

SFC revokes the licence of Hong Hui Lung

7 Jun 2012

The Securities and Futures Commission (SFC) has revoked the licence of Mr Hong Hui Lung, a former managing director of Mega Capital (Asia) Company Limited (Mega Capital), to act as a representative and the approval for him to act as a responsible officer (Note 1).

Mega Capital was the sole sponsor for the listing application of Hontex International Holdings Company Limited (Hontex) and Hong was one of the two responsible officers and sponsor principals in charge of the supervision of Mega Capital's transaction team on Hontex's listing (Notes 2 and 3).

The SFC investigation found that Hong failed to discharge his duties as a sponsor principal and a responsible officer. The SFC's main findings are as follows:

1. Refusal to accept responsibilities

Hong denied that he was in charge of the supervision of Mega Capital's transaction team on Hontex's listing application and tried to shift the responsibility to another responsible officer and sponsor principal of Mega Capital, Mr X (Note 4).

Hong claimed that he was the Managing Director overseeing different departments of Mega Capital and it was Mr X who was in charge of the Hontex's listing application.

Hong did not seem to realise that he and Mr X were jointly and severally liable in discharging their roles as sponsor principals (Note 5).

2. Supervisory failures

Although members of Mega Capital's transaction team on Hontex's listing application confirmed that Hong was involved in Mega Capital's sponsorship work on Hontex's listing application and gave instructions to them from time to time, the evidence reveals that Hong has failed to properly and adequately supervise the transaction team.

For example, while Hong was in a position to review the work of the transaction team and oversee the progress of the listing through emails that were copied to him, he admitted that he did not read most of emails relating to Hontex's listing application.

Furthermore, Hong did not review the due diligence questionnaires completed by the transaction team with Hontex's major customers and suppliers. Consequently, Hong did not realise that material information (like transaction figures with Hontex) was missing from most of the questionnaires and failed to instruct the transaction team to follow up on the missing information.

3. Breach of sponsor's undertaking and filing untrue declaration with the Stock Exchange of Hong Kong Limited (SEHK)

As sponsor principals for Hontex's listing application, Hong and Mr X jointly signed and submitted the sponsor's undertaking and declaration to SEHK respectively, confirming that Mega Capital had made reasonable due diligence inquiries and all information provided to the SEHK was true in all material respects and did not omit any material information.

However, Hong did not take reasonable steps to ensure that the transaction team had conducted due diligence in accordance with the requirements of Practice Note 21; instead, he simply relied on Mr X and the transaction team to ensure the quality of the due diligence work without performing any quality assurance role himself (Note 6).

The SFC found that Hong has failed to supervise the execution and ensure the adequacy of the due diligence inquiries performed by the transaction team of Mega Capital.

The SFC found no evidence that Hong was involved in any fraud. The SFC has not made findings against Hong for dishonesty or taking unfair advantage from his failures.

"As a responsible officer and a sponsor principal for Mega Capital, Hong failed to ensure Mega Capital's transaction team undertook proper and effective due diligence into the claims made by Hontex in its IPO prospectus," the SFC's Executive Director of Enforcement, Mr Mark Steward said.

"Revocation is a very serious sanction and reflects the terrible consequences for the investing public who bought shares in Hontex and who remain substantially out of pocket because of Hontex's position," he added.

End

Notes:

1. Hong was licensed under the Securities and Futures Ordinance (SFO) to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities and was accredited with Mega Capital until 1 March 2010. Hong was the responsible officer and managing director of Mega Capital at the time of the conduct in question.
2. The SFC has also taken disciplinary action against Mega Capital as a result of the same investigation. Please see SFC's press release dated 22 April 2012.
3. Hontex was listed on the Main Board of SEHK on 24 December 2009. Please see SFC's press releases dated 8 April 2010, 7 September 2010, 12 November 2010, 19 May 2011, 15 June 2011, 8 August 2011, 3 October 2011, 28 November 2011 and 12 December 2011 for further details about the SFC's case against Hontex.
4. Pending the completion of the SFC investigation, the SFC will not disclose the identity of Mr X.
5. See paragraph 1.3.3 of the Additional Fit and Proper Guidelines for Corporations and Authorized Financial Institutions applying or continuing to act as Sponsors and Compliance Advisers, Appendix I of the SFC's Fit and Proper Guidelines.
6. Practice Note 21, Rules Governing the Listing of Securities on SEHK.