

2003 BCSECCOM 553

Amended Notice of Hearing

**Steven Peter Hughes, also known as Stephen Peter Hughes
and Reo-Tech Capital Group Ltd.**

Section 161 of the *Securities Act*, RSBC 1996, c. 418

- ¶ 1 A Hearing will be held (the Hearing) to give Steven Peter Hughes, also known as Stephen Peter Hughes (Hughes) and Reo-Tech Capital Group Ltd. (Reo-Tech) (collectively the Respondents) an opportunity to be heard before the British Columbia Securities Commission considers whether it is in the public interest to make the following orders:
1. under section 161(1)(b) of the *Securities Act*, RSBC 1996, c. 418, the Respondents cease trading in and be prohibited from purchasing any securities;
 2. under section 161(1)(c) of the Act, any or all of the exemptions described in sections 44 to 47, 74, 75, 98 or 99 of the Act not apply to the Respondents;
 3. under section 161(1)(d)(i) of the Act, Hughes resign any position he may hold as a director or officer of any issuer;
 4. under section 161(1)(d)(ii) of the Act, Hughes be prohibited from becoming or acting as a director or officer of any issuer;
 5. under section 161(1)(d)(iii) of the Act, Hughes be prohibited from engaging in investor relations activities;
 6. under section 162 of the Act, the Respondents pay an administrative penalty;
 7. under section 174 of the Act, the Respondents pay the prescribed fees or charges related to the hearing; and
 8. any other orders as may be appropriate in the circumstances.
- ¶ 2 The Commission will be asked to consider the following facts and allegations in making its determination:

The Parties

1. Hughes has not been registered in any capacity under the Act since July 2, 1996.

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2. Pursuant to a February 16, 1999 settlement with the Executive Director of the Commission, Hughes agreed to an order removing his registration exemptions until the later of one year from February 16, 1999 and paying \$5,000 (the Order).
3. Reo-Tech was incorporated under the laws of British Columbia on May 26, 1999.

Facts

DOSH Marketing

4. From August 15, 1996 to March 27, 1998, Hughes represented to the general public that persons who invested money in DOSH Marketing, an unincorporated venture owned and run by him, would earn returns of 25% on terms of 12 or 18 months.
5. Hughes represented to investors that DOSH Marketing would earn those returns by investing the money in off-shore ventures.
6. Hughes received a total of \$509,922 from 23 investors, only one of whom fit into any available exemption from the registration and prospectus requirements of the Act. No Forms 20A were filed.
7. Of the amount raised, about \$215,000 appears to have been put into two ventures. The first was Big Valley Resources Inc., and the second was a prime bank investment scheme called The Alternative Choice (TAC). TAC was eventually banned by the Commission from trading in a decision dated June 8, 2000.
8. The balance of the money was used by Hughes for his own personal expenses, including school fees, alimony payments and VISA bills, contrary to the representations he made to investors.
9. No return was ever earned by DOSH Marketing from any supposed investment, in Big Valley, TAC, or otherwise.

Paradigm Capital Group

10. From March 20, 1998, Hughes used the name Paradigm Global Group (Paradigm) for his investment schemes rather than DOSH Marketing. Hughes appears to have changed the name in order to attract new investors, because investments in DOSH were maturing, were not being paid, and he wanted to avoid using the DOSH name.

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11. Hughes raised \$349,780 from 13 investors under the Paradigm name promising a 25% return to them on a 24-month term, all from supposed investments to be made in junior companies by Paradigm. Hughes advised potential investors on the merits of these investments.
12. Hughes told persons who had previously invested in DOSH Marketing that he would roll-over their investments, which he claimed had matured, into Paradigm. The total amount of these supposed roll-overs was \$600,000. In fact, no roll-overs ever occurred, nor was there any money to roll over.
13. Hughes recorded the investments in Paradigm by issuing investment certificates to investors. Hughes issued 43 investment certificates in Paradigm. 17 were for new money, the balance were for alleged roll-overs.
14. Hughes did not invest any of the money invested raised under the Paradigm name, but instead used it for his own purposes. This included paying the Commission \$5,000 on February 17, 1999 to discharge the payment contemplated by the Order.

Reo-Tech

15. Hughes incorporated Reo-Tech on May 26, 1999 and began using it as an investment vehicle in June 1999.
16. Between June 8, 1999 and September 14, 2000, Hughes caused Reo-Tech to issue 983 preferred shares in 23 certificates to Paradigm investors to replace their investments in Paradigm.
17. Hughes also caused Reo-Tech to issue 440 shares for \$1,000 each to new investors, for a total of \$440,000 of new money into Reo-Tech between June 8, 1999 and April 28, 2000.
18. Hughes attracted investors in Reo-Tech by representing that he could properly assess, invest in, and manage venture capital investments on their behalf.
19. Reo-Tech raised a further \$193,000 between May 3, 2000, and May 16, 2001, from members of the public. Hughes caused it to issue promissory notes with a 24-month term and 25% return. Hughes used all of the money for his own purposes, such as paying private school fees, travel costs, VISA payments, and repaying earlier investors.

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20. On May 19, 2000, Hughes caused Reo-Tech to issue a bank draft in the amount of \$18,000 payable to CEO Consulting Inc. (CEO), a company owned by Laureen Youds (Youds), then Hughes's girlfriend and subsequently his wife. That money was used by CEO to make an investment in Bondtech Building Systems Ltd. (Bondtech). Reo-Tech received no benefit from this transaction and there is no record, apart from banking records, of the transaction. It was done to provide a benefit to Youds, CEO, and Hughes and was a misuse of the money provided to Reo-Tech by the investors.

Bondtech Transactions

21. On August 14, 2000, Reo-Tech received \$18,000 from two investors in Kamloops. They relied on Hughes's representation that they would earn a one quarter participation interest in payments supposedly due to Reo-Tech under a royalty agreement with Bondtech. The investment was represented to return up to \$40,000 over the next two years.
22. The representations made by Hughes were untrue to his knowledge. The party supposedly required to pay the royalties, Bondtech, had no obligation to do so. Hughes also represented that other persons had invested in the royalty agreement as part of his effort to encourage the Kamloops investors to invest. That was also untrue, to Hughes's knowledge.
23. The money did not go into any investment, but was in fact used to repay an earlier investor in Reo-Tech.
24. Hughes was fully aware of Bondtech's affairs. He had been Vice President of Corporate Finance for Bondtech until July 2000, and owned 20% of its equity. Reo-Tech, despite advancing \$74,500 to Bondtech, did not own any shares or debt of Bondtech. Hughes took no steps of any kind to secure a return for Reo-Tech or the investors on the investment and it was entirely lost.

Reo-Tech Transaction

25. On May 16, 2001, an investor invested \$25,000 in Reo-Tech on the representations of John Grigg, an insurance agent who solicited many of his clients on behalf of Hughes. Grigg died on August 23, 2002.
26. The investor relied on a representation by Grigg that the investment would earn a 25% return over two years.
27. Hughes, then in Mexico on vacation, sent to the investor, by mail, a supposed corporate update for Reo-Tech that contained positive representations about Reo-Tech's prospects.

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28. Hughes knew by this time, however, that Reo-Tech was effectively insolvent. Hughes had already advised other Reo-Tech investors of this fact by a corporate newsletter dated April 21, 2001.
29. Hughes did not tell the new investor the truth, but instead had copied and sent an earlier newsletter which concealed bad news about Reo-Tech.
30. In or about July 2001, Hughes advised all Reo-Tech investors including this investor that Reo-Tech was insolvent and their investments were worthless.

Breaches of the Act

31. Hughes acted as an advisor and sold securities in British Columbia without registration, contrary to section 34 of the Act.
32. Hughes sold securities of issuers which had not issued prospectuses and which did not have exemptions, contrary to section 61 of the Act.
33. Hughes misrepresented to investors in all his ventures the degree of risk and the likelihood of a return, contrary to section 50(1)(d) of the Act.
34. Hughes engaged in transactions or series of transactions which perpetrated a fraud on persons in British Columbia, contrary to section 57(b) of the Act.

Actions Contrary to the Public Interest

35. Hughes's conduct as set out in this notice was contrary to the public interest and damaging to the capital markets in British Columbia.
36. Hughes continued to trade throughout the period from February 16, 1999 on, despite being subject to the Order.
37. Hughes used money from investors, obtained under representations that it would be used to create a return for them, to instead discharge the payment contemplated by the Order.

- ¶ 3 The Respondents may be represented by counsel at the Hearing, and make representations and lead evidence. The Respondents are requested to advise the Commission of their intention to attend the Hearing by informing the Commission Secretary at PO Box 10142, Pacific Centre, 701 West Georgia Street, Vancouver, BC V7Y 1L2 phone: (604) 899-6500; email: commsec@bcsc.bc.ca.

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- ¶ 4 The Hearing in this matter is set for Tuesday, August 12, 2003, at 10:00 am.
- ¶ 5 Determinations may be made in this matter if the Respondents or their counsel do not appear at the Hearing.
- ¶ 6 August 11, 2003
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- ¶ 7 Stephen J. Wilson
Executive Director