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Market Misconduct Tribunal disqualifies Water Oasis's former CEO and orders disgorgement for insider dealing

5 Feb 2015

The Market Misconduct Tribunal (MMT) has made a disqualification order against Ms Salina Yu Lai Si, former chief executive officer of Water Oasis Group Limited (Water Oasis), and ordered her to disgorge \$281,346 after making the determination that Yu engaged in insider dealing in the shares of Water Oasis (Note 1).

The disqualification order prohibits Yu from being a director or being involved in the management of any listed corporation, without leave of the court, for a period of two years effective 15 February 2015. The sum of disgorgement is equivalent to the benefit she received in avoiding a loss through insider dealing in the shares of Water Oasis on 20 January 2012 (Notes 2 & 3).

The SFC alleged that at the time of her trading in the shares of Water Oasis, Yu knew that H2O Plus LLC would terminate Water Oasis's exclusive distributorship of H2O's products in Mainland China and Taiwan with immediate effect and that this information constituted inside information.

Today's decision follows a hearing before the MMT at which Yu admitted she engaged in insider dealing in the shares of Water Oasis.

In making the decision on the disqualification order, the MMT is concerned that "if Ms Yu is tempted within the next couple of years to return to a management position in Water Oasis or is tempted to take up a position in some other listed corporation, that she may pose a threat to the integrity of the workings of such a business, a threat which may well reach out to undermine compliance with market regulations (Note 4)."

End

Notes:

1. The MMT was chaired by The Honourable Mr Justice Michael Hartmann. Please see SFC's press releases dated [4 November 2014](#) and [14 August 2014](#).
2. Under section 257(1)(a) of the Securities and Futures Ordinance (SFO), a disqualification is an order that the person shall not be a director of a listed corporation or in any way, directly or indirectly, be concerned or take part in the management of a listed corporation for the period specified in the order.
3. Under section 257(1)(d) of the SFO, a disgorgement order is an order that the person shall pay to the Government an amount of any profit gained or loss avoided by the person as a result of the market misconduct in question.
4. A report which sets out the reasons of making the disgorgement and disqualification orders, and other orders is available on the MMT's website (www.mmt.gov.hk).

Page last updated : 5 Feb 2015

The report of the Market Misconduct Tribunal into dealings
in the securities of Water Oasis Group Limited
on 20 January 2012

**A report pursuant to section 252(3)(a), (b) and (c) of the Securities and
Futures Ordinance, Cap. 571**

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CHAPTER 1

INTRODUCTION

1. By a Notice dated 8 August 2014 (“the Notice”), the Securities and Futures Commission (“the SFC”) required the Market Misconduct Tribunal to conduct proceedings to determine whether market misconduct may have taken place in respect of dealings in the securities of Water Oasis Group Limited (“Water Oasis”), a company listed on the Hong Kong Stock Exchange. The nature of the market misconduct alleged in the notice was “insider dealing” within the meaning of section 270 of the Securities and Futures Ordinance, Chapter 571 (“the Ordinance”). A copy of the Notice is annexed to this report as **Annexure A**.

2. In the Notice, the SFC stated that one person only was suspected to have engaged in market misconduct by way of insider dealing. That person was Ms Yu Lai Si, Salina (“Ms Yu”).

3. At the time of the alleged insider dealing, Ms Yu held the post of the Chief Executive Officer (“CEO”) of Water Oasis and was an Executive Director of the company. Ms Yu was also a substantial shareholder in the company. On 19 January 2012, that being the day before her suspected insider dealing, Ms Yu held 167,683,760 shares in the company, representing 21.94% of the issued share capital.

4. Of these shares, Ms Yu had deposited 1.57 million (representing 0.94% of her total holdings) in a securities account at Hang Seng Bank Limited. It is the sale of shares in this account only that is the subject matter of this report.¹

5. As to the circumstances that gave rise to the suspected insider dealing, by way of an overview they may be described as follows.

- (a) Since November 2008, Water Oasis had been the exclusive distributor in a number of Asian countries of a range of skin care, body care and haircare products produced by H2O Plus, LLC (“H2O”). The exclusive distributorship extended to Mainland China, Taiwan, Hong Kong, Macau and Singapore. The distributorship agreements stipulated that, in return for having exclusive distributor rights, Water Oasis would be required to meet minimum purchase targets of H2O products in its various areas of operation.
- (b) In April 2010, January 2011 and again in January 2012, Water Oasis was formally advised by H2O that it had failed to meet minimum purchase targets in respect of two markets, namely, Mainland China and Taiwan. On each occasion, H2O reserved the right to terminate the exclusive distributorship agreements in respect of these markets.
- (c) The importance of these two markets to Water Oasis is illustrated by the fact that in September 2011 Water Oasis operated a total of

¹ Ms Yu also held 4.78 million shares with Tung Shing Securities (Brokers) Limited with the remainder of her shares (in excess of 96% of her holdings) being held in physical share certificates.

307 H2O outlets throughout Asia of which 274 were in Mainland China and 14 in Taiwan with just 17 in Hong Kong and one each in Macau and Singapore.

- (d) The failure of Water Oasis to meet minimum purchase targets of H2O products in respect of Mainland China and Taiwan came to a head on the morning of 20 January 2012. On that morning, between 10:02 a.m. and 10:25 a.m., there was a telephone conference between Mr Bob Seidl, the President and CEO of H2O, and Ms Yu who was accompanied by two members of her senior management team. During this telephone conference, Mr Seidl informed Ms Yu that, due to the failure of Water Oasis to comply with the terms of the relevant distributorship agreements, H2O was – with immediate effect – terminating the exclusive distributorship rights of Water Oasis in Mainland China and Taiwan.
- (e) Shortly after that telephone conference, at around 12:13 p.m., Mr Seidl sent by email the letters of termination.
- (f) An event of such importance to the business integrity of Water Oasis was required to be made public and on the night of that same day, at around 10:13 p.m., Water Oasis published an announcement confirming the termination of the sole distributor rights for H2O products in Mainland China and Taiwan. A copy of the announcement is annexed to this report as **Annexure B**.
- (g) In the announcement, it was said that the company's H2O operations in Mainland China and Taiwan had “contributed approximately 21.8% of its audited consolidated net profit after tax for the year ended 30 September 2011”. Put in plain terms, Water

Oasis had just lost distributorship rights which had been responsible for more than 20% of the company's net profits.

- (h) On 26 January 2012, the first trading day after publication of the announcement, shares of Water Oasis dropped by 14.08% even though on the same day the Hang Seng Index rose by 1.64%.

6. It is within this factual context that Ms Yu dealt in the shares of Water Oasis. The manner of her dealing may be described as follows.

- (a) Some 20 minutes after the telephone conference had been concluded, at about 10:46 a.m. that same day, Ms Yu had a telephone conversation with Ms Lucinda Cheung who was Ms Yu's Relationship Manager at Hang Seng Private Banking. Initially, Ms Yu spoke of disposing of certain Apple shares held in the portfolio. She then proceeded to instruct Ms Cheung to sell all of the 1.57 million Water Oasis shares held in her name by Hang Seng Private Banking.
- (b) Ms Cheung informed Ms Yu that the shares had been acquired at an average cost of \$0.832 and were trading that day at between \$1.44 and \$1.45. Ms Yu instructed her to sell the shares in the market "bit by bit". There was time, she said, and matters should be taken easily. As to the price, Ms Yu was prepared to leave that to the discretion of Ms Cheung "as long as a profit can be made". After a few words, however, Ms Yu settled on a limit price of \$1.
- (c) The following short conversation then took place:

"Ms Cheung: Er, you are to sell all 1.57 million shares, right?"

Ms Yu: That's right. Money is needed before the Chinese New Year (laughing).

Ms Cheung: Money is needed before the Chinese New Year. Is there any special news, huh? The most important thing is...

Ms Yu: Sell them all.

Ms Cheung: No special news?

.....

Ms Yu: My company does not have any special news. How come there would be any special news? Special news has to be announced.

Ms Cheung: An announcement has to be made, yeah, yeah.

Ms Yu: Of course. How could we –

Ms Cheung: No, yeah. But – right also...

Ms Yu: We abide by the rules very strictly.”

(d) Some 20 minutes later, Ms Cheung telephoned Ms Yu to tell her that all of her 1.57 million shares in Water Oasis had been sold for an average price of \$1.40 per share. Ms Yu replied: “Okay, that's good.”

(e) Ms Yu then informed Ms Cheung that it was necessary for her to make an announcement that she had sold the shares and asked if Ms Cheung could give her a standard statement form. Ms Cheung said that she was unable to do this and that Ms Yu should refer to

Henry Au, the Chief Financial Officer at Water Oasis. She said that she would however list out all the prices at which the shares had been sold.

7. Ms Yu's sale of the 1.57 million shares on 20 January 2012 yielded a sum of HK\$2,189,888.

8. For the avoidance of ambiguity, it is confirmed that Ms Yu made no attempt to sell any of her other shares in Water Oasis.

CHAPTER TWO

THE PRELIMINARY CONFERENCE BEFORE THE TRIBUNAL

9. On 3 November 2014, a preliminary conference was held before the Market Misconduct Tribunal. At that conference, the SFC was represented by Mr Derek C.L. Chan, the Assistant Presenting Officer, while the Specified Person, Ms Yu, was represented by Mr Simon C.W. Chiu, instructed by Messrs Sit, Fung, Kwong & Shum.

10. At that conference, the Chairman, the Hon Mr Justice Hartmann, was informed by both counsel that there would be no dispute as to the three matters that the Tribunal was required to determine; first, that market misconduct by way of insider dealing had taken place as alleged in the notice; second, that it was the specified person, Ms Yu, who had engaged in that insider dealing and, third, that there was no dispute that the loss avoided by way of the insider dealing was the sum of \$281,346, this being the sum asserted by the SFC.

11. Mr Chiu, representing Ms Yu, indicated that the matter that would fall for determination by the Tribunal was the level of Ms Yu's culpability. In this regard, what would be asserted at the substantive hearing was that, at the time when the dealing in the shares took place, Ms Yu was suffering from an undiagnosed psychiatric illness which, if it did not entirely prevent her from forming the intention to commit market misconduct by way of insider dealing, nevertheless very substantially reduced her culpability in respect of it.

12. Having regard to the limited issue that fell to be determined by the Tribunal, that issue going to the state of Ms Yu's psychiatric health and its effect, if any, on her culpability, it was agreed that this was a matter which in the general interests of justice should be determined by the Chairman alone and that the Chairman should thereafter, in light of his findings, determine the nature and extent of any orders permitted by the Ordinance. The Tribunal was therefore constituted pursuant to the Notice with the Chairman being the sole member.²

13. Subsequent to the preliminary conference, and for the assistance of the Tribunal, counsel agreed the contents of a "Statement of Agreed and Admitted Facts". A copy of that Statement is annexed to this report as **Annexure C**.

² Section 36 of Schedule 9 of the Ordinance permits the Chairman to sit alone as the sole member of the Tribunal to hear and determine any question or issue arising out of or in connection with the proceedings.

CHAPTER THREE

THE PSYCHIATRIC EVIDENCE

14. The common law is no stranger to the fact that from time to time in both criminal and regulatory proceedings persons may seek advantage by either creating or exaggerating psychiatric disabilities. It is of significance therefore that Ms Yu did not herself seek out psychiatric assistance. To the contrary, she was recommended to seek such assistance by her solicitor, Mr Peter Sit Kien Ping, the senior partner in a well-established Hong Kong firm³.

15. In this regard, Mr Peter Sit filed an affidavit concerning several meetings that he had with Ms Yu in early February 2012 in order to take instructions from her as to the Stock Exchange enquiry into her disposal of the 1.57 million shares in Water Oasis. A contemporary memorandum reveals that he found Ms Yu to be “very stressed and incoherent in her instructions” so much so that, for the first time in his 36 years of practice, he recommended that she seek medical assistance and referred her to Dr Wong Chung Kwong, a psychiatrist and one-time Professor of Psychiatry at the Chinese University of Hong Kong.

16. Dr Wong saw Ms Yu on 14 occasions (on each occasion for two hours) between 9 February and 24 May 2012. His report of 30 May 2012 submitted to the Tribunal was very detailed and included an in-depth family history going back to Ms Yu’s childhood. Dr Wong concluded that Ms Yu was

³ Sit Fung Kwong & Shum, solicitors.

suffering from two psychiatric disorders; first, Obsessive Compulsive Disorder and, second, a Major Depressive Disorder accompanied by panic attacks.

17. Dr Wong was of the view that the Obsessive Compulsive Disorder had developed in early 2010 and that the Major Depressive Disorder, the severity of which he categorised as being moderate to severe, developed a few months later.⁴

18. In respect of Ms Yu's share dealing on the morning of 20 January 2012, Dr Wong placed emphasis on the fact that, in his opinion, Ms Yu must have been in the throes of a panic attack. As to the nature of such an attack, he said the following (paragraph 91 of his report):

“In a state of fear, cognitive functions become impaired. ‘Cognitive functions’ refer to the intellectual functions including concentration, thinking, judgment, memory and comprehension. Typically, concentration becomes chaotic or constricted. ‘Chaotic’ refers to the observation that they are not able to concentrate. ‘Constricted’ refers to the observation that they can only focus on a narrow theme, such as they keep focusing on the same thoughts or repeating the same words or sentences. Their thinking and judgment are impaired

⁴ In describing the clinical features of Major Depressive Disorder, Dr Wong cited from the book, *Seminars in General Adult Psychiatry* published by the Royal Colleges of Psychiatrists in 2007: “Depressed mood is the commonest symptom found in depressive disorders. It has an obvious claim to be the central feature, but it is not essential for diagnosis and it is not easy to delineate. Most definitions refer to sadness, misery or dejection. The mood is painful and oppressive, and frequently without apparent cause. It can be distinguished from normal feelings of sadness or unhappiness which accompany loss or failure by its greater intensity, duration and pervasiveness. A special quality is often described, as if a black cloud were descending. Sufferers feel heavy-hearted and weighed down with their miseries.”

in that they can no longer tackle their problems, crises or situations rationally. They become irrational.”

19. Dr Wong spoke of persons who have suffered panic attacks having distorted recollections of what occurred, some indeed suffering from amnesia of the event.

20. As to the events of 20 January 2012, Dr Wong was told by Ms Yu that prior to the telephone conference with Mr Seidl, she had no apprehension that the exclusive distribution rights for H2O products in the Mainland and in Taiwan were in jeopardy. There had been threats of termination in the past but these had invariably been followed by close cooperation in marketing matters and, insofar as was necessary, by restoration of good relations. On this occasion, said Ms Yu, no agenda had been set for the telephone conference nor any indication given that it would deal with the termination of the exclusive distribution rights. The termination of the distribution rights therefore was totally unexpected. Ms Yu said she was deeply shocked; she felt distressed and helpless. She lost the ability to conduct a rational conversation with Mr Seidl, experiencing deep panic and confusion. According to Dr Wong, “she had the agonising fear that the company would collapse and that she had no way to save it.”

21. In Dr Wong’s opinion, the fact that the telephone conference happened in the morning was significant. This was because Ms Yu suffered from diurnal mood variation, her depressed mood being worst in the morning

and causing “parallel worsening effects” on her ability to think and to make sensible judgments.

22. Dr Wong did not go so far as to say that the panic attack suffered by Ms Yu during and after the telephone conference was of such a nature that, when she was giving instructions to sell her shares, she had no comprehension of the exact nature of what she was doing. He did say, however, that in his opinion the panic attack (exacerbated by her two psychiatric disorders) caused her cognitive function and memory to become severely impaired so that the selling of her stocks was an irrational act.

23. As is usual, instructions given to brokers to buy and sell shares are audio-recorded. The SFC was able to obtain the audiotapes of the relevant conversations. Dr Wong was therefore able, not only to have an accurate record of what exactly was said, but was able to assess the tone of the conversation. In this regard, Dr Wong recognised that, when giving instructions to her relationship manager, Ms Yu appeared calm. But this, he said, did not contradict his diagnosis of an active panic attack. While some people may behave in a panic-stricken manner, others may appear to be surprisingly calm, such calmness being a repression of fear.

24. Dr Wong pointed to nine factors which he said indicated the irrationality of Ms Yu’s conduct in selling the 1.57 million shares, an irrationality caused by her psychiatric disorders. While the Tribunal has no argument with the majority of those factors, there are several which in its view are far from compelling –

- (a) Dr Wong pointed to the fact that Ms Yu only sold 1.57 million shares, that being a small proportion of her total shareholding. If she was acting rationally, he suggested, she would have sold many more shares. That, however, ignores the fact that the shares were not heavily traded – a fact that Ms Yu would have known – and it may not have been possible for the market to absorb a far greater number of shares put forward for sale. In addition, the greater the number of shares put up for sale the more likely it would attract regulatory attention. Objectively, in respect of these matters, therefore, Ms Yu’s decision may have been entirely rational.
- (b) Dr Wong pointed to the fact that Ms Yu wanted to sell the 1.57 million shares at a bottom limit of \$1 when the shares were trading at \$1.40 to \$1.45. There was however no reason to suggest a collapse in the share price, he said, and no rational reason therefore to set such a low limit. While the Tribunal accepts that these actions may well evidence a degree of panic, it does not accept that it evidences irrational and/or confused panic. Even though Ms Yu was only selling a small percentage of her total holdings in Water Oasis, she must have appreciated that, having regard to the size of the company, the shares she was seeking to sell could well swing the market. That was why she advised her Relationship Manager to sell the shares bit by bit. It is also to be remembered that she was not prepared to sell at any price, she wished to secure a profit – that she made clear – that profit to provide her with some gain, even if minimal, against a material swing in the market.
- (c) Dr Wong pointed also to the fact that, after the shares had been sold, Ms Yu said that she wished to make an announcement of her sale as

the regulations required her to do. In this regard, she was acting in an automatic and stereotypic manner, he suggested. Equally, however, with time to think, Ms Yu may have wished to give the appearance that in all respects she had been acting properly and in accordance with regulatory process. Whether confused as to the important issue of timing, her actions nevertheless suggest a calculated attempt to give her share dealing an air of normality.

25. Consequent upon the submission of Dr Wong's report, the SFC sought an independent psychiatric opinion from Dr Tsang Fan Kwong. Dr Tsang did not get to see Ms Yu but he did have access to relevant papers and the audio recording of the conversations between Ms Yu and her Relationship Manager at Hang Seng Bank.

26. Dr Tsang's opinion was sought primarily as to Ms Yu's mental condition at the time she gave instructions to sell her shares.

27. Dr Tsang was of the view that Ms Yu sold her shares in a rational manner. Dr Tsang observed (in paragraph 35 of his report) that typical panic attacks usually last for 20 to 30 minutes, reaching maximum intensity of the first 10 minutes. If Ms Yu's panic attack had commenced during the telephone conference with Mr Seidl, it would normally be expected to be subsiding gradually 20 minutes or so after the conference was concluded. This would explain what appeared on the audiotape 21 minutes after the conference, said

Dr Tsang, when Ms Yu instructed her relationship manager to sell the shares.

Dr Tsang observed:

“... while she instructed Lucinda of Hang Seng Bank to sell her shares, her voice was “calm”. Not only calm, her voice was normal in tempo, pace and there was no tremor of voice noted. She talked in a polite manner and was able to make a joke with Lucinda that she needed money for Chinese New Year. Based on the audio recording between Yu and Lucinda, I found no evidence of psycholinguistic features of panic attacks, namely, tremor of voice, urgency and hurried speech, loud and lack of courtesy, flow of speech interrupted by breathing sounds, and irrelevant or inappropriate speech indicating that she was unable to focus during the conversation. Yu showed no evidence of panic attack when she gave instructions to sell her shares.”

28. Dr Tsang accepted that Ms Yu may have been suffering from Obsessive Compulsive Disorder and from Major Depressive Disorder. But, in his professional opinion, her psychiatric condition did not substantially impair her judgement, her behaviour or the nature of her decision-making in the time she spoke to her Relationship Manager. Dr Tsang was of the view that at the time she gave instructions to sell her shares, Ms Yu knew what she was doing and appreciated the implications of her actions.

29. Dr Tsang also took issue with Dr Wong’s finding that Ms Yu’s apparent calmness at the time she gave instructions to sell her shares may have been caused by ‘repression’. Dr Tsang took some time to explain the concept as

elaborated by Freud and by modern authors but was firmly of the view that there was no repression evident in Ms Yu's conduct.

CHAPTER FOUR

THE FINDINGS OF THE TRIBUNAL

IN RESPECT OF THE PSYCHIATRIC EVIDENCE

30. On the evidence, it is clear that in January 2012 Ms Yu was labouring under two as yet undiagnosed psychiatric disorders: Obsessive Compulsive Disorder and Major Depressive Disorder.

31. There is no doubt that the immediate termination of the exclusive distribution rights of H2O products in the Mainland and Taiwan constituted a major blow to the commercial viability of Water Oasis even if the company had other products to distribute and/or was in a position to secure other products. Knowledge of the termination was patently price sensitive information, a finding supported by the fact that the senior management of the company set about issuing a public announcement on the day that Mr Seidl announced the terminations, the announcement being published later that night.

32. For any CEO it would have been a worrying time. For Ms Yu, subject as she was to depression, it is understandable that she was, as Dr Wong described it, deeply shocked and that she had the agonising fear that the company would collapse and that she had no way to save it. It is equally understandable that this exaggerated fear, brought about by her psychiatric condition, may have engendered a high degree of panic.

33. Can it be said, however, that, when she made the decision to sell her shares shortly after the telephone conference had concluded, Ms Yu did not know what she was doing, that is, that - by reason of her psychiatric disorders - she had no idea of the true nature of her actions? As mentioned earlier, Dr Wong himself did not go this far.

34. Whatever sympathy the Tribunal has for Ms Yu's debilitating psychiatric disorders, therefore, it is satisfied that when she instructed her Relationship Manager to sell the 1.57 million shares in Water Oasis, Ms Yu knew that she was in possession of price sensitive information, that is, information that almost certainly would have a material effect on the value of those shares when the information became public. Put simply, Ms Yu knew that she was guilty of market misconduct by way of insider dealing. Evidence of this is to be found in the recorded conversation between Ms Yu and her Relationship Manager (cited in chapter 1 of this report) when the Relationship Manager, clearly surprised at the size of the sale, asked if there was any special news in respect of the shares and was told by Ms Yu that any such special news would have to be announced to the public; as Ms Yu put it: "We abide by the rules very strictly." Ms Yu, of course, had just come from a telephone conference in which highly price sensitive information had been made known to her. In denying the presence of any such special news and, if such news was present, in stating that there would be a regulatory requirement to announce it, Ms Yu was indicating in the clearest terms – albeit only to herself – that she knew she was insider dealing.

35. It is accepted that Ms Yu, in her distress, may have found it difficult to think objectively. But that said, she did not find herself in a situation in which, labouring under her psychiatric conditions, she had to make difficult and/or nuanced decisions. She knew she was in possession of price sensitive information. That was obvious and, in her mind, would have been the cause of her deep shock and fear for the future of the company. But once in possession of that information she knew that she could not sell her shares, not until the information had been made public. It was that simple. It was a black and white situation. Yet within minutes she had ordered that a portion of her shares be sold and sold so that she would be in a position to lock in at least some profit. Was she, by reason of her psychiatric condition, acting under some form of compulsion that was impossible to resist? In the opinion of the Tribunal, the evidence does not go that far.

36. The Tribunal has not had the benefit of being able to listen to the audio tapes of the conversations between Ms Yu and her Relationship Manager. They are in the Cantonese language. Notwithstanding that handicap, the English translation of what was said does not indicate confusion or agitation. To the contrary, it appears on its face to indicate unsurprising, informal conversations in which Ms Yu is very much alive to the issues being raised and knows how best to answer them. In short, even if Ms Yu was at the time in a state of panic, intelligence and calculation are both evident.

37. The Tribunal is therefore inclined to give more weight to Dr Tsang's opinion that at the time she gave instructions to sell her shares, even if suffering from serious psychiatric disorders so that her judgment was to a degree

impaired, Ms Yu's judgment was not however substantially impaired. Put plainly, even if suffering from a high degree of shock and resulting panic, she knew what she was doing and appreciated the implications of her actions.

38. The Tribunal accepts that Ms Yu must have been under stress and no doubt the psychiatric disorders under which she was labouring made that stress particularly difficult to handle. But it is to be remembered that many instances of insider dealing take place in circumstances of stress, for example, the sudden news given to insiders that a company's finances are far more dire than anticipated and that their holdings in the company, perhaps the main basis of their affluence, is directly threatened. Stress of that kind cannot excuse market misconduct even though it may perhaps mitigate the degree of an individual's culpability.

39. In the light of these findings, the Tribunal has determined the three matters put before it in the Notice as follows:

- (a) market misconduct in the nature of insider dealing did take place on 20 January 2012 in respect of dealings in the shares of Water Oasis;
- (b) the person who engaged in the market misconduct was Ms Yu Lai Si, Salina; and
- (c) the amount of the loss avoided as a result of the market misconduct was the sum of \$281,346, this sum being agreed.

CHAPTER FIVE

CONSIDERING THE ORDERS TO BE IMPOSED

40. In the view of the Tribunal, when considering permitted orders, it is important to bear in mind that Ms Yu, under the guidance of Dr Wong, resigned as the CEO and as an Executive Director of Water Oasis in July 2012. In a letter dated 20 June 2012 supporting that move, Dr Wong said the following:

“Her psychiatric condition has been deteriorating continuously since her returning to work. She is now suffering from active symptoms of both disorders. An important stressor that causes the deterioration in her mental status is her work. She has lost a great deal of the improvement she achieved prior to her returning to work. In rough percentage terms, her recovery is now down to only about 40% (whereas on 17 May 2012, it was 70%).

To conclude, going back to work has caused a significant deterioration in her mental state and has caused a recurrence in both psychiatric disorders. In her current mental state she will not be able to function competently as Chief Executive Officer and Executive Director, even though she tries very hard to do so. To continue to work as Chief Executive Officer and Executive Director will very likely lead to a further and significant deterioration in both psychiatric disorders.

Therefore, on psychiatric grounds, I recommend that she should resign from being Chief Executive Officer and Executive Director of her Corporation. Moreover, she should do so as soon as possible...”

41. On the evidence, it appears that Ms Yu resigned from her positions in Water Oasis in July 2012. That was more than two years ago. She has not since then taken up any directorship or top managerial position with Water Oasis or with any other corporation. In short, in order to avoid the stress of such commercial responsibilities and to ensure her own well-being, Ms Yu has removed herself from any direct involvement in the commercial world. The Tribunal has been told that Ms Yu now devotes most of her time to a Buddhist organisation and is actively engaged in charitable work.

42. Ms Yu remains on a regime of anti-depressant medication and apparently still suffers from mild obsessive and compulsive symptoms. The Tribunal is told, and has no reason to dispute the fact, that Ms Yu has a good insight into her condition and understands full well that a return to the rigours of commercial life will place an intolerable stress on her present state of relative well-being.

43. It is to be noted that Ms Yu has never been subject to any form of market misconduct investigation before.

An order pursuant to section 257(1)(d)

44. This section gives the power to the Tribunal to order that a person pay to the Government an amount not exceeding the amount of any profit gained or loss avoided by the person as a result of the market misconduct of which that person has been found liable. Ms Yu accepts that, pursuant to the section, she must pay to the Government an amount of \$281,346 being the loss avoided by her in the sale of the shares. That order is made.

An order pursuant to section 257(1)(a)

45. This section gives the power to the Tribunal to order that a person shall not, without the leave of the Court of First Instance, be or continue to be concerned in the management of a listed corporation or any other specified corporation. **Having regard to the continuing frailty of her psychiatric condition, the Tribunal is concerned that, if Ms Yu is tempted within the next couple of years to return to a management position in Water Oasis or is tempted to take up a position in some other listed corporation, that she may pose a threat to the integrity of the workings of such a business, a threat which may well reach out to undermine compliance with market regulations.**

46. Accordingly, the Tribunal orders that Ms Yu shall not, without the leave of the Court of First Instance, be or continue to be a director or manager of the property or business of a listed corporation or in any way, whether

directly or indirectly, be concerned or take part in the management of a listed corporation for a period of 24 months calculated from 15 February 2015⁵.

Orders pursuant to section 257(1)(b) and 257(1)(c)

47. Section 257(1)(b) gives the power to the Tribunal to impose what are commonly called : “cold shoulder” orders. Unless the leave of the Court of First Instance is first obtained, a cold shoulder order has the effect of prohibiting a person who is the subject of the order from any dealings, direct or indirect, in the Hong Kong financial market for the life of the order. Failure to comply with such an order constitutes a criminal offence. If a person aids and abets the avoidance of a cold shoulder order that person commits an offence. Even though such an order may result in financial loss, it is settled that this effect is incidental and subservient to the primary intention of protecting the public. The order is designed to safeguard our financial markets.

⁵ The substantive hearing to determine the issue of Ms Yu’s culpability and what orders should be imposed in the light of the culpability took place on 15 January 2015. Being aware of Ms Yu’s psychiatric disorders, the Tribunal did not wish to keep her in a state of suspense as to the orders and, after a brief adjournment in order to consider submissions made by counsel, returned to state the orders to be imposed. The Tribunal stated that the period of disqualification pursuant to section 257(1)(a) should be 24 months commencing from 1 January 2015. Later that same day, the Assistant Presenting Officer, Mr Derek Chan, informed the Tribunal that, pursuant to section 257(8) of the Ordinance, an order made could only take effect at the time when it is notified to the person or at a time specified in the notice whichever is the later. Ms Yu was not present at the hearing. An order in terms of which the disqualification commenced from 1 January 2015 was therefore *ultra vires*. In order to maintain the period of disqualification as one of two years and at the same time to comply with the provisions of section 257(8), the Tribunal determined that the two-year period should run from 15 February 2015: this date would enable the report to be completed and Ms Yu to be advised of the period of her disqualification before the disqualification came into effect. In all the circumstances, more especially as, on the evidence, Ms Yu has not returned to work in a position of management in any listed corporation and has no desire to do so in the near future, the Tribunal did not consider that the amended dates will cause Ms Yu any prejudice.

48. The Tribunal has determined that Ms Yu does not, and will not, present a threat to our financial markets and that there is no purpose therefore in imposing the order. It may be said that every person who is guilty of market misconduct cannot be trusted to operate in our markets in accordance with the requirements of law. However, if that principle is to be rigidly applied, it would mean that every person found guilty would be subject to the sanction and that itself, in the view of the Tribunal, would bring the Tribunal perilously close to imposing the prohibition by way of a penalty rather than a protective order.

49. In the present case, Ms Yu traded on one isolated occasion, doing so in the circumstances of panic while labouring under severe psychiatric illnesses that were at the time unknown to her. Ms Yu traded in a relatively small number of shares bearing in mind the magnitude of her total holdings in Water Oasis. Now that she has been made aware of her psychiatric condition, she has stepped away from the markets and is under the care of her psychiatrist: both of these factors indicating a genuine desire to avoid any future breach of market regulations.

50. It may well be, of course, that with the assistance of brokers, Ms Yu may wish to trade from time to time in order to preserve and enhance her personal wealth. It may also be that in due course, in working for her Buddhist organisation and/or for other charitable organisations, she may wish to take on the role of a financial or investment adviser. Whether she wishes to do so is uncertain. Her one clash with the regulatory authorities may well have deterred her for life. But even if she does at some time in the future wish to trade, the

Tribunal is satisfied that she will not in that limited capacity pose any threat to our markets.

51. Section 257(1)(c) provides that the Tribunal may order that a person identified as having engaged in market misconduct shall not again perpetrate any conduct which constitutes such market misconduct as is specified in the order. Such orders, known as “cease and desist” orders, permit trading but, on pain of criminal punishment, seek to ensure that all future dealings by that person will not constitute market misconduct. Our courts have held that cease and desist orders are preventative, that is, protective, and not penal.

52. Having regard to all the circumstances, the Tribunal is of the view that the integrity of the market does not require protection by way of a cease and desist order in this case. Put simply, although guilty of market misconduct on one occasion, the Tribunal is satisfied that Ms Yu poses no future threat and that accordingly the imposition of a cease and desist order is not required.

The issue of costs

53. In terms of section 257(1)(f) of the Ordinance, the Tribunal has the power, in the exercise of its discretion, to order that Ms Yu pay to the SFC such sum as it considers appropriate for the costs and expenses reasonably incurred by the SFC in relation or incidental to the investigations carried out in order to bring these proceedings before the Tribunal and such costs and expenses reasonably incurred in respect of the proceedings themselves.

54. On behalf of the SFC, it was submitted that costs in the order of \$736,077 had been incurred and that an order for that amount should therefore be made. On behalf of Ms Yu, however, it was argued that, for all practical purposes, she had from a very early stage accepted her insider dealing, the only live issue being the degree to which her psychiatric disorders should impact upon her culpability. In light of this, it was submitted on behalf of Ms Yu that costs in a lesser amount would be appropriate.

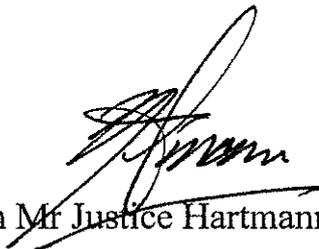
55. Having heard submissions, the Tribunal determined that, costs being in its discretion, and looking at the entire picture, it would be appropriate to make an order that Ms Yu pay costs to the SFC in the sum of \$500,000. That order is made.

56. In terms of section 257(1)(e), the Tribunal has the power, in the exercise of its discretion, to order that Ms Yu pay to the Government such sum as it considers appropriate for the costs and expenses reasonably incurred by the Government, that is, the Tribunal itself, in relation to or incidental to the proceedings. In this regard, the Tribunal Secretariat has calculated that costs and expenses in the sum of \$195,525.53 have been incurred, such costs and expenses consisting of the following: first, the costs of the Chairman, being \$98,000; second, the charges of the court reporters, being \$12,160 and, third, the costs and expenses of the Tribunal Secretariat (including staff costs and accommodation costs), being \$85,365.53. The Tribunal considers that this sum (less the cents) is appropriate to meet the costs and expenses reasonably incurred by the Tribunal and orders that \$195,525.00 be paid by Ms Yu.

A summary of the orders made

57. It is ordered that the specified person, Ms Yu Lai Si, Salina –
- (a) pay to the Government pursuant to section 257(1)(d) of the Ordinance a sum of \$281,346 being the loss avoided by her in the sale of the shares;
 - (b) pay to the SFC pursuant to section 257(1)(f) the sum of \$500,000 being the costs and expenses incurred by the SFC;
 - (c) pay to the Government pursuant to section 257(1)(e) the sum of \$195,525 being the costs and expenses incurred by the Tribunal; and
 - (d) pursuant to section 257(1)(a), shall not, without the leave of the Court of First Instance, be concerned or take part in the management of a listed corporation for a period of 24 months calculated from 15 February 2015.
58. It is further ordered –
- (a) that pursuant to section 253(1)(f) of the Ordinance, without the leave of the Tribunal first obtained, no person is to publish or otherwise disclose the contents of the psychiatric reports received by the Tribunal with the exception only of any parts of those reports cited in the Tribunal’s ruling; and
 - (b) that pursuant to section 264(1) and (2) of the Ordinance, the Tribunal directs that written notice be given in order to register

these orders in the Court of First Instance and the Registrar of Companies.



The Hon Mr Justice Hartmann NPJ
(Chairman)

Dated 5 February 2015

**IN THE MATTER OF THE LISTED SECURITIES OF
WATER OASIS GROUP LIMITED
(STOCK CODE 1161)**

**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 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 Water Oasis Group Limited (Stock Code 1161) (the "**Company**"), the Market Misconduct Tribunal is hereby required to conduct proceedings and determine:-

- (a) whether any market misconduct in the nature of insider dealing or otherwise 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 as a result of the market misconduct found to have been perpetrated.

Person suspected to have engaged in market misconduct activities

Ms Yu Lai Si Salina ("**Ms Yu**")

Statement for institution of proceedings

1. At all material times prior to 6 July 2012, Ms Yu was an Executive director and the Chief Executive Officer of the Company and a substantial shareholder of the Company.
2. As at 19 January 2012, Ms Yu held 167,683,760 shares in the Company, representing 21.94% of the issued share capital of the Company, of which:-
 - (i) 1.57 million shares were held in her securities account at Hang Seng Bank Limited;
 - (ii) 4.78 million shares were held in her securities account at Tung Shing Securities (Brokers) Limited; and
 - (iii) the remaining shares were held in physical share certificates.

Termination of the Company's exclusive distributorship

3. Since 30 November 2008, the Company had been the exclusive distributor of H2O Plus LLC's ("H2O") skin care products in Mainland China and Taiwan. The Company was also an exclusive distributor of the same products in Hong Kong, Macau, and Singapore.
4. As at 30 September 2011, the Company operated a total of 307 H2O retail outlets comprising 17 in Hong Kong, 1 in Macau, 274 in Mainland China, 14 in Taiwan and 1 in Singapore. The H2O business was a main contributor to the Company's turnover. For the year ended 30 September 2011, net profit from H2O's operations in Mainland China and Taiwan amounted to a total of HK\$17.7M, or approximately 21.82% of the Company's total net profit of HK\$81.1M (the specific contribution of H2O's operations to the Company's net profit in these two sectors for this financial year was known to the Board, including Ms Yu, but not by the general public prior to the Announcement).
5. On 20 January 2012 between around 10:02am and 10:25am, Mr Bob Seidl ("**Mr Seidl**"), the President and Chief Executive Officer of H2O, held a telephone conference ("**the Telephone Conference**") with senior management of the Company namely Ms Yu, Mr Henry Au (the Company's Chief Financial Officer) ("**Mr Au**") and Mr Yu Kam Shui Erastus (executive director of the Company and elder brother of Ms Yu) ("**Mr Yu**").
6. During the Telephone Conference, Mr Seidl informed Ms Yu that H2O would terminate the Company's exclusive distributorship in H2O's products in Mainland China and Taiwan with immediate effect due to the Company's breaches of the Mainland China and Taiwan distributorship agreements ("**the Termination**").
7. At around 12:13pm on the same day, Mr Seidl sent an email attaching a covering letter and two termination notices to Ms Yu. The two termination notices terminated *inter alia* the exclusive distributorship in Mainland China and Taiwan with immediate effect.
8. At 10:13pm on the same day, the Company announced *inter alia* the termination of the exclusive distributorship of H2O's products in Mainland China and Taiwan ("**the Announcement**"). It was stated in the Announcement that H2O's operation in Mainland China and Taiwan contributed to approximately 21.8% of the Company's audited consolidated net profits for the year ended on 30 September 2011.
9. Prior to the Announcement, there was no publicly available information regarding the Termination or the contribution of H2O's operations in Mainland China and Taiwan to the net profit of the Company.

10. On 26 January 2012, the first trading day after the publication of the Announcement, the price of the Company's shares dropped by 14.08% to close at HK\$1.22. On the same day, the Hang Seng Index rose 329 points (1.64%) to 20,439.
11. The Termination and the significance of the contribution of H2O's operations in Mainland China and Taiwan to the net profit of the Company, was not generally known to persons who were accustomed or would be likely to deal in the shares of the Company but which would if it were generally known to them be likely to materially affect the Company's share price.

Dealings in shares of the Company by Ms Yu

12. Approximately 20 minutes after the Telephone Conference, at around 10:46am on 20 January 2012, Ms Yu instructed her relationship manager at Hang Seng Private Banking, Ms Lucinda Cheung ("**Ms Cheung**"), to sell all of her 1.57 million shares in the Company held in her account at Hang Seng Bank.
13. The record of the telephone conversation between Ms Yu and Ms Cheung (in Chinese) revealed the following:-
 - (i) Ms Cheung specifically asked Ms Yu if there was any special news in relation to the Company.
 - (ii) Ms Yu denied having any special news and stated that "we abide by rules" (in Chinese: "我哋好守規矩").
 - (iii) Ms Cheung reminded Ms Yu that her average price of acquisition of her shares at Hang Seng Bank was HK\$0.832 and that the share price of the Company was then trading at around HK\$1.44 to HK\$1.45.
 - (iv) Ms Cheung also reminded Ms Yu that the trading of the Company's shares was not active compared with the quantity of shares Ms Yu was selling.
 - (v) Ms Yu instructed Ms Cheung to sell all of her shares so long as there was a profit. Upon request by Ms Cheung for a specific minimum price, Ms Yu indicated that she was willing to dispose of her shares at as low as HK\$1.00 per share.
14. By around 11:10 am on the same day, all of Ms Yu's 1.57 million shares were sold at an average price of around HK\$1.4.

15. By reason of the above, Ms Yu as a person connected with the Company having information about the Termination and the contribution of H2O's operations in Mainland China and Taiwan to the net profit of the Company, which she knew was relevant information in relation to the Company, dealt with the shares of the Company by selling them prior to the Announcement.
16. Accordingly, Ms Yu engaged or may have engaged in market misconduct contrary to section 270(1)(a) of the Ordinance.
17. Consent from the Secretary for Justice for the institution of these Market Misconduct Tribunal Proceedings pursuant to section 252A(1) of the Ordinance was obtained on 25 April 2014.

Dated this 8th day of August 2014

Securities and Futures Commission
Securities and Futures Commission

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Water Oasis Group

奧 思 集 團

WATER OASIS GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1161)

TERMINATION OF DISTRIBUTORSHIP OF ~H₂O+ PRODUCTS IN THE PRC AND TAIWAN AND UPDATE OF BUSINESS PROSPECT

This announcement is made by Water Oasis Group Limited (the “Company”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

On 20th January, 2012, the Company received from H2O Plus, LLC a letter and two notices of termination, each dated 19th January, 2012, that terminate (i) with effect from 19th January, 2012 the Company’s exclusivity of the distributorship in the People’s Republic of China (the “PRC”) and Taiwan, and (ii) with effect from 19th February, 2012 the Company’s distributorship agreements in respect of distribution of ~H₂O+ products in the PRC and Taiwan, on the basis that the Company has not met minimum purchase targets of their products for three consecutive years ended 31st December, 2011. The Company has a 90-days period after 19th February, 2012 to sell all remaining inventory. In order to provide for a more orderly transition, H2O Plus, LLC has indicated in the letter that it is willing to extend the effective date of 19th February, 2012 to 1st March, 2012 on terms agreeable to both parties. The distributorship in Hong Kong, Macau and Singapore remains unaffected. The Company’s ~H₂O+ operations in the PRC and Taiwan contributed approximately 21.8% of its audited consolidated net profit after tax for the year ended 30th September, 2011. The Company continues to maintain a good working relationship with H2O Plus, LLC.

The Company will, notwithstanding this recent development, continue to concentrate its efforts and resources on its self-owned brand GLYCEL and Beauty Services operations, while the business strategy in the PRC shall remain unchanged. GLYCEL also planned to launch its operations in the PRC in September 2012. In addition, the Group will further expand its Beauty Services operation in the PRC through franchised business model.

By Order of the Board

YU Lai Si

Executive Director and Chief Executive Officer

Hong Kong, 20th January, 2012

As at the date of this announcement, the executive directors of the Company are Yu Lai Si, Tam Chie Sang, Yu Lai Chu, Eileen, Yu Kam Shui, Erastus and Lai Yin Ping. The independent non-executive directors of the Company are Wong Lung Tak, Patrick, B.B.S., J.P., Wong Chun Nam, Duffy, J.P. and Wong Chi Keung.

MARKET MISCONDUCT TRIBUNAL
IN THE MATTER OF THE LISTED SECURITIES OF
WATER OASIS GROUP LIMITED
(STOCK CODE 1161)

Specified Person

Ms. Yu Lai Si Salina (“**Ms. Yu**”)

STATEMENT OF AGREED AND ADMITTED FACTS

[References to tab and page numbers in square brackets are, unless otherwise stated, to the Exhibits Bundles already filed with the Tribunal]

Background

1. At all material times prior to 6 July 2012, Ms. Yu was the Chief Executive Officer of Water Oasis Group Limited (“**the Company**”) and one of the Executive Directors. Ms Yu was also a substantial shareholder of the Company.
2. As at 19 January 2012, Ms. Yu held 167,683,760 shares in the Company, representing 21.94% of the issued share capital of the Company, of which:
 - (1) 1.57 million shares (0.94% of her total holding) were held in her securities account at Hang Seng Bank Limited (“**the HSB Account**”). The sale of these shares by Ms. Yu is the subject-matter of the inquiry in these proceedings.
 - (2) 4.78 million shares (2.85% of her total holding) were held in her securities account at Tung Shing Securities (Brokers) Limited (“**the Tung Shing Account**”).
 - (3) The remaining shares were held in physical share certificates.

Termination of the Company's exclusive distributorship in H2O skin care products in Mainland China and Taiwan

3. Since 30 November 2008, the Company had been the exclusive distributor of H2O Plus LLC's ("H2O") skincare products in Mainland China and Taiwan. The Company was also an exclusive distributor of the same products in Hong Kong, Macau, and Singapore. The terms of the Company's exclusive distributorship agreements with H2O included minimum purchase thresholds and termination clauses exercisable upon breaches of the terms of those agreements.
4. As at 30 September 2011, the Company operated a total of 307 H2O retail outlets comprising 17 in Hong Kong, 1 in Macau, 274 in Mainland China, 14 in Taiwan and 1 in Singapore. The H2O business was a main contributor to the Company's turnover. For the year ended 30 September 2011, net profit from H2O's operations in the Mainland and Taiwan amounted to a total of \$17.7M, or approximately 21.82% of the Company's total net profit of \$81.1M. Such information was known to the Board, including Ms. Yu.
5. On 2 April 2010, the Company received a written warning from Mr. Bob Seidl ("Mr. Seidl"), the President and Chief Executive Officer of H2O regarding the Company's failure to achieve the minimum purchase thresholds for 2009 in relation to Mainland China and Taiwan.
6. In January 2011 and January 2012 respectively, H2O again served formal letters on the Company putting on record the default of the Company for its failure to meet the minimum purchase requirements in 2010 and in 2011 and expressly reserving the right of H2O to terminate the exclusive distributorship agreements.
7. On 16th January 2012 Mr Seidel emailed Ms Yu requesting a conference call on 20th January 2012 at 10 a.m. Hong Kong time to review their business relationship. On 17th January 2012, Ms Yu replied to Mr Seidl by email and asked him whether Henry (the Company's Chief Financial Officer) was required to join the conference call and whether she needed to prepare anything for the call. On 18th January 2012, Mr Seidl replied to Ms Yu by email that it was a choice for her to include Henry or not and that she was not required to prepare anything for the call. Ms Yu then confirmed the conference call to be held on Friday (i.e. 20th January 2012) at 10 am and asked Mr Seidl to call the number 852-31827779. [Tab 35]

8. Between 10:02 am and 10:25 am on 20 January 2012, Mr. Seidl held a telephone conference (“**the Telephone Conference**”) with senior management of the Company, including Ms. Yu.
9. During the Telephone Conference, Mr. Seidl informed Ms. Yu that H2O would terminate the Company’s exclusive distributorship in H2O’s products in Mainland China and Taiwan with immediate effect due to the Company’s breaches of the Mainland China and Taiwan distributorship agreement (“**the Termination**”).
10. At around 12:13 pm on the same day, Mr. Seidl sent an email attaching a covering letter and two termination notices concerning the Termination to Ms. Yu.
11. At around 10:13 pm on the same day, the Company announced *inter alia* the Termination and the contribution of the Company’s H2O’s operations in Mainland China and Taiwan to its net profit (“**the Announcement**”) [Tab5/p.173].
12. Prior to the Announcement, there was no publicly available information regarding the Termination or the contribution of H2O’s operations in the Mainland and Taiwan to the net profit of the Company.
13. On 26 January 2012, the first trading day after the publication of the Announcement, the price of the Company’s shares dropped by 14.08% to close at HK\$1.22. On the same day, the Hang Seng Index rose 329 points (1.64%) to 20,439.
14. The Termination and the significance of the contribution of H2O’s operations in Mainland China and Taiwan to the net profit of the Company (“**the Information**”) amounted to specific information about the Company which were not generally known to the persons who were accustomed or would be likely to deal in the shares of the Company. If the Information were made known to the investing public, it is very likely that it would materially and adversely affect the share price of the Company.

Dealings in shares of the Company by Ms Yu on 20 January 2012, after the Telephone Conference

15. On 20 January 2012, there were two phone calls between Ms Yu and her relationship manager at Hang Seng Private Banking, Ms Lucinda Cheung (“**Ms Cheung**”) in relation to Ms Yu’s dealings in the shares of the Company on that day. An accurate recording of *inter alia* these two phone calls (at around 10:46am and 11:10 am on 20 January 2012) can be found at [Tab18]. An accurate transcript (in Chinese with English translation) of these two phone calls can be found at [Tabs 19 & 20].
16. In the first phone call around 10:46 am on 20 January 2012, that is around 20 minutes after the Telephone Conference ended, Ms Yu had a phone call with Ms Cheung, and it was in this phone call that Ms Yu instructed Ms Cheung to sell all of her 1.57 million shares in the Company held in the HSB Account.
17. At around 11:10 am on 20 January 2012, Ms Yu had another phone call with Ms Cheung during which Ms Cheung informed Ms Yu that all 1.57M shares in the Company held in the HSB Account had been sold at an average price of \$1.40 per share. Ms Yu replied by saying “...okay, that’s good, that’s good” (in Chinese: “...得嘞, 咁好喇, 咁好喇”). Ms Yu then asked Ms Cheung to help her with making the necessary disclosure of the sale of her shares in the Company¹ by providing the details of the sale to Henry Au, the Chief Financial Officer of the Company [Tab 20], which Ms Cheung subsequently did by fax.
18. All of Ms Yu’s 1.57M shares of the Company held in the HSB Account were sold at prices ranging from HK\$1.35 to HK\$1.44 between around 10:51 am to 11:05 am. Total net proceeds from the sale amounted to HK\$2,189,888.74.
19. At the time of the aforesaid mentioned phone calls between Ms Yu and Ms Cheung, Ms Yu knew that the Information was specific information about the Company, was not generally known to the investing public and would, if made known to them, materially affect the share price of the Company adversely. The purpose for which Ms Yu sold her 1.57M shares in the Company included the purpose of avoiding loss by using the Information.
20. As of 31st December 2011 Ms. Yu had HK\$4,240,205.46 in her Savings account and HK\$10,000,000 in her Time Deposits account under her Integrated Account no. 258-145887-888 with Hang Seng Bank².

¹ As a Director of the Company, Ms Yu had a duty to make timely disclosure of any dealings in the shares of the Company pursuant to Part XV of the Securities and Futures Ordinance Cap 571.

² see bank record on p. 323 of Exhibit Bundle 1.

Loss Avoided

21. Ms. Yu, as a person connected with the Company and in possession of the Information which she knew was relevant information in relation to the Company, engaged in insider dealing contrary to s.270(1)(a)(i) of the Securities and Futures Ordinance (Cap 571) when she sold 1.57M shares of the Company on 20 January 2012 prior to the Announcement. In doing so, Ms. Yu avoided a notional loss of HK\$281,346.

Subsequent Events

22. After the Company received inquiry from the Hong Kong Stock Exchange regarding Ms. Yu's dealing of shares of the Company on 20th January 2012, she approached Mr. Peter Sit, a senior partner of Sit Fung Kwong & Shum on 1st February 2012 for legal advice. Mr. Peter Sit has filed on 29.10.2014 an affidavit in relation to this matter.
23. Ms. Yu stepped down from the office of Chief Executive Officer and Executive Director of the Company on the 6th July 2012 and has not resumed the positions.
24. A report of Dr. Wong dated 30th May 2012 had been previously supplied to the Securities and Futures Commission ("SFC") and the same has been included in [Tab 15 of the Evidence Bundle]. Another report prepared by Dr. Tsang Fan Kwong on the instruction of the SFC dated 7th March 2014 had previously been supplied to Ms Yu and the same has been included in [Tab 16 of the Evidence Bundle].

Dated this the 28th day of November 2014



Derek C. L. Chan
Presenting Officer



Simon Chiu
Counsel for Ms Yu