

**IDT's Inquiry in relation to dealing in the listed securities of
Harbour Ring International Holdings Limited**

Following is a summary of the IDT's report–

Introduction

By notice under section 16 of the Securities (Insider Dealing) Ordinance (Cap. 395) dated 25 September 2003 and an amendment notice dated 15 July 2005, the Financial Secretary required the IDT to institute an inquiry in relation to the listed securities of Harbour Ring International Holdings Limited (Harbour Ring) to inquire into and determine –

- (a) whether there has been insider dealing in relation to the company connected with or arising out of the dealings in the listed securities of the company by or on behalf of –

Fong Long, Charles Chong Wai Lee and Chong Bun Bun on 29 February 2000 and 1 March 2000; and Wong Cheung Hung on 1 March 2000;

- (b) in the event of there having been insider dealing as described in paragraph (a) above, the identity of each and every insider dealer; and
- (c) the amount of any profit gained or loss avoided as a result of such insider dealing.

The Tribunal, under the chairmanship of the Honourable Mr Justice Saunders, completed its inquiry in respect of liability, that is to identify those persons who did or did not commit acts of insider dealing, and submitted a report in that regard to the Financial Secretary on 6 August 2009.

Background

Harbour Ring was principally engaged in the manufacture of and trading in toys, and the sale and investment of property.

As at 30 June 1999, the bulk of the share capital in Harbour Ring was held by Reading Investment Ltd (Reading) as to 31.12%, Promising Land International Inc (Promising Land) as to 21.31% and Profit Point Ltd (Profit Point) as to 14.17%.

Reading was beneficially owned by Dr Luk Chung Lam, Mr Ko Yuet Ming and Mr Lewis Luk Tei. They were executive directors of Harbour Ring. Promising Land was a wholly owned subsidiary of Hutchison Whampoa Ltd (Hutchison), and Profit Point was a wholly owned subsidiary of Playmate Toys Holdings Ltd (Playmates), a substantial international company involved in the toy industry. Effectively, the Luk family, Hutchison, and Playmates, collectively held 66.6% of the share capital in Harbour Ring, with the balance of the shares held by the public.

In 1999, Harbour Ring had been a stock that was infrequently traded, and traded only in small volume. Between October and December 1999, its share price had dropped 13.24% to \$0.295, with an average daily turnover of only 667,500 shares. In contrast, during the same period, the Hang Seng Index (HSI) had gained 4,086 points, an increase of 31.7%.

The price and trading volume of Harbour Ring shares began to rise in early January 2000, closing up 93.2% at \$0.57 on 31 January 2000. The daily turnover averaged 4.18 million shares during the month, five times higher than the average of the fourth quarter of 1999. During the same period, the HSI dropped 8.4%.

The trend in the increase in the value of Harbour Ring shares continued in early February 2000, with the stock closing on 8 February 2000, at \$0.83, up 45.61% from 31 January 2000, on a turnover of 24 million shares. In that time, the HSI gained 4.48%.

But between 9 and 25 February 2000, the share price of Harbour Ring dropped 25.31% to \$0.62, with the turnover reducing to an average daily amount of 6.37

million. In that period, the HSI gained a further 5.99%. During February, on four days only, 2, 3, 8 & 9 February 2000, had the turnover exceeded 8.4 million shares. But between 10 & 25 February 2000, the turnover averaged only 5.3 million shares.

On 28 February 2000, the turnover increased substantially to 12.1 million shares, closing at \$0.66. The next day, 29 February 2000, turnover again increased substantially, to 20.8 million shares, closing at \$0.70, an 11.42% increase from the close on 25 February 2000.

During the morning session on 1 March 2000, the turnover increased even more dramatically to 140.6 million shares, with the share price surging 90% to \$1.33, before closing at \$1.23 at the close of morning trading.

At the request of The Stock Exchange of Hong Kong Limited (SEHK), the directors of Harbour Ring requested a suspension of trading from 2:30 p.m. on that day, “pending an announcement concerning a possible change of the controlling shareholder of the company”.

On 10 March 2000, Harbour Ring made an announcement stating that the company had entered into subscription agreements with Internet Capital Group (ICG), Promising Land and the Li Ka Shing Foundation (the Foundation), in relation to the subscription of 3,018,400,000 shares by ICG, 454,978,000 shares by Promising Land, and 274,400,000 shares by the Foundation, at an issue price of \$0.30 per share. Following the completion of the subscription agreement, those three parties would collectively hold 82.1% in the enlarged issued share capital of Harbour Ring.

The company was to be renamed ICG AsiaWorks Ltd after the completion of the subscription agreements, in order to reflect the changing control of the company and the anticipated future development of the company.

ICG was an Internet company engaged in the United States of America in business-to-business e-commerce through a network of partner companies. The Foundation is a charitable foundation established by Mr Li Ka Shing, a major shareholder and chairman of Hutchison, a company at that time having a high

profile in what was then known as technology business, which included business-to-business e-commerce.

The introduction of ICG and the Foundation into Harbour Ring effectively made ICG and Hutchison the majority shareholders in Harbour Ring. The method by which they were introduced, a very significant increase in the share capital of a listed company, with entities other than the existing majority shareholders of that listed company, is known as a “backdoor listing”. It is the means by which a party, without a presence on the SEHK, may rapidly and with comparative ease, become a majority shareholder in a listed company.

On the resumption of trading on 10 March 2000, the Harbour Ring share price reached a high of \$9.20 before closing at \$7.85, up 538% from the closing price on 1 March 2000. Turnover rose to 191.3 million shares during the morning alone, a turnover which may be compared with that between 10 & 25 February 2000, when the average turnover was only 5.3 million shares. Between 29 February 2000 and 10 March 2000, the HSI increased 4.7%.

A senior executive in Hutchison, Mr Sammy Tse Kwok Fai (Sammy Tse), was the Chief Executive Officer of Hutchison E-Commerce Ltd, a wholly-owned subsidiary of Hutchison that was engaged in business-to-business e-commerce. An investigation by the Securities and Futures Commission revealed that Mr Sammy Tse had a network of friends and acquaintances who themselves, or persons connected with them, purchased substantial quantities of Harbour Ring shares in the two days of 29 February and 1 March 2000.

The network of friends and acquaintances comprised Mr Dennis Li Yat Tung (Dennis Li), Ms Debbie Ng Kit Ying (Debbie Ng), Mr Chris Wong Cheung Hung (Chris Wong), Mr Charles Chong Wai Lee (Charles Chong), and Ms Becky Chong Bun Bun (Becky Chong).

It was alleged that before the 10 March 2000 announcement of the transaction whereby ICG, Promising Land and the Foundation agreed to subscribe new shares in Harbour Ring, some parties had taken advantage of the relevant information they possessed to deal, counsel or procure another person(s) to deal in Harbour Ring shares, thus constituting insider dealing.

Findings

The Tribunal concluded its findings by unanimous decision as follows –

(a) Mr Sammy Tse Kwok Fai

Contrary to s 9(1)(c) of the Securities (Insider Dealing) Ordinance Cap. 395, (the Ordinance), Sammy Tse, being a connected person, and being in possession of relevant information which he knew to be relevant information in relation to Harbour Ring, disclosed directly that information to Debbie Ng and Charles Chong he knowing or having reasonable cause to believe that Debbie Ng and Charles Chong would make use of the information for the purpose of dealing in, or counselling or procuring others to dealing, the listed securities of Harbour Ring.

(b) Ms Debbie NG Kit Ying

Contrary to s 9(1)(e) of the Ordinance, Debbie Ng, being a person who had information which she knew to be relevant information in relation to Harbour Ring, which she received directly from Sammy Tse, and indirectly from Sammy Tse by way of Dennis Li, she knowing Sammy Tse to be connected with Harbour Ring, and having reasonable cause to believe that Sammy Tse held that information by virtue of being so connected, dealt in the securities of Harbour Ring.

(c) Mr Charles Chong Wai Lee

Contrary to s 9(1)(e) of the Ordinance, Charles Chong, being a person who had information which he knew to be relevant information in relation to Harbour Ring, which he received directly from Sammy Tse, and indirectly from Sammy Tse by way of Dennis Li, he knowing Sammy Tse to be connected with Harbour Ring, and having reasonable cause to believe that Sammy Tse held that information by virtue of being so connected, dealt in the securities of Harbour Ring.

(d) Ms Becky Chong Bun Bun

Contrary to s 9(1)(e) of the Ordinance, Becky Chong, being a person who had information which she knew to be relevant information in relation to Harbour Ring, which she received directly from Sammy Tse, and indirectly from Sammy Tse by way of Charles Chong, she knowing Sammy Tse to be connected with Harbour Ring, and having reasonable cause to believe that Sammy Tse held that information by virtue of being so connected, dealt in the securities of Harbour Ring.

The evidence was not sufficient to establish the following –

- (a) that contrary to s 9(1)(a) of the Ordinance, Sammy Tse counselled or procured Dennis Li, Debbie Ng or Charles Chong to deal in the listed securities of Harbour Ring;
- (b) that contrary to s 9(1)(e) of the Ordinance, that Dennis Li counselled or procured Debbie Ng to deal in the listed securities of Harbour Ring;
- (c) that contrary to s 9(1)(e) of the Ordinance, that Debbie Ng counselled or procured Chris Wong to deal in the listed securities of Harbour Ring;
- (d) that contrary to s 9(1)(e) of the Ordinance, that Charles Chong counselled or procured Becky Chong to deal in the listed securities of Harbour Ring;
- (e) that contrary to s 9(1)(e) of the Ordinance, that Chris Wong dealt in the listed securities of Harbour Ring.

- Note 1: Section 9(1)(a) of the Ordinance states that insider dealing in relation to a listed corporation takes place when a person connected with that corporation who is in possession of information which he knows is relevant information in relation to that corporation deals in any listed securities of that corporation or their derivatives (or in the listed securities of a related corporation or their derivatives) or counsels or procures another person to deal in such listed securities knowing or having reasonable cause to believe that such person would deal in them.
- Note 2: Section 9(1)(c) of the Ordinance states that when relevant information in relation to that corporation is disclosed directly or indirectly, by a person connected with that corporation, to another person and the first-mentioned person knows that the information is relevant information in relation to the corporation and knows or has reasonable cause for believing that the other person will make use of the information for the purpose of dealing, or counselling or procuring another to deal, in the listed securities of that corporation or their derivatives (or in the listed securities of a related corporation or their derivatives).
- Note 3: Section 9(1)(e) of the Ordinance states that when a person who has information which he knows is relevant information in relation to that corporation which he received (directly or indirectly) from a person – (i) whom he knows is connected with that corporation; and (ii) whom he knows or has reasonable cause to believe held that information by virtue of being so connected, deals in the listed securities of that corporation or their derivatives (or in the listed securities of a related corporation or their derivatives) or counsels or procures another person to deal in those listed securities or their derivatives.