



# SFC Enforcement Reporter

A monthly summary of SFC enforcement action

August 2003

## Highlights

### In July the SFC:

- had nine persons convicted of breaking securities laws
- disciplined eight intermediaries

## Prosecution

### [Suspended custodial sentence plus a fine for market manipulator](#)

Mr Wong On Ching was sentenced to three months' imprisonment, suspended for one year, plus a \$15,000 fine and was ordered to pay the investigation costs. Wong pleaded guilty to intentionally creating a false market in the shares of Victory Group Limited in 2000, in breach of the **Securities Ordinance**. A few minutes before market close on 29 September 2000, Wong placed bid orders through his own trading account and simultaneously placed ask orders through a friend's account. The matching of these orders caused a substantial rise in Victory's closing price. The magistrate in passing the sentence commented that the court took a serious view of market manipulation offences.

(Press release issued on 22 July 2003)

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

*Market manipulators may face imprisonment as well as fines. This case was prosecuted under the old Securities Ordinance, under which the penalties were less severe. The penalties are now tougher under the Securities and Futures Ordinance (SFO) for market misconduct that takes place after 1 April 2003. Further, the SFC can pursue market misconduct either criminally or civilly through the Market Misconduct Tribunal (MMT).*

### [Don't lie in FRR returns](#)

Prosperous Securities Limited, Ms Chan Man Ching (its managing director) and Mr Lee Po Wing (a former dealing director) pleaded guilty to failing to notify the SFC of its liquid capital deficiencies between July 2000 and June 2002, in breach of the **Securities Ordinance**. Prosperous also pleaded guilty to providing false or misleading information to the SFC in contravention of the **Securities and Futures Commission Ordinance**. All three were fined and ordered to pay the investigation costs.

(Press release issued on 29 July 2003)

*Since April this year, the SFC has successfully prosecuted two people for providing false or misleading information to the SFC, and five people for Financial Resources Rules (FRRs) related breaches.*

*The SFC views non-compliance with the FRRs seriously, as it jeopardises client interests. Prosperous ceased its business upon the SFC's request promptly after discovery of the non-compliance. Report liquid capital deficiencies promptly to avoid criminal consequences.*

### [Licensee convicted of short selling faces disciplinary action](#)

Mr Sang Yee Pan Rondy pleaded guilty to short selling Ngai Lik Industrial Holdings Limited shares on 26 March 2002, in breach of the **Securities Ordinance**. Sang was fined and ordered to pay the investigation costs.

(Press release issued on 25 July 2003)

*Since April this year, the SFC has successfully prosecuted one person for short selling. As a licensed person Sang will also face disciplinary action.*

### [Know your disclosure obligations](#)

(1) Ms Wong Wai Ying, a substantial shareholder of Pine Technology Holdings Limited, and her husband, Mr Chiu Kwong Chi, and (2) Mr Tung Fai and Wisdom Latch Ltd, a BVI company wholly owned and controlled by Tung and which was a substantial shareholder of First Natural Foods Holdings Limited, pleaded guilty to failing



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to report their trades on time under the **Securities (Disclosure of Interests) Ordinance** (SDIO). All four were fined and ordered to pay the investigation costs.

(Press releases issued on 15 and 8 July 2003 respectively)

*Since April this year, the SFC has successfully prosecuted seven people for breaches of listed company securities disclosure laws.*

*The SFO having been in force since 1 April 2003, all market participants should now be aware of the changes to the securities disclosure laws under it. People who previously under the old law did not have to disclose may now come under an obligation to disclose. If you are in any doubt, seek professional advice. Ignorance of the new law is no excuse.*

## Discipline

### [Don't trade a suspended stock](#)

Whilst trading in the shares of Cheung Wah Development Company Ltd (now known as Softbank Investment International (Strategic) Ltd) was suspended, Get Nice Investment Limited, in breach of the HKEx **Rules of the Exchange**, arranged for Cheung Wah shares to be transferred from a third party to a client on 17 January 2000. Get Nice's credit controls and audit trail were also found to be deficient. Get Nice and its directors, Mr Hung Hong Man and Mr Shum Kin Wai Frankie were reprimanded. Hung directed staff to arrange for the off-market transfer in question, and Shum was responsible for supervising Get Nice's regulated business.

(Press release issued on 30 July 2003)

*Trading suspensions are often the result of a disorderly or unequally informed market. Therefore, dealing in suspended securities may jeopardise market integrity by, for example, possibly facilitating insider dealing. A broker firm should take measures to ensure compliance with the Rules of the Exchange.*

### [Five months' suspension for not questioning manipulative trades](#)

The SFC suspended for five months the licence of Mr Fong Dig Kwan Laurence of Hantec Securities Co Limited. He allowed another SFC licensee to place orders for five client accounts without knowing if his clients agreed to the arrangement, and without getting the consent from the other licensee's employer. Worse still, whilst he suspected that the other licensee was using the five accounts as nominee accounts to manipulate a stock, he still executed the trades without making proper enquiries. He should have suspected all five accounts were operated by the SFC licensee but failed to verify if that was the case.

(Press release issued on 28 July 2003)

*When licensees find their clients' trades to be suspicious, they cannot just turn a blind eye. They have to make proper enquiries before executing the trades, both as to whom the trades were for and the purpose and propriety of the trading. The SFC views failures in this regard very seriously, as the integrity of Hong Kong's markets is at stake. Disciplinary action and possibly a referral to the MMT will follow.*

### [Ensure valid written authorisations are in place if third parties are to place orders](#)

Ms Luk Wai Jong Anita allowed a third party to operate two client accounts without obtaining proper written authorisations from the account holders. Further, she jumped the gun by performing licensed activities for CM-CCS Securities Limited before her transfer of accreditation to the firm had been approved. The SFC reprimanded Luk, CM-CCS Securities and its dealing director, Mr Mau Ying Yuen.

(Press release issued on 4 July 2003)

*Allowing unauthorised third parties to place orders risks client interests. Such trading is often a feature of market manipulation. Therefore, licensees cannot afford to be complacent. Also, jumping the gun may well land both the representative and the employer in court for unlicensed trading related offences, in addition to being disciplined.*



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## [Supervisor reprimanded for failure to handle client complaints properly](#)

Ms Cheung Lai Ping of Celestial Commodities Limited was reprimanded for repeatedly failing to conduct an independent inquiry after receiving complaints from a client. An account executive under her supervision had conducted unauthorised trading in the complainant's account. Cheung had relied on the account executive to resolve the complaint.

(Press release issued on 2 July 2003)

*Licensees must handle complaints fairly and promptly. Relying on the subject of complaints to resolve them is clearly unacceptable. If a complaint cannot be resolved promptly, the licensee should advise the complainant of other remedies, including complaining to the SFC.*

## General Enforcement Statistics

**Since 1 April 2003, the SFC has successfully prosecuted 25 entities and disciplined 27 intermediaries for various regulatory breaches.**

*If you want to know more, the SFC's press releases are available at [www.hksfc.org.hk](http://www.hksfc.org.hk).*

*If you want to subscribe and receive the SFC Enforcement Reporter monthly by email, simply register for the SFC's Website Update Email 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.*

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