



Graft wheels corporate frauds



As an international financial centre, Hong Kong boasts the listing of 1,180 companies on its stock exchange with a market capitalisation of about HK\$15,000 billion. While the great majority adopts sound business practice, there emerged a handful of "black sheep" as exposed in recent ICAC cases. Assistant Director of Operations, Mr Ricky Chu Man-kin, talks to the *ICAC Post* on his observations.

What are the common malpractices in cases involving listed companies?

Listed companies in Hong Kong as a whole are operating within the law. But we did see some senior management staff involved in corporate fraud and corruption in recent years.

One example was that to satisfy the listing requirements, a company's chairman, accountants and other professionals colluded to falsify accounts to inflate the profit figures. In another case, a listed company's director bribed financial analysts to furnish glowing reports to prop up company share prices.

Is corruption always involved?

Corruption very often acts as a lubricant in cases of corporate fraud. They can hardly succeed without the help of corrupt professionals such as financial controllers, financial advisors, accountants and analysts.

Why were there no corruption charges in some cases?

In these cases, corruption was part and parcel of a bigger fraudulent scheme. The culprits were sometimes charged with criminal offences like conspiracy to defraud, to better reflect the nature of the scam or because such offences are supported by stronger evidence.

In the past, rewards for corrupt acts were often paid in cash or valuable gifts. Nowadays, corruption is more complex and subtle. The offerors and the acceptors become members of a syndicate. If the plot succeeds, all will share the proceeds. Such corrupt dealings, disguised as part of "normal" business, pose increased difficulties in investigation.

Up to 66% of the defendants in private sector cases completed last year were professionals or senior company executives.

What are the lessons?

In devising these profit boosting "mega schemes", these businessmen and professionals were walking on a tightrope. They eventually paid a high price - ending up in jail and having their careers ruined. The companies also suffered tremendously - some even got delisted because of the criminal involvement of the senior management. Report to us any dubious deals. This is the only way to protect yourself and the interest of your enterprises.

ICAC case in focus:



'Insider dealings' graft scheme

An executive director of a listed company, together with a fund manager, a director of an investment firm and another accomplice, orchestrated a graft scam to push up the company's share price through investment funds. Genuine investors suffered as a result.

The fund manager snapped up 15 million shares of the listed company. He allocated these stocks to various investment funds and held them for six months.

The company's stock appeared to be favoured by institutional investors. Its price shot up. The listed company's executive director placed another 3.8 million shares with the fund manager to glean more profits.

From the sale proceeds, he took out HK\$1.8 million to reward the fund manager and other co-conspirators as promised in the deal.



The listed company's executive director and two other suspects were caught red-handed when the last payment of bribe money changed hands. The fund manager was arrested on the same day.

The executive director, the mastermind, was sentenced to three years in jail. The fund manager and the investment firm's director each got two years for taking the bribes. The court also ordered the forfeiture of the HK\$1.8 million bribe money.

The trial judge, in sentencing, reckoned that the "insider dealings" case presented investigators with immense difficulties. To preserve market integrity, the judge ruled that penalties of sufficient deterrence had to be meted out.

HK keeps its good name as clean city

On July 1, 2007, Hong Kong will celebrate its 10th anniversary of reunification. Over the last 10 years, the territory has remained one of the most vibrant and cleanest places in the world :

Transparency International in 2006 rated Hong Kong the 15th least corrupt among 163 places surveyed, the second cleanest in Asia.

In its 2007 Index of Economic Freedom, the **Heritage Foundation** ranked Hong Kong the world's freest economy for the 13th consecutive year, resting on various factors, including low taxes, simple business regulation, no restrictions on foreign capital, and a judiciary independent of politics and virtually free of corruption.

Ethical drive for company directors

The important role of company directors in ensuring good corporate governance is globally recognised. In September, the ICAC will launch the *"Ethics – The Core Value of Leadership" Training Programme for Directors* in partnership with two regulators, four professional bodies and the six member chambers of commerce of the Hong Kong Ethics Development Advisory Committee.

The Chairman of the Organising Committee, Mr Jim Wardell, says: *"Company directors should play an active role in ensuring that the corporations will thrive not only financially but also maintaining a high ethical standard in conducting the company business."*

Also a council member of the Hong Kong Institute of Directors and a member of the Insider Dealing Tribunal, Mr Wardell adds: *"Ethics is a fundamental asset of leadership. It is imperative that company directors should be ethical leaders in their business."*

According to ICAC's Director of Community Relations, Mrs Erika Hui Lam Yin-ming, the Training Programme is tailored for the practical needs of company directors, with input from regulators, professional bodies and chambers.

The Programme will be kicked off on September 14 with a forum for directors. Prominent corporate leaders will share their experiences in practising ethical leadership. The Hong Kong Ethics Development Centre of the ICAC will also produce a corruption prevention kit for directors and sustain the Training Programme with a series of seminars.



"E – Compass" for foreign investors

Hong Kong remains one of the most preferred destinations for foreign investment, with offices and regional headquarters set up by foreign firms reaching a new high of 6,354 in 2006. One of the main contributing factors is a clean government and a level playing field for businesses.

To familiarise overseas investors with the local anti-corruption regime, the Hong Kong Ethics Development Centre has produced an *Information Pack for Foreign Investors*. Please contact the Centre at 2587-9812 for a copy of the Information Pack.