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SFC commences Market Misconduct Tribunal proceedings over alleged insider dealing in Warderly shares

4 May 2015

The Securities and Futures Commission (SFC) has commenced proceedings in the Market Misconduct Tribunal (MMT) against Mr Lo Hang Fong, a former Company Secretary of Warderly International Holdings Limited (Warderly), and Mr Luu Hung Viet Derrick, a lender and potential investor of Warderly, for alleged insider dealing in Warderly shares (Notes 1 & 2).

The SFC alleges Lo and Luu were aware that Warderly was in a perilous financial position with banks withdrawing credit facilities when they sold the company's shares in 2007 and avoided a total loss of \$12,564,516.

The SFC further alleges that Lo and Luu knew the financial crisis facing Warderly was material, highly price sensitive and not generally known to the market.

Warderly began to encounter cash flow problems in mid-2006 due to a surge in the price of raw materials and the settlement of a large tax claim from the Inland Revenue Department. From July 2006 onwards, Warderly experienced a number of material events concerning its financial position, including tightening of banking facilities and the subsequent events such as overdue loans, rescheduled payments, demand letters and writs issued by banks (Note 3).

Trading in Warderly shares was suspended by the SFC on 14 May 2007 (Note 4).

End

Notes:

1. Warderly was listed on the Main Board of The Stock Exchange of Hong Kong Limited (SEHK) in December 2002. Warderly changed its name to Fullshare Holdings Limited on 22 October 2014.
2. Lo was appointed as the Company Secretary of Warderly from the time it was listed in December 2002 until he resigned on 20 March 2007 while at the relevant time Luu was a lender and potential investor who was interested in acquiring the Warderly shareholding of the then Chairman and majority shareholder of Warderly and then restructuring Warderly.
3. Luu extended a loan to Warderly in February 2007 that carried an interest rate of 3% per month.
4. Under Rule 8 of the Securities and Futures (Stock Market Listing) Rules, the SFC directed the SEHK to suspend all dealings in the shares of Warderly on 14 May 2007. Trading in the shares of Warderly was resumed on 16 December 2013 after Warderly underwent a restructuring of its business operations and the change of its management team.
5. The Notice to the MMT which contains the statement setting out the grounds for commencing the MMT proceedings is available on the MMT's website (www.mmt.gov.hk).

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IN THE MATTER OF THE LISTED SECURITIES OF
WARDERLY INTERNATIONAL HOLDINGS LIMITED
(STOCK CODE 607)

NOTICE TO THE MARKET MISCONDUCT TRIBUNAL
PURSUANT TO SECTION 252(2) AND SCHEDULE 9 OF THE
SECURITIES AND FUTURES ORDINANCE CAP. 571 (“THE ORDINANCE”)

Whereas it appears to the Securities and Futures Commission (“the Commission”) that market misconduct within the meaning of Section 270 (“insider dealing”) of Part XIII of the Ordinance has or may have taken place arising out of the dealings in the securities of Warderly International Holdings Limited (Stock Code 607), the Market Misconduct Tribunal is hereby required to conduct proceedings and determine:

- (a) whether any market misconduct has taken place;
- (b) the identity of any person who has engaged in the market misconduct found to have been perpetrated; and
- (c) the amount of any profit gained or loss avoided, if any, as a result of the market misconduct.

Persons suspected to have engaged in market misconduct activities

LO Hang Fong (“LO”)

LUU Hung Viet, Derrick (“LUU”)

Statement for institution of proceedings

1. Warderly International Holdings Limited (“**Warderly**”) was at all material times a listed company on the Stock Exchange of Hong Kong Limited with stock code number 607.
2. LO is a partner of Stevenson Wong & Co., Solicitors. He was appointed as the Company Secretary of Warderly from the time it was listed in December 2002 until he resigned on 20 March 2007. Stevenson Wong & Co. provided legal services to Warderly at all relevant times.
3. LUU was a lender and potential investor who was interested in acquiring the Warderly shareholding interests of YEUNG Kui Wong (“**YEUNG**”), the Chairman and majority shareholder of Warderly, and restructuring Warderly at the relevant time.
4. Warderly began to encounter cash flow problem in mid 2006 due to a surge in the price of raw materials and the settlement of a large tax claim from the Inland Revenue Department. From July 2006 onwards, Warderly defaulted in repaying bank loans and banks tightened their credit lines to Warderly. Suppliers stopped providing raw materials. The cash flow problem also led to several labour strikes in its factory on the Mainland between September 2006 and April 2007 due to unpaid wages.
5. On 17 November 2006, Sharp Venture Holdings Limited (“**Sharp Venture**”, Warderly’s subsidiary) borrowed HK\$2 million from LIU Su Ke (“**LIU**”) at an interest rate of 5% per month. The loan was to be repaid in one month.
6. On 11 December 2006 LIU lent a further sum of HK\$1.2 million to Sharp Venture at the same interest rate of 5% per month and promised to lend another

HK\$6 million after documentation was prepared as Warderly could not pay wages to its workers over Chinese New Year.

7. On 28 December 2006 LIU (via his company Vision Eagle Limited) lent a further sum of HK\$6 million to Housely Industries Limited (Warderly's subsidiary) for one month at an interest rate of 5% per month. A loan agreement was signed between the parties at the offices of Stevenson Wong & Co. A letter of authorisation was also executed by YEUNG by pledging all his 231.8 million shares in Warderly to LIU as security. The documents were prepared by Stevenson Wong & Co. LO was responsible for explaining to LIU the contents of the documents.
8. On 15 February 2007, LUU lent a total sum of HK\$10 million to Housely Industries Limited at a monthly interest rate of 3% per month with YEUNG agreeing with LUU to pledge 50 million of his Warderly shares at HK\$0.20 per share. LUU further committed himself to take up an additional HK\$12.8 million debt owed by Warderly to a financier subject to due diligence. LO was involved in the discussions as to how to structure the HK\$10 million transaction, and was aware of the pledge.

Trading in Warderly shares

LO

9. LO had 1,597,500 Warderly shares in his securities account held with CITIC Securities Brokerage (HK) Limited (formerly known as CITIC Capital Securities Limited). He bought those shares around late 2003 and early 2004. Before the public was made aware of the poor financial situation of Warderly, LO sold all of them in 3 batches on 28, 29 and 30 March 2007, details of which are set out below:

Date	No. of shares	Price per share (HK\$)
28 Mar 2007	572,500	0.52-0.53
29 Mar 2007	437,500	0.51
30 Mar 2007	587,500	0.52-0.53

LUU

10. On LUU's instructions, 50 million Warderly shares held through the following 3 nominees of his were sold as follows:

(a) LIU Ping

Date	No. of shares	Price per share (HK\$)
3 Apr 2007	5,680,000	0.4713
3 Apr 2007	6,752,500	0.4724
4 Apr 2007	250,000	0.4554
4 Apr 2007	7,317,500	0.4567

(b) Grand Access Finance Limited

Date	No. of shares	Price per share (HK\$)
4 Apr 2007	10 million	0.3969

(c) CHAN Kar Yee

Date	No. of shares	Price per share (HK\$)
30 Apr 2007	7,650,000	0.4866
2 May 2007	12,350,000	0.4603

Relevant information

11. The Commission relies on the following specific events as comprising the relevant information within the meaning of section 245 of the Ordinance:

- (1) Tightening of banking facilities since July 2006, and the subsequent events such as loans overdue, rescheduled payments, demand letters and writs issued by banks etc; and /or
 - (2) The HK\$2 million loan from LIU on 17 November 2006 at an interest rate of 5% per month; and/or
 - (3) Further loan from LIU totalling HK\$7.2 million at an interest rate of 5% on 11 and 28 December 2006; and/or
 - (4) Warderly was unable to repay the loan plus interest to LIU when they became due on 28 January 2007; and/or
 - (5) The HK\$10 million loan from LUU in February 2007 that carried an interest rate of 3% per month and was secured by 50 million Warderly shares.
12. The relevant information was specific information about Warderly which was not generally known to the persons who are accustomed or would be likely to deal in the shares of Warderly but which would, if it were generally known to them, be likely to materially affect the share price of Warderly.
 13. In possession of the relevant information concerning the poor financial position of Warderly, LO and LUU sold their Warderly shares as set out above.
 14. Both LO and LUU were connected with Warderly within the definition of section 247 of the Ordinance, by virtue of their position as set out in paragraphs 2 and 3 respectively. The evidence will show that at the time they sold the Warderly shares they had the relevant information, and must have known it to be relevant information.

15. Accordingly, by reason of the matters set out above, LO and LUU engaged or may have engaged in market misconduct, namely insider dealing contrary to section 270 of the Ordinance.

Dated this 27th day of April 2015.

Securities & Futures Commission
Securities and Futures Commission