
Enforcement News

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SFC Resolves Compliance Issues with Core Pacific-Yamaichi Capital Limited, Core Pacific-Yamaichi International (H.K.) Limited and Core Pacific-Yamaichi Securities (H.K.) Limited

The SFC has resolved a number of compliance issues with Core Pacific-Yamaichi Capital Limited (CPYC), Core Pacific-Yamaichi International (H.K.) Limited (CPYI) and Core Pacific-Yamaichi Securities (H.K.) Limited (CPYS) (Note 1).

Under the resolution:

- the SFC fines CPYI, CPYC and CPYS \$3.3 million, \$2.8 million and \$350,000 respectively;
- the SFC reprimands CPYI and CPYS;
- CPYC will engage an independent audit firm to conduct a review of two sponsorship transactions completed by it within three years of the agreement;
- the timing of the review and the transactions will be selected by the SFC;
- if CPYC is found to have committed failures or breaches materially similar within the three-year period then CPYC's business in sponsorship activities will be suspended for a minimum of 18 months; and
- CPYC accepts the disciplinary action without admitting liability.

Mr Mark Steward, the SFC's Executive Director of Enforcement, said: "Under this arrangement, material breaches of the same kind will trigger an accelerated enforcement response. By accepting this arrangement, the Core-Pacific Yamaichi Group demonstrates its strong commitment to good compliance practice and the prevention of misconduct. This is a good outcome for the Group, its clients and the investing public."

The allegations against CPYC and the findings about CPYI and CPYS are

summarised below.

CPYC

The SFC's allegations concern CPYC's role as sponsor and continuing sponsor of Tungda Innovative Lighting Holdings Limited (Tungda) (Note 2). In particular, the SFC alleged that CPYC failed to:

- conduct adequate due diligence on Tungda's top customers and sales;
- ensure that its responses to HKEx's enquiries about over-statement of Tungda's sales in its listing prospectus were complete and not misleading;
- report irregularities it had detected about Tungda's sales to HKEx; and
- diligently supervise persons employed by it to carry out the Tungda sponsorship.

The amount of the fine represents the fee earned by CPYC in acting as sponsor and continuing sponsor of Tungda.

CPYI

The SFC's concerns about CPYI's conduct stemmed from CPYI's role as lead underwriter in the listing of Shaanxi Northwest New Technology Industry Limited (SNNT) (Note 3).

The SFC found that CPYI caused the level of demand for the new shares to be misrepresented by:

- offering high margin facilities to employees of SNNT who had insufficient financial means to support their subscriptions;
- allowing CPYI employees to subscribe for the shares without properly disclosing or obtaining the consent of HKEx as required; and
- causing SNNT to announce to the market an inaccurate over-subscription rate and public float of its shares.

CPYS

The SFC found that CPYS's internal control deficiencies directly contributed to its failing to:

- detect and remedy misconduct by staff members who issued false statements

- of account to clients to cover up unauthorised trading; and
- ensure it had adequate systems to verify the accuracy of its FRR returns.

In reaching the agreement with the Core-Pacific Yamaichi Group, the SFC has taken into account the following factors:

- CPYS, CPYI, CPYC had no previous disciplinary record;
- they co-operated with the SFC's investigations and consented to the disciplinary actions;
- the age of the conduct; and
- the Core-Pacific Yamaichi Group's strong commitment to avoid future regulatory breaches.

Ends

Notes:

1. CPYC is licensed under the Securities and Futures Ordinance to carry on business in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities.

CPYI is licensed under the SFO to carry on business in Type 1 (dealing in securities), Type 4 (advising on securities), and Type 6 (advising on corporate finance) regulated activities.

CPYS is licensed under the SFO to carry on business in Type 1 (dealing in securities) regulated activity.

2. Tungda was listed on the Growth Enterprises Market on the Stock Exchange of Hong Kong on 26 July 2002 with CPYC as its sole sponsor. CPYC ceased to act as Tungda's continuing sponsor on 10 October 2003. Trading of Tungda's shares was suspended on 29 July 2004 at the request of the company. Trading of Tungda's shares remains suspended until further notice.

3. SNNT was listed on the Growth Enterprises Market on the Stock Exchange of Hong Kong on 3 July 2003 with CPYI as its lead underwriter.

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