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First conviction of insider dealing under the SFO

A finance manager of a listed company today became the first person to be convicted of insider dealing under the Securities and Futures Ordinance (SFO) since its inception in 2003.

Ms Vicky Hung Lai Mei pleaded guilty to four counts of insider trading in the Eastern Magistracy. Principal Magistrate, Mr Garry Tallentire, sentenced her to six months' imprisonment suspended for two years, fined her a total of $200,000 (being $50,000 for each of the four counts) and ordered that she pays $20,523 in costs to the SFC.

The charges involved the trading of the shares of Sino Golf Holdings Limited (Sino Golf) by Hung during her employment with a wholly owned subsidiary of the company. The SFC alleged Hung avoided a loss on her investment in Sino Golf's shares using information not known to the market at the time (Note 1).

Investigations by the SFC found that:

- In October 2004, Hung was informed that a major debtor of Sino Golf, Huffy Corporation (Huffy) (Note 2), which owed Sino Golf about $11.9 million, had filed for Chapter 11 bankruptcy protection in the United States (Note 3);
- Hung knew Huffy's inability to pay its debt to Sino Golf would affect Sino Golf's financial position and share price;
- Hung had an investment in Sino Golf of 180,000 shares. She sold all of these shares in December 2004 before the market was made aware of the impact of Huffy's bankruptcy on Sino Golf's financial position;
- On 19 April 2005, Sino Golf announced to the market a decline in net profit of 35.2%, attributing it partly to the bad debt provision of $9.5 million as a result of Huffy's bankruptcy.

The SFC alleged that by selling her shares before this news was publicly known, Hung avoided a loss of $63,333 (Note 4).

Mr Mark Steward, the SFC's Executive Director of Enforcement, said: "Insider dealing is a dishonest act that corrodes market confidence if left unchecked."

"This is the third criminal insider dealing prosecution we have brought and the first criminal conviction since the SFO became effective. Four more cases arising from SFC investigations are presently before the Market Misconduct Tribunal and in three other cases before the High Court, the SFC has obtained interim orders freezing approximately $100 million in suspected insider dealing profits."

"Protecting investors from dishonest insiders is a cornerstone obligation for market regulators and the SFC will continue to attack insider dealing wherever it is detected," Mr Steward added.

End

Notes:

1. Sino Golf was listed on the Stock Exchange of Hong Kong in 2000 and is engaged in the manufacture and sales of golf clubs, golf bags and other golf accessories. Hung was hired by a wholly owned subsidiary of Sino Golf in 1990 and was its finance manager at the time of the offence. Her responsibilities included monitoring outstanding payments from customers of Sino Golf.
2. Huffy Corporation, a US-based corporation, was engaged in the manufacturing and trading of golf equipment, bags and accessories. Huffy was one of the top five customers of Sino Golf Manufacturing Company Limited, a wholly owned subsidiary of Sino Golf. On 20 October 2004, Huffy filed for bankruptcy protection in the US and notified Sino Golf on 21 October 2004. Although Huffy's bankruptcy was publicly known in the US, there was no publicly known connection between Huffy and Sino Golf that would have enabled the market to know or appreciate that Huffy's bankruptcy would have any effect on Sino Golf.
3. A Chapter 11 bankruptcy protection in the US is an attempt by a company to stay in business while a bankruptcy court supervises the reorganisation of the company's contractual and debt obligations. The court can grant complete or partial relief from most of the company's debts and contracts and obligations so that the company can make a fresh start of business. Upon the filing of a Chapter 11 bankruptcy protection, creditors are not allowed to attempt to collect previously incurred debts owed to others by the company except through the bankruptcy court.
4. The calculation of avoided loss was based on the difference between the actual disposal price and the two-day re-rated share price of Sino Golf immediately after the release of the 2004 financial results on 19 April 2005.

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