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19 **UNITED STATES DISTRICT COURT**
20 **CENTRAL DISTRICT OF CALIFORNIA**
21 **WESTERN DIVISION**

22 U.S. SECURITIES AND EXCHANGE
23 COMMISSION,

24 Plaintiff,

25 vs.

26 RONG CHEN,

27 Defendant, and

28 YUEHONG WANG,

Relief Defendant.

Case No.

COMPLAINT

JURY TRIAL DEMANDED

1 Plaintiff U.S. Securities and Exchange Commission (“Commission”) alleges as
2 follows:

3 **JURISDICTION AND VENUE**

4 1. The Commission brings this action pursuant to Sections 21(d), 21(e),
5 and 21A of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§
6 78u(d), 78u(e), 78u-1].

7 2. This Court has jurisdiction over this action pursuant to Section 27 of the
8 Exchange Act [15 U.S.C. § 78aa].

9 3. Venue is proper in this Court pursuant to 28 U.S.C. § 1391(c)(3) and
10 Section 27 of the Exchange Act [15 U.S.C. § 78aa].

11 4. On information and belief, Defendant Rong Chen is an inhabitant,
12 transacts business, and may be found in the Central District of California. Relief
13 Defendant Yuehong Wang is Chen’s wife and is an inhabitant of and may be found in
14 the Central District of California. Wang resides, and, on information and belief,
15 Chen at least periodically resides, at their home in Rancho Palos Verdes, California.

16 5. Chen has directly or indirectly made use of the means or
17 instrumentalities of interstate commerce, or of the mails, or the facilities of a national
18 securities exchange in connection with the acts, practices, transactions, and courses of
19 business alleged herein.

20 6. Chen will, unless enjoined, continue to engage in the acts, practices,
21 transactions, and courses of business set forth in this Complaint, or in acts, practices,
22 transactions, and courses of business of similar purport and object.

23 **SUMMARY**

24 7. Over a two year period, Defendant Rong Chen engaged in multiple acts
25 of insider trading by making timely and highly profitable securities purchases based
26 on material nonpublic information about the impending acquisitions of two China-
27 based companies whose securities traded on exchanges in the United States. Chen
28 obtained this inside information in the course of his work advising the acquiring

1 companies on these transactions. Attempting to conceal his insider trading, Chen
2 placed his trades using the brokerage account of his wife, Yuehong Wang. Chen's
3 insider trading generated more than \$173,000 in illicit profits, the majority of which
4 Chen transferred to his and Wang's joint bank account. Because Wang shared the
5 benefits of Chen's illegal conduct, she is named as a Relief Defendant in this action.

6 8. Chen's first set of insider trades occurred while he was the Vice
7 President of Investments for the Chinese company Tsinghua Unigroup Ltd.
8 ("Tsinghua"). On November 11, 2013, Tsinghua publicly announced that it would
9 acquire another Chinese company, RDA Microelectronics, Inc. ("RDA"). Prior to
10 that announcement, Chen used his wife's U.S. brokerage account to make a series of
11 well-timed purchases of RDA securities, generating profits of more than \$79,500
12 following the acquisition announcement. Chen personally worked on the RDA
13 acquisition, and made those trades based on material, nonpublic information not
14 available to the investing public.

15 9. In early 2015, Chen again engaged in insider trading, this time
16 purchasing securities of the Chinese company 58.com Inc. ("58.com"). By January
17 2015, Chen was working as an investment consultant to 58.com on the acquisition of
18 a large stake in a rival company. Shortly before the acquisition was announced to the
19 public, Chen used his wife's brokerage account to buy "out of the money" 58.com
20 call options on a U.S. exchange. When news of the acquisition became public,
21 58.com's stock price skyrocketed, and Chen sold his options, earning profits of more
22 than \$94,400. Again, by virtue of his work on the deal, when he purchased the
23 58.com options Chen had knowledge of material, nonpublic information that was not
24 available to other investors.

25 10. Chen's insider trading violated Section 10(b) of the Exchange Act and
26 Rule 10b-5 thereunder (15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5). The
27 Commission brings this action to hold Chen accountable for his illegal conduct,
28 permanently enjoin Chen from further insider trading, and impose civil penalties.

1 The Commission also seeks an order requiring Chen and Wang to, jointly and
2 severally, pay disgorgement, plus prejudgment interest on all ill-gotten gains they
3 received by virtue of Chen's insider trading.

4 **COMMONLY-USED TRADING TERMS**

5 11. A stock option, commonly referred to as an "option," gives its
6 purchaser-holder the option to buy or sell shares of an underlying stock at a specified
7 price (the "strike price") before a specified time (the "expiration"). Options are
8 generally sold in "contracts," which give the option holder the opportunity to buy or
9 sell 100 shares of an underlying stock. If the holder does not exercise the option prior
10 to the expiration date, the option expires as worthless.

11 12. A "call" option, such as those purchased by Chen, gives the purchaser-
12 holder of the option the right, but not the obligation, to purchase a security at a
13 specified strike price prior to expiration. For example, one "December 2013 \$15"
14 call on ABC Co.'s shares would give the purchaser the right to buy 100 ABC shares
15 for \$15 per share before the call expired on a specified date in December 2013.
16 Generally, the buyer of a call option anticipates that the price of the underlying
17 security will increase prior to expiration. If the call option's strike price is above the
18 price at which the underlying stock is trading, the call option is considered to be "out
19 of the money," because it would be unprofitable to exercise the call and pay more for
20 the stock than the price for which it could be obtained in the market. Conversely, if
21 the strike price is below the then-current market price, the call is considered to be "in
22 the money," because one could exercise the option, obtain the stock at the strike
23 price, and then sell it at the higher market price for a profit. For a given expiration
24 month, out of the money options are typically cheaper to buy than those that are in
25 the money.

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1 **FACTS**

2 **The Defendant and Relief Defendant**

3 13. **Defendant Rong Chen**, 50 years old, is a United States citizen. On
4 information and belief, Chen resides both in China and Rancho Palos Verdes,
5 California. During the period at issue in this lawsuit, Chen worked as a Vice
6 President for Investments at Tsinghua, and later worked as a managing director at a
7 Hong Kong investment banking firm.

8 14. **Relief Defendant Yuehong Wang** is a United States citizen who resides
9 in Rancho Palos Verdes, California. Wang is Chen’s wife. Wang and Chen share a
10 joint bank account that received the proceeds of Chen’s insider trading.

11 **Relevant Entities**

12 15. **Tsinghua** is a Chinese company engaged in electronics, biotechnology,
13 science park development, and urban infrastructure development.

14 16. **RDA** was a China-based semiconductor company that produced
15 component parts used in mobile phones. RDA’s American Depository Shares
16 (“ADS”) traded on NASDAQ (ticker: RDA) until RDA was acquired by Tsinghua in
17 July 2014. Prior to the acquisition, RDA options traded on U.S. securities exchanges
18 including NASDAQ and the Chicago Board Options Exchange (“CBOE”).

19 17. **58.com** is a China-based company that operates one of China’s largest
20 online marketplaces, transferring products and services between purchasers and
21 sellers. 58.com’s shares are listed on the New York Stock Exchange (ticker:
22 WUBA), and its options are traded on U.S. securities exchanges including CBOE and
23 the New York Stock Exchange.

24 18. **ganji.com** was a privately held China-based online classified
25 advertisement company which was a business competitor of 58.com.

26 **Chen’s RDA Insider Trading**

27 19. In September 2013, RDA had discussions with its investment banking
28 advisors about potential acquisition opportunities.

1 20. On September 27, 2013, RDA publicly announced that it had received a
2 non-binding acquisition proposal from a potential buyer at \$15.50 per ADS.

3 21. By October 2013, Chen was employed by Tsinghua as its Vice President
4 for Investments. In that position, Chen had access to and possessed material,
5 nonpublic information about Tsinghua's acquisition of RDA described herein. Chen
6 also knew, or was reckless in not knowing, that he was required to keep information
7 about the acquisition confidential.

8 22. On October 21, 2013, personnel from RDA and Tsinghua met to discuss
9 a potential acquisition and, three days later, the companies executed a non-disclosure
10 and confidentiality agreement.

11 23. On October 24, 2013, the potential buyer that submitted the acquisition
12 proposal previously announced on September 27 informed RDA that it would not
13 consider increasing its acquisition offer.

14 24. The next day, October 25, Tsinghua made an acquisition proposal to
15 RDA for \$18.00 per ADS – a \$2.50 per ADS increase over the proposal announced
16 on September 27. Tsinghua's offer included a confidentiality requirement that
17 precluded RDA from immediately disclosing it.

18 25. On October 28, 2013, RDA sent a draft merger agreement to Tsinghua.

19 26. That same day, Chen opened, in Wang's name, a brokerage account at a
20 United States brokerage firm (the "Wang account"). Chen left blank the portion of
21 the online account application that requested information about Wang's marital
22 status, and he listed Wang as the only person with trading authority over the account.
23 When he opened the Wang account, Chen requested the ability to place trades in the
24 account on margin.

25 27. Despite listing Wang as the sole person with trading authority over the
26 Wang account, Chen had access to and directed all of the trading in that account.

27 28. Upon opening the Wang account, Chen funded the account with an
28 initial deposit of \$17,000.

1 29. On October 30, 2013, Tsinghua and RDA personnel met to discuss the
2 potential acquisition.

3 30. The following day, October 31, Chen sold all of the holdings in a joint
4 brokerage account that he and Wang had opened in 2008 (the “joint brokerage
5 account”). Chen had no prior history trading RDA securities in this account. Chen
6 sold those holdings for more than \$19,000, and transferred the account balance to his
7 and Wang’s joint bank account (the “joint bank account”).

8 31. On November 1, 2013, Chen purchased 270 RDA December 2013 \$15
9 call options in the Wang account for \$16,409. That same day, Chen deposited an
10 additional \$18,000 into the Wang account from their joint bank account.

11 32. On November 6, 2013, Chen purchased, on margin, eight RDA
12 December 2013 \$15 call options and 2,300 RDA ADSs at \$15.59 per share, for a total
13 of \$36,512.

14 33. Later that day, after the close of trading, RDA publicly announced its
15 receipt of Tsinghua’s previously undisclosed October 25, 2013 offer to acquire RDA
16 for \$18 per ADS.

17 34. The market reacted favorably to the announcement. The next day,
18 November 7, 2013, the price of RDA ADSs climbed and closed at \$17.24, up from
19 RDA’s pre-announcement close of \$15.55, a 10.9% increase.

20 35. That same day, Chen sold all 2,300 of the RDA ADSs he had recently
21 purchased in the Wang account for approximately \$39,700, realizing one day profits
22 of \$3,852. Later that day, Chen purchased an additional 86 RDA December 2013
23 \$15 call options for \$19,832.

24 36. On November 11, 2013 at 3:33 a.m. ET, RDA and Tsinghua issued a
25 joint press release announcing the companies’ entry into a definitive merger
26 agreement under which Tsinghua would acquire RDA at a price of \$18.50 per ADS –
27 an increase of \$.50 per ADS over Tsinghua’s previously disclosed offer. The press
28 release identified Chen as Tsinghua’s “Vice President – Investments” and its contact

1 person for questions about the RDA acquisition.

2 37. RDA and Tsinghua later disclosed in a Commission filing that Chen was
3 a director of a special purpose entity that was created to effectuate the merger and
4 signed the amended merger agreement on behalf of that entity. Other Commission
5 filings also disclosed that Chen was an official designated by the parties to receive
6 notices regarding the merger agreement.

7 38. On November 11, 2013, following the press release, Chen sold all 364
8 RDA December 2013 call options that he had purchased in November 2013, for more
9 than \$112,500, realizing a profit of roughly \$75,670 on his RDA options trades.
10 Chen's illegal trading in RDA securities netted more than \$79,520 in profits.

11 39. On January 6, 2014, Chen transferred \$60,000 from the Wang account
12 to their joint bank account.

13 **Chen's 58.com Insider Trading**

14 40. By January 2015, 58.com was considering acquiring a large stake in a
15 privately-held rival company, ganji.com ("ganji"), and had retained Chen to assist
16 with the potential acquisition.

17 41. On January 23, 2015, 58.com and Chen entered into a "finder's"
18 agreement regarding the potential ganji acquisition. In the agreement, 58.com
19 acknowledged that Chen originated and introduced the potential ganji acquisition to
20 58.com.

21 42. The finder's agreement provided that 58.com would pay Chen \$5 million
22 in the event 58.com or its affiliates obtained a majority equity interest in ganji.
23 Should 58.com obtain less than a majority stake in ganji, the agreement provided that
24 Chen would receive a payment from 58.com in an amount to be mutually determined
25 by 58.com and Chen.

26 43. The finder's agreement additionally contained a confidentiality clause
27 that committed Chen to maintaining "full confidentiality" of all information regarding
28 the agreement and the contemplated ganji acquisition.

1 44. In early 2015, Chen became a Managing Director at a Hong Kong-based
2 investment banking firm.

3 45. On March 11, 2015, 58.com engaged Chen's investment banking firm to
4 advise on its potential acquisition of ganji. Chen worked on, and was privy to
5 material nonpublic information about, the proposed ganji acquisition. Chen also
6 knew, or was reckless in not knowing, that he was required to keep information about
7 the acquisition confidential.

8 46. As consultants to 58.com, Chen and his investment banking firm were
9 subject to 58.com's insider trading policies, which expressly prohibited trading based
10 on material nonpublic information related to 58.com.

11 47. Between March 12 and April 12, 2015, 58.com and the investment
12 banking firm where Chen worked exchanged term sheets with various ganji
13 stakeholders and executives and the parties convened several conference calls and
14 meetings in Beijing to discuss a potential acquisition of ganji. In a series of meetings
15 that took place from late in the day of April 13, 2015 to the morning of April 14,
16 2015 (Beijing time), management from 58.com and ganji agreed to a framework for
17 the transaction and to a memorandum of understanding ("MOU") regarding the
18 acquisition, which was executed on April 14, 2015.

19 48. The same day 58.com entered the MOU, April 14, 2015, starting at 9:59
20 a.m. ET (9:59 p.m. Beijing time) through 10:06 a.m. ET (10:06 p.m. Beijing time),
21 Chen used the Wang account to purchase, at a cost of \$5,507.68, 100 58.com call
22 options with a strike price of \$55 and an expiration date only three days away. These
23 call options were significantly out of the money. The day before Chen's option
24 purchases, 58.com's shares had closed at \$50.83.

25 49. Chen made these options purchases using nearly the entire cash balance
26 in the Wang account. Chen had no prior history trading 58.com securities in the joint
27 brokerage account or the Wang account.

28 50. Less than 30 minutes after Chen made the 58.com options purchases,

1 Bloomberg News reported that 58.com and ganji had agreed to merge and were
2 expected to announce the deal as early as the following day.

3 51. Following the reporting on the merger, 58.com's share price jumped
4 sharply and closed at \$67.87 on April 14, 2015, a 33.52% increase over the prior
5 day's close.

6 52. Two days later, on April 16, 2015, Chen sold all 100 of his 58.com call
7 options for \$99,910.47, realizing insider trading profits of more than \$94,400.

8 53. Chen made no additional trades in the Wang account, but later
9 transferred \$100,000 from the Wang account to their joint bank account.

10 54. Following the announcement of the merger, Chen received a cash
11 payment from 58.com pursuant to the finder's agreement. On July 9, 2015, Chen
12 emailed a bank employee in Hong Kong who had inquired about the payment from
13 58.com. In the email, Chen wrote that "the payment is related to a M&A transaction
14 I participated in as the advisor of the acquirer."

15 **COUNT I**

16 **Chen's RDA Securities Trading in Violation of Exchange Act**

17 **Section 10(b) and Rule 10b-5 Thereunder**

18 **[15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5]**

19 55. The Commission realleges and incorporates by reference paragraphs 1
20 through 54 as though fully set forth herein.

21 56. All of the RDA call options and ADSs referenced in this Complaint are
22 securities.

23 57. Chen purchased the RDA call options and ADSs set forth above based
24 on material, nonpublic information about Tsinghua's potential acquisition of RDA.

25 58. Chen knew, or recklessly disregarded the fact, that the information he
26 possessed was material and nonpublic and that his RDA securities trading was in
27 breach of fiduciary duties or similar duties of trust and confidence owed to Tsinghua
28 and the special purpose entity that was created to effectuate the Tsinghua-RDA

1 merger.

2 59. As more fully described in paragraphs 1 through 54 above, Chen, in
3 connection with the purchase and sale of securities, by the use of the means or
4 instrumentalities of interstate commerce, or of the mails, or of any facility of any
5 national securities exchange, directly or indirectly: (a) employed devices, schemes,
6 or artifices to defraud; (b) made untrue statements of material fact or omitted to state
7 materials facts necessary in order to make the statements made, in the light of the
8 circumstances under which they were made, not misleading; or (c) engaged in acts,
9 practices, or courses of business which operated or would operate as a fraud or deceit
10 upon another person, including purchasers and sellers and prospective purchasers and
11 sellers of securities.

12 60. Chen acted with scienter.

13 61. By engaging in the conduct described above, Chen, directly or indirectly,
14 violated, and unless enjoined will again violate, Section 10(b) of the Exchange Act
15 [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

16 **COUNT II**

17 **Chen's 58.com Securities Trading in Violation of Exchange Act Section 10(b)**
18 **and Rule 10b-5 Thereunder [15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5]**

19 62. The Commission realleges and incorporates by reference paragraphs 1
20 through 54 as though fully set forth herein.

21 63. All of the 58.com call options referenced in this Complaint are
22 securities.

23 64. Chen purchased the 58.com call options set forth above based on
24 material, nonpublic information about 58.com's potential acquisition of ganji.

25 65. Chen knew, or recklessly disregarded the fact, that this information was
26 material and nonpublic and that his 58.com securities trading was in breach of a
27 fiduciary duty or similar duty of trust and confidence owed to 58.com.

28 66. Additionally (and in the alternative), Chen knew, or recklessly

1 disregarded the fact, that his 58.com securities trading was in breach of a fiduciary
2 duty or similar duty of trust and confidence owed to the investment banking firm
3 where he worked.

4 67. As more fully described in paragraphs 1 through 54 above, Chen, in
5 connection with the purchase and sale of securities, by the use of the means or
6 instrumentalities of interstate commerce, or of the mails, or of any facility of any
7 national securities exchange, directly or indirectly: (a) employed devices, schemes,
8 or artifices to defraud; (b) made untrue statements of material fact or omitted to state
9 materials facts necessary in order to make the statements made, in the light of the
10 circumstances under which they were made, not misleading; or (c) engaged in acts,
11 practices, or courses of business which operated or would operate as a fraud or deceit
12 upon another person, including purchasers and sellers and prospective purchasers and
13 sellers of securities.

14 68. Chen acted with scienter.

15 69. By engaging in the conduct described above, Chen, directly or indirectly,
16 violated, and unless enjoined will again violate, Section 10(b) of the Exchange Act
17 [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

18 **COUNT III**

19 **Equitable Claim Against Relief Defendant Wang**

20 70. The Commission realleges and incorporates by reference paragraphs 1
21 through 54 as though fully set forth herein.

22 71. As described in paragraphs 1 through 54 above, Chen placed his RDA
23 and 58.com securities trades using, and generated ill-gotten gains for, an account held
24 in the name of Wang and later transferred proceeds of these illegal trades to a joint
25 bank account in the name of Chen and Wang.

26 72. Such proceeds are the illicit profits of the violations committed by Chen
27 described in this Complaint.

28 73. Relief Defendant Wang has no legitimate claim to the amounts received

1 by virtue of Chen's insider trading, and therefore was unjustly enriched by receiving
2 those funds.

3 **RELIEF REQUESTED**

4 WHEREFORE, the Commission respectfully requests that the Court:

5 **I.**

6 Issue findings of fact and conclusions of law that Chen committed the
7 violations charged and alleged herein.

8 **II.**

9 Issue a Permanent Injunction, in a form consistent with Rule 65(d) of the
10 Federal Rules of Civil Procedure, restraining and enjoining Chen, his agents,
11 servants, employees, and attorneys, and those persons in active concert or
12 participation with them who receive actual notice of the injunction by personal
13 service or otherwise, and each of them, from, directly or indirectly, violating Section
14 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R.
15 § 240.10b-5].

16 **III.**

17 Issue an Order requiring Chen and Wang, jointly and severally, to disgorge all
18 ill-gotten gains received as a result of the violations alleged in this Complaint, and to
19 pay prejudgment interest thereon.

20 **IV.**

21 Issue an Order requiring Chen to pay civil monetary penalties pursuant to
22 Section 21A of the Exchange Act [15 U.S.C. § 78u-1].

23 **V.**

24 Retain jurisdiction of this action in accordance with the principles of equity and
25 the Federal Rules of Civil Procedure in order to implement and carry out the terms of
26 all orders and decrees that may be entered or to entertain any suitable application or
27 motion for additional relief within the jurisdiction of this Court.
28

1 **VI.**

2 Grant such other relief as this Court may deem just and appropriate.

3 **JURY DEMAND**

4 The Commission requests a trial by jury.

5 Respectfully Submitted,

6
7 Dated: September 10, 2018

8 */s/ Douglas M. Miller*

9

Douglas M. Miller

10 Attorney for Plaintiff

11 U.S. Securities and Exchange

12 Commission
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