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Chaoda accused of insider trading

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The chairman and finance director of embattled mainland vegetable producer Chaoda Modern Agriculture have been accused by the Hong Kong government of insider dealing.

Chaoda's chairman, Kwok Ho, and finance director, Andy Chan Chi-po, gave inside information about an upcoming share placement by the Hong Kong-listed company to George Stairs of US-based Fidelity Management & Research, who then profited by trading on the confidential news, Financial Secretary John Tsang Chun-wah says.

Stairs, who is still employed by Fidelity but has moved from running the institution's International Value Fund to a research position, was also charged with insider dealing.

Kwok and Chan 'knew or had reasonable cause to believe', Stairs would trade on the information, according to a notice posted by Tsang on the website of the government's Market Misconduct Tribunal. The notice did not outline any evidence.

The financial secretary, via a referral from the Securities and Futures Commission, has asked the tribunal to investigate Chaoda. The tribunal, which can impose civil but not criminal sanctions, has powers to levy fines for market misconduct and disqualify directors. 'This prosecution is not surprising because the Securities and Futures Commission has been concerned by selective disclosure to institutions by companies for some time,' said Allen & Overy partner Simon Clarke.

It is the latest in a series of setbacks for Chaoda, whose stock is the most short-sold on the Hong Kong exchange, according to consultancy Data Explorers.

In May, Next Magazine claimed Chaoda was exaggerating the size of its land bank. The farming firm denied the allegations.

Earlier this week, research purporting to show the vegetable producer had been manipulating its accounts, was published on a blog called 'Anonymous Analytics', Chaoda has declined to comment on the blog post.

The firm's stock has plunged 81 per cent so far this year. Chaoda suspended trading in its shares on Monday, pending the release of what it said would be price sensitive information.

Tsang has alleged that, in June 2009, Chaoda told six financial institutions, including Fidelity, it was planning a share placement, which eventually raised HK$1.74 billion. The move was 'likely to adversely affect the share price of Chaoda', meaning fund managers should not trade on it, the notice said.

In breach of Hong Kong rules, it alleges, Stairs netted HK$1.98 million by selling Chaoda shares at HK$5.30 apiece on June 16, 2009, the day before the company announced its share placement.

When Chaoda placed the new shares at HK$4.60 each on June 17, Stairs bought HK$2.9 million worth at the reduced price, thereby making a profit, the notice said.

In a statement, Fidelity said it 'conducted a thorough internal review of this matter in 2009 consistent with its strong protocols around material non-public information. We continue to believe that Mr Stairs did not violate any laws or regulations.'

A Chaoda spokesman declined to comment, saying the company was preparing a stock exchange announcement.

Stairs could not be reached for comment.

Chaoda bills itself as the mainland's biggest vegetable producer, and says it employs 230,000 people across 131 production bases.

While the insider dealing case is unrelated to Chaoda's main business, analysts have long queried the company's accounting.

Nomura analyst Emma Liu said in June that Chaoda's capital expenditure, which would include outlays on items such as greenhouses and irrigation systems, was twice the industry average.

And in March, Macquarie's Jake Lynch said the farmer appeared to spending too much on what he believed was a surfeit of idle land 'of vague value'.

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