



Ontario  
Securities  
Commission

Commission des  
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de l'Ontario

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**IN THE MATTER OF  
XIAO HUA (EDWARD) GONG**

**STATEMENT OF ALLEGATIONS**

(Section 127 and 127.1 of the *Securities Act*, R.S.O. 1990, c S.5)

**A. OVERVIEW**

1. The continued capacity of Xiao Hua (Edward) Gong (**Gong**) to participate in Ontario capital markets poses significant risks. Gong operated a fraudulent pyramid scheme involving over 40,000 investors and hundreds of millions of dollars. The scheme resulted in the criminal conviction of Edward Enterprise International Group Inc. (the **Edward Group**) for the use of forged documents and for operating a pyramid scheme. Proof of the fraudulent pyramid scheme and Gong's role as the sole controlling and directing mind of the Edward Group is established by the fact of the conviction of the Edward Group. Further, Gong admitted to directing the criminal scheme in an Agreed Statement of Facts filed in support of the Edward Group's guilty plea.

**Securities Fraud**

2. Gong perpetrated a securities fraud contrary to subsection 126.1(1)(b) of the Act.
3. Specifically, Gong operated a pyramid scheme under the Edward Group that solicited investments from approximately 40,000 people described as "members". The scheme involved the issuance of worthless and forged share certificates for a defunct corporation in exchange for the payment of approximately \$1,000. The certificates were provided to members of the scheme as though genuine and induced some to invest.
4. Gong personally signed the treasury directions authorizing the issuance of the forged shares when he knew or ought to have known that the shares conveyed no value.

### **Unregistered Trading**

5. Gong engaged in or held himself out to be engaged in the business of trading in securities without the necessary registration or an applicable exemption from the registration requirement, contrary to subsection 25(1) of the Act.

6. Neither Gong nor the Edward Group were registered with the Commission to trade in securities and no exemption from the requirement to be registered applies.

7. During the period January 2012 to December 2017, shares of 024 Pharma PLC (**024**) were issued to the approximately 40,000 members of the scheme (along with a sample of health supplements) in exchange for the payment of approximately \$1,000, which brought hundreds of millions into the Edward Group and its related companies for the benefit of Gong. The shares are “securities” within the meaning of subsection 1(1) of the Act.

8. Members of the scheme paid consideration for the shares because the value of the health supplements was less than the approximately \$1,000 paid for the shares and supplements together. Therefore, the issuance of the shares is a “trade” within the meaning of subsection 1(1) of the Act.

9. Further, and as detailed below, Gong engaged in numerous acts in furtherance of trades in the shares. Gong or his employees (operating under his direction) provided updates, announcements and information for a website designed to solicit people to become members of the scheme and produced a PowerPoint presentation explaining the pyramid scheme compensation system to solicit people to become members of the scheme. Finally, Gong signed the treasury directions that authorized and directed the transfer agent to issue the shares.

### **Director and Officer Liability**

10. Gong, as the sole director and officer and controlling and directing mind of the Edward Group and a director of 024, an Edward Group company, authorized, permitted and acquiesced in the failure of the Edward Group and 024 to comply with Ontario securities law, namely subsections 25(1) and 126.1(1)(b). Gong is, therefore, deemed to also have not complied with Ontario securities law pursuant to section 129.2.

11. The Edward Group’s criminal convictions constitute proof of the facts which support those convictions which, in turn, establish the Edward Group’s non-compliance with Ontario securities

law. The Edward Group's and 024's non-compliance with Ontario securities law is also established by the facts alleged below which have been admitted by Gong.

12. The admitted facts also establish that Gong authorized, permitted and acquiesced in the failure of the Edward Group and 024 to comply with Ontario securities law.

### **Public Interest**

13. Gong was the sole directing and controlling mind of the Edward Group at the time it committed serious criminal offences and is a party to those offences. The nature of these offences demonstrates that Gong poses an ongoing risk to investors and the integrity of Ontario's capital markets. Accordingly, it is in the public interest to make an order under section 127(1) against Gong even if the Tribunal determines that Gong's conduct does not constitute a breach of Ontario securities law.

## **B. FACTS**

14. The following allegations of fact are made.

### **Introduction**

15. These facts were admitted by Gong in the Agreed Statement of Facts.

16. Gong is the sole controlling and directing mind of multiple companies, including the Edward Group, 024, and Canada National Television (**CNTV**). Gong was reckless and wilfully blind, and therefore, had the mental state required to be a party to the offences committed by the Edward Group and always acted within the scope of his authority in his actions on behalf of these companies, or in directing the work of the companies' employees and representatives.

17. Gong, personally and by directing representatives of his companies, ran an operation that promoted the products and shares of 024 under the Edward Group umbrella. Gong ran the Edward Group and the scheme primarily in Ontario and recruited members in China.

18. Gong and employees under his direction solicited investors to become members of the scheme (**Members**) and to invest up to ¥5,000 RMB or the equivalent of up to approximately \$1,000 CAD to receive a package that consisted of health supplements and 024 shares (or later

CNTV shares). Members were promised large returns on their investment once 024 went public and the shares were traded on the stock market. However, the shares could not convey their purported interest because the version of 024 referenced in the shares had been dissolved years prior, in 2010.

19. The operation run by Gong included a pyramid or multi-level marketing selling structure. Members were told that they could make money by recruiting other Members. By purchasing health supplements, Members were entitled to receive larger sums of money than what they had paid, by reason of the fact that new recruits became Members and purchased supplements. Between January 2012 and December 2017, approximately 40,000 people became Members in the scheme and of Gong's companies.

### **Corporate Structure**

20. The Edward Group and, in turn, Gong bear liability for the actions of the two 024 companies and CNTV which all operated under the Edward Group umbrella.

21. Gong is the sole shareholder, officer and director of the Edward Group. The Edward Group was incorporated on November 4, 2005, in Ontario.

22. Gong became a director of the first 024, with company #5307767, on January 12, 2009. On March 23, 2010, the first 024 was dissolved upon a compulsory striking off by the registrar of companies in the United Kingdom (called Companies House) for failing to file statutory documents. Once a company is dissolved, it ceases to exist as a legal entity under UK law unless properly restored, which did not occur.

23. Gong is a director and shareholder of a new, second version of 024, with company #8318317, which was registered on December 5, 2012. The first 024 did not apply to be restored at Companies House.

### **Distribution of Shares and Health Supplements**

24. Gong and his employees, operating under his direction, provided updates and announcements for the company website. At various times between 2012 and 2016, the website referred to 024 engaging in research and development, having a unique global shareholder system, and bringing shareholders great return. The 2012 version of the website stated that 024 was listed

on the Frankfurt Stock Exchange. The 2016 version of the website removed the statement of 024 being listed on the Frankfurt Stock Exchange, after the company had been delisted.

25. The website was also used to register Members. Once registered with 024, Members could then purchase the package of health supplements and shares in 024. The template for ordering the package indicated that a purchase order would include one bottle of health supplements and 500 shares. Although the entire package sold for up to approximately \$1,000 CAD, the health supplements were worth a small portion of that amount. The website was taken down at some point between June 2016 and December 2016.

## **Pyramid Selling**

### *Mechanism of Pyramid Selling*

26. Gong, and the employees under his direction, operated a pyramid scheme that included a compensation system that paid Members to recruit other Members.

27. When Members successfully convinced others to purchase the products, they would be rewarded with a one-time "referral bonus". The compensation system also included an ongoing income "matching bonus" described as "one match with the other award". To earn further compensation, Members were encouraged to set up two parallel lines of recruits beneath them. Members were financially rewarded when they successfully had one referral under each line (called a match). If Members could develop one line in parallel with the other, they could earn matches without any limits. When Members reached certain sales achievements, they could become a "membership reporting centre", which allowed them to develop sales and referrals as a group.

### *Inevitable Loss for Some Subsequent Members*

28. Gong, and employees under his direction, operated the recruitment scheme that inevitably lead to loss for some people who became Members on the expectation of receiving a larger amount from amounts paid in by subsequent Members.

29. Some people became Members and purchased the health supplements because it enabled them to profit by recruiting other Members. The "product" in this case was a package of health supplements and shares of the first 024 that Members were told would produce significant returns.

However, because the first 024 company had already been dissolved, Members were not accurately informed, including by Gong and the Edward Group, of the likely compensation that they would receive. Some who purchased the product started in a loss position, until they recruited others to join, because the market value of the health supplements alone (without the shares) was not \$1,000 CAD per package.

### **Using Forged Documents**

30. Gong, on behalf of the Edward Group, was reckless and wilfully blind to the fact that the share certificates were forged or false when the Edward Group caused Members to act on them as if they were genuine. The Edward Group issued 024 shares to Members on physical share certificates. The certificates displayed the Edward Group logo and said that it conveyed fully paid up and non-assessable common shares in the first 024 (#5307767). Gong signed the treasury directions that authorized and directed the transfer agent to issue the shares. However, Members received these share certificates when the first 024 had already been dissolved and did not exist as a legal entity. The share certificates were not legally valid and had no value, yet were provided to Members as though genuine and induced some to invest.

### **Intent to Benefit the Edward Group**

31. Gong acted with the intent to benefit the Edward Group organization. The Edward Group, and, consequently, Gong, did so benefit: the operation brought hundreds of millions into Edward Group and its related companies. The proceeds (which were earned via the operation) were distributed through corporations controlled by Gong and deposited in bank accounts used to purchase assets or to fund accounts that were later restrained by orders of the Ontario Superior Court of Justice.

### **Criminal Conviction of the Edward Group**

32. On February 10, 2021, the Edward Group plead guilty and was convicted by the Ontario Superior Court of Justice of offences related to the operation of the pyramid scheme. Gong entered the guilty plea on behalf of the Edward Group. In the Agreed Statement of Facts, Gong confirmed that he understood and accepted the facts in the Agreed Statement of Facts (which are the same facts alleged in this Statement of Allegations) were “accurate for the purposes of this informed and voluntary plea resolution.”

33. Specifically, the Edward Group was convicted of committing the following offences under the *Criminal Code*, in the City of Toronto, between January 1, 2012 to December 20, 2017:

(a) conducting or being a party to a scheme by which a person on payment of a sum of money, became entitled under the scheme to receive from the Edward Group or any other person, a larger sum of money than the amount paid, by reason of the fact that the other persons have paid under the scheme, contrary to subsection 206(1)(e) of the *Criminal Code*; and

(b) knowing or believing that documents were forged, to wit: 024 share certificates, caused other persons to deal with or act on the documents as if they were genuine, contrary to subsection 368(1)(b) of the *Criminal Code*.

34. In sentencing the Edward Group, the Court imposed a fine of \$756,000, a victim fine surcharge of \$229,500, the forfeiture of certain property to the Crown and the release of \$14,895,943.05 to the Canada Revenue Agency, all in accordance with a joint submission entered into by the Crown and the Edward Group.

**C. BREACHES OF ONTARIO SECURITIES LAW AND CONDUCT CONTRARY TO THE PUBLIC INTEREST**

35. The following breaches of Ontario securities law and/or conduct contrary to the public interest are made:

(a) Gong directly or indirectly engaged in or participated in acts, practices, or courses of conduct relating to securities that he knew or reasonably ought to have known perpetrated a fraud on persons or companies, contrary to subsection 126.1(1)(b) of the Act;

(b) Gong engaged in, or held himself out as engaging in, the business of trading in securities without the necessary registrations or applicable exemptions from the registration requirement, contrary to subsection 25(1) of the Act;

- (c) Gong authorized, permitted or acquiesced in the non-compliance of the Edward Group and 024 with Ontario securities law, contrary to section 129.2 of the Act; and
- (d) Even if Gong's conduct does not constitute a breach of Ontario securities law, the fact of the convictions of the Edward Group for serious criminal offences provides a further public interest basis for making an order under section 127(1) against him because Gong was the sole directing and controlling mind of the Edward Group at the time it committed serious criminal offences and is a party to those offences.

36. These allegations may be amended and further and other allegations may be added as the Tribunal may permit.

#### **D. ORDER SOUGHT**

37. It is requested that the Capital Markets Tribunal (the **Tribunal**) make the following orders:

- (a) that trading in any securities or derivatives by Gong cease permanently or for such period as is specified by the Tribunal, pursuant to paragraph 2 of subsection 127(1) of the Act;
- (b) that Gong be prohibited from acquiring any securities permanently or for such period as is specified by the Tribunal, pursuant to paragraph 2.1 of subsection 127(1) of the Act;
- (c) that any exemptions contained in Ontario securities law do not apply to Gong permanently or for such period as is specified by the Tribunal, pursuant to paragraph 3 of subsection 127(1) of the Act;
- (d) that Gong resign one or more positions that he holds as a director or officer of any issuer, registrant or investment fund manager pursuant to paragraphs 7, 8.1 and 8.3 of subsection 127(1) of the Act;



- (e) that Gong be prohibited from becoming or acting as a director or officer of any issuer, registrant, or investment fund manager pursuant to paragraphs 8, 8.2 and 8.4 of subsection 127(1) of the Act;
- (f) that Gong be prohibited from becoming or acting as a registrant or promoter permanently or for such period as is specified by the Tribunal, pursuant to paragraph 8.5 of subsection 127(1) of the Act;
- (g) that Gong pay an administrative penalty of not more than \$1 million for each failure to comply with Ontario securities law, pursuant to paragraph 9 of subsection 127(1) of the Act;
- (h) that the Gong pay costs of the investigation and the hearing, pursuant to section 127.1 of the Act; and
- (i) such other order as the Tribunal considers appropriate in the public interest.

DATE: June 13, 2022

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