
STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has publicly reprimanded and fined Changjiang Corporate Finance (HK) Limited (**CJCF**)¹ \$20 million, pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).
2. The SFC has also partially suspended CJCF's licence to advise on corporate finance, to the extent that the firm shall not act as a sponsor for listing applications on The Stock Exchange of Hong Kong Limited (**SEHK**) of any securities, for one year from 18 August 2023 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.
3. The disciplinary action is taken in respect of CJCF's role as the sponsor in the following six listing applications on the SEHK (**Listing Applications**²), namely:
 - (a) Pacific Infinity Resources Holdings Limited (**Pacific Infinity**);
 - (b) AsiaPac Net Media Holdings Limited (**AsiaPac**);
 - (c) Perpetual Power Holdings Limited (**Perpetual Power**);
 - (d) Van Chuam International (Cayman) Limited (**Van Chuam**);
 - (e) Rising Sun Construction Holdings Limited (**Rising Sun**); and
 - (f) Byleasing Holdings Limited (**Byleasing**)³.
4. The SFC found that CJCF has failed to discharge its duties as the sponsor in the Listing Applications in that it had failed to:
 - (a) perform all reasonable due diligence in the listing applications of Pacific Infinity, Van Chuam and Rising Sun;
 - (b) properly advise and guide Pacific Infinity, Perpetual Power and Byleasing in complying with all relevant listing qualifications;
 - (c) ensure disclosure of all material information in the Application Proof prospectuses of Pacific Infinity, AsiaPac and Van Chuam; and
 - (d) maintain proper records of the due diligence work it claimed to have done in relation to all the Listing Applications.

¹ Changjiang is licensed under the SFO to carry on Type 6 (advising on corporate finance) regulated activity.

² Changjiang was the sole sponsor in the applications of Pacific Infinity, Van Chuam and Rising Sun to list on the Main Board of the SEHK and in the applications of AsiaPac, Perpetual Power and Byleasing to list on the Growth Enterprise Market (**GEM**) of the SEHK. The Listing Applications were submitted by Changjiang between September 2015 and December 2017.

³ References to Pacific Infinity, AsiaPac, Perpetual Power, Van Chuam, Rising Sun and Byleasing include their respective subsidiaries where the context so requires.

Regulatory requirements

5. A sponsor is required to conduct reasonable due diligence inquiries so as to ensure that the disclosure in the Application Proof prospectus and all information provided to the SEHK during the listing application process are true in all material respects and do not omit any material information.
6. Specifically, a sponsor is required by:
 - (a) General Principle 2 (diligence) of the Code of Conduct for Persons Licensed by or Registered with the SFC (**Code of Conduct**) and paragraph 5.1 (due skill and care) of the Corporate Finance Adviser Code of Conduct (**CFA Code**) to act with due skill, care and diligence and observe proper standards of market conduct, in the best interests of its clients and the integrity of the market;
 - (b) paragraph 17.1(b) of the Code of Conduct to provide assurance to the SEHK and the market generally that the listing applicant complies with the Listing Rules⁴ and other relevant legal and regulatory requirements, and that the listing document provides sufficient particulars and information for investors to form a valid and justifiable opinion of the listing applicant's shares, financial condition and profitability, and to also advise and guide the listing applicant as to the Listing Rules and other relevant regulatory requirements;
 - (c) paragraphs 17.2(b) and 17.4(a)(i) (reasonable due diligence) of the Code of Conduct to take reasonable due diligence steps in respect of a listing application, and, before submitting a listing application, to complete all reasonable due diligence on the listing applicant except in relation to matters that by their nature can only be dealt with at a later date;
 - (d) paragraphs 17.3(b)(i) to (ii) (advice and guidance) and 17.4(c)(i) (resolving fundamental compliance issues) of the Code of Conduct to advise and guide a listing applicant and its directors as to their responsibilities under the Listing Rules and other relevant regulatory requirements which apply to a Hong Kong listed company and its directors, to take reasonable steps to ensure that they understand and meet the responsibilities under the Listing Rules, in particular, to come to a reasonable opinion that the listing applicant is in compliance with all relevant listing qualifications under Chapter 8 of the Listing Rules; and where material deficiencies are identified in relation to, among other things, the operations of a listing applicant, to provide adequate advice and recommendations to assist the listing applicant to remedy these material deficiencies;
 - (e) paragraph 17.4(b) (completeness of information in an Application Proof) of the Code of Conduct and paragraph 5.7 of the CFA Code (standard of documents) to come to a reasonable opinion that the information in the Application Proof is substantially complete except in relation to matters that by their nature can only be dealt with at a later date, before submitting an application on behalf of a listing applicant to the SEHK, and where preparation of any document for public dissemination is involved, to use all reasonable efforts to assist its clients in

⁴ Listing Rules means the Rules Governing the Listing of Securities on the SEHK (**Main Board Listing Rules**); references to the Main Board Listing Rules should be taken also to refer to the equivalent Rules Governing the Listing of Securities on the Growth Enterprise Market of the SEHK (**GEM Listing Rules**), where appropriate.

ensuring that the document is prepared to the required standard and no relevant information has been omitted or withheld;

- (f) paragraph 17.4(d)(i) (identifying material issues) of the Code of Conduct to ensure that all material issues known to it which, in its reasonable opinion, are necessary for the consideration of whether the listing applicant is suitable for listing are disclosed in writing to the SEHK, when submitting an application on behalf of a listing applicant to the SEHK;
- (g) paragraph 17.6(a) (reasonable judgement) of the Code of Conduct to, among other things, conduct due diligence in order to have thorough knowledge and understanding of a listing applicant and to satisfy itself in relation to the disclosure in the listing document; and to exercise reasonable judgement on the nature and extent of due diligence work needed in relation to a listing applicant having regard to all relevant facts and circumstances;
- (h) paragraph 17.6(b) (professional scepticism) of the Code of Conduct and paragraph 2 of Practice Note 21 of the Listing Rules (**PN21**), to, among other things, examine with professional scepticism the accuracy and completeness of statements and representations made, or other information given, to it by a listing applicant or its directors, and to be alert to information that contradicts or brings into question the reliability of such statements, representations and information;
- (i) paragraph 17.6(c) (appropriate verification) of the Code of Conduct to, among other things, undertake additional due diligence to ascertain the truth and completeness of the matter and information concerned, where the sponsor becomes aware of circumstances that may cast doubt on information provided to it or otherwise indicate a potential problem or risk;
- (j) paragraphs 17.6(d)(vii) and (ix) (preparation of a listing document) of the Code of Conduct to assess the legality and compliance of the business operations of the listing applicant and to undertake independent verification of all material information, including documents provided, and statements and representations made, by the listing applicant and its directors;
- (k) paragraph 17.6(e)(iv) (independent due diligence steps) of the Code of Conduct to conduct independent due diligence steps including reviewing relevant underlying records and supporting documents of the listing applicant in relation to material matters;
- (l) paragraph 17.9(a) (communications with the regulators) of the Code of Conduct to reasonably satisfy itself that all information provided to the SEHK and the SFC during the listing application process is accurate and complete in all material respects and not misleading in any material respect and, if the sponsor becomes aware that the information provided does not meet this requirement, to inform the SEHK and the SFC (as the case may be) promptly;
- (m) paragraphs 17.2(e) and 17.10(c)(ii) and (v) (proper records) of the Code of Conduct and paragraph 2.3 (books and records) of the CFA Code to maintain adequate records relating to due diligence performed in respect of each listing assignment, as well as the bases for, among others, the opinions required under paragraphs 17.3 and 17.4 of the Code of Conduct, including internal discussions and any actions taken prior to these opinions being given, so as to demonstrate to the SFC its compliance with the Code of Conduct; and

- (n) paragraph 4 of PN21 to document its due diligence planning and significant deviations from its plans, which include demonstrating that a sponsor has turned its mind to the question of what inquiries are necessary and reasonably practicable in the context and circumstances of the case.

Summary of facts

Pacific Infinity's listing application

Background

7. Pacific Infinity's core business was the export trading of unprocessed nickel ore from the Philippines to Mainland China, which accounted for 91.1% to 98.4% of its revenue during its track record period.
8. On 26 August 2014, a legislative bill (**Bill**) was introduced in the Philippines to ban the export of all unprocessed mineral ore, which, if enacted, would prohibit Pacific Infinity's core business.
9. In September 2014, the Philippine government released a white paper (**White Paper**) which fast tracked the legislative process of enacting the Bill.
10. On 23 September 2015, CJCF submitted on behalf of Pacific Infinity an application to be listed on the Main Board of the SEHK. This was rejected on 14 October 2015 on the ground that Pacific Infinity's core business had not been demonstrated to be sustainable if the Bill were to be enacted, thereby rendering it unsuitable for listing under Chapter 8 of the Listing Rules. The SEHK's decision to reject Pacific Infinity's listing application was upheld upon review.

Failure to conduct proper due diligence and to properly advise and guide Pacific Infinity in complying with all relevant listing qualifications

11. The Bill and the White Paper were red flags indicating that the viability of Pacific Infinity's business might be adversely affected in material respects.
12. Nonetheless, the SFC found that CJCF effectively performed no due diligence on the Bill or the White Paper before submitting Pacific Infinity's listing application:
 - (a) Although CJCF became aware of the Bill and the White Paper as a result of its due diligence, it neither conducted any follow-up due diligence on the White Paper, nor ascertained the prospects of the Bill being enacted or its impact on Pacific Infinity's business.
 - (b) Despite CJCF's claim that it had verbal discussions on the Bill with the legal advisors of both Pacific Infinity and CJCF, it was unable to provide any record of such discussions. In any event, the written legal opinion which CJCF had obtained before submitting the listing application did not contain any information or opinion relating to the Bill.
13. Without adequate due diligence on the Bill and the White Paper, CJCF could not have had a proper basis to come to a reasonable opinion on the risks posed by the Bill and the White Paper, and hence Pacific Infinity's suitability for listing.

14. It was not until the SEHK raised questions during the vetting process regarding Pacific Infinity's suitability for listing in light of the uncertainty created by the Bill, that CJCF started to perform a whole host of due diligence to demonstrate that the risks of the Bill being enacted would be low, and advise and guide Pacific Infinity in formulating various contingency business plans to address the suitability issue.

Failure to come to a reasonable opinion that the information in the Application Proof prospectus was substantially complete

15. The SFC also found that CJCF had failed to ensure disclosure of all material information in Pacific Infinity's Application Proof prospectus, including:
 - (a) the likelihood of the Bill being enacted;
 - (b) Pacific Infinity's contingency arrangements in response to the Bill and their impact on its business; and
 - (c) the existence of the White Paper.
16. The White Paper was initially disclosed in a draft Application Proof prospectus. However, such disclosure was deleted from the final Application Proof prospectus submitted to the SEHK without proper justification. This was so even though the White Paper constituted a material issue known to CJCF which was necessary for the consideration of whether Pacific Infinity was suitable for listing.
17. The material information set out in paragraph 15 above would have enabled investors to form a valid and justifiable opinion of Pacific Infinity's shares, financial condition and profitability. Given the lack of disclosure, CJCF could not have come to a reasonable opinion that the information in the Pacific Infinity's Application Proof prospectus was substantially complete.
18. It was not until the SEHK raised questions during the vetting process regarding Pacific Infinity's suitability for listing in light of the uncertainty created by the Bill, that the information set out in paragraphs 15(a) to 15(b) above was disclosed in the revised Application Proof prospectus.
19. CJCF's failures in Pacific Infinity's listing application as set out in paragraphs 11 to 18 above were in breach of General Principle 2 and paragraphs 17.1(b), 17.2(b), 17.4(a)(i), 17.4(b), 17.4(c)(i), 17.4(d)(i), 17.6(a), 17.6(d)(vii) and 17.9(a) of the Code of Conduct, paragraphs 5.1 and 5.7 of the CFA Code and paragraph 2 of PN21.

AsiaPac's listing application

Background

20. AsiaPac was primarily engaged in providing digital marketing services. It advised advertisers (i.e. its customers) on digital marketing campaigns launched via digital marketing platforms (**Platforms**) (i.e. its suppliers – such as search engines). Its cost of service consisted of the cost of procuring advertisement spaces on the Platforms for its customers.
21. AsiaPac's profitability relied heavily on receiving supplier discounts (**Supplier Discounts**) which were set as a certain percentage of the total procurement costs payable by it to the Platforms. The Supplier Discounts reduced AsiaPac's cost of

service and therefore increased its profits. CJCF's due diligence on AsiaPac found that the Supplier Discounts received represented 27.4% to 34.6% of AsiaPac's gross profits during the track record period.

22. In order to receive more Supplier Discounts, AsiaPac would waive service fees for its top fixed-rate contract customers which had substantial marketing budgets⁵, with a view to boosting its sales volume and therefore procurement costs (**True Pricing Strategy**). During its two-year track record period, AsiaPac generated 46.6% and 28.4% of its total revenue from its top three fixed-rate contract customers without charging them any service fees. These top customers represent 73.6% and 49.4% of AsiaPac's fixed-rate contracts in terms of revenue.
23. On 30 June 2016, CJCF submitted on behalf of AsiaPac an application to be listed on the GEM of the SEHK. On 4 August 2016, the SEHK returned AsiaPac's listing application on the ground that the information in its Application Proof prospectus was not substantially complete as required under the Listing Rules. The SEHK's decision to return AsiaPac's listing application was upheld upon review.

Failure to come to a reasonable opinion that the information in the Application Proof prospectus was substantially complete

24. The amount of Supplier Discounts AsiaPac received, the True Pricing Strategy, and the proportion of fixed-rate contracts for which services fees were waived were all material relevant information that would have enabled the SEHK and investors to understand the materiality of the Supplier Discounts and the True Pricing Strategy to AsiaPac's profitability.
25. CJCF was aware of and had advised AsiaPac on the importance of disclosing the above information to the SEHK. Nonetheless, CJCF had failed to insist upon advising AsiaPac to make sufficient disclosure of such information in its Application Proof prospectus when faced with AsiaPac's reluctance to do so based on unjustifiable reasons.
26. In light of the above, CJCF failed to demonstrate how it could have come to a reasonable opinion that the information in AsiaPac's Application Proof prospectus was substantially complete before submitting the listing application.
27. CJCF's failures in AsiaPac's listing application as set out in paragraphs 24 to 26 above were in breach of General Principle 2 and paragraphs 17.1(b), 17.4(b) and 17.9(a) of the Code of Conduct and paragraphs 5.1 and 5.7 of the CFA Code.

Perpetual Power's listing application

Background

28. Perpetual Power was an infrastructure company principally engaged in the development, operation and management of hydropower plants in Guangxi Province, Mainland China. It operated three hydropower plants during the track record period.

⁵ AsiaPac and its fixed-rate customers would agree on a marketing budget, which consisted of the procurement cost payable to the Platforms, and a service fee charged by AsiaPac at a fixed rate of the procurement costs.

29. In order for listing approval to be granted⁶, Rule 11.18(1) of the GEM Listing Rules and Guidance Letter HKEX-GL19-10 required that infrastructure companies must obtain land title certificates and building ownership certificates (**Title Certificates**) for all properties in Mainland China used in infrastructure projects.
30. As of the relevant latest practicable date, Perpetual Power lacked Title Certificates to own two out of three hydropower plants that it operated (**Two Plants**).
31. On 4 July 2016, CJCF submitted on behalf of Perpetual Power an application to be listed on the GEM of the SEHK. On 3 August 2016, the SEHK suspended the vetting of Perpetual Power's listing application on the ground that Perpetual Power's lack of Title Certificates constituted a threshold issue regarding its eligibility for listing. As neither CJCF nor Perpetual Power could satisfactorily resolve the threshold issue, Perpetual Power's listing application lapsed on 4 January 2017.

Failure to properly advise and guide Perpetual Power in complying with all relevant listing qualifications

32. Despite the fact that Perpetual Power was not eligible for listing in view of the outstanding Title Certificates, CJCF advised it to submit its listing application. CJCF attempted to justify its advice by claiming that:
 - (a) on the one hand, Perpetual Power was an "infrastructure company" and an exemption under Rule 11.18(2) of the GEM Listing Rules applied such that the SEHK had general flexibility to accept that Perpetual Power was not required to obtain the Title Certificates; and
 - (b) on the other hand, Perpetual Power was an "other company" under Rule 11.19 of the GEM Listing Rules (i.e. it was not an "infrastructure company" under Rule 11.18 of the GEM Listing Rules) and hence the requirement of obtaining Title Certificates was inapplicable.
33. CJCF's advice and guidance on Perpetual Power's eligibility for listing was unacceptable, because:
 - (a) CJCF's two claims above were self-contradictory. The categories of "infrastructure company" and "other company" were, for the purpose of Chapter 11 of the GEM Listing Rules, mutually exclusive. However, CJCF improperly advised Perpetual Power that it could come within both categories in an attempt to justify its eligibility for listing.
 - (b) CJCF misinterpreted the exemption under Rule 11.18(2) of the GEM Listing Rules. Such exemption which allowed the acceptance of other evidence in lieu of Title Certificates only applied to infrastructure companies that operated under long-term concessionary arrangements awarded by the government. Perpetual Power did not operate the Two Plants under such concessionary arrangements and hence could not avail itself of the exemption.

⁶ Pursuant to Chapter 11 of the GEM Listing Rules, the conditions which have to be met in respect of property related matters as a pre-requisite to a listing differ depending on whether the listing applicant is an "infrastructure company" or an "other company". Guidance Letter HKEX-GL19-10 sets out the SEHK's requirements for Title Certificates for properties in Mainland China used by "infrastructure companies" and "other companies".

- (c) CJCF misapplied Rule 11.19 of the GEM Listing Rules (which was applicable to “other companies” only) in these circumstances, since Perpetual Power was an “infrastructure company” for the purpose of Chapter 11 of the GEM Listing Rules as confirmed by the SEHK.
34. CJCF’s failures in Perpetual Power’s listing application as set out in paragraphs 32 to 33 above were in breach of General Principle 2 and paragraphs 17.3(b)(i) to (ii), 17.4(c)(i) and 17.6(d)(vii) of the Code of Conduct and paragraph 5.1 of the CFA Code.

Van Chuam’s listing application

Background

35. Van Chuam was a property developer primarily engaged in the development and sales of properties in an integrated residential project (**Project**) in Anhui Province, Mainland China.
36. It relied heavily upon borrowings to finance its land acquisition and construction for the Project. During its track record period, about 87.1% to 100% of such borrowings consisted of debt restructuring arrangements (**Debt Restructuring Arrangements**) with an asset management company (**Asset Management Company**).
37. Pursuant to the Debt Restructuring Arrangements, Van Chuam's main operating subsidiary obtained loans from its related parties. These underlying loans were then restructured and transferred to the Asset Management Company, which assumed the rights as lender under the loans. Van Chuam’s subsidiary would repay the loans to the Asset Management Company.
38. On 26 June 2017, CJCF submitted on behalf of Van Chuam an application to be listed on the Main Board of the SEHK. Following the submission of Van Chuam’s listing application, the SEHK queried various core aspects of the Debt Restructuring Arrangements. Neither CJCF nor Van Chuam could satisfactorily resolve the SEHK’s comments. Van Chuam’s listing application lapsed on 27 December 2017.

Failure to conduct proper due diligence on the core aspects of the Debt Restructuring Arrangements

(i) Existence of the underlying loans

39. Van Chuam represented and warranted under the Debt Restructuring Arrangements that the underlying loans truly existed. Pursuant to the Debt Restructuring Arrangements, any untrue or misleading representation or warranty made by Van Chuam would constitute an event of default, upon which the Asset Management Company could demand immediate repayment by Van Chuam’s subsidiary of the outstanding borrowings.
40. The SFC found that CJCF had failed to conduct proper due diligence on the existence of the underlying loans:
- (a) CJCF did not obtain and review all relevant loan agreements and the corresponding bank remittance documents with respect to the underlying loans for the purpose of verifying their existence.

- (b) Whilst it claimed that it had obtained and reviewed loan and banking documents of some of these underlying loans, CJCF was unable to provide a record of such due diligence review and its findings following the review. In any event, CJCF failed to identify or resolve material discrepancies between these documents and agreements under the Debt Restructuring Arrangements, which cast doubt on whether the underlying loans existed at the relevant times.
- (c) CJCF also claimed that it had obtained and reviewed audit reports of the original lenders and borrower for the purpose of verifying the existence of the underlying loans. However, CJCF was unable to provide a record of such due diligence review and its findings following the review. Again, CJCF failed to identify or resolve material discrepancies between these audit reports and agreements under the Debt Restructuring Arrangements, which cast doubt on whether the underlying loans existed at the relevant times.

(ii) Qualification of the underlying loans as "distressed assets"

- 41. CJCF was aware from its due diligence that the Asset Management Company could only provide financing to its clients through restructuring "non-performing debts" or "distressed assets".
- 42. Van Chuam represented and warranted under the Debt Restructuring Arrangements that the underlying loans were "distressed assets". An event of default would arise under the Debt Restructuring Arrangements if such representation and warranty were untrue or misleading.
- 43. The SFC found that CJCF had failed to conduct proper due diligence on the qualification of the underlying loans as "distressed assets":
 - (a) CJCF did not take any action to resolve the contradiction between the underlying loans being labelled as "distressed assets" under the relevant agreements on the one hand, and the disclosure in Van Chuam's Application Proof prospectus on the other hand that Van Chuam and its subsidiaries⁷ did not experience any liquidity shortage during the track record period, nor was there any material default in payment of borrowings and other debt financing obligations.
 - (b) CJCF also did not take any action to resolve the contradiction between Van Chuam's representation and warranty that the underlying loans were distressed assets on the one hand, and the Asset Management Company's statement during a due diligence interview by CJCF on the other hand that Van Chuam's main operating subsidiary (i.e. original borrower of the underlying loans) had a good credit history.
 - (c) CJCF also failed to ascertain, before submitting the listing application, the criteria for the underlying loans to qualify as "distressed assets". There was no benchmark for CJCF to perform appropriate verification for the purpose of assuring itself that the underlying loans were indeed distressed and hence eligible for restructuring by the Asset Management Company.
- 44. It was only after the SEHK raised questions during the vetting process on whether, and if so the basis on which, the underlying loans qualified as "distressed assets" that CJCF

⁷ The borrower of the underlying loans was the main operating subsidiary of Van Chuam (see paragraph 37 above).

sought and obtained a supplemental legal opinion on the definition of “distressed assets”.

Failure to come to a reasonable opinion that the information in the Application Proof prospectus was substantially complete

45. Although Van Chuam’s Application Proof prospectus stated that the Debt Restructuring Arrangements were commercially beneficial to Van Chuam, potential investors had no or little basis to make an informed assessment on this statement, given CJCF failed to ensure disclosure in the Application Proof prospectus of all material information pertaining to the Debt Restructuring Arrangements, including:
 - (a) the salient terms of various agreements under the Debt Restructuring Arrangements;
 - (b) the basis for qualifying the underlying loans from Van Chuam’s related parties as “distressed assets”; and
 - (c) the fund flows and total financing costs of the Debt Restructuring Arrangements.
46. It was not until the SEHK had raised questions during the vetting process regarding the Debt Restructuring Arrangements that the above information was disclosed in the revised Application Proof prospectuses.
47. CJCF’s failures in Van Chuam’s listing application as set out in paragraphs 39 to 46 above were in breach of General Principle 2 and paragraphs 17.1(b), 17.2(b), 17.4(a)(i), 17.4(b), 17.6(a) to (c), 17.6(d)(ix), 17.6(e)(iv) and 17.9(a) of the Code of Conduct, paragraphs 5.1 and 5.7 of the CFA Code and paragraph 2 of PN21.

Rising Sun’s listing application

Background

48. Rising Sun was engaged in property construction business in Mainland China which was capital intensive. It often had to commit significant working capital upfront before receiving payment of the bulk of the contract value of the construction projects from its customers.
49. The Application Proof prospectus of Rising Sun stated that its directors were of the view, and CJCF concurred, that it had sufficient working capital for at least the next 12 months. At the same time, the Application Proof prospectus also disclosed as a risk factor that Rising Sun might not be able to meet significant working capital requirements if it experienced significant delays or defaults in, among others, its trade receivables.
50. CJCF was aware that, during the track record period, the turnover period of Rising Sun’s trade receivables was significantly longer than the credit period granted to its customers (**Prolonged Credit Period**). The Prolonged Credit Period had led to negative operating cash flows, and Rising Sun’s working capital needs had to be met by borrowings and/or cash on hand.
51. On 3 November 2017, CJCF submitted on behalf of Rising Sun an application to be listed on the Main Board of the SEHK. The SEHK returned the listing application on the ground that CJCF failed to reply to outstanding comments by the SEHK in Rising

Sun's previous listing application with respect to concerns on, among others, the sufficiency of Rising Sun's working capital and the Prolonged Credit Period.

52. On 12 January 2018, the Listing Committee upon review overturned the SEHK's decision to return the listing application, but proposed that Rising Sun and CJCF should first respond to these outstanding comments in sufficient detail to satisfy the SEHK's concerns before vetting would resume. CJCF did not respond to these outstanding comments and Rising Sun's listing application lapsed on 10 May 2018.

Failures to conduct proper due diligence on the sufficiency of Rising Sun's working capital

(i) Underlying reasons for the Prolonged Credit Period

53. According to its Application Proof prospectus, the reasons for the Prolonged Credit Period included that Rising Sun's customers which were governmental or large-scale private entities might take more than 12 months to make payment due to their extensive internal payment procedures.
54. The SFC found that CJCF had failed to conduct reasonable due diligence to verify the underlying reasons for the Prolonged Credit Period, by accepting at face value without performing appropriate verification the statements and representations made and documents produced by Rising Sun:
- (a) According to its verification notes, CJCF had not performed any verification procedures to ascertain the truth and accuracy of the reasons for the Prolonged Credit Period.
 - (b) Nevertheless, CJCF claimed that it had taken a number of due diligence steps to verify the underlying reasons for the Prolonged Credit Period despite being unable to provide any record to demonstrate that they had indeed been taken. In any event, these due diligence steps which it claimed to have taken were irrelevant for the present verification purposes, as it is not clear how, for instance, reviewing construction contracts and ageing analyses of Rising Sun's trade receivables would enable CJCF to understand the reasons why customers delayed their payments to Rising Sun.
 - (c) Although there were records that CJCF had interviewed customers regarding their trade receivables owed to Rising Sun, CJCF failed to identify or resolve the inconsistencies between (i) Rising Sun customers' responses during their due diligence interviews that they had never fallen in arrears with payments to Rising Sun, and (ii) the ageing analyses of Rising Sun's trade receivables indicating that the same customers had accrued trade receivables totalling RMB206.3 million past due ranging from 1 to 365 days as of 31 December 2014, 2015, 2016 and 31 May 2017. In particular, CJCF had failed during these due diligence interviews to canvass with these customers their internal payment procedures in order to verify the disclosure in Rising Sun's Application Proof prospectus as set out in paragraph 53 above.

(ii) Subsequent settlement of trade receivables

55. Rising Sun's Application Proof prospectus also stated that 96.7% of Rising Sun's trade receivables as of the end of its track record period (amounting to RMB1.02 billion) were settled by its customers subsequent to the end of the track record period and before the submission of its listing application (**Subsequent Settlement**).

56. CJCF was aware that the Subsequent Settlement would have a bearing on the sufficiency of Rising Sun's working capital to finance its operations going forward.
57. Again, the SFC found that CJCF had accepted at face value without performing appropriate verification statements and representations made and documents produced by Rising Sun with respect to the Subsequent Settlement:
- (a) According to its verification note, CJCF had not performed any verification procedures to ascertain the truth and accuracy of the Subsequent Settlement.
 - (b) Nevertheless, CJCF claimed that that it had performed an analysis which showed that approximately RMB1.10 billion⁸ was purportedly collected by Rising Sun from its customers subsequent to the end of the track record period and before the submission of its listing application. CJCF failed to provide contemporaneous records evidencing that such analysis was indeed conducted by the Transaction Team before submitting the listing application. In any event, it is not apparent how such analysis supported CJCF's conclusion that the Subsequent Settlement was genuine, since it did not supply any working papers in support of the analysis.
58. CJCF's failures in Rising Sun's listing application as set out in paragraphs 53 to 57 above were in breach of General Principle 2 and paragraphs 17.2(b), 17.4(a)(i), 17.6(a) to (c), 17.6(d)(ix) and 17.6(e)(iv) of the Code of Conduct, paragraph 5.1 of the CFA Code and paragraph 2 of PN21.

Byleasing's listing application

Background

59. Byleasing was primarily engaged in the provision of equipment-based financing solutions to small and medium-sized enterprises and entrepreneurial individuals.
60. On 18 December 2017, CJCF submitted on behalf of Byleasing an application to be listed on the GEM of the SEHK. The SEHK returned the listing application on the grounds that the information submitted was not substantially complete as required under the GEM Listing Rules and that the timing of its submission did not comply with the relevant SEHK Guidance Letter.

Failure to properly advise and guide Byleasing in complying with all relevant listing qualifications

61. According to the GEM Listing Rules, Byleasing's Application Proof prospectus should have covered the two financial years ending 31 December 2017. However, CJCF advised Byleasing to adopt an incorrect track record period which failed to cover the period from 1 August to 31 December 2017, thereby rendering the information submitted to the SEHK to be not substantially complete.
62. Byleasing's listing application should have been submitted after 31 December 2017 in accordance with the relevant SEHK Guidance Letter. However, CJCF advised Byleasing to submit its listing application on 17 December 2017.

⁸ Changjiang did not provide any explanation for the discrepancy between the figure stated in such purported analysis and that as stated in its Application Proof prospectus.

63. CJCF admitted it failed to properly advise and guide Byleasing in complying with the relevant listing qualifications because it had overlooked the requirements in the relevant Guidance Letter.
64. CJCF's failures in Byleasing's listing application as set out in paragraphs 61 to 63 above were in breach of General Principle 2 and paragraphs 17.3(b)(i) and 17.4(c)(i) of the Code of Conduct and paragraph 5.1 of the CFA Code.

Failures to maintain proper records of due diligence work in all the Listing Applications

65. The SFC's investigation into CJCF's conduct in the Listing Applications also revealed systemic record keeping failures. For example:
 - (a) There was a lack of audit trail for certain due diligence that CJCF claimed to have performed in the listing applications of Pacific Infinity, Van Chuam and Rising Sun⁹.
 - (b) Contrary to its internal guidance, CJCF failed to document its due diligence planning to address the material risks and issues relating to the insufficiency of Rising Sun's working capital in a stand-alone due diligence note.
 - (c) Whilst certain key due diligence documents relating to the Title Certificates were referenced in Perpetual Power's Application Proof prospectus, CJCF failed to retain records of these documents.
 - (d) CJCF failed to retain all or a substantial number of its verification notes and the corresponding, supporting documents obtained for the verification of statements made in the Application Proof prospectuses of Pacific Infinity, Perpetual Power and Van Chuam.
 - (e) CJCF failed to document work done, analyses and conclusions against all or a substantial number of steps in the due diligence plans in all the Listing Applications.
66. Without proper records of due diligence, CJCF could not demonstrate it had exercised professional scepticism by querying the reliability of information provided by the listing applicants and their experts, and verifying the statements disclosed in their respective Application Proof prospectuses.
67. CJCF's failures as set out in paragraphs 65 to 66 above were in breach of General Principle 2 and paragraphs 17.2(e), 17.10(c)(ii) and (v) of the Code of Conduct, paragraph 2.3 of the CFA Code and paragraph 4 of PN21.
68. In light of CJCF's failure to comply with the regulatory requirements set out in paragraphs 19, 27, 34, 47, 58, 64 and 67 above, CJCF was also in breach of General Principle 7 and paragraph 12.1 of the Code of Conduct and paragraph 1.5 of the CFA Code, which require a licensed corporation to comply with all regulatory requirement applicable to the conduct of its business activities.

⁹ e.g. see paragraphs 12(b), 40(b), 40(c), 54(b) and 57(b) above.

Conclusion

69. Having considered all the circumstances, the SFC is of the view that CJCF has been guilty of misconduct and its fitness and properness to remain licensed has been called into question.
70. In deciding the disciplinary sanctions set out in paragraphs 1 and 2 above, the SFC has had regard to its Disciplinary Fining Guidelines and has taken into account all relevant circumstances, including:
- (a) CJCF's sponsor failings concerned six listing applications submitted within a span of two years and three months;
 - (b) CJCF's deficiencies as a sponsor were extensive and serious;
 - CJCF had failed to properly examine and verify material listing issues relating to the core aspects of the businesses of Pacific Infinity, Van Chuam and Rising Sun before submitting their listing applications;
 - CJCF had also failed to ensure the disclosure of the White Paper in Pacific Infinity's Application Proof prospectus, even though it was a clear red flag pointing towards an increased likelihood of the passing of the Bill which might jeopardize the viability of the company's core business;
 - CJCF advised Perpetual Power to proceed with its listing application notwithstanding that the lack of Title Certificates rendered the company ineligible for listing;
 - (c) the need to send a strong deterrent message to the industry and market that the SFC does not tolerate sponsor failures;
 - (d) CJCF's financial position—but for the firm's financial position, the SFC would have imposed a heavier fine against it;
 - (e) CJCF's cooperation in resolving the SFC's concerns, including its agreement to engage an independent reviewer to review its policies, procedures and practices in relation to the conduct of its sponsor business; and
 - (f) CJCF has an otherwise clean disciplinary record.