

SFC commences MMT proceedings against former CEO of China AU and related parties for false trading

9 Sep 2016

The Securities and Futures Commission (SFC) has commenced proceedings in the Market Misconduct Tribunal (MMT) against Ms Samantha Keung Wai Fun, former CEO of China AU Group Holdings Limited (China AU), Ms Wu Hsiu Jung and Mr Chen Kuo-chen, for false trading in the shares of China AU (Notes 1, 2 & 3).

Between August 2009 and March 2010, China AU launched two fundraising exercises to finance the proposed acquisition of a property to set up a training institute for beauticians in the Mainland and for general working capital purposes.

In between the two fund raising exercises conducted by China AU, Wu and Chen traded substantial amounts of China AU shares, using 14 securities accounts in the names of themselves and others. Keung provided a majority of funding for Wu and Chen's China AU trades.

The SFC alleges that Keung assisted or connived with Wu and/or Chen to create a false or misleading appearance of active trading or with respect to the market for, or the price for dealings in China AU shares which supported and/or benefited China AU's fundraising.

End

Notes:

1. China AU, now known as Skynet Group Limited, has been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (SEHK) since 19 February 2002.
2. Keung tendered her resignation from her position with effect from 7 March 2012.
3. False trading is a form of market misconduct and a contravention of section 274 of the Securities and Futures Ordinance. The MMT may impose civil sanctions on people who are found to have engaged in false trading.
4. The Notice to the MMT which contains the synopsis setting out the grounds for commencing the MMT proceedings is available on the MMT's website (www.mmt.gov.hk).

Page last updated : 9 Sep 2016

**IN THE MATTER OF THE LISTED SECURITIES OF
SKYNET GROUP LIMITED (FORMERLY KNOWN AS
CHINA AU GROUP HOLDINGS LIMITED)
(STOCK CODE 8176)**

**NOTICE TO THE MARKET MISCONDUCT TRIBUNAL
PURSUANT TO SECTION 252(2) OF AND SCHEDULE 9 TO 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 274 ("**False Trading**") of Part XIII of the Ordinance has or may have taken place in relation to the securities of SkyNet Group Limited (known as China AU Group Holdings Limited at the material time ("**China AU**")) listed on the Stock Exchange of Hong Kong Limited (stock code 8176), the Market Misconduct Tribunal is hereby required to conduct proceedings and determine:

- (a) whether any market misconduct has taken place; and
- (b) the identity of any person who has engaged in the market misconduct.

Persons suspected to have engaged in market misconduct

- (1) Ms WU Hsiu Jung
- (2) Mr CHEN Kuo-chen ("**Chen**")
- (3) Ms KEUNG Wai Fun, Samantha ("**Keung**")

Statement for Institution of Proceedings

1. At all material times, China AU was a company listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (China AU was known as Blu Spa Holdings Limited prior to 2010).

2. At all material times:
 - (a) **Ms Chan Choi Har Ivy (“Ivy Chan”)** was an Executive Director and Vice-chairwoman of China AU and held directly and indirectly a small shareholding in China AU amounting to approximately 2% to 3% of China AU’s total issued shares.

 - (b) Keung was the Chief Executive Officer of China AU but was not a member of the China AU board of directors. **Keung indirectly held a substantial shareholding in China AU amounting to approximately 40% to 50% of China AU’s total issued shares.**

 - (c) Keung’s son, Mr Cheung Tsun Hin, Samson (**“Samson Cheung”**), was an Executive Director of China AU.

3. On 19 August 2009, China AU announced that it intended to place a maximum of 175,000,000 shares at a price of HK\$0.80 per share (maximum placement proceeds of HK\$140,000,000). Approximately HK\$135,500,000 was intended to be used to finance the possible acquisition of a property for setting up a beauty professional training institute in the Mainland and/or for general working capital purposes.

4. On 28 October 2009, China AU announced that the placement period would be extended from 31 October 2009 to 30 November 2009. On 2 December 2009, China AU announced that only 49,800,000 shares were successfully placed, raising proceeds of approximately HK\$38,300,000 (“**the Share Placement**”).
5. On 16 December 2009, China AU signed a letter of intent to acquire a 70% interest in another corporate entity for HK\$80,000,000 which held a piece of land in Guangzhou (“**Acquisition**”). On 24 February 2010, China AU announced that it had entered into a supplementary letter of intent to extend the deadline for the execution of the sale and purchase agreement for the Acquisition to 31 March 2010.
6. On 8 March 2010, China AU announced that it intended to issue convertible bonds to independent places worth up to HK\$114,000,000, with a conversion price of HK\$0.19 per share (“**the CB Placement**”). The proceeds from the CB Placement would be used to finance the Acquisition, the development of new products and/or general working capital purposes.
7. On 30 March 2010, China AU announced that it had entered into a “Heads of Agreement” in respect of the Acquisition, extending the deadline for the signing of the sale and purchase agreement to 28 April 2010. The CB Placement was completed in April 2010.

Relevant trading in China AU shares

8. In between the two fundraising exercises conducted by China AU mentioned in paragraphs 3 to 7 above, substantial amounts of China AU shares were traded by two people, Wu Hsiu Jung and Chen, using a number of different securities accounts.

The Jung Group

9. Between 25 August 2009 and 21 April 2010 (“**Relevant Period**”), Wu Hsiu Jung used a total of 12 securities accounts opened in the names of herself and others (“**Jung Group**”) to buy approximately 48,890,000 China AU shares and to sell approximately 42,325,000 China AU shares. The funds to finance almost all of the trading of China AU shares within the Jung Group originated from Wu Hsiu Jung’s bank accounts. Between 3 December 2009 and 5 March 2010, a total of around HK\$12,000,000 was withdrawn from Wu Hsiu Jung’s bank accounts and was deposited into the securities accounts within the Jung Group. Wu Hsiu Jung was, in turn, funded by money deposited into her various bank accounts from bank accounts held by Keung, Ivy Chan and Ivy Chan/Keung jointly. Between 24 August 2009 and 25 February 2010, a total of around HK\$11,600,000 was deposited into Wu Hsiu Jung’s bank accounts from bank accounts held by Keung, Ivy Chan and Ivy Chan/Keung jointly.
10. During the Relevant Period, there were 28 transactions of China AU shares conducted through the securities accounts of the Jung Group totalling 8,090,000 shares. As the trading in China AU shares was financed from the

same source, such trading did not involve any change in beneficial ownership of the shares and did not have any rational economic justification. Further or alternatively, the manner in which the trade orders were placed and executed, required coordination between the counterparties involved in the trades.

The Chen Group

11. During the Relevant Period, Chen used two securities accounts opened in his name and in the name of another (“**Chen Group**”) to buy approximately 19,305,000 China AU shares and to sell approximately 17,710,000 China AU shares. Between 24 November 2009 and 12 March 2010, a total of approximately HK\$3,600,000 was withdrawn from the bank accounts of Keung and Samson Cheung and was paid into the two securities accounts within the Chen Group. Those funds were then used to finance the trading in China AU shares in the two accounts.

Trading patterns of the Jung/Chen Groups

12. The trading patterns of the Jung/Chen Groups can be separated into three phases:
 - (a) The first phase, from around the end of November to the end of December 2009, in which China AU shares were accumulated through the securities accounts of the Jung/Chen Groups (“**First Phase**”).
 - (b) The second phase, from around the end of December to 2 March 2010, in which a significant number of transactions (buying and selling of

China AU shares) were conducted through the securities accounts of the Jung/Chen Groups in which the total balance of China AU shares held remained largely constant (“**Second Phase**”).

(c) The third phase, between 3 and 5 March 2010 (i.e. the last 3 trading days prior to China AU’s announcement of the CB Placement), in which the securities accounts of the Jung/Chen Groups aggressively sold China AU shares (“**Third Phase**”).

13. The First Phase of trading coincided with the aftermath of a weak market response to the Share Placement. The combined trading conducted through the securities accounts of the Jung/Chen Groups or, alternatively, the trading of at least the Jung Group during the First Phase had, or was likely to have, the effect of creating a false or misleading appearance with respect to the market for, or the price for dealings in China AU shares. A positive performance in the share price of China AU (or at least a lesser decline) supported or benefited further fundraising attempts by China AU during this period of time.
14. The combined trading conducted through the securities accounts of the Jung/Chen Groups or, alternatively, the trading of the two Groups analysed separately, during the Second Phase had, or was likely to have, the effect of creating a false or misleading appearance of active trading in China AU shares. The increased liquidity in China AU shares in the market supported and/or benefited further fundraising attempts by China AU during this period of time.

15. The combined trading conducted through the securities accounts of the Jung/Chen Groups or, alternatively, the trading of the two Groups analysed separately, during the Third Phase had, or was likely to have, the effect of creating a false or misleading appearance with respect to the market for, or price for dealings in China AU shares. A lower price for China AU shares prior to the issue of convertible bonds (the subject of the CB Placement), was beneficial to the CB Placement as it could have the effect of lowering the conversion price and making it appear more attractive to potential investors, thereby increasing the likelihood of a successful placement.
16. Furthermore, during the Relevant Period, there were a total of 92 transactions conducted between the securities accounts within the Jung/Chen Groups for a total of 20,800,000 China AU shares. As the trading in China AU shares was financed by the same source, that trading did not involve any change in beneficial ownership of the shares and did not have any rational economic justification. Further or alternatively, the manner in which the trade orders were placed and executed, required coordination between the counterparties involved in the trades.
17. As the trading of the China AU shares through the securities accounts within the Jung/Chen Groups and/or through the securities accounts within the Jung Group separately analysed (described in paragraphs 10 & 16 above) did not result in a change in beneficial ownership and/or the manner in which the trade orders were placed and executed required coordination between the counterparties involved in the trades, further or alternatively, under section 274(5) of the Ordinance, such transactions are regarded as having been

conducted with the intention that, or being reckless as to whether, they had, or were likely to have, the effect of creating a false or misleading appearance of active trading or with respect to the market for, or the price for dealings in, China AU shares.

18. By reason of this, the Specified Persons engaged or may have engaged in market misconduct, contrary to section 274(1) of the Ordinance.
19. Further or alternatively, Keung assisted or connived with Wu Hsiu Jung and/or Chen in the perpetration of market misconduct with the knowledge that such conduct constituted or might have constituted market misconduct, contrary to section 252(4)(c) of the Ordinance.

Dated this 17th day of June 2016

Securities and Futures Commission
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