

## Enforcement Actions

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22 September 2004

SFC Prosecutes a Listed Company and its Director for Providing False or Misleading Information  
The SFC has successfully prosecuted Huafeng Textile International Group Ltd and its director Mr Cai Yang Bo for providing false or misleading information, in the first prosecution under Dual Filing (Note 1).

Huafeng is a company listed on Hong Kong Exchanges and Clearing Limited (HKEx). The SFC's investigation found that, in response to an enquiry from HKEx on 23 July 2003 about untoward movements in the price and trading volume of Huafeng shares during the morning of that day, Huafeng issued an untrue announcement later in the day stating that the board of directors of the company was not aware of any reasons for the untoward movements. However, the fact is that on 23 July 2003, Cai sold 25.6 million Huafeng shares owned by him and other Huafeng directors. The sale of shares had caused untoward movements in the price and trading volume of Huafeng shares on that day. Cai had received confirmation of the sale on 23 July 2003 but did not disclose the sale to Huafeng until 25 July 2003. Owing to Cai's delay in disclosing the sale, Huafeng had to issue a clarification announcement dated 25 July 2003. This announcement was itself misleading and for that reason Huafeng had to issue a second clarification announcement dated 31 July 2003.

Huafeng and Cai each pleaded guilty to one summons today before Mr Ian Candy, a Magistrate at Eastern Magistracy, for contravening section 384 of the Securities and Futures Ordinance. Huafeng and Cai were fined \$50,000 each and ordered to pay total investigation costs of \$28,000 to the SFC.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Making false or misleading disclosure to the market is a serious matter. The SFC will not tolerate listed companies and their directors misleading the public."

"We have been working on a number of disclosure cases since the statutory Dual Filing rules came into effect last year. Listed companies should realise that these disclosure requirements have teeth and that a failure to fulfil them may result in criminal prosecution," Mr Linning added.

Mr Ashley Alder, SFC's Executive Director of Corporate Finance, said: "Dual Filing was introduced last year in order to enhance the quality of listed company disclosure by making clear that failure on the part of companies and their directors to keep the investing public properly informed can lead to serious legal sanctions."

"Today's case is the first prosecution under the new law and demonstrates that both the Commission and the Courts are serious about corporate transparency and honesty. Looking forward we plan to enhance the Dual Filing regime through statutory backing to important listing rules, as announced by the Government in March. Our goal is to ease the regulatory burden on those who adhere to high standards of disclosure, and to ensure that there is a serious sanctioning regime for those who do not."

Ends

**Notes to Editor:**

1. Dual Filing was introduced on 1 April 2003 on the implementation of the Securities and Futures Ordinance. Dual Filing establishes the SFC as the statutory regulator of listed company disclosure. All company disclosure and listing application materials are filed with both the stock exchange and, via the exchange, the SFC. The SFC can exercise its enforcement powers against persons issuing false or misleading corporate information.

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