

1 September 2000

**Securities and Futures Commission (SFC)  
Takes Action Against  
Mr. So Kwan Ming (So)  
Luen Fat Securities Co. Ltd. (Luen Fat)  
Mr. Yue Wai Keung (Yue)**

The SFC announced today that as a result of its findings in two separate investigations, it had suspended the registration of So, a dealing director of Luen Fat for 18 months, and publicly reprimanded both Luen Fat and its chief dealing director, Yue.

The first case related to So's facilitating two former staff members of another registered intermediary (Intermediary 'A') to conduct unauthorized and improper trading activities in some derivative warrants listed on the Stock Exchange of Hong Kong Limited (SEHK). The four warrants specifically investigated were from a total of 24 listed and traded on the SEHK between October 1998 and March 1999. The investigation found that:

- before listing of the four warrants So had via Luen Fat provided nominee placees to another registered dealer (Intermediary 'B') to circumvent the adequate spread of holders requirements of the Listing Rules of the SEHK (Appendix 6A). These nominee placees subscribed and sold back the warrants to this other registered dealer at prices usually slightly higher than their subscription prices. Such placing activities had created the impression that there was a greater interest in the warrants than was actually the case.
- after listing of these warrants So had facilitated the two former staff members of Intermediary 'A' to trade warrants for nominee accounts maintained by one of the two staff members and So. The trading involved the selling and repurchase of warrants to and from the nominee accounts and wash sales through Luen Fat and other Hong Kong brokers and resulted in there being few trades in these warrants other than those generated by the two staff members of Intermediary 'A'. So's nominee account earned substantial profits as a result of this service.

Yue, in his capacity as the chief dealing director responsible for the overall running of Luen Fat's business, bore the ultimate responsibility for having failed to detect and stop So's activities in a timely manner.

The second case related to Luen Fat's acting as an underwriter for the Initial Public Offer (IPO) of a stock in December 1998. Yue signed the underwriting agreement on behalf of Luen Fat, who failed to detect a client had subscribed shares from both the subscription tranche and the placing tranche of the IPO at the same time. Listing Rules of the SEHK (Practice Note 18) requires an underwriter to take reasonable steps to identify and reject applications in the public subscription tranche from investors who had received shares in the placing tranche, and vice versa. However, Luen Fat had failed to do so which resulted in the client receiving shares from both tranches.

In view of the above findings the SFC has suspended the registration of So for 18 months and publicly reprimanded Luen Fat and Yue. In deciding on this action the SFC took into account that Luen Fat, Yue and So:

- have fully co-operated with and assisted in the SFC's investigation;
- accept responsibility for the abovesaid unauthorized and improper trading activities in the warrants; and
- have agreed to appoint a more senior compliance officer to enhance their internal control systems.

*Page last updated: 7 November 2001*