

Court continues interim injunction to freeze assets of Qunxing

20 Dec 2013

The Court of First Instance today continued an interim order to freeze assets of up to \$1,968,000,000 of Qunxing Paper Holdings Company Limited (Qunxing) and its subsidiary, Best Known Group Limited (Best Known) (Note 1).

The Securities and Futures Commission (SFC) made an application to the court on 12 December 2013 without notice to Qunxing or Best Known alleging that Qunxing's prospectus for its initial public offer (IPO) in 2007 and the announcements of its annual results for 2007 to 2011 contained materially false or misleading information (Note 2).

The SFC also alleges that Qunxing exaggerated its turnover in its annual results for 2006 to 2011 and this information was published in Qunxing's IPO prospectus and its results announcements from 2007 to 2011. In a hearing before the Court of First Instance today, Qunxing denied the allegations (Note 3).

The interim order freezes the total amount of funds raised by Qunxing from the investing public. The SFC is seeking orders to restore public shareholders and warrant holders who bought Qunxing shares and warrants and still hold them to the positions they were in before the transactions (Note 4).

The SFC obtained the interim injunction to stop the dissipation of assets pending the end of its investigation and to ensure there are enough assets to satisfy any restoration or compensation orders, if such orders should be made against Qunxing.

Since 12 December 2013, the SFC has only identified assets worth approximately \$149 million held in bank accounts and securities accounts of Qunxing and Best Known in Hong Kong. Assets in these accounts are subject to the interim injunction. The Court of First Instance today ordered that the interim injunction be continued until trial or further order and varied it to permit the company to withdraw \$500,000 to meet legal costs.

On 20 December 2013, the SFC also issued a direction to the Stock Exchange of Hong Kong Limited to suspend trading in Qunxing shares in order to maintain a fair and orderly market and to protect investors (Note 5).

The SFC's investigation is continuing.

End

Notes:

1. Qunxing was listed on the Stock Exchange of Hong Kong Limited on 2 October 2007.
2. The proceedings were commenced under section 213 of the Securities and Futures Ordinance (SFO). The SFC applied for the interim injunction on 12 December 2013 and the court granted the order on the same day.
3. The SFC alleges that Qunxing has contravened sections 277, 298 and 384 of the SFO and/or section 342F of the Companies Ordinance (CO). Sections 277 and 298 of the SFO prohibit the distribution of materially false or misleading information that is likely to induce another person to subscribe for or buy securities. Both are market misconduct provisions. Section 384 of the SFO prohibits false or misleading information being given to the Stock Exchange of Hong Kong Limited and the SFC in compliance with a legal requirement. Section 342F of the CO prohibits untrue statements in prospectuses.
4. Qunxing raised substantial funds in Hong Kong through the IPO in October 2007 and an open offer of new shares and an issue of unlisted warrants in January 2011. In its most recently filed financial statements for the six months ended 30 June 2013, Qunxing reported net assets of over RMB3.2 billion. Qunxing's business undertaking is based in the Mainland.
5. Trading in shares of Qunxing has been suspended at its request since 30 March 2011. Under sub-rule 8(1) of the Securities and Futures (Stock Market Listing) Rules, the SFC has the power to direct the Stock Exchange of Hong Kong Limited to suspend dealings in shares of a listed company and any eventual application for resumption of trading must be approved by the SFC.

