



Hong Kong SFC Enforcement Roundup: May 2026

The Hong Kong Securities and Futures Commission (the **SFC**) continued its assertive enforcement agenda in May 2026, concluding a series of significant disciplinary and court actions targeting misconduct across the financial sector. The month's key outcomes included a lifetime industry ban imposed on a former responsible officer of Nerico Brothers Limited in connection with the misappropriation of approximately US\$154 million in client funds; the conviction of a film producer for insider dealing in shares of Pegasus Entertainment Holdings Limited; a two-year director disqualification of a former financial controller of Qunxing Paper Holdings for failing to detect materially overstated financial disclosures; and disqualification orders of up to 33 months against four former directors of China Candy Holdings Limited over fabricated cash balance records. The actions underscore the SFC's sustained commitment to holding senior individuals personally accountable for failures of integrity, diligence and transparency and its willingness to pursue complex, long-running cases to their conclusion.

Hong Kong SFC Bans Nerico Brothers Former Responsible Officer for Life for US\$154 Million Client Fund Misappropriation

On 26 May 2026, the SFC banned the former responsible officer, manager-in-charge and director of Nerico Brothers Limited (**Nerico**), Paul Wan Kai Leung (**Wan**), from re-entering the industry for life. The action against Wan follows earlier sanctions against Nerico and its director, Jerff Lee Cheuk Fung, for misuse of client funds, facilitation of misappropriation of client assets, and providing false information to the SFC. Wan authorised transfers and executed documents that enabled the misuse of over US\$68 million and facilitated the misappropriation of approximately US\$154 million belonging to one client. The SFC found his conduct to be egregious, dishonest and damaging to market integrity.

SFC Disciplinary Action under s.194 of the Securities and Futures Ordinance (SFO)

The SFC brought the disciplinary action against Wan under section 194 of the SFO. Wan served as a director of Nerico from October 2000 to August 2022. He was an approved responsible officer for regulated activities Type 2 (dealing in futures contracts) and Type 9 (asset management) from April 2003 to June 2022. He also held MIC responsibilities for core functions including Compliance, Anti-Money Laundering and Counter-Terrorist Financing, and Risk Management for periods between June 2017 and June 2022. Wan is no longer licensed by the SFC.

Nerico's Misuse of Client's Funds

According to the [SFC's Statement of Disciplinary Action](#), a client (**Company X**) opened a trading account (**Account**) with Nerico in June 2020 and had transferred over US\$172 million into the Account by September 2021. From October 2021, Company X repeatedly demanded the return of all its funds, which amounted to approximately US\$154 million as of January 2022. Despite these requests, Nerico failed to return the account balance.

Between June and December 2020, Company X deposited over US\$77 million with Nerico for spot forex (**SFX**) trading. Less than 12% of the funds were allocated for SFX trading on behalf of Company X. The remaining funds, totalling over US\$68 million, were used by Nerico without Company X's knowledge to subscribe for shares in two segregated portfolios of a Cayman-incorporated fund (**Fund**) on six occasions for Nerico's own account. By June 2021, the shares had been redeemed in full and the subscription principals returned to the Account, while Nerico retained the profits.

Nerico's conduct breached the express terms of the client agreement (**Client Agreement**), which required Nerico to operate the Account in accordance with Company X's written instructions. Nerico breached the agreement by using the funds for its own benefit without written instruction, authorisation or consent, and without meeting the conditions outlined in the Client Agreement.

The misuse of funds additionally breached General Principle (GP) 8 and paragraph 11.1(a) of the SFC's Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**SFC Code of Conduct**), which require licensed persons to ensure that client assets are promptly and properly accounted for and adequately safeguarded.

Nerico's Facilitation of the Misappropriation of Client Funds

The SFC found that Nerico knowingly facilitated a scheme orchestrated by Neo Ng Yu (**Neo Ng**) and his connected persons and entities, resulting in the misappropriation of approximately US\$154 million of Company X's funds held in the Account from January 2021.

Neo Ng was a substantial shareholder of Company X's holding company, formerly listed on the Main Board of The Stock Exchange of Hong Kong Limited, from 23 December 2020. He also served as a director of Company X from July 2021 to January 2022.

Between January and August 2021, Nerico transferred almost all of Company X's funds in the Account to one of the segregated portfolios of the Fund (**Sub-fund**), purportedly for the acquisition of 'liquidity provider units' (**LP Units**). Neo Ng was a director of the Sub-fund from April 2019 to July 2021 and was the ultimate sole shareholder and a director of the company that acted as the fund manager for the Sub-fund at the time.

During the SFC's inquiry and investigation, Nerico presented two contradictory narratives to explain the transactions. In response to a request under section 180 of the SFO, Nerico claimed that Company X's funds were transferred to the Sub-fund to acquire LP Units issued by the Sub-fund, relying on a set of transaction documents and account statements. Subsequently, in response to notices under section 183 of the SFO, Nerico claimed the funds were transferred to acquire LP Units issued by a separate Cayman-incorporated fund (**Second Cayman Fund**), supported by a different set of documents.

The SFC's investigation revealed that neither the Sub-fund nor the Second Cayman Fund had issued any LP Units at any material time. Company X's funds therefore could not have been transferred to acquire LP Units. The funds transferred to the Sub-fund were misappropriated by Neo Ng and his connected persons and entities. A substantial amount of the traceable proceeds was transferred to a corporate vehicle of Neo Ng, part of which was further dissipated to accounts belonging to Neo Ng and his other corporate vehicles. Some traceable proceeds were used by the Sub-fund for its own purposes, including fulfilling redemption requests, paying dividends and settling charges.

The SFC found that Nerico and its director, Jerff Lee Cheuk Fung (**Lee**), were closely connected with Neo Ng. Both narratives were false and concocted to conceal the misappropriation and the true whereabouts of Company X's funds. Nerico either fabricated or employed fabricated documents for these purposes.

By knowingly facilitating the misappropriation, Nerico breached GP 8 and paragraph 11.1(a) of the SFC Code of Conduct, as well as GP 1, which requires licensed persons to act honestly, fairly and in the best interests of their clients and the integrity of the market.

s. 180 SFO Offence: Provision of False or Misleading Information

Under section 180(15) of the SFO, it is an offence for a person, in purported compliance with a requirement

under section 180, to knowingly or recklessly produce any record or document or give an answer that is false or misleading in a material particular. Section 184(2) creates a similar offence in relation to requirements under section 183(1).

Nerico provided the SFC with two false narratives relying on two sets of fabricated documents. Its shift from one false narrative to another as the investigation progressed, along with its possession and use of two contradictory sets of supporting documents, demonstrated a clear intention to mislead and deceive the SFC. The SFC found that Nerico knowingly produced records and documents and made representations that were false or misleading in a material particular, in breach of sections 180(15) and 184(2) of the SFO.

Breaches of s. 184(2) SFO and General Principle 9 of the SFC Code of Conduct

The SFC determined that the misconduct of Nerico was directly attributable to the actions of Lee and Wan. Lee, as a director of Nerico and the person in charge of handling Company X and its funds, was the directing mind and will behind Nerico's conduct in misusing the funds and facilitating their misappropriation by Neo Ng, with whom he had a close connection.

Wan, as a director, RO and MIC of Nerico, played a central role in the misconduct. He executed the relevant subscription and transaction documents and authorised the transfers of Company X's funds from Nerico to the Sub-fund during the relevant period. Lee and Wan caused Nerico to produce false or misleading information and documents to the SFC to conceal and disguise the misappropriation by Neo Ng.

Lee and Wan personally breached section 184(2) of the SFO by knowingly providing false or misleading answers and explanations during their respective interviews with the SFC. Their conduct was fundamentally incompatible with the standards expected of the senior management of a licensed corporation under GP 9 of the SFC Code of Conduct and cast serious doubt on their fitness and properness to be regulated persons.

Procedural History and the SFC's Decision

The SFC issued a decision in August 2025 banning Wan for misconduct. Wan applied to the Securities and Futures Appeals Tribunal for a review of the SFC's decision in October 2025, but withdrew the review application in May 2026.

The SFC concluded that Wan was guilty of misconduct and not fit and proper to be licensed. In deciding the sanction, the SFC took into account that the conduct of Wan was egregious and serious, undermining the confidence of investors and the public in market integrity; that his honesty and integrity were compromised; and that his conduct caused significant losses to Company X.

The SFC has separately revoked the licence of Nerico and banned Lee from engaging in all regulated activities for life, as detailed in its [press release of 28 August 2025](#). Related disciplinary actions against Neo Ng and Amber Hill Capital Limited, the manager of the Sub-fund at the material time, were also addressed in that release.

Film Producer Wong Pak Ming Convicted of Insider Dealing in Shares of Pegasus Entertainment Holdings Limited

Insider Dealing Conviction under the SFO

On 22 May 2026, the Eastern Magistrates' Court convicted Hong Kong film producer Wong Pak Ming (**Wong**) for insider dealing in the shares of Pegasus Entertainment Holdings Limited (**Pegasus**). The Court found that he misused inside information acquired through his role as chairman and controlling shareholder of Pegasus and advised his sister to trade the shares before the information was made public. The inside information related to the sale of his controlling stake in Pegasus in 2017. His sister bought over nine million shares at prices below the later market price. The Court adjourned the case to 9 June 2026 for sentencing.

Pegasus was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong on 31 October 2012 and the listing was transferred to the Main Board on 9 January 2015. The company is now known as Transmit Entertainment Holdings Limited (stock code: 1326).

The Inside Information

The Court heard that while negotiations were underway in 2017 for Wong to sell his controlling stake in Pegasus, he became aware of price-sensitive non-public information. This included the signing of a memorandum of understanding and the receipt from a potential buyer of HK\$10 million as earnest money (a sum paid by a potential

buyer to the seller to demonstrate serious intent to purchase the seller's assets).

The Insider Dealing in Pegasus Shares

Having received the earnest money on 25 August 2017, Wong immediately began to transfer HK\$2 million to his sister, who started buying Pegasus shares on the same day. From 30 August 2017 onwards, Wong sent multiple WhatsApp messages to his sister, advising her on when to buy Pegasus shares and at what price.

Between 25 August 2017 and 17 October 2017, Wong's sister bought over nine million Pegasus shares at prices well below the company's ensuing market share price after the deal was announced on 25 October 2017. She paid for the vast majority of the shares with the monies transferred to her by Wong. She did not sell all of these shares immediately after the announcement on 25 October 2017. Based on the SFC's calculations using the post-announcement share price, it was estimated that she earned profits, including realised and notional, of over HK\$1 million from these transactions.

The Eastern Magistrates' Court's Findings

In arriving at its verdict, the Court found that Wong advised another person, namely his sister, to deal in Pegasus shares while he was the chairman and controlling shareholder of Pegasus and in possession of information which he knew was inside information in relation to Pegasus.

Insider dealing in any form is a serious abuse of investor trust and undermines market integrity. Where confidential information is misused for personal gain, the SFC will have no hesitation in taking decisive action against wrongdoers to hold them publicly accountable for their misdeeds.

The case forms part of a series of related SFC actions as detailed in the SFC's press releases issued on [22 May 2026](#), [27 February 2025](#), [27 March 2025](#), [25 April 2025](#), [5 June 2025](#), [25 August 2025](#) and [24 October 2025](#).

Court Grants Two-Year Disqualification of Qunxing Paper Former Financial Controller over False Financial Disclosures

On 13 May 2026, the Court of First Instance granted an order under section 214 of the SFO disqualifying Poon Tsz Hang (**Poon**), the former financial controller and company secretary of Qunxing Paper Holdings Company Limited (**Qunxing**), from acting as a director, liquidator, receiver or manager of any corporation in Hong Kong for two years. He was also ordered to pay the SFC's costs of HK\$1.2 million. The Court's Reasons for Decision are available [here](#).

The case concerned materially overstated annual turnover and understated bank borrowings in Qunxing's 2006 financial statements which were included in its IPO prospectus issued in September 2007 and in its published financial statements from 2007 to 2011. The SFC found that Poon, as the company's most senior finance officer, had failed to discharge his duties. The proceedings were disposed of by the Carecraft Procedure based on agreed facts.

Qunxing and its Operations

Qunxing was an investment holding company with a 100% indirect shareholding in its sole operational arm, a Mainland entity called Shandong Qunxing Paper Ltd (**Shandong Qunxing**). Among the corporate entities through which the Company held its interest in Shandong Qunxing was Best Known Group Ltd (**Best Known**). Qunxing and its subsidiaries (**the Qunxing Group**) were engaged in the manufacture and sale of decorative base paper products and printing paper products in Mainland China.

The first, second and fifth respondents in the case were members of the same family who beneficially owned Boom Instant Ltd, Qunxing' majority shareholder.

In September 2007, the Qunxing issued an IPO Prospectus for the public offering of its shares, and received IPO proceeds of about HK\$1.846 billion. On 17 December 2010, the Company issued an Open Offer Prospectus for new shares, raising about HK\$112 million from public investors.

Poon's Role at Qunxing

Poon was the Senior Financial Manager of Qunxing from December 2007. He became its Financial Controller in May 2008, and its Company Secretary in January 2014, and remained in these positions until he resigned from both on 1 April 2014.

It was not disputed that between May 2009 and March 2014, as Financial Controller, Poon owed a duty to act in good faith and in the best interests of the company, a duty to exercise reasonable care, skill and diligence, and a duty to exercise the skills of a reasonably competent financial controller. He was responsible for the consolidation of accounts and preparation of consolidated financial statements of the Qunxing Group, the group's overall financial management, accounting and investor relations. During this period he occupied the most senior finance position within the group.

Misconduct under the SFO

The underlying misconduct was established in the December 2013 civil action under section 213 of the SFO in which Qunxing, Best Known, its former chairman Mr. Zhu Yu Guo, and his son and former vice chairman Mr. Zhu Mo Qun which resulted in orders being issued in February 2018 directing the parties to compensate investors. The Court-appointed administrators completed the distribution of \$92 million in compensation to approximately 27,000 eligible investors in January 2023.

The misconduct comprised three particular aspects:

- 1) Qunxing exaggerated its turnover before and after its 2007 initial public offering by significantly overstating sales through Shandong Qunxing with two customers, Shanghai On Hing Paper Company Ltd (**Shanghai On Hing**) and Changzhou Cuiqiao Chengguang Paper Company Ltd (**Cuiqiao**) in its IPO prospectus, annual reports and announcements for the years 2006 to 2011 (the **Overstatements**);
- 2) Qunxing failed to disclose to public investors in its annual reports and results announcements for 2009 to 2012 that Shandong Qunxing had taken out substantial bank loans in Mainland China (the **Undisclosed Bank Loans**);
- 3) Qunxing failed to disclose in a timely manner that Shandong Qunxing's restructuring application under PRC bankruptcy laws was accepted on 24 February 2014, which implied a sudden deterioration of its financial position (the **Undisclosed Restructuring Application**).

The overstatement of turnover figures spanned 2006 to 2011. The amount of sales overstated in the Qunxing Group's books in relation to Shanghai On Hing ranged from 11.34% to 12.27% of reported turnover, peaking in 2007 at 19.33% to 22.86%.

Audit issues and irregularities relating to the verification of sales figures were identified by KPMG. In November 2011, JLA Asia Ltd (**JLA**) was commissioned by the SEHK to conduct a further independent review of the internal audit review conducted by Zhonglei Risk Advisory Services Limited (**Zhonglei**), a company engaged by Qunxing. JLA identified a number of issues and irregularities.

Qunxing made three public announcements on 22 April 2013, 17 July 2013 and 9 August 2013, in which the Audit Committee and the Board concluded that the audit issues had been clarified and addressed, and that they found no evidence of manipulation of revenue, profit and cash position, falsification of books and records or misappropriation of assets. Not all the irregularities identified by JLA were fully and accurately disclosed in those announcements. JLA disagreed with the conclusions but was unable to point to any concrete evidence otherwise, nor to confirm that the audit issues had been adequately clarified, due to the limited scope of its work and other constraints placed on the investigation.

Other matters under the overstatement category related to a fictitious company chop of Shanghai On Hing, fictitious payments to or purchases from Shandong Qunxing, and three persons held out as members of staff of Shanghai On Hing or Huidong at site visits made by KPMG, Zhonglei and JLA who were in fact not employees of either company.

As to the undisclosed restructuring application, the SFC relied on the notice issued by the Intermediate People's Court of Binzhou City in the PRC on 24 February 2014 stating its acceptance of the restructuring application of Shandong Qunxing under the Enterprise Bankruptcy Law of the PRC. Since Shandong Qunxing was Qunxing's sole operational arm, the severe deterioration in its financial position and the restructuring application constituted inside information that ought to have been disclosed to the public in a timely manner. It was only after the appointment of interim receivers and managers in March 2014 that an announcement about the restructuring application was made on 17 September 2014.

Allegations of Failure to Discharge Duties as Financial Controller

The SFC's case was that the business or affairs of Qunxing had been conducted in a manner involving misfeasance or other misconduct towards the company or its members, resulting in members not having been given all the information they might reasonably expect, and unfairly prejudicial to its members, within the meaning of section 214(1)(b), (c) and (d) of the SFO.

In respect of unfair prejudice, the SFC relied on the fact that in subscribing for and purchasing Qunxing shares, the investing public were likely to have been induced by the false or misleading profit figures in Qunxing's IPO and open offer prospectuses and in the relevant annual reports and announcements from 2007 to 2011, as well as the false information about no bank loans for 2009 to 2012. Since trading was suspended on 30 March 2011 and the listing cancelled on 30 November 2017, the value of the Company's shares is at or close to zero. The public shareholders were prejudiced for having subscribed for and bought shares at prices above their true value in reliance on the false or misleading information.

The SFC considered that Poon failed to discharge his duties during the financial years ended 2009 to 2012. In particular, he failed to identify the issues through verification of the local audited reports of Shandong Qunxing, supervise or review its accounts, and to oversee the implementation of an effective internal reporting system. The SFC considered Poon responsible despite his assertion that the matters were deliberately concealed from him by Mr. Zhu Yu Guo, Mr. Zhu Mo Qun and the PRC Finance Team. It considered that Poon would likely have discovered the Undisclosed Bank Loans and the Undisclosed Restructuring Application earlier had he fulfilled his duties.

The Carecraft Procedure

The SFC and Poon consented to the disposal of the proceedings against Poon by way of the summary procedure sanctioned in *Re Carecraft Construction Co Limited* (the Carecraft Procedure). On 9 May 2025, the parties signed a Statement of Facts Not in Dispute, agreeing to a disqualification of two years and payment of the SFC's costs in the agreed sum of HK\$1,200,000.

The Court noted that, in deciding whether to make a disqualification order under the Carecraft Procedure, it is not bound by any agreement reached between the parties, but is under a duty to be independently satisfied, based on the agreed facts, that the business or affairs of the company were conducted in a manner described under section 214(1) of the SFO, and to determine the scope and duration of disqualification that reflects the gravity of the offence.

Poon's Duties as a Financial Controller of Qunxing

In assessing the duties owed by a financial controller, the Court referred to observations of the Market Misconduct Tribunal in respect of *Greencool Technology Holdings Ltd*, (January 2018). It found a financial controller's duties to include supervising the preparation of management reports, budgets, financial reports and statutory accounts, ensuring proper implementation of an appropriate internal control system, and ensuring proper corporate governance. In the case *Qunxing*, these duties required detailed knowledge of the accounts of the constituent companies and extended to all subsidiaries within the group, including the Mainland subsidiaries.

The Court further noted the guidance that a financial controller's acceptance of a material reduction in his powers, such that the internal financial affairs of each subsidiary became a 'no go' area without any formal public notice, even if not intended, was a deceit on the stock market authorities and on the market. Whether or not the financial controller could have uncovered any fraud had he discharged his duties properly was irrelevant when considering whether he was negligent.

The Court accepted the undisputed expert evidence of Mr. John Robert Lees, who described the financial controller as the head of the accounting and finance functions, acting as the link between the finance department and management.

Court's Findings of Contravention of s. 214(b), (c) and (d) SFO

The Court was satisfied that the business or affairs of Qunxing were conducted by Poon in a manner involving misfeasance and other misconduct towards the company and its members within section 214(1)(b) resulting in members not having been given true and complete information regarding revenue, expenses and operating results within section 214(1)(c) and in a manner that was unfairly prejudicial to its public shareholders within section 214(1)(d).

Sanctions Imposed and Mitigating Factors

In considering the period of disqualification, the Court took into account the two-fold objectives of protecting the

public against future conduct and general deterrence. The Court applied the three brackets of disqualification laid down in *Re Sevenoaks Stationers Ltd*: a top bracket of 11 to 15 years for particularly serious cases, a middle bracket of 6 to 10 years for serious cases, and a minimum bracket of 2 to 5 years for less serious cases.

The Court accepted as mitigating factors that Poon had been cooperative in the proceedings, accepted liability, and adopted the Carecraft Procedure to save time and costs. The Court accepted that there was no allegation of dishonesty or fraud against him. The Court noted the finding of G Lam J in the earlier action that Mr. Zhu Yu Guo, assisted by Mr. Zhu Mo Qun, made all the management decisions for Shandong Qunxing, although this did not relieve Poon of his duties as financial controller. Taking into account the agreed mitigating factors, the Court considered a two-year disqualification to be fair and appropriate.

Poon's Carve-Out Application from Disqualification Order

Poon applied to exempt three non-listed private companies from the disqualification order: CT Consultants Ltd (**CTCL**), Sino Saga Corporation Services Ltd (**Sino Saga**) and Wicks Medical Consulting Co Ltd (**Wicks Medical**). The SFC agreed to the exemption on an exceptional basis, while it remained for the Court to be independently satisfied.

The Court held that the carve-out application should be allowed. Each of the three companies was a private company with no public investor's interest involved. CTCL was a company to which Poon provided accounting and consultancy services, representing his primary source of income. Sino Saga was a non-profit-making company providing secretarial services to Poon and his close family members. Wicks Medical was a company owned by Poon as a passive investor and two others, providing consultancy services to a single client.

The Court reiterated that the power to order disqualification is protective rather than punitive, and that hardship alone is not sufficient to support a carve-out order, though it is not entirely irrelevant. On the facts, the Court did not find it necessary to rely on any hardship factor to justify granting the application.

Proceedings against the other Respondents Discontinued

All respondents apart from Poon were resident in Mainland China and had not entered an appearance despite being duly served with the petition. The SFC took the view that further pursuit against the Mainland respondents would not be the best use of public resources, as the effort to disqualify them would be disproportionate to the costs the SFC would incur. By summons dated 5 June 2025, the SFC sought leave to discontinue the proceedings against them. The Court saw no reason not to accede to the application and granted leave to discontinue, with no order as to costs as between the SFC and the first, second, fourth and fifth respondents.

Court Grants Disqualification Orders against Four Former China Candy Holdings Directors for Cash Balance Overstatements

On 7 May 2026, the Court of First Instance granted disqualification orders of up to 33 months against four former directors of China Candy Holdings Limited (**China Candy**) for negligence in failing to uncover overstatements in the company's financial records. Li Yuna (**Li**) and Yvonne Hung (Hung) are former executive directors and chairpersons while Fangus Chu Wai Wa (**Chu**) and Ong King Keung (**Ong**) are former independent non-executive directors. The SFC found material overstatements in the company's cash and bank balances and found that bank and accounting records had been fabricated. The orders were made under section 214 of the SFO and the proceedings were disposed of by the Carecraft procedure. The former directors were also ordered to pay the SFC's costs in the proceedings. The Reasons for Decision are available *here*.

GEM-listed China Candy

China Candy was an investment holding company incorporated in the Cayman Islands. The group, including China Candy's subsidiaries Fujian Holeywood Food Industrial Co. Ltd (**HW Food**) and Jinjiang Holeywood Trading Co. Ltd (**HW Trading**) (the **Group**) was principally involved in the manufacture of candy products in the People's Republic of China.

China Candy's shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited between 11 November 2015 and 31 December 2019, when the listing was cancelled. HLB Hodgson Impey Cheng Ltd (HLB) was the Company's auditor until its resignation on 14 February 2018.

China Candy's Directors

Li became the company's executive director in December 2016 and its chairman in July 2017, and resigned

from these positions from November 2017. Hung became an executive director in February 2017 and chairman in November 2017. Chu served as an independent non-executive director (**INED**) and a member of the audit committee from October 2015 until his resignation effective July 2017. Ong served as an INED and chairperson of the audit committee from February 2016 until his resignation effective September 2017.

Overstatement of Financial Information Triggers s. 214 SFO

China Candy's 2016 Interim Report and 2016 Annual Report contained material overstatements (**Overstatements**) in its cash and bank balances due to overstatements in the bank balances of HW Food and HW Trading. The overstatement of bank balances represented 87% of the purported cash and bank balances in the 2016 Interim Report and 97% of the purported cash and bank balances in the 2016 Annual Report.

The Overstatements were caused by the omission of non-recorded transactions and the booking of non-existent withdrawals in the company's bank ledgers. To inflate the cash and bank balances, non-existent deposits were generally booked near the month-end, then cancelled out or 'rectified' later by omitting non-recorded transactions and booking non-existent withdrawals, an exercise the Court termed the 'Offset'. In the case of the 2016 reports, the Offset took place only after the financial period cut-off points, making the Group's financial position appear healthier. This scheme of overstating the bank balances (the Inflation Scheme) was perpetrated and concealed by a related Falsification Scheme of fabricating records relating to the Group's financial position.

Breach of Directors' Duties and Breach of s. 214 SFO

The four respondents accepted that, as directors, they owed China Candy a duty to exercise reasonable care, skill and diligence, a continuing duty to acquire and maintain sufficient knowledge and understanding of its business, and, where responsibilities were delegated, a duty to supervise the discharge of those delegated responsibilities.

They accepted that they had acted negligently or in breach of their duty of care, skill and diligence by failing to uncover the overstatements, thereby failing to disclose the true financial position of the company to its shareholders. CT Partners Consultants Ltd (**CT Partners**) had prepared internal control review reports identifying potential red flags, but each respondent admitted failing to pay attention to those red flags, failing to ensure the board received and approved monthly management accounts in accordance with CT Partners' procedures, and failing to ensure the recommended measures were implemented. Each admitted relying on HLB Hodgson Impey Cheng Ltd (**HLB**) (the company's auditor until its resignation in February 2018) and CT Partners to identify and report audit or internal control issues, thereby abdicating the duty to independently identify and assess such issues.

The Court found that the directors' failure to disclose the company's true financial position to its shareholders amounted to 'fraud, misfeasance or other misconduct' within section 214(b) of the SFO. The provision of false financial information to the company's shareholders denying them access to its true financial position triggered section 214(d) of the SFO. On this basis, the respondents accepted that the business or affairs of China Candy had been conducted in a manner within the meaning of sections 214(1)(b), (c) and (d) of section 214 of the SFO between June 2015 and December 2017, and that they were responsible for the same.

Principles Governing Disqualification of Directors

The Court was guided by established principles. The power to determine the period of disqualification is discretionary, requiring the Court to be satisfied that the director's involvement involved a sufficiently serious failure to satisfy his or her duties. The objectives of a disqualification order are twofold: to protect the public, recognised as the primary purpose, and general deterrence. The Court adopts a broad-brush approach and must be independently satisfied on the agreed facts, while not being bound by the parties' agreement, though in practice it is likely to be guided by the agreement reached by the SFC.

The period must reflect the gravity of the offence, assessed by fixing the correct period to fit the conduct and then discounting for mitigating factors. The maximum disqualification period of 15 years is divided into three brackets as guides: a top bracket of over 10 years for particularly serious cases, a middle bracket of 6 to 10 years for serious cases, and a minimum bracket of up to 5 years for relatively less serious cases.

The Executive Directors: Li and Hung

The Court disqualified Li for 24 months for negligence. She admitted that she should have discovered the overstatements given their substantial scale, her position, and her duty to ensure proper and adequate internal controls. Counsel for Li emphasised that her appointment as executive director occurred only one day before the end of the 2016 financial year, that only a small proportion of the impugned transactions occurred after her

appointment, that she was appointed at the age of 29 without prior listed-company directorship or an accounting background, and that there was no allegation of dishonesty or personal benefit. The Court was satisfied that 24 months was commensurate with the gravity of her conduct and gave appropriate regard to the mitigating factors.

Hung was disqualified for 33 months respondent based on the fact that she had remained an executive director and chairman for a much longer period than Li, almost nine years.

The Independent Non-Executive Directors: Chu and Ong

Chu and Ong were both INEDs and members of the audit committee and were both disqualified for 12 months. Each admitted that, although not involved in the day-to-day running of the business, they should have acquainted themselves with adequate knowledge to perform their audit committee duties, including monitoring and scrutinising the company's corporate governance and reviewing its internal controls. Each admitted failing to attend to CT Partners' identified red flags and relying completely on HLB and CT Partners.

Counsel for both noted there was no suggestion of fraud, dishonesty, defalcation, lack of commercial probity, personal gain, or knowing involvement in either scheme, and that their breach was partly due to a false sense of security created by the unqualified audit opinions issued by the external auditor upon independent bank confirmation. Chu, aged 58, and Ong, aged 50, had each held positions at other listed companies but no longer did so. The Court was satisfied that 12 months was commensurate with the gravity of each respondent's conduct.

Disqualification Order Carve-Out

The SFC and Chu agreed to carve out a private company, Excellent Management Ltd (**XML**), from the disqualification order. XML is an integrated solutions and software company offering technology and consulting services for travel companies in Hong Kong and the Asia-Pacific region. Chu had worked for XML since 1997 and is responsible for its finance and accounting services. Given the business nature of XML and the absence of any plan for public listing, the SFC submitted that Chu's involvement posed minimal risk to the investing public and that the purpose of protecting the public would still be achieved. The Court agreed and allowed the carve-out.

s. 214 Proceedings against Eight Respondents

The proceedings against these four respondents are part of the SFC's broader action, commenced under section 214 of the SFO on 12 May 2022, against eight respondents. The SFC alleges that China Candy's former chairman and executive director, Mr. Xu Jinpei, its former chief executive officer and executive director, Ms Hong Yinzhi, and former chief financial controller, Mr. Wang Zhihong, were the instigators and perpetrators of, or at least knowingly permitted, acquiesced or turned a blind eye to, the Overstatements and fabrication. The trial against these three concluded in March 2026, pending judgment.

In September 2023, the SFC obtained a disqualification order of three years in the same proceedings against a former INED, Mr. Nicholas Chiu Sai Chuen, disposed of by the Carecraft procedure.

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