

STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has prohibited Mr Ivan Chan Chuk Cheung (**Chan**), a former responsible officer (**RO**) of Changjiang Corporate Finance (HK) Limited (**CJCF**), from re-entering the industry for seven years from 10 October 2023 to 9 October 2030 pursuant to section 194 of the Securities and Futures Ordinance (**SFO**), for failing to discharge his supervisory duties as a sponsor principal in charge of the following five listing applications:
 - (a) Pacific Infinity Resources Holdings Limited (**Pacific Infinity**);
 - (b) Perpetual Power Holdings Limited (**Perpetual Power**);
 - (c) Van Chuam International (Cayman) Limited (**Van Chuam**);
 - (d) Rising Sun Construction Holdings Limited (**Rising Sun**); and
 - (e) Byleasing Holdings Limited (**Byleasing**)¹ (**Five Listing Applications**)².
2. The disciplinary action follows the earlier sanctions against CJCF for serious and extensive failures in discharging its duties as the sponsor in six listing applications, including the Five Listing Applications³.
3. The SFC's earlier sanctions against CJCF were based on its findings that CJCF 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 Proof⁴ prospectuses of Pacific Infinity and Van Chuam; and

¹ References to Pacific Infinity, Perpetual Power, Van Chuam, Rising Sun and Byleasing include their respective subsidiaries where the context so requires.

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

³ The SFC has reprimanded and fined CJCF \$20 million, as well as partially suspended its licence to the extent that the firm shall not act as a sponsor for listing applications on SEHK of any securities. Please refer to the SFC's press release dated 21 August 2023.

⁴ See the definition of "Application Proof" under Rule 1.01 of the Rules Governing the Listing of Securities on the Exchange (**Listing Rules**) and Rule 1.01 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Exchange Rule (**GEM Listing Rules**).

- (d) maintain proper records of the due diligence work it claimed to have done in relation to all Five Listing Applications.
- 4. The SFC considers that CJCF's failures were attributable to Chan's failure to discharge his duties as an RO, sponsor principal and a member of CJCF's senior management.

Summary of Facts

Chan's role at CJCF

- 5. Chan was licensed under the SFO and approved as an RO of CJCF in respect of Type 6 (advising on corporate finance) regulated activity between 29 June 2012 to 5 December 2018. Chan is currently not licensed by the SFC.
- 6. Chan was also approved as a sponsor principal of CJCF from 29 June 2012 to 5 December 2018. He was the sponsor principal in charge of the supervision of the Transaction Teams⁵ responsible for the Five Listing Applications. He was also CJCF's Managing Director and Head of Investment Banking during the Relevant Period.
- 7. As sponsor principal, Chan reviewed submission materials and checked whether there remained any critical, unresolved issues, before making the decision to submit the Five Listing Applications to the SEHK. It was Chan who made the decisions for CJCF to submit the Five Listing Applications on behalf of the listing applicants.

Pacific Infinity's listing application

- 8. 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.
- 9. 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. The Philippine government also released a white paper (**White Paper**) which fast tracked the legislative process of enacting the Bill. The Bill and the White Paper were red flags, indicating the viability of Pacific Infinity's business might be adversely affected in material respects.
- 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.

⁵ As defined in paragraph 17.15 of the Code of Conduct for Persons Licensed by or Registered with the SFC (**Code of Conduct**).

11. The SFC found that CJCF effectively performed no due diligence on the Bill or the White Paper before submitting Pacific Infinity's listing application. 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.
12. 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.
13. The SFC also found that CJCF had failed to ensure disclosure of all material information (including the likelihood of the Bill being enacted, Pacific Infinity's contingency arrangements in response to the Bill and their impact on its business, and the existence of the White Paper) in Pacific Infinity's Application Proof prospectus.
14. The SFC is concerned that Chan, as the sponsor principal of Pacific Infinity's listing application, an RO and a member of the senior management of CJCF, has failed to:
 - (a) critically assess the results of the due diligence performed by the Transaction Team, and properly determine the breadth and depth of the due diligence to be conducted, on the Bill and the White Paper;
 - (b) provide sufficient instructions and supervision to the Transaction Team on the due diligence in relation to the Bill and the White Paper; and
 - (c) ensure that the Transaction Team under his supervision had maintained appropriate standards of conduct by:
 - (i) properly advising on the suitability of Pacific Infinity and its business for listing;
 - (ii) conducting sufficient due diligence on the Bill and White Paper before submitting Pacific Infinity's listing application; and
 - (iii) coming to a reasonable opinion that the information in Pacific Infinity's Application Proof prospectus was substantially complete.

Perpetual Power's listing application

15. 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.

16. In order for listing approval to be granted, the GEM Listing Rules and relevant Guidance Letter of the SEHK⁶ 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.
17. As of the relevant latest practicable date, Perpetual Power lacked Title Certificates to own two out of three hydropower plants that it operated (**Outstanding Title Certificates**).
18. 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.
19. The SFC found that 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, on the one hand, that Perpetual Power was an infrastructure company and an exemption under the GEM Listing Rules applied such that it was not required to obtain the Title Certificates, and on the other hand, that Perpetual Power was not an infrastructure company and hence the requirement was inapplicable. These purported justifications by CJCF, which were based upon a misinterpretation of the relevant GEM Listing Rules, were self-contradictory and unacceptable.
20. The SFC is concerned that Chan, as the sponsor principal of Perpetual Power's listing application, an RO and a member of the senior management of CJCF, has failed to:
 - (a) critically assess the results of the due diligence performed by the Transaction Team, and properly turn his mind to what steps should be taken to resolve all compliance issues with the GEM Listing Rules, in relation to the Outstanding Title Certificates; and
 - (b) ensure that the Transaction Team under his supervision had maintained appropriate standards of conduct by properly advising and guiding Perpetual Power in complying with all relevant listing qualifications before submitting Perpetual Power's listing application.

Van Chuam's listing application

21. Van Chuam was a property developer primarily engaged in the development and sale of properties in an integrated residential project (**Project**) in Anhui Province, Mainland China.

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".

22. 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**).
23. 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.
24. The SFC found that CJCF had failed to conduct proper due diligence on two core aspects of the Debt Restructuring Arrangements, namely, the existence of the underlying loans and the qualification of the underlying loans as distressed assets. This was the case even though CJCF was aware from its due diligence that the Asset Management Company could only provide financing to its clients through re-structuring "non-performing debts" or "distressed assets".
25. Furthermore, 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. This was because CJCF had 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.
26. 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.
27. The SFC is concerned that Chan, as the sponsor principal of Van Chuam's listing application, an RO and a member of the senior management of CJCF, has failed to:
 - (a) critically assess the results of the due diligence performed by the Transaction Team on the existence of the underlying loans and their qualification distressed assets;

- (b) provide sufficient instructions and supervision to the Transaction Team on the necessary follow-up due diligence enquiries in relation to the existence of the underlying loans and their qualification as distressed assets, including those arising from:
 - (i) a legal opinion obtained by Van Chuam prior to the submission of its listing application which purportedly supported the qualification of the underlying loans as distressed assets but was in fact silent on the definition of distressed assets; and
 - (ii) a due diligence interview with the Asset Management Company during which responses which contradicted the premise that the underlying loans were distressed assets were provided; and
- (c) ensure that the Transaction Team under his supervision had satisfied himself that all information in the Application Proof prospectus was substantially complete before submitting Van Chuam's listing application.

Rising Sun's listing application

- 28. 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.
- 29. 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.
- 30. 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. In a previous listing application, the SEHK had express concerns on among others, the sufficiency of Rising Sun's working capital and the Prolonged Credit Period.
- 31. 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.
- 32. 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.

33. 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.
34. Rising Sun's Application Proof prospectus also stated that 96.7% of its trade receivables as of the end of its track record period (amounting to RMB 1.02 billion) were settled by its customers in the three months following the end of the track record period and before the submission of its listing application (**Subsequent Settlement**).
35. Again, the SFC found that CJCF had accepted at face value without performing appropriate verification the statements and representations made and documents produced by Rising Sun with respect to the Subsequent Settlement.
36. The SFC is concerned that Chan, as the sponsor principal of Rising Sun's listing application, an RO and a member of the senior management of CJCF, has failed to:
 - (a) critically assess the results and relevance of the due diligence performed by the Transaction Team on the Reasons for the Prolonged Credit Period and the Subsequent Settlement;
 - (b) provide sufficient instructions and supervision to the Transaction Team on the due diligence in relation to the same; and
 - (c) ensure that the Transaction Team had conducted sufficient due diligence on the same before submitting Rising Sun's listing application.

Byleasing's listing application

37. Byleasing was primarily engaged in the provision of equipment-based financing solutions to small and medium-sized enterprises and entrepreneurial individuals.
38. 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.
39. 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.
40. 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.

41. The SFC found that CJCF had failed to properly advise Byleasing on the selection of track record period and the timing of submission of listing application in accordance with the GEM Listing Rules and related SEHK guidance, resulting in the return of the listing application by the SEHK.
42. The SFC was concerned that Chan, as the sponsor principal of Byleasing's listing application, an RO and a member of the senior management of CJCF, has failed to ensure that the Transaction Team under his supervision had maintained appropriate standards of conduct by properly advising and guiding Byleasing in complying with all relevant listing qualifications.

Failures to maintain proper records of due diligence work

43. The SFC's investigation into CJCF's conduct in the Five 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 Sun.
 - (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.
44. 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.
45. The SFC is concerned that Chan, as the sponsor principal of the Five Listing Applications, an RO and a member of the senior management of CJCF, has failed to ensure that the Transaction Teams under his supervision had maintained appropriate standards of conduct and adhered to proper procedures by maintaining proper records of the due diligence they claimed to have performed.

Conclusion

46. Having considered all relevant circumstances, the SFC concluded that CJCF's failures in the Five Listing Applications were attributable to Chan's neglect in discharging his duties as a sponsor principal, an RO and a member of CJCF's senior management, in that he had failed to:
- (a) exercise due skill, care and diligence in handling the Five Listing Applications, in breach of General Principle 2 of the Code of Conduct;
 - (b) diligently supervise the Transaction Teams to carry out the sponsor work, in breach of paragraph 4.2 of the Code of Conduct and paragraph 1.3.3 of the Additional Fit and Proper Guidelines for Corporations and Authorised Financial Institutions applying or continuing to act as Sponsors and Compliance Advisers; and
 - (c) ensure the maintenance of appropriate standards of conduct by CJCF, in breach of General Principle 9 of the Code of Conduct.
47. The SFC is of the opinion that Chan is guilty of misconduct and his fitness and properness to be licensed have been called into question.
48. In deciding the disciplinary sanction set out in paragraph 1 above, the SFC has taken into account all relevant circumstances, including:
- (a) the gravity of Chan's failures as a sponsor principal;
 - (b) the need to send a strong deterrent message to the industry and market that the SFC does not tolerate failures of sponsor and sponsor principal;
 - (c) Chan's cooperation in resolving the SFC's concerns; and
 - (d) his otherwise clean disciplinary record with the SFC.