

Highlights

In October the SFC:

- won the appeals against prison sentences lodged by two convicted market manipulators
- had six people convicted for breaking securities laws
- disciplined three intermediaries

Prosecution

High Court upheld prison sentences for market manipulators

The High Court dismissed the appeals against the four and eight month prison sentences lodged by Mr Yuen Cyril Sze Ning and Mr Choy Wai Zak respectively. The two manipulated the shares of The Hong Kong Parkview Group Limited in November 1999 in breach of the **Securities Ordinance**. The judge quashing the appeals commented that the deception and dishonesty involved in market manipulation struck at the honest operation of the securities market and as such it was not a victimless crime.

(Press release issued on 3 October 2002)

All market participants should realize how seriously the courts and the SFC view market manipulation. Anyone involved in, or assisting, the crime can expect to be dealt with severely. The new Securities and Futures Ordinance which takes effect next year ups the maximum penalties to 10 years and a \$10 million fine. Further, with the new Market Misconduct Tribunal as well as the SFC's new disciplinary powers, the SFC expects to have more flexibility in dealing with market manipulators.

SFC continues to crack down on market manipulation

Mr Daniel Hung pleaded guilty to manipulating the shares of Climax International Company Limited from September to October 2000. During the period, Hung traded actively in Climax shares, and many of these trades involved no change in beneficial ownership. Sentencing is expected in mid-November 2002.

(Press release issued on 28 October 2002)

Since April this year, the SFC has successfully prosecuted three people for market manipulation.

The SFC has had a string of successful prosecutions against market manipulators, and it will continue to crack down on any market misconduct that undermines Hong Kong's securities markets. Together with the changes under the SFO that take effect next year, such successes should prove to be a potent deterrent.

SFC still finding unauthorized adverts on investment arrangements

Hong Kong Real Estate Exchange Co Ltd distributed adverts and promotional documents about a Canadian property development project with guaranteed annual returns. Prior SFC authorisation must be obtained for promotional materials about such investment schemes under the **Protection of Investors Ordinance**. The company and its director, Mr Li Chi Hong, pleaded guilty to five summonses each for not getting the SFC's approval, and were fined and ordered to pay the SFC's costs.

(Press release issued on 8 October 2002)

Since April this year, the SFC has successfully prosecuted seven people for offences under the Ordinance.

The SFC actively looks for unauthorized adverts and promotional materials to ensure they are given to the SFC for checking first. This vetting process helps to protect Hong Kong's investors against misleading promotional literature about investment opportunities. If people are contemplating a scheme to induce the public to invest in securities or other property, they should contact the SFC before advertising it or offering the scheme to Hong Kong investors. If they don't, they may end up meeting the SFC in court.

Disclose your trades on time

Mr Chan Kwan Shat and Ms Wong Wai Gin Lydia bought more than 10% of the issued share capital of China Motor Bus Company Limited, but did not disclose their substantial interests under the **Securities (Disclosure of Interests) Ordinance** on time. Separately, Mr Lam Kin Hing Kenneth did not disclose on time his 1.34% interest in Wah Fu International Holdings Limited (now renamed Quam Limited) upon becoming a director of that company. All three pleaded guilty and were fined and ordered to pay the SFC's costs.

(Press releases issued on 15 and 22 October 2002 respectively)

Since April this year, the SFC has successfully prosecuted 14 persons for breaches of listed companies securities disclosure laws.

The SFC reminds listed company substantial shareholders, directors and CEOs to disclose all their relevant securities transactions or face possible prosecution.

Discipline

Weak internal controls increase risk of brokerage staff theft and fraud

The SFC took disciplinary action in two cases of misappropriation and related internal control failings:

- Ricofull Securities Limited was publicly reprimanded, following an investigation into falsification of trading accounts by one of its former dealer's representatives, Mrs Ho Lee Lai Kuen. Independent accountants had reviewed the firm's internal control system, and identified specific weaknesses, including inadequate overall management controls and segregation of duties, which helped Ho get away with her crimes.
- Ms Chan Hing Fung Katie's registration was revoked for stealing clients' securities and money, and running bogus investment schemes to deceive money out of her clients. Chan's former employer allowed her to assume both front and back office functions, which gave her the opportunity for crime.

(Press releases issued on 18 and 21 October 2002 respectively)

Rogue brokerage staff are often able to steal clients' assets and money because of basic, sometimes almost clichéd inadequacies in their employers' internal control systems. All licensees must therefore ensure that effective safeguards are in place to prevent what can be prevented. Otherwise, disciplinary actions, on top of any financial and reputational losses, may result.

Breaking promises to the SFC leads to public reprimand

Vermont Securities Company Limited was publicly reprimanded for breaching its undertakings to the SFC about its credit control procedures in respect of its margin client accounts. The firm also had other internal control and compliance problems.

(Press release issued on 18 October 2002)

Licensees' undertakings are an important means that the SFC uses to protect the interests of the investing public. They also save licensees from more serious regulatory action. The SFC takes any breach of a licensee's undertaking very seriously. Any licensee who breaks his regulatory promise to the SFC should expect a stern disciplinary response.

General Enforcement Statistics

Since 1 April 2002, the SFC has successfully prosecuted 24 people and firms and disciplined 44 entities.

If you want to know more, the SFC's press releases are available at http://www.hksfc.org.hk/eng/press_releases/html/enforcement_2002.htm.

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