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SFC commences Market Misconduct Tribunal proceedings over alleged insider dealing in Titan Petrochemicals Group Limited shares

6 Dec 2016

The Securities and Futures Commission (SFC) has commenced proceedings in the Market Misconduct Tribunal (MMT) against Mr Augustine Cheong Kai Tjeh, a former senior executive of an affiliate of Titan Petrochemicals Group Limited (Titan), and his mother Ms Gan Ser Soon, for alleged insider dealing in Titan shares in 2012 (Notes 1 & 2).

The SFC alleges that Cheong and Gan knew Titan's financial position when they sold their Titan shares in January 2012, particularly that Titan and its affiliates would likely default on certain fixed rate senior notes and on the then outstanding bank loans. The financial position of Titan at the time and its affiliates' likely default on its payment obligations constituted inside information material to Titan's share price.

The SFC seeks, among other things, orders for Cheong and Gan to disgorge losses they avoided totalling \$2,425,174 as a result of their disposal of Titan shares.

The SFC also has instituted parallel proceedings in the Court of First Instance under section 213 of the Securities and Futures Ordinance against Cheong and Gan about their alleged insider dealing in Titan shares. In these proceedings, the SFC seeks an order to restore relevant counterparties to the position in which they were before they had bought shares from Cheong and Gan.

In early December 2012, the Court of First Instance granted an interim order upon the SFC's application to freeze \$13,618,203, which represented the proceeds of Cheong's sale of Titan shares in January 2012. The interim order was subsequently discharged after Cheong paid the same amount into court on 24 January 2013 (Note 3).

End

Notes:

1. Titan was listed on the Main Board of The Stock Exchange of Hong Kong Limited in June 1998.
2. Gan is also known as Gan Chir Seam.
3. Please see the SFC's press releases dated [21 December 2012](#) and [25 January 2013](#).
4. The Notice to the MMT which contains the statement setting out the grounds for commencing the MMT proceedings is available on the MMT's website (www.mmt.gov.hk).

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證監會就涉嫌對泰山石化集團有限公司股份進行的內幕交易在市場失當行為審裁處展開研訊程序

2016年12月6日

證券及期貨事務監察委員會（證監會）在市場失當行為審裁處（審裁處）對泰山石化集團有限公司（泰山石化）的一間聯屬公司的前高級職員章开杰（男）及其母顏思純（女）展開研訊程序，指二人涉嫌於2012年就泰山石化股份進行內幕交易（註1及2）。

證監會指，章及顏在2012年1月出售他們的泰山石化股份時，已知悉泰山石化的財政狀況，尤其是泰山石化及其聯屬公司可能無法清償若干定息優先票據和當時結欠的銀行貸款。泰山石化當時的財政狀況和其聯屬公司可能無法履行其付款責任一事，構成對泰山石化的股價有重大影響的內幕消息。

證監會尋求審裁處（除其他事項外）頒令要求章及顏交出二人因出售泰山石化股份而規避合共2,425,174元的損失。

與此同時，證監會亦根據《證券及期貨條例》第213條，在原訟法庭就章及顏涉嫌就泰山石化股份進行內幕交易而對二人提起法律程序，藉此尋求法庭頒令使有關交易對手回復至他們向章及顏購買股份之前的狀況。

原訟法庭曾於2012年12月初應證監會的申請發出臨時命令將13,618,203元凍結；該金額相當於章在2012年1月出售泰山石化股份的收益。該項臨時命令其後於2013年1月24日在章向法庭繳存等值金額的款項後獲解除（註3）。

完

備註：

1. 泰山石化於1998年6月在香港聯合交易所有限公司主板上市。
2. 顏又名Gan Chir Seam。
3. 請參閱證監會2012年12月21日及2013年1月25日的新聞稿。
4. 證監會向審裁處發出的通知可於審裁處網站 (www.mmt.gov.hk) 取覽，當中陳述證監會在審裁處展開研訊程序的理據。

最後更新日期：2016年12月6日

**IN THE MATTER OF THE LISTED SECURITIES OF
TITAN PETROCHEMICALS GROUP LIMITED
(STOCK CODE: 1192)**

**NOTICE TO THE MARKET MISCONDUCT TRIBUNAL
PURSUANT TO SECTION 252(2) OF AND SCHEDULE 9 TO THE
SECURITIES AND FUTURES ORDINANCE CAP.571
(“THE ORDINANCE”)**

Whereas it appears to the Securities and Futures Commission that market misconduct within the meaning of section 270 of Part XIII of the Ordinance has or may have taken place arising out of the dealings in the securities of Titan Petrochemicals Group Limited (Stock Code: 1192) (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.

Persons suspected to have engaged in market misconduct activities

Mr Cheong Kai Tjeh Augustine (“**Mr Cheong**”)
Madam Gan Ser Soon, alias Gan Chir Seam (“**Madam Gan**”)

Statement for institution of proceedings

- 1. At the material times, Mr Cheong was employed by Titan Resources Management (S) Pte Ltd, an indirectly wholly owned subsidiary of the Company in Singapore.
- 2. Madam Gan is Mr Cheong’s mother.

3. As at 2 January 2012:-

- (1) Mr Cheong held 52,500,000 shares in the Company through his investment services account at HSBC; and
- (2) Madam Gan held 1,500,000 shares in the Company through her securities trading account at UOB Kay Hian Private Limited (“UOB”).

The likely default by the Company and/or its subsidiaries (the “Titan Group”) in respect of the outstanding loans due to the Bank of China and ICBC and the Listco Senior Notes

4. On 13 December 2010, the Company published an announcement disclosing details of the following transactions:-

- (1) On 5 December 2010, the Company entered into a framework agreement with Grand China Logistics Holding (Group) Company Limited (“**Grand China Logistics**”) whereby the Company agreed to procure the disposal of a 95% equity interest in Titan Quanzhou Shipyard Co., Ltd (“**Titan Quanzhou Shipyard**”) and to issue 500 million new shares in the Company to Grand China Logistics.
- (2) Subsequently, on 11 December 2010, the Company entered into, *inter alia*:-
 - (a) a sale and purchase agreement (the “**Sale and Purchase Agreement**”) in relation to the disposal of the 95% equity interest in Titan Quanzhou Shipyard for RMB1,865,670,000 (the “**Consideration**”); and
 - (b) a subscription agreement (the “**Subscription Agreement**”) in relation to the issue of the 500 million new shares to Grand China Logistics at a price of HK\$0.61 per share (i.e. at a subscription price of HK\$305 million).

- (3) Under the Sale and Purchase Agreement, the Consideration was to be paid by Grand China Logistics to the Company by 6 payments, with the first 2 payments to be made in the following manner:
 - (a) RMB280 million to be paid within 5 business days after obtaining the relevant approval from the State Administration of Foreign Exchange of the PRC (“**SAFE**”) (or if no approval is required from SAFE, within 20 business days after the date of the Sale and Purchase Agreement);
 - (b) RMB520 million to be paid within 10 business days after obtaining the relevant approval from Fujian Foreign Trade and Economic Corporation Bureau (“**Fujian FTEC**”) (if required) and shareholders’ approval of the Company (or if other approval(s) are required to be obtained other than that from Fujian FTEC, within 10 business days after obtaining such approval(s)).
 - (4) The subscription for the 500 million shares in the Company under the Subscription Agreement (the “**Subscription**”) was conditional upon, *inter alia*, the completion of the Sale and Purchase Agreement and the registration with the State Administration for Industry and Commerce of the PRC of the transfer of the 95% equity interest in Titan Quanzhou Shipyard.
 - (5) The reasons for the Subscription were to provide an opportunity to broaden the shareholder base of the Company and strengthen its capital base and financial position for the Titan Group’s future business developments.
5. On 16 March 2012, the Company published an announcement on the website of Hong Kong Exchanges and Clearing Limited (“**HKEx**”) stating that trading in its shares would be suspended with effect from 9:00 a.m. on 19 March 2012 pending the release of an announcement in relation to price sensitive information of the Company.
6. On 18 March 2012, the Company published an announcement on the HKEx website entitled “Update on the Financial Position of the Company” (the “**18**

March 2012 Announcement”) which contained, *inter alia*, the following information:

- (1) Whilst the Company had obtained regulatory and shareholder approvals for the first 2 payments of the Consideration, as at 31 December 2011, only RMB740 million (out of the RMB800 million that should have been paid) had been received from Grand China Logistics in respect of the Sale and Purchase Agreement. The third and fourth payments aggregating RMB665.67 million had not been paid.
 - (2) In order to preserve the rights of the Titan Group, registration of the transfer of the 95% equity interest in Titan Quanzhou Shipyard had not been effected.
 - (3) As the registration of the transfer of the equity interest in Titan Quanzhou Shipyard was a condition precedent to the completion of the Subscription Agreement, the Subscription Agreement had lapsed.
 - (4) The Titan Group would have been entitled to receive an aggregate of RMB1,712.05 million by 31 December 2011 had Grand China Logistics duly made the payments of the Consideration when due. The funds from these transactions were earmarked for, *inter alia*, repayment of debt of the Titan Group. The Company did not therefore expect to meet its payment obligations in respect of US\$105.87 million in principal amount of fixed rate senior notes issued by the Company (the “**Listco Senior Notes**”) when they matured on 19 March 2012.
7. On 11 May 2012, the Company published an announcement of its financial results for the year ended 31 December 2011 (the “**11 May 2012 Announcement**”) which showed a loss for the year of HK\$783 million. The auditor, Ernst & Young, had given a disclaimer of opinion on the consolidated financial statements. Its report mentioned that the Titan Group “*was in default to repay certain secured bank borrowings of RMB111,000,000 (approximately HK\$137,407,000) as at the year end*”. It also mentioned that the Company was unable to repay the overdue principal and interest of the Listco Senior Notes of US\$105.87 million and US\$4,499,000 which were due on 19 March 2012.

8. The “*secured bank borrowings of RMB111,000,000*” referred to in Ernst & Young’s report was a reference to an instalment due on 31 December 2011 in respect of a project loan. The total amount involved was RMB111 million made up of an outstanding payment of RMB30 million due to Industrial and Commercial Bank of China (“**ICBC**”) and RMB81 million due to the Bank of China.
9. Prior to the 18 March 2012 Announcement and the 11 May 2012 Announcement, there was no publicly available information regarding Grand China Logistics’ delay and failure to pay the Consideration in full, the serious adverse financial situation of the Company and in particular, the likely default by the Titan Group in respect of the outstanding loans due to the Bank of China and ICBC and the Listco Senior Notes (the “**Specific Information**”).
10. Trading in the Company’s shares remained suspended between 19 March 2012 and 11 May 2012. Upon resumption of trading of the Company’s shares on 14 May 2012, its share price dropped 36.4% from HK\$0.28 (its closing price on 16 March 2012) to HK\$0.178.
11. The Specific Information was not generally known to the persons who were accustomed or would be likely to deal in the shares of the Company but would if it were generally known to them be likely to materially affect the Company’s share price. Therefore, the Specific Information was “relevant information” within the meaning of section 245(2) of the Ordinance (as applicable to dealings in 2012)¹.

Mr Cheong’s knowledge of the relevant information

12. During the period from August 2011 to March 2012, the Company held discussions with a number of potential investors/financiers regarding potential investment in the Titan Group and possible fund raising. One of the potential investors/financiers was China National Offshore Oil Corporation Petrochemical Import & Export Co. Ltd (“**CNOOC**”).
13. During the negotiations, CNOOC requested, as a condition precedent for investing in the Company, that certain specific consents and waivers be

¹ For the avoidance of doubt, “relevant information” was the term used in the context of insider dealing prior to the amendments to the Ordinance which came into effect on 1 January 2013. These amendments made no substantive change to the definition of what is now called “inside information”.

obtained from Warburg Pincus LLC (“**Warburg**”), a private equity firm which together with the Company owned Titan Group Investment Limited. CNOOC required the Company to reach an agreement with Warburg before 20 December 2011.

14. The Company failed to reach an agreement with Warburg by that date.
15. By reason of the fact that:
 - (1) Mr Cheong was involved in the discussions between the Company and Warburg;
 - (2) he was involved in the preparation and/or translation of letters sent by the Company to Warburg in November and December 2011, which made reference to the Specific Information; and
 - (3) he was kept updated on the status of the discussions between the Company and Warburg,

he became aware of the Company’s failure to meet the deadline set by CNOOC and the consequences that would follow (i.e. defaults on the Listco Senior Notes and the outstanding loans due to ICBC and the Bank of China).

Dealing in the shares of the Company by Mr Cheong

16. Between 3 and 5 January 2012, Mr Cheong disposed of all his 52,500,000 shares in the Company for HK\$13,618,203.06 via the personal internet banking service of HSBC.
17. The average price at which his shares were sold was around HK\$0.259.
18. By reason of the above, Mr Cheong as a person connected with the Company having the Specific Information, which he knew was relevant information in relation to the Company, dealt in the shares of the Company by selling them prior to the 18 March 2012 Announcement.
19. Accordingly, Mr Cheong engaged or may have engaged in market misconduct contrary to section 270(1)(a)(i) of the Ordinance.

20. Further or alternatively, on or before 3 January 2012, Mr Cheong (who resided with Madam Gan in Singapore):
- (1) counselled or procured Madam Gan to deal in the Company's shares, knowing or having reasonable cause to believe that Madam Gan will deal in them; and/or
 - (2) disclosed the Specific Information to Madam Gan directly or indirectly, knowing or having reasonable cause to believe that Madam Gan will make use of the relevant information for the purpose of dealing in the Company's shares.
21. As a result, on 3 January 2012, Madam Gan disposed of all her 1,500,000 shares in the Company (see below).
22. By reason of the above, Mr Cheong as a person connected with the Company having the Specific Information, which he knew was relevant information in relation to the Company, counselled or procured Madam Gan to sell her securities, and/or disclosed relevant information to Madam Gan knowing or having reasonable cause to believe that she would make use of the relevant information and sell her shares in the Company.
23. Accordingly, Mr Cheong engaged or may have engaged in market misconduct contrary to sections 270(1)(a)(ii) and/or 270(1)(c) of the Ordinance.

Dealing in the shares of the Company by Madam Gan

24. At 9:28 am on 3 January 2012, Madam Gan instructed UOB to dispose of her entire holding of shares in the Company at a price above HK\$0.30 per share.
25. By around 10:45 am on 3 January 2012, all of Madam Gan's 1,500,000 shares were sold at a unit price of HK\$0.27.
26. By reason of their relationship, Madam Gan knew that Mr Cheong was an employee within the Titan Group. Further and/or alternatively, she knew that Mr Cheong occupied a position which might reasonably be expected to give him access to relevant information in relation to the Company by reason of

him being an employee within the Titan Group. Further, Madam Gan knew or had reasonable cause to believe that Mr Cheong held the relevant information as a result of being connected with the Company. By reason of the foregoing, Madam Gan, having information which she knew was relevant information in relation to the Company which she received from Mr Cheong, dealt in the shares of the Company by selling them prior to the 18 March 2012 Announcement.

27. Accordingly, Madam Gan engaged or may have engaged in market misconduct contrary to section 270(1)(e)(i) of the Ordinance.

Dated this 29th day of November 2016.

Securities & Futures Commissioner

Securities and Futures Commission