

# June 19 Legal and Regulatory Update

## Top stories

The Market Misconduct Tribunal found that Health and Happiness (H&H) International Holdings Ltd and its chairman & executive director had failed to make timely disclosure of inside information, and fined them \$1.6 million each. (Click: [press release](#))

Both defendants admitted to a **four-week delay** in the company's disclosure of its **financial deterioration**, for the five months ended 31 May 2015, compared with the same period in the previous year.

Key issue is **material deterioration of financial performance** should have been apparent from **internal management accounts**. (For details on such deterioration and chronology: click our [Nov 18 legal update](#), reported when SFC commenced proceedings).

## Also in this issue

### Regulators

(i) SFC commenced proceedings in the Court of First Instance to seek a **disqualification against the former CFO, company secretary and executive director of Fujian Nuoqi Co., Ltd.** (*s.214, Securities and Futures Ordinance*) (Click: [press release](#))

SFC investigated into **withdrawals representing a substantial part of the Company's IPO proceeds (approximately RMB 236m)**, after its listing in January 2014. These were made without proper approval from its board, nor served any genuine commercial purpose.

SFC alleges that despite the defendant's knowledge of red flags regarding the withdrawals, he **failed to discharge his duties as CFO and later as an executive director** of the Company.

**A notable case, with special reference to duties of CFOs, also executive directors**

### *What you should watch out for:*

- Alleged breaches of duties as CFO (later executive director); failure to:
  - Properly inquire into the basis for those withdrawals
  - Alert and advise the board of directors
  - Ensure accurate disclosure in the company's 2013 annual report about the use of proceeds

(ii) HKEX updated its [Guide on Trading Arrangements for Selected Types of Corporate Actions](#).

It outlines key issues and best practices in relation to **schedule setting**, provision of **information** and **trading arrangements** for corporate actions (including **rights issue**, **share consolidation/sub-division**, **change in board lot size**, **change of company name** or **addition of Chinese name**, etc.). [Related checklists and forms](#) were also updated.

The Guide is a **useful document**, with **sample timetables**, and **checklists for technical and operational matters**.

## Legislation

**The Non-Hong Kong Companies (Disclosure of Company Name, Place of Incorporation and Members' Limited Liability) Regulation** will become **effective on 1 August 2019**. It seeks to **align obligations of non-Hong Kong companies** with those of **Hong Kong incorporated companies** in the display of company name and place of incorporation, disclosure of limited liability and related matters, and criminal consequences of breaches.

(For a useful summary of the requirements, click: [Annex to Companies Registry External Circular No. 2 / 2019](#))

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