

Press Release

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Duo jailed for fraud over acquisition of listed company

Two persons, charged by the ICAC, were today (Wednesday) each sentenced to 24 months' imprisonment at District Court for conspiring to defraud the minority shareholders of a listed company in relation to its acquisition.

The two defendants were Gong Beiyong, 31, former director of Shanghai Merchants Holdings Limited (Shanghai Merchants) and Shanghai Land Holdings Limited (Shanghai Land), and Tsoi Hon-chung, 55, former chairman of Ying Wing Holdings Limited (Ying Wing) (now known as Shanghai Merchants).

Gong and Tsoi were found guilty on one joint charge of conspiracy to defraud the minority shareholders of Ying Wing, the officers of the Stock Exchange of Hong Kong (Stock Exchange) and the Securities and Futures Commission (SFC), and the members of the Independent Board Committee of Ying Wing. Gong was further convicted on one count of false accounting.

Deputy Judge William Lam said the fraud involved the practice of "backdoor listing", which damaged the corporate financial system of Hong Kong, in addition to exposing the uninformed general public into buying shares in a listed company which possessed no business to conduct, having only a bare name.

The court heard that Ying Wing was a listed company whose main business involved processing raw fabric. In late 2001, Tsoi wished to sell his interest in Ying Wing, and asked his financial controller to find a buyer. The financial controller contacted Gong, who then approached businessman Chau Ching-ngai and Sandy Mo Yuk-ping.

Gong told Tsoi that Chau and Mo were only interested in acquiring the "shell" (listing status) of Ying Wing instead of its fabric business.

On behalf of Chau and Mo, Gong promised Tsoi that arrangements would be made for him to acquire back the fabric business at no expense one year after the takeover of Ying Wing.

They also agreed that the "shell" of Ying Wing would be sold at \$61.8 million, which was equivalent to \$0.418 per share of Ying Wing, but falsely represented to the public and the regulators that the consideration also covered the fabric business.

Throughout the acquisition, the fact that the fabric business of Ying Wing would be returned to Tsoi for free was concealed from the minority shareholders of the company, who were also led to accept a consideration lower than that they might otherwise had been advised to accept by the Independent Board Committee of the company.

The offer of \$0.418 per share was subsequently made to the minority shareholders of Ying Wing. After the takeover, Ying Wng was renamed Shanghai Merchants.

By concealing the under-valuation of Ying Wing, the defendants had prevented Stock Exchange and SFC from performing their duties of protecting the company's minority shareholders, the court was told.

The court also heard that in February 2003, Shanghai Land became the owner of a plot of land in Wu Zhong Road in Shanghai.

The court heard that on April 4, 2003, Gong falsified a Shanghai Land payment application, purporting to show that over \$53 million was to be paid to Great Center Limited as payment of materials for the construction of

Wu Zhong Road.

The prosecution was today represented by John Dunn, counsel on fiat, and Ned LAI, Government Counsel, assisted by ICAC officer Tang Chi-kong.