



U.S. Securities and Exchange Commission

China-Based Company and Former CFO to Pay Penalties for Disclosure and Accounting Violations

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Washington, D.C., Feb. 28, 2013 — The Securities and Exchange Commission today charged a China-based petrochemical company and its former chief financial officer with accounting and disclosure violations, and they agreed to pay more than \$1 million combined to settle the charges.

Additional Materials

► [SEC Complaint](#)

The SEC alleges that Keyuan Petrochemicals, which was formed through a reverse merger in April 2010, systematically failed to disclose to investors numerous related party transactions involving its CEO, controlling shareholders, and entities controlled by management or their family members. Keyuan also operated a secret off-balance sheet cash account to pay for cash bonuses to senior officers, travel and entertainment expenses and an apartment rental for the CEO, and cash and non-cash gifts to Chinese government officials.

The SEC further alleges that Keyuan's then-CFO Aichun Li, who lives in North Carolina, played a role in the company's failure to disclose the related party transactions. Li was hired to ensure the company's compliance with U.S. accounting and financial reporting regulations, and she received information and encountered red flags that should have indicated that the company was not properly identifying or disclosing related party transactions. Despite such knowledge, Li signed Keyuan's registration statements and quarterly reports that failed to disclose material related party transactions.

"By omitting related party transactions from its financial statements, Keyuan deprived investors of a true representation of the company's business dealings," said Stephen L. Cohen, an Associate Director in the SEC's Division of Enforcement. "As CFO, Li failed to right these wrongs."

According to the SEC's complaint filed in federal court in Washington D.C., the related party transactions that Keyuan failed to disclose between May 2010 and January 2011 in accordance with U.S. Generally Accepted Accounting Principles (GAAP) included sales of products, purchases of raw materials, loan guarantees, and short-term financing. As a consequence of using an off-balance sheet cash account, the company's reported balances in its financial statements for cash, receivables, construction-in-progress,

interest income, other income, and general and administrative expenses were misstated. In October 2011, Keyuan filed restatements of the financial statements contained in its Form 10-Qs for the second and third quarters of 2010 that disclosed the related party transactions and off-balance sheet accounting for the first time.

The SEC's complaint charges Keyuan with violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933, Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934, and Rules 12b-20 and 13a-13 under the Exchange Act. The SEC's complaint charges Li with violations of Section 13(b)(5) of the Exchange Act and aiding and abetting Keyuan's violations of Sections 13(a) and 13(b)(2)(A) of the Exchange Act and Rules 12b-20 and 13a-13.

Keyuan agreed to pay a \$1 million penalty and Li agreed to pay a \$25,000 penalty to settle the SEC's charges. They consented to the entry of a judgment permanently enjoining them from violations of the respective provisions of the Securities Act and Exchange Act. Li also agreed to be suspended from appearing or practicing as an accountant before the Commission with the right to apply for reinstatement after two years. The proposed settlement, in which Keyuan and Li neither admit nor deny the charges, is subject to court approval.

The SEC's investigation, which is continuing, has been conducted by Fuad Rana, Avron Elbaum, and Melissa A. Robertson with assistance from the SEC's Cross Border Working Group, which has representatives from each of the SEC's major divisions and offices and focuses on U.S. companies with substantial foreign operations. Through the work of the Cross Border Working Group, the SEC has filed fraud cases involving more than 40 foreign issuers and executives, and deregistered the securities of more than 50 companies. The SEC's Enforcement Division also has taken a series of actions against China-based audit firms that have refused to produce documents for SEC investigations into clients whose securities trade in U.S. markets.

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