaged in insider dealing by selling 119,000,000 shares of China Forestry through a share placement in January 2011, thereby avoiding a loss of approximately \$353 million.

The MMT held that Li Han Chun was aware of the imminent danger facing China Forestry shares following a pre-audit meeting with China Forestry's then auditors KPMG in early December 2010. KPMG indicated during the meeting that various audit procedures were to be performed on areas where rampant falsification of documentation had occurred.

Li Han Chun knew that such enquiries could expose the reality of the situation and spell disaster for the value of China Forestry shares. The MMT is satisfied that it was with that knowledge that Li Han Chun started to take steps to dispose of his holdings in China Forestry.

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## **Cessation of suspension of Changjiang Corporate Finance (HK) Limited acting as sponsor**

**19 August 2024**

The SFC announces the cessation of the suspension of Changjiang Corporate Finance (HK) Limited (CJCF) to act as a sponsor for listing applications on the Stock Exchange of Hong Kong Limited (SEHK).

The licence, which allows CJCF to act as a sponsor, was suspended for one year or until the SFC is satisfied that the controls and procedures of CJCF's sponsor-related business are adequate for ensuring compliance with the relevant legal and regulatory requirements, whichever is later. The suspension of CJCF's licence was part of the SFC's disciplinary action against the firm for failing to discharge its obligations as sponsor of six listing applications it submitted between September 2015 and December 2017.

As agreed with the SFC, CJCF engaged and cooperated with an independent reviewer to review its

policies, procedures and practices in relation to the conduct of its sponsorship business.

The reviewer conducted a nine-month, two-staged review of CJCF's processes in carrying out sponsorship business. The first stage involved a review of CJCF's current internal systems and controls, an appraisal of the records of its sponsor work, as well as an assessment of its sponsor work in three listing applications, with the objective of ascertaining whether the current policies and procedures were adequate and whether there had been any instances of non-compliance.

Following the first stage of the review, the reviewer made recommendations in relation to CJCF's internal systems and controls. Subsequently, the reviewer confirmed in the second stage of the review that CJCF had implemented the recommendations.

In arriving at the decision to end the suspension, the SFC has assessed the reviewer's findings of CJCF, including the supporting documents for its findings. The SFC is also satisfied that CJCF has clear requirements and procedures in place to enable staff members to understand and properly perform their responsibilities, and that there are adequate systems, controls, policies and procedures to enable compliance with all applicable Hong Kong legal and regulatory requirements in relation to CJCF's sponsor business.

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## **SFC, ICAC and Macao Judiciary Police conduct joint operation against suspected cross-boundary fraud and misconduct in listed company**

**21 August 2024**

The SFC, the ICAC and the Macao Judiciary Police jointly mounted an operation codenamed "Demarcation" on 19 and 20 August 2024 in relation to suspected cross-boundary fraud and misconduct. Senior executives of a listed company in Hong Kong were allegedly involved in fictitious transactions and false accounting totalling around HK\$120 million.

Six premises were jointly searched by the SFC and the ICAC. During the joint operation, the ICAC also arrested seven persons, including the chairman and an executive director of the listed company.

The arrestees had allegedly committed the offence of agent using documents with intent to deceive his principal under the Prevention of Bribery Ordinance.

The investigation revealed that the chairman of the listed company and other individuals had allegedly falsified business documents and accounting records of the company's subsidiaries in Hong Kong and Macao, while the company's trade receivables totalling over MOP113 million (about HK\$110 million) were reduced. Meanwhile, the individuals concerned had also allegedly used false documents and accounting records to conceal the misappropriation of the company's funds over HK\$9 million.

The above conduct may have resulted in the commission of offences or misconduct by the listed company and/or its management which contravene certain provisions under the Securities and Futures Ordinance for disclosing false or misleading information, as well as for defalcation, fraud, misfeasance, or other misconduct in relation to the conduct of the business or affairs of the listed company.

As cross-boundary crimes were involved in the case, the Macao Judiciary Police also launched an investigation into relevant individuals' suspected fraud offences which took place in Macao.

Simultaneous to the ICAC operation, the Macao Judiciary Police earlier kicked off the first-of-its-kind concurrent law enforcement action in Macao to search related premises and interview individuals concerned.

As the investigation is ongoing, no further comment will be made by the SFC and the ICAC.

The SFC's Executive Director of Enforcement, Mr Christopher Wilson, said: "The SFC has zero tolerance when it comes to misconduct undermining the orderliness of the market and misconduct by management of listed companies. The joint action demonstrates the determination of law enforcement agencies in both jurisdictions to combat cross-boundary illegal activities involving listed companies. The SFC will continue to work closely with the ICAC and other local and extraterritorial law enforcement agencies to maintain market integrity and safeguard the interest of investors."

The ICAC's Deputy Commissioner and Head of Operations, Mr Ricky Yau Shu-chun, said: "The joint operation fully demonstrates the close collaboration and determination of the two cities' law enforcement agencies in tackling cross-boundary corruption and other crimes to maintain a clean and fair business environment and effective operation of the financial market. The ICAC will continue to work with the SFC and other law enforcement agencies to curb corruption and other illegal activities and bring local and cross-boundary criminals to justice."

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