

SFC commences MMT proceedings against China Medical & Healthcare Group Limited and its senior management for alleged late disclosure of inside information

31 Oct 2019

The Securities and Futures Commission (SFC) has commenced proceedings in the Market Misconduct Tribunal (MMT) against China Medical & Healthcare Group Limited for allegedly failing to disclose information in relation to its significant gains in securities trading as soon as reasonably practicable in 2014.

China Medical & Healthcare Group Limited was known as COL Capital Limited (COL) when the alleged breach of the statutory corporate disclosure requirements regime occurred (Note 1).

The SFC has also commenced proceedings in the MMT against **six individuals who were COL's directors** at the material time for their reckless or negligent conduct causing the alleged breach.

They are: Ms Chong Sok Un, COL's Chairman and Executive Director; Mr Wong Peng Chong and Mr Kong Muk Yin, COL's Executive Directors; Mr Lau Siu Ki, Mr Ma Wah Yan and Mr Zhang Jian, COL's Independent Non-Executive Directors (collectively, COL Directors).

The SFC's investigation found that **COL's internal financial report for March 2014, which was made available to the COL Directors in April 2014, stated, amongst other things, that COL made a profit of around \$360 million in March, bringing the cumulative profit for the nine months ended 31 March 2014 to around \$894 million,** in comparison to a loss of around \$33 million for the same period ended 31 March 2013.

However, **COL did not disclose this information until 10 September 2014** when it issued a profit alert announcement in which it stated that COL and its subsidiaries expected to record a substantial profit attributable to shareholders approximately between \$840 million and \$980 million for the year ended 30 June 2014.

COL's share price rose 12.39 per cent to close at \$2.63 on 11 September 2014 following the profit alert announcement.

The SFC also found that **the significant gains reflected in the COL's March financial report was contributed by its investment in the shares of ChinaVision Media Group Limited (ChinaVision), now known as Alibaba Pictures Group Limited.**

Specifically, COL made significant gains from its trading in ChinaVision shares between 12 March 2014 and 18 March 2014 after ChinaVision shares jumped 186 per cent to close at \$1.83 after trading resumption on 12 March 2014 following the company's announcement on 11 March 2014 on a plan to allocate around 12 billion new shares to Alibaba Investment Limited.

However, COL did not disclose the information pertaining to the gains from trading in ChinaVision shares, nor its March 2014 profit figures to the public, until 10 September 2014 when it issued the profit alert.

The SFC alleges that the information pertaining to the gains from trading in ChinaVision shares or the March 2014 profit figures was specific information regarding COL and not generally known to the persons who were accustomed to or would be likely to deal in the listed securities of COL. Had the information been generally known to them, it would have been likely to materially affect the share price of COL.

End

Notes:

1. COL was listed on the Main Board of the Stock Exchange of Hong Kong Limited on 1 August 1991 and its

name was changed to China Medical & Healthcare Group Limited on 29 February 2016.

2. The financial report showed that the company recorded:

- a loss of around \$32,600,000 for the nine months ended 31 March 2013, in comparison to a cumulative profit of \$893,600,000 for the corresponding period ended 31 March 2014;
- a profit of \$360,017,000 in March 2014, of which \$337,647,000 originated from the Securities Investment Segment;
- a realised gain on disposals of \$136,067,000 in March 2014 from the stock portfolio of its wholly-owned subsidiary through which shares of ChinaVision were held, of which \$129,954,000 was contributed by the disposal of ChinaVision shares;
- a realised gain of around \$144,500,000 in March 2014 from its stock portfolio, of which around \$130,000,000 was attributed to dealings in ChinaVision; and
- an unrealised gain of \$249,800,000 from its stock portfolio, of which \$229,100,000 was attributed to its holdings in ChinaVision shares.

3. A copy of the SFC's Notice 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
CHINA MEDICAL & HEALTHCARE GROUP LIMITED
(FORMERLY KNOWN AS COL CAPITAL LIMITED)
(STOCK CODE: 383)**

**NOTICE TO THE MARKET MISCONDUCT TRIBUNAL
PURSUANT TO SECTION 307I(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 a breach of a disclosure requirement within the meaning of sections 307B and 307G of Part XIVA of the Ordinance has or may have taken place in relation to the securities of COL Capital Limited listed on the Stock Exchange of Hong Kong Limited (“**SEHK**”), the Market Misconduct Tribunal is hereby required to conduct proceedings and determine:-

- (a) whether a breach of a disclosure requirement has taken place; and
- (b) the identity of any person who is in breach of the disclosure requirement.

Persons and/or corporate bodies appearing to the Commission to have breached or may have breached a disclosure requirement

- (i) China Medical & HealthCare Group Limited (formerly known as COL Capital Limited) (the “**Company**”)
- (ii) Chong Sok Un (“**Shirley Chong**”)
- (iii) Wong Peng Chong (“**John Wong**”)
- (iv) Kong Muk Yin (“**Kong**”)
- (v) Lau Siu Ki (“**Kevin Lau**”)
- (vi) Ma Wah Yan (“**Billy Ma**”)
- (vii) Zhang Jian (“**Zhang**”)

(each a “**Specified Person**” and collectively, the “**Specified Persons**”)

Statement of Institution of Proceedings

A. PARTIES

1. The Company (the 1st Specified Person) is incorporated in Bermuda. The Company was listed on the Main Board of SEHK on 1 August 1991 (stock code: 383).
2. At all material times, the Company and its subsidiaries (together the “**Group**”) were principally engaged in the business of securities trading and investment (the “**Securities Investment Segment**”), financial services, property investment, property development and hospital operations.
3. At all material times:-
 - (1) Shirley Chong (the 2nd Specified Person) was the Chairman and executive director of the Company.
 - (2) John Wong and Kong (the 3rd and 4th Specified Persons, respectively) were executive directors of the Company. In particular, John Wong was responsible for overseeing the Company’s Securities Investment Segment.
 - (3) Kevin Lau, Billy Ma, and Zhang (the 5th, 6th, and 7th Specified Persons, respectively) were independent non-executive directors of the Company.
4. Each of the 2nd to 7th Specified Persons was at all material times an “*officer*” of the Company as defined in section 1 of Part 1 of Schedule 1 to the Ordinance.

B. THE CHINAVISION GAIN AND THE PROFIT ALERT

5. As part of the Company’s securities portfolio, shares of ChinaVision Media Group Limited (“**ChinaVision**”, now Alibaba Pictures Group Limited, stock code: 1060) were held through Sparkling Summer Limited (“**Sparkling**”), a wholly-owned subsidiary of the Company. Sparkling held 2 securities accounts at Sun Hung Kai Financial (the “**No. 1 Account**” and “**No. 2 Account**” respectively).

6. On 25 February 2014, ChinaVision issued an announcement that trading in its shares on SEHK would be suspended pending the release of an announcement in relation to inside information. ChinaVision's share price closed at HK\$0.64 on that day.
7. At the time of the said suspension, Sparkling held a total of 302,250,000 ChinaVision shares (50,000,000 shares in its No. 1 account and 252,250,000 shares in its No. 2 account at Sun Hung Kai Financial), which was worth HK\$193,440,000 based on the closing price on 25 February 2014.
8. On 27 February 2014, the Company released its interim results for the 6 months ended 31 December 2013. The interim results reported a profit of HK\$397,016,000 compared against a profit of HK\$62,771,000 for the 6 months ended 31 December 2012 and against a loss of HK\$808,788,000 for the year ended 30 June 2013.
9. On 11 March 2014, ChinaVision announced that it would allot and issue 12,488,058,846 new shares to Alibaba Investment Limited.
10. On 12 March 2014, trading of ChinaVision shares resumed. Its share price rose to as high as HK\$3.39 and closed at HK\$1.83 on that day, resulting in a 186% increase from the closing price on 25 February 2014 before suspension. The trading volume also increased from 308,364,000 shares on 24 February 2014 (the last full trading day before the suspension) to 2,420,829,779 shares on 12 March 2014.
11. On the same day, the closing price of the Company's shares rose from HK\$2.37 to HK\$2.42, representing an increase of 2.11%.
12. During the period from 12 March 2014 to 18 March 2014:-
 - (1) The Company acquired 1,000,000 ChinaVision shares through the No.2 Account at HK\$2.00 on 12 March 2014.
 - (2) All of the 50,000,000 ChinaVision shares in the No. 1 Account were sold at an average price of HK\$2.14.
 - (3) 33,000,000 ChinaVision shares in the No.2 Account were sold at an average price of HK\$1.96.
13. The Company's gain from its investment in ChinaVision shares (the "**ChinaVision Gain**") was clearly reflected in the Company's own internal financial report for the

period ended 31 March 2014 (the “**March Financial Report**”). The Company’s performance result for March 2014 was summarised therein:-

- (1) Cumulative profit for the 9-month period ended 31 March 2014 amounted to HK\$893,600,000, a significant improvement as compared to a loss of HK\$32,600,000 for the corresponding period ended 31 March 2013.
 - (2) The Company made a profit of HK\$360,017,000 in the month of March 2014, of which HK\$337,647,000 originated from the Securities Investment Segment.
 - (3) The Company made a realised gain on disposals of HK\$136,067,000 in March 2014 from the stock portfolio of Sparkling, of which HK\$129,954,000 was contributed by the disposal of ChinaVision shares.
 - (4) The Company made a realised gain of around HK\$144,500,000 in March 2014 from its stock portfolio, of which around HK\$130,000,000 was attributed to dealings in ChinaVision.
 - (5) The Company made an unrealised gain of HK\$249,800,000 from its stock portfolio, of which HK\$229,100,000 was attributed to its holdings in ChinaVision shares.
14. The March Financial Report contained, *inter alia*: (a) information relating to the realised and unrealised profits made from the Company’s dealings in, and holdings of, ChinaVision shares; and (b) the overall profit figures for March 2014 as well as for the nine months ended March 2014 (collectively the “**March 2014 Profit Figures**”).
 15. On 17 April 2014, physical copies of the March Financial Report were given to the 2nd to 4th Specified Persons.
 16. On 23 April 2014, the March Financial Report was sent by email to members of the board of directors, including the 2nd to 7th Specified Persons (the “**23 April Email**”).
 17. The Company’s holdings in ChinaVision shares continued to be a significant item in the Company’s own internal financial reports for the period ended 30 April 2014 (dated 21 May 2014) and 31 May 2014 (dated 23 June 2014).

18. The information relating to the ChinaVision Gain and/or the March 2014 Profit Figures did, or alternatively, ought reasonably to have come to the knowledge of the 2nd to 7th Specified Persons on or before 23 April 2014 by virtue of access to physical copies of the March Financial Report which were given to the 2nd to 4th Specified Persons on 17 April 2014 and/or by virtue of receipt of the 23 April Email which was sent to members of the board of the Company including the 2nd to 7th Specified Persons.
19. On 26 June 2014, during the meeting of the board of directors of the Company, at which the 2nd to 7th Specified Persons were present, the monthly internal financial report of the Company for the period ended 31 May 2014 was tabled before the meeting. The issue of a possible profit alert announcement was raised, but ultimately no profit alert was issued by the Company until 10 September 2014.
20. On 10 September 2014 at 10:02 p.m., the Company issued a profit alert announcement (the “**Profit Alert**”), which stated *inter alia* that:-
 - (1) Based on a preliminary review of the Group’s unaudited consolidated management accounts for the year ended 30 June 2014, the Group expected to record a substantial profit attributable to shareholders for the year ended 30 June 2014 of between HK\$840 million and HK\$980 million as compared with a loss in 2013.
 - (2) One of the main contributors of the substantial profit for the year ended 30 June 2014 was the gain in fair value of investments held for trading and derivative financial instruments.
21. On 11 September 2014, the day following the publication of the Profit Alert, the Company’s shares traded at between HK\$2.40 and HK\$2.75 per share. Its share price closed at HK\$2.63, representing an increase of 12.39% when compared with the closing price on 10 September 2014. Trading volume increased from 64,220 shares on 10 September 2014 to 2,372,000 shares on 11 September 2014.
22. On 26 September 2014, the Company published its audited financial statements for the year ended 30 June 2014. The Company reported a profit of HK\$906,834,000 in its Securities Investment Segment, and an overall profit of HK\$857,830,000 for the year ended 30 June 2014.

C. FAILURE TO DISCLOSE INSIDE INFORMATION

23. The information relating to: (i) the ChinaVision Gain; and/or (ii) the March 2014 Profit Figures constituted “*inside information*” within the meaning of the definition of that term in section 307A(1) of the Ordinance in that:-
- (1) It was specific information about the Company; and
 - (2) It was not generally known to the persons who were accustomed to or would be likely to deal in the listed securities of the Company but would if generally known to them have been likely to materially affect the price of the listed securities of the Company.
24. The information relating to the ChinaVision Gain and/or the March 2014 Profit Figures did, or ought reasonably to have, come to the knowledge of all members of the board of directors, including the 2nd to 7th Specified Persons, as officers of the Company, on or before 23 April 2014 by virtue of access to a physical copy of the March Financial Report (given to the 2nd to 4th Specified Persons on 17 April 2014) and/or receipt of the 23 April Email (circulated to members of the board of the Company including the 2nd to 7th Specified Persons) in the course of performing their functions as officers of the Company.
25. A reasonable person, acting as an officer of the Company, would have considered that the information relating to the ChinaVision Gain and/or the March 2014 Profit Figures was inside information in relation to the Company.
26. By reason of the matters set out above, the information relating to the ChinaVision Gain and/or the March 2014 Profit Figures came to the knowledge of the Company through the 2nd to 7th Specified Persons as its officers on or before 23 April 2014. Once such information came to the Company’s knowledge, under section 307B of the Ordinance, the Company was obliged to disclose that information to the public as soon as reasonably practicable. However, no disclosure in respect of the significant improvement of the Company’s financial performance was made until the publication of the Profit Alert on 10 September 2014.

D. BREACH OF DISCLOSURE REQUIREMENT BY THE COMPANY

27. By reason of the matters set out above, the Company failed to disclose to the public: (i) the ChinaVision Gain; and/or (ii) the March 2014 Profit Figures (each of which constituted “*inside information*” within the meaning of the definition of that term in section 307A(1) of the Ordinance) as soon as reasonably practicable after the said inside information had come to its knowledge, contrary to section 307B(1) of the Ordinance.
28. Under section 307A(2) of the Ordinance, a breach of a disclosure requirement takes place if any of the requirements in *inter alia* section 307B is contravened in relation to a listed corporation.
29. Therefore, the Company was, or might have been, in breach of the disclosure requirement as provided for in section 307B of the Ordinance.

E. BREACH OF A DISCLOSURE REQUIREMENT BY THE 2ND TO 7TH SPECIFIED PERSONS

30. As officers of the Company, the 2nd to 7th Specified Persons would each be in breach of the disclosure requirement pursuant to section 307G(2)(a) of the Ordinance if (individually considered) the breach by the Company was a result of their reckless or negligent conduct.
31. The 2nd to 7th Specified Persons, as directors of the Company, failed to ensure timely disclosure of the inside information pertaining to the ChinaVision Gain and/or the March 2014 Profit Figures to the public after it had, or ought reasonably to have, come to their knowledge. The failure of each of them amounted to reckless or negligent conduct on their part.
32. In the circumstances, the 2nd to 7th Specified Persons were, or might have been, in breach of the disclosure requirement pursuant to section 307G(2)(a) of the Ordinance.

Dated this 24th day of October 2019

Securities and Futures Commission