

STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has prohibited Mr Tong Ho Yin (**Tong**)¹, a former responsible officer (**RO**) of HF Asset Management Limited (**HFAM**)², from returning to the industry for nine years from 16 July 2025 to 15 July 2034, and fined him HK\$350,000, pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).
2. The SFC found that HFAM recommended and procured **a fund under its management (Fund)** to enter into three loans between 24 May 2017 and 10 December 2018, while it:
 - (a) failed to act in the best interests of the Fund, including by not conducting sufficient due diligence and follow-up upon default; and
 - (b) either knowingly placed itself in or failed to properly manage and mitigate actual or potential conflicts of interest, without taking reasonable steps to ensure fair treatment of the Fund's investors.
3. All of the loans ultimately defaulted, resulting in significant losses to the Fund, amounting to a total of HK\$25.6 million, or 86% of its net asset value.
4. The SFC considers all of HFAM's recurrent failures in relation to the three loans were attributable to Tong's failure to discharge his duties as an RO and a member of the senior management of HFAM.

Summary of Facts

Loan agreement with A Limited

5. On 24 May 2017, based on HFAM's recommendation, the Fund approved a **HK\$15 million loan to A Limited with a 2-year tenure at an annual interest rate of 24%. As collateral for the loan, A Limited committed to arranging for the owner of a dredging vessel registered at Jakarta (Vessel) to pledge the Vessel in favour of the Fund.**
6. HFAM understood that A Limited intended to utilise the loan proceeds to invest in an Indonesian company holding a mining licence for an Indonesian coal mine (**Mine**). This company was intended to be listed on The Hong Kong Stock Exchange Limited through a Cayman-incorporated holding company (**Prospective ListCo**).

¹ Tong was accredited to HFAM and approved to act as its RO for Type 9 regulated activity between 27 August 2014 and 31 January 2019. Tong is currently not licensed by the SFC.

² HFAM ceased business effective from 4 August 2022. Its licence with the SFC was revoked on 7 July 2023.

7. The loan ultimately defaulted on 16 June 2018, when A Limited failed to make the first interest payment. Subsequently, A Limited failed to repay nearly the entire loan principal and accrued interest.
8. The SFC identified several deficiencies in HFAM's management of the loan, both prior to its execution and after its default:
 - (a) before executing the loan agreement, HFAM did not obtain a finalised valuation report for the Vessel or seek legal advice regarding the enforceability of the pledge;
 - (b) during due diligence, HFAM neglected to verify the ownership of the Mine or the specifics of how the loan proceeds would be used; and
 - (c) HFAM appointed a Mr X to conduct due diligence on the ground in Indonesia regarding the Mine and the Vessel, and to represent HFAM in discussions with A Limited following the loan default. However, Mr X's independence, objectivity and reliability were questionable, as he was:
 - (i) the spouse of a 50% owner of A Limited;
 - (ii) identified in the due diligence documents as the proposed executive director and chief executive officer of the Prospective ListCo; and
 - (iii) a joint authorised signatory of A Limited's bank account alongside his spouse.
9. Although the loan was formally approved by members of the Fund's board of directors (Directors), who were ostensibly independent of HFAM, the SFC found that the Directors merely rubber-stamped HFAM's investment advice. In reality, the investment decision was made by HFAM with Tong's consent and authority.

Loan agreement with B Limited

10. On 25 April 2018, acting on HFAM's advice, the Fund extended an unsecured HK\$4.5 million loan to B Limited for a 1-year term at an annual interest rate of 10%. HFAM indicated that the loan was intended to help B Limited repay short-term debts.
11. Fund tracing revealed that the loan proceeds were routed through bank accounts of various entities, with the majority ultimately diverted to HFAM and its affiliated companies to cover their operational expenses and other obligations. The loan eventually defaulted, and the Fund was not repaid.
12. The SFC uncovered significant conflicts of interest in HFAM's and Tong's roles in these arrangements;
 - (a) B Limited was wholly-owned by Ms Y and two of her relatives, while Ms Y also owned all of the Fund's management shares. This gave her exclusive authority to appoint and remove the Directors, who were

procedurally responsible for approving the Fund's decision to grant the loan.

- (b) Tong was the sole authorised signatory for B Limited's only bank account and personally oversaw the arrangements to dissipate the loan proceeds.
- (c) The short-term debt repaid by B Limited using the loan proceeds was owed to a related company of HFAM, in which Tong held a significant interest.
- (d) In effect, Tong orchestrated a scheme that shifted B Limited's default risk on the loan from the related company of HFAM to the Fund, a risk that ultimately materialised.

Stock lending agreement with C Limited

- 13. On 10 December 2018, the Fund entered into an agreement to lend its entire portfolio of listed shares to C Limited, a company wholly owned by Mr Z, a unitholder in the Fund for three months with an annual interest rate of 8%. Simultaneously, Mr Z executed a collateral pledge agreement in favour of the Fund, pledging all his interests in the Fund as collateral for the stock lending agreement.
- 14. Following the drawdown of the shares, C Limited either sold the loaned shares or transferred them to other parties. The sale proceeds of the loaned shares were distributed among multiple recipients, including Mr Z, affiliated entities of HFAM and a number of seemingly unrelated individuals in Mainland China. In the end, C Limited defaulted on its repayment obligations, even after two extensions to the loan's maturity date, which was eventually set to 10 December 2019.
- 15. The SFC identified multiple issues with this stock lending agreement, which Tong failed to address while HFAM advised and facilitated the Fund to enter into:
 - (a) Tong was entirely unaware of C Limited's rationale of taking out the loan and did not conduct any due diligence on its repayment capacity.
 - (b) C Limited was previously a sister company of HFAM. Although HFAM's parent company sold it to Mr Z on 23 October 2018, a fellow shareholder and director of HFAM remained the sole authorised signatory for C Limited's bank account.
 - (c) The arrangement effectively gave Mr Z an option to redeem his participating shares in the Fund before the expiry of the applicable lock-up period, giving him an advantage over the other Fund investors.
 - (d) HFAM's calculations significantly overestimated the value of Mr Z's pledged interests. The pledge failed to provide the level of security to the Fund as Tong asserted.

The SFC's findings

16. Based on the facts summarised above, the SFC found that HFAM's conduct casts doubt on its ability to carry on regulated activities competently and fairly, and constitutes breaches of:
- (a) General Principle (**GP**) 2 (Diligence) and paragraph 3.4 (Advice to clients: due skill, care and diligence) of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**Code of Conduct**), under which HFAM should act with due skill, care and diligence and in the best interests of its clients, including by ensuring that its advice and recommendations to clients were based on thorough analysis and took into account available alternatives;
 - (b) GP 6 (Conflicts of interest) and paragraph 10.1 (Disclosure and fair treatment) of the Code of Conduct, by its failures to avoid conflicts of interest with the Fund and Fund investors, disclose such conflicts to the Fund investors and ensure the Fund investors were fairly treated;
 - (c) paragraph 1.2(d) (Organisation and resources) of the Fund Manager Code of Conduct (**FMCC**), which requires HFAM to maintain satisfactory risk management procedures; and
 - (d) paragraphs 1.5 and 1.7.1 of the FMCC, by failing to maintain arrangements and procedures to identify and properly manage actual or potential conflicts of interest and other risks that it and the Fund were exposed to.
17. In the SFC's opinion:
- (a) HFAM's above misconduct occurred with Tong's consent or connivance, or was attributable to his neglect, while he acted as an RO and a director of HFAM;
 - (b) Tong failed to act fairly and competently, given his direct responsibility for recommending the three loans to the Fund and procuring the Directors to approve the same; and
 - (c) Tong neglected to ensure the maintenance of appropriate standards of conduct by HFAM and its compliance with all relevant legal and regulatory requirements, in breach of GP 9 of the Code of Conduct and paragraph 1.6(a) of the FMCC.

Conclusion

18. Having considered all the circumstances, the SFC is of the view that Tong has been guilty of misconduct and is not fit and proper to be licensed.
19. In reaching the decision to take the disciplinary action set out in paragraph 1 above, the SFC has taken into account all relevant circumstances, including the following:

- (a) Tong was responsible for the Fund's granting of three loans over a span of 19 months, whose cumulative impact led to a total loss of around 86% of the Fund's net asset value;
- (b) both HFAM and Tong were accountable for a wide range of failures in connection with the loans' handling, and such misconduct was evidently recurring;
- (c) a strong deterrent message needs to be sent to the industry that substandard conduct in fund management practices will not be tolerated;
- (d) Tong has no previous disciplinary record with the SFC; and
- (e) Tong's financial situation.