

Highlights

In January 2006, the SFC:

- prosecuted four people and one company for breaking securities laws
- disciplined one person

Prosecution

Repeat market manipulator sentenced to immediate imprisonment

Mr Stephen Lee Sing Wai pleaded guilty to intentionally creating a false market in Essex Bio-Technology Ltd shares. From 4 February 2003 to 31 March 2003, Lee acted in concert with another person to control 14 accounts with eight brokers and traded Essex shares between each other, accounting for over 70% of the market turnover of Essex during the period and inflating the market price by 120%. Lee was sentenced to seven months' imprisonment and ordered to pay the SFC's investigation costs. This was Lee's second conviction for market manipulation. On 23 July 2002, he was convicted of the same offence and was sentenced to nine months' imprisonment suspended for three years.

(Press releases issued on 10 January 2006 and 7 and 18 October 2005)

Market manipulators should beware. Those who plead guilty generally receive a suspended custodial sentence and those convicted after trial receive an immediate custodial sentence. Those who re-offend during a suspended sentence can expect an even longer custodial sentence.

Four-month suspended sentence plus fine for market manipulator

Mr Cheung Wan Chiu pleaded guilty to intentionally creating a false or misleading appearance with respect to the market for the shares of Innovis Holding Ltd. Cheung placed a series of single board lot orders for Innovis shares at prices higher than the then prevailing market price shortly before the market close on 8, 14 and 16 February 2005 and pushed up the price of Innovis shares by a maximum of 16%. Further investigation by the SFC revealed that Cheung had also committed market manipulation in respect of the shares of KanHan Technologies Group Ltd on 15, 18, 24 and 29 March 2005, causing the closing price of the stock to rise by a maximum of 26%. Cheung agreed that his manipulative trading in KanHan shares be taken into consideration for sentencing. Cheung was sentenced to four months' imprisonment, suspended for three years, and fined a total of \$30,000. He was also ordered to pay the SFC's investigation costs.

(Press release issued on 12 January 2006)

In sentencing, the Magistrate noted Cheung's co-operation and clear record. Those who fail to co-operate with SFC investigations and those who offended before can expect tougher punishment. The Magistrate also noted a conviction for manipulation after trial would usually result in a six-month jail sentence.

Individual prosecuted for making unsolicited calls

Mr Chau Sik Ki, a former licensed representative of Tanrich Futures Ltd, pleaded guilty to making an unsolicited call to a person inducing him to enter into agreements for trading in futures contracts. Chau was fined \$6,000 and was ordered to pay the SFC's investigation costs.

(Press release issued on 24 January 2006)

It is a criminal offence to make unsolicited calls with the intention of inducing a person to buy SFC regulated products. Investors should not be pressured into buying financial products they do not want or cannot afford during the course of unsolicited calls. Tough disciplinary action will be taken against those who mis-sell financial products to vulnerable groups who suffer loss as a result.



SFC Enforcement Reporter

A monthly summary of SFC enforcement action

SFC

證監會

February 2006

Non-disclosure of listed company interests affects market transparency

Everbest Investments Ltd and its director, Mr Yu Chiu Wo, pleaded guilty to failing to notify the Stock Exchange of Hong Kong Ltd and Jingwei Textile Machinery Company Ltd on a timely basis of Everbest's acquisition of Jingwei shares, which caused Everbest to have a notifiable interest in Jingwei. Everbest and Yu were each fined \$8,000 and ordered to pay the SFC's investigation costs.

(Press release issued on 26 January 2006)

Timely disclosure to shareholders and the market of the changes in shareholding of listed companies is essential for operation of an open and transparent market. The SFC can and will bring prosecutions against people who fail to do so.

Discipline

SFC bans individual for making unsolicited calls

In August 2005, Mr Chow Wai Ho, a former representative of Tanrich Futures Ltd, was convicted and fined \$7,500 for making unsolicited calls on various occasions inducing others to enter into agreements for trading in futures contracts. Following the successful prosecution, Chow left the industry and the SFC prohibited him from re-entering the industry for three months.

(Press releases issued on 11 January 2006 and 29 September 2005)

Licensees who made unsolicited calls will face both criminal prosecution and disciplinary sanctions. In appropriate circumstances, the SFC will also pursue those who are no longer licensed by it.

Miscellaneous

Public statement about individual who failed to inquire into suspicious trades

The SFC issued a public statement about Mr Eurwongpravit Praphant, a former securities dealing director, who failed to make reasonable enquiries with four corporate clients who bought three warrants at prices above those of their underlying stocks on 48 trading days, in breach of the Code of Conduct. Eurwongpravit expressed regret over his conduct and consented to the SFC's public statement. The SFC is considering his licensing application and he is co-operating with the SFC in addressing its concerns.

(Press release issued on 16 January 2006)

It is the duty of licensees to inquire into suspicious trades so that manipulative trades or improper trading can be identified and stopped at the earliest opportunity.

General Enforcement Statistics

From 1 April 2005 to end of January 2006, the SFC successfully prosecuted 61 entities and offered no evidence against three entities. In the same period, the SFC took action against 80 licensees for various regulatory breaches of which three cases were settled with voluntary payments and with no formal sanction imposed. Another five licensees settled with voluntary payments and received statutory sanctions.

If you want to know more, the SFC's press releases are available at www.sfc.hk.

If you want to subscribe and receive the SFC Enforcement Reporter monthly by email, simply register for the SFC's Update Alert service on our homepage and select SFC Enforcement Reporter. Intermediaries licensed by the SFC receive the SFC Enforcement Reporter monthly via their FINNET email accounts.