



# SFC Enforcement Reporter

A monthly summary of SFC enforcement action

March 2003

## Highlights

In February the SFC:

- had two insider dealers ordered to pay over \$8,000,000 to the Government
- had one person convicted for breaking securities law
- disciplined eight intermediaries

## Insider Dealing

### [The SFC continues its success against insider dealings](#)

The Insider Dealing Tribunal has earlier identified as insider dealers, under the **Securities (Insider Dealing) Ordinance**, Mr Wong Wing Shing Wilson and Mr Tsang King Hung, former chairman and deputy chairman of Stime Watch International Holding Limited (now renamed Medtech Group Company Limited) respectively. The two profited from dealings in Stime Watch shares between 30 July and 4 August 1997 using inside information. On 14 February, the Tribunal ordered them to pay in total more than \$8,000,000 in disgorgement of profits, penalties and costs. Further, Wong and Tsang were disqualified from holding any directorship in any Hong Kong listed company or its subsidiaries for four and three years respectively.

The Tribunal has so far since April last year concluded two insider dealing cases and identified seven insider dealers.

*The SFC's market surveillance team consistently and effectively seeks out suspected insider dealing. The SFC will continue its inquiries and refer cases to the Government for action before the Tribunal. In addition, the SFC will discipline registered persons accommodating such market misconduct. Under the Securities and Futures Ordinance (SFO), the SFC may, in appropriate cases, prosecute insider dealers in criminal courts, as an alternative to having the Government pursue the matter in the new Market Misconduct Tribunal.*

## Prosecution

### [Get your investment adverts vetted](#)

In breach of the **Protection of Investors Ordinance**, Midland (China) Property Development Limited issued unauthorised advertisements in local newspapers on a spa resort project, promising an annual return of at least 15%. The company pleaded guilty and was fined \$50,000 and ordered to pay the SFC's costs.

(Press release issued on 14 February 2003)

Since April last year, the SFC has successfully prosecuted eight people for offences under the Protection of Investors Ordinance.

*Promotional materials to induce others to invest in securities or other property must be authorised by the SFC before issuance. This will continue to be the case under the new SFO. The vetting process aims at protecting Hong Kong's investors against misleading investment adverts. To avoid prosecution, familiarise yourself with what needs to be authorised, and contact the SFC if you have questions.*

## Discipline

### [Don't mislead the SFC](#)

The SFC reprimanded Mr Cheung Lap Kei Ricky for deliberately providing misleading information during an SFC investigation into suspected market manipulation of a derivative warrant. His testimony contradicted written records and the testimony of others involved in the case.

(Press release issued on 25 February 2003)



# SFC Enforcement Reporter

A monthly summary of SFC enforcement action

March 2003

*Anyone who misleads the SFC will be disciplined, prosecuted, or both. More effective sanctions will be available under the SFO that is due to take effect next month.*

### **More disciplinary action for breaches of Placing Guidelines**

The SFC reprimanded Kim Eng Securities (Hong Kong) Limited and its then responsible dealing director, Mr Fok Kwong Hang Terry, for placing 19 different derivative warrants to its connected clients without the written consent of HKEx. This breached the Placing Guidelines for Derivative Warrants in the Listing Rules that were then in force.

(Press release issued on 25 February 2003)

*Rules and regulations in the securities markets are there to protect market participants and market integrity. Registrants should not do business unless they are able to effect full compliance. Non-compliance often bespeaks a lack of regard for market integrity and clients' interests, which the SFC will not tolerate. The negative publicity that follows will ultimately hurt the non-compliant firms themselves.*

### **Do not allow unauthorised persons to place orders for clients**

The SFC disciplined Mr Chan Suk Chi, Mr Lee Wai Chung, Mr Yau Cheung Hong Michael, and Mr Lau Siu Keung - they allowed third parties to place orders for their clients. In Yau's and Lau's cases, the third parties were employees of other registered persons, and Yau and Lau failed to obtain their employers' consents. Further, Lau knew the trading conducted by the third party might be manipulative. Lau had his registrations suspended for one month, while the other three were reprimanded.

(Press releases issued on 14, 18 and 26 February 2003)

*Allowing third parties (especially registered persons' employees) to operate client accounts is a serious breach of the Code of Conduct, as it not only demonstrates a disregard for clients' interest, but also potentially facilitates market misconduct. Serious disciplinary sanctions await anyone who puts at risk the integrity of Hong Kong's markets.*

### **Poor internal controls exposed by client complaint and SFC inspection**

A client's complaint and a routine SFC inspection revealed a glaring catalogue of internal control inadequacies at ASG Brokerage Ltd, including inadequate monitoring of third party deposits and staff dealing, failure to maintain a prudent margin financing policy, and, without client authorisations, delivering clients' statements of account through account executives.

(Press release issued on 24 February 2003)

*The SFC has repeatedly emphasised the cardinal requirement of good internal control procedures. Any inadequacies are bound to surface during SFC inspections, if not earlier as a result of client complaints. In serious cases, the SFC does not rule out more serious sanctions. The consequent reputational and other losses may not always be capable of being fully remedied. Therefore, invest now in good internal controls that protect the firm, its clients and the market place!*

## General Enforcement Statistics

**Since 1 April 2002, the SFC has successfully prosecuted 30 people and firms and disciplined 70 entities, and its insider dealing investigations have led to the Insider Dealing Tribunal punishing seven insider dealers.**

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](http://www.hksfc.org.hk/eng/press_releases/html/enforcement_2002.htm)

If you want to subscribe and receive the Reporter monthly by email, simply register for the SFC's Website Update Email Alert service at [http://eapp01.hksfc.org.hk/apps/cc/wueas\\_sub.nsf/main?openform](http://eapp01.hksfc.org.hk/apps/cc/wueas_sub.nsf/main?openform) and select SFC Enforcement Reporter. Intermediaries licensed by the SFC receive the Reporter monthly from their FINNET email accounts.