# SFC seeks orders to disqualify former senior executives of Far East Holdings International Limited

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The Securities and Futures Commission (SFC) has commenced legal proceedings in the Court of First Instance to seek disqualification orders against Mr Duncan Chiu, former managing director and chief executive officer of Far East Holdings International Limited (Far East) (Notes 1 to 3).

Disqualification orders are also being sought by the SFC in the same legal proceedings against Chiu's brother Mr Derek Chiu, a former non-executive director of Far East, and Mr Michael Lui Hung Kwong, a former company secretary/financial controller.

The SFC's action follows an investigation into Far East's transfers of a total sum of $61 million in 2007 from the company's bank accounts to the personal bank accounts of the then chairman Mr Deacon Chiu Te Ken, the late father of Duncan and Derek Chiu, purportedly for the subscription of Initial Public Offer (IPO) shares on behalf of Far East.

The SFC alleges that Duncan Chiu had:

- breached his fiduciary duties to the company by failing to obtain the prior approval of Far East's Board of Directors for the transfers and to ensure that there was proper agreement and documentation in relation to the transfers, the subscription of IPO shares through the chairman, and the apportionment of allotted IPO shares and of profit and loss between Far East and the chairman;
- failed to ensure that the unused balance of the transfers (i.e. the funds that had not been used for subscription of IPO shares), a sum of approximately $59.2 million, was returned to Far East in a timely manner; and
- procured Far East to disclose the $61 million as an "amount due from a director" in the company's 2007 annual report when the actual purpose of the transfers was for the subscription of IPO shares instead of a loan to the chairman.

The SFC also alleged that Lui had failed to act with due care and diligence in approving the transfers, and together with Duncan Chiu had failed to obtain the necessary shareholders' approval for the arrangement and make necessary disclosures under the Listing Rules on retaining the unused balance in the chairman's bank accounts.

The SFC further alleged that in April 2008, Duncan Chiu, Derek Chiu and Lui had retrospectively created minutes of a director's meeting held on 29 December 2006 which purportedly showed that the board had resolved to appoint the chairman's personal assistant as Far East's "senior investment manager" to handle the company's investments with effect from 1 January 2007 when in fact the appointment was not genuine.  The minutes was allegedly intended to bolster or support Far East's explanation for the transfers.

Against this background, the SFC alleges that Duncan and Derek Chiu, together with Lui, in their capacity as directors or members of the senior management of Far East at the material time, had conducted the company's business or affairs in a manner involving defalcation, misfeasance or other misconduct, resulting in Far East's shareholders not being given all the information as they might reasonably expect and unfairly prejudicial to Far East's shareholders.

End

Notes:

1. Far East, formerly known as Cheong Sun Development Company Limited, was listed on the Main Board of the Stock Exchange of Hong Kong Limited on 12 February 1973.  It was known as Far East Technology International Limited before it changed to its present name on 27 February 2007.   Far East was and is principally engaged in the business of securities investment and trading, property development and investment, and manufacturing and sale of garments.
2. The legal proceedings were commenced under section 214 of the Securities and Futures Ordinance (SFO). The first hearing of the petition presented by the SFC will be heard in the Court of First Instance on 21 June 2018.

3. Under section 214 of the SFO, the court may, inter alia, make orders to disqualify a person from being a director or being involved, directly or indirectly, in the management of any corporation for a period up to 15 years, if the person is found to be wholly or partly responsible for the company's affairs having been conducted in a manner, amongst other, involving defalcation, fraud, misfeasance or other misconduct towards it or its members.

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