

THIS CASE STINKS

The Ms Chu Ho Miu Hing Case does not pass the TARGET smell test.

It is not the lady's body odour that does not pass the TARGET smell test because, of that, TARGET has no knowledge.

It is Mrs David Chu Yu Lin's trading in the shares of her husband's publicly listed company that does not pass the TARGET smell test.

The matter, to which TARGET is referring, is that case, relating to the public reprimand that The Securities and Futures Commission (SFC), the securities watchdogs of The Stock Exchange of Hongkong Ltd, dished out to Mrs David Chu Yu Lin, also known as Ms Chu Ho Miu Hing, when it was discovered that her trading activities in the Issued and Fully Paid-Up Share Capital of Wah Tak Fung Holdings Ltd (Code: 297) distorted the market price of the shares.

On November 2, 2000, the SFC sent out this Press Release:

'SFC Publicly Reprimands Chu Ho Miu Hing

'The Securities and Futures Commission (SFC) announced today that it had publicly reprimanded Chu Ho Miu Hing (Chu), a registered securities dealer of Good Harvest Securities Company Limited (Good Harvest), under the Securities Ordinance.

'The SFC's action stemmed from an investigation into her dealings on 8 July, 9 July and 20 July 1998 in the shares of Wah Tak Fung Holdings Limited (WTF). It was found that on each of these days Chu had, near the close of trading, placed a number of buy orders resulting in the market price of those shares closing at a level higher than it would otherwise have been. The SFC found that Chu had been negligent in not realizing that trading in this manner had the potential to distort the market price of WTF shares and was therefore prejudicial to the integrity of the market.

'In arriving at this penalty the SFC took into account that Chu has agreed not to be involved in the dealing business of Good Harvest for a period of 3 months with immediate effect.'

The reason that this case took 2 years and 4 months in order to allow the SFC to make its determination and to obtain redress is a matter for another authority, but there is, at law, an axiom that goes along the lines that justice delayed is justice denied.

TARGET, of course, is not privy to the actual findings of fact of the SFC, and, also, TARGET is not privy as to what documentary evidence it had in order to justify the launch of its investigation, but it would appear, prima facie, that it had insufficient evidence to prosecute Mrs David Chu Yu Lin, also known as Ms Chu Ho Miu Hing.

However, one would have to be naive in the extreme to maintain that Mrs Chu did not know of the financial benefits and the residual effects of being among the last investors to pick up shares in Wah Tak Fung just before the market closed at 4 o'clock on any day.

The SFC chose the wording, ***'Chu had been negligence in not realizing ...'***, instead of coming right out to say that, by her actions, she caused a gross distortion in the share price of Wah Tak Fung.

Good Harvest, according to TOLFIN (TARGET's On-Line Computerised Information System), is owned as to 40 percent by Mrs David Chu, under the name: Chu Ho, Miu Hing.

As at February 29, 2000, TOLFIN's records show that the Directors of this securities company were:

Chiang, Sion Loon Joseph
Chu Ho, Mui Hing
Kwok, Chin Lin Frank
Yip, Fook Shing

The Issued and Fully Paid-Up Share Capital of Good Harvest is 5 million, \$HK1 shares.

Its offices are located at Number 78, Bonham Strand, Sheung Wan, Hongkong, Room 2702 on the 27th floor.

The Principle Offices of Wah Tak Fung are located at Number 78, Bonham Strand, Sheung Wan, Hongkong, floor 28 through to floor 30 – just atop the offices of Good Harvest.

Now one must ask the question: Is it possible that a lady of such experience, a lady whose husband was in control of a multi-million-dollar property company while she stood along side as an Executive Director of that same company did not know what she was doing when she placed an order for shares in her husband's company, just before the market closed – on 3 separate occasions?

If one takes the view that it was just a small mistake on her part, or a series of 3 silly little mistakes on her part, then one must ask the question: Should one trust Good Harvest in its dealing activities on behalf of third-party investors, who desirous of trading on The Stock Exchange of Hongkong Ltd?

Mrs David Chu is an Executive Director of Wah Tak Fung while her husband, David, was Managing Director of Wah Tak Fung, as at July 8, 9 and 20, 1998, according to TOLFIN.

TARGET assumes that Mrs David Chu sleeps with her husband and, as such, one may reasonably assume that there are few secrets between them.

The affairs of Wah Tak Fung are more than likely to have been discussed between Mr and Mrs David Chu over meals, driving down to the office in Bonham Strand, or even while lying next to each other in the marriage bed.

There is no suggestion on TARGET's part that Mrs David Chu indulged in insider trading because that would be much too ugly a label to pin on the lady, but one must ask whether or not Mrs David Chu was dealing on her account, when she placed orders for shares in Wah Tak Fung on July 8, 9 and 20, or for another customer.

In view of the SFC's investigation, one has to assume that the SFC discovered that she was trading for herself, or, perhaps, on behalf of her husband.

There is absolutely nothing wrong with this, but for what reason did the good lady choose to place the orders, on 3 separate occasions in July 1998, at a time, just before the stock market closed, knowing full well of the potential consequences of her actions?

TOLFIN's records show that, on July 8, 1998, a total of 230,000 Wah Tak Fung shares were traded, with the share price, fluctuating between a low of 39 cents and a high of 50 cents.

The share price, therefore, rose 28.21 percent in the 90-minute afternoon session of The Stock Exchange of Hongkong Ltd, with the trades, being executed in the closing 30 minutes of market.

On July 9, 1998, a total of 26,000 Wah Tak Fung shares were traded in the closing minutes of the operations of The Stock Exchange of Hongkong Ltd, with the share price, maintaining a rather narrow price range of between a low of 43 cents and a high of 46 cents.

For the following 3 trading days, no Wah Tak Fung shares changed hands, according to TOLFIN's records of trading on The Stock Exchange of Hongkong Ltd.

On July 20, 1998, TOLFIN's records indicate that a total of 132,000 Wah Tak Fung shares were traded, with the share price fluctuating between a low of 35 cents and a high of 46 cents.

This would represent an increase in the share price of this property company of 31.43 percent – and it all took place in a matter of less than 30 minutes of trading in the afternoon session of The Stock Exchange of Hongkong Ltd.

For the following 3 trading days, no Wah Tak Fung shares were traded on The Stock Exchange of Hongkong Ltd.

If Mrs David Chu had been found to have been blameless by the SFC, in respect of her (innocent?) actions, in purchasing shares in Wah Tak Fung from the organised marketplace, known as The Stock Exchange of Hongkong Ltd, then the SFC would not have been able to apply the penalty of a public reprimand.

And it follows that the good lady would not have agreed to the other penalty, that of agreeing not to take part in the trading activities of Good Harvest, effective the date of the agreed penalty – *'with immediate effect'*.

Logic dictates that the SFC must have had sufficient evidence against the good lady, but that the economics of the matter left the SFC with a situation whereby, with an admission of guilt from Mrs David Chu, and with the execution of summary punitive damages, in the shape of a public reprimand and imposed cessation of her trading activities, forthwith, for a period of 3 months, justice could have been said to have been served.

What appears to have been overlooked by the Authorities, however, is that Mrs David Chu is responsible for the overall corporate planning and decision-making of Wah Tak Fung, according to the 1999 Annual Report of Wah Tak Fung.

Further, Mrs David Chu is a Council Member of The Stock Exchange of Hongkong Ltd.

And she simply made a mistake in respect of the trades that she executed through her securities company when, just before the doors closed on The Stock Exchange of Hongkong Ltd on July 8, 9 and 20, 1998, she put in purchase orders for shares of her husband's company?

Give me a break!

Further, what part in this matter did hubby David Chu play?

Nothing?

Of all the 700 counters, listed on The Stock Exchange of Hongkong Ltd, what caused Mrs David Chu to consider placing buy orders on July 8, 9 and 20, 1998, for shares in her husband's company?

Mr David Chu, by the way, is a Legislative Councillor of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) and is a member of the Consultative Committee of the New Airport and Related Project.

He is, also, very well educated and has oodles of business experience in some of the largest trading companies in the HKSAR, including Jardine Matheson and Company Ltd.

Mr David Chu is no virgin in business and securities trading.

And neither is his wife a virgin.

A Final Note

Just 2 days before the SFC's announcement with regard to Mrs David Chu, it made a further announcement, which bears repeating:

'SFC Successfully Prosecutes Lo Yiu Man for Market Manipulation

'The Securities and Futures Commission (SFC) announced today that it had successfully prosecuted Mr Lo Yiu Man (Lo) for manipulating the turnover of Process Automation (Holdings) Limited (PAL) which is now known as Asia Tele-Net and Technology Corporation Limited. Lo pleaded guilty before Ms Polly Lo at Western Magistracy in relation to creating a false and misleading appearance of active trading in the shares of PAL between 25 August 1999 and 2 September 1999 (the relevant period). Lo was fined \$45,000 and ordered to pay costs of \$31,343 to the SFC.

'The SFC investigation identified that during the relevant period Lo had sold tranches of PAL shares at discounted prices on 9 occasions only to immediately commence buying back similar quantities at prices higher than his disposal prices. This "sell-low-buy-high" strategy was designed to push up the price of PAL shares. However, although Lo's activity had little effect on the price of PAL shares it did have the effect of creating a false and misleading appearance of active trading in the shares of PAL during the relevant period, in contravention of S.135 (1)(a) of the Securities Ordinance.'

Scanning the Mrs David Chu Case and weighing it against the admission in respect of the Lo Yiu Man Case, what is the measure of justice in the HKSAR, today?

Is it the length of the foot of the Chancellor of the Exchequer?

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