
Enforcement News

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Market manipulator given suspended jail sentence

A Mainland applicant who had sought immigration to Hong Kong through the Capital Investment Entrant Scheme (CIES) was today convicted of market manipulation while trying to satisfy the investment requirement of the scheme.

Mr Zhu Li was charged by the Securities and Futures Commission (SFC) of one count of false trading in the shares of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co Ltd (Fudan-Zhangjiang).

He pleaded guilty in the Eastern Magistracy today and was sentenced to two months' imprisonment suspended for 12 months. The court also imposed a fine of \$10,000 and ordered Zhu to pay investigation costs of \$39,942 to the SFC.

The SFC found that in October 2007 Zhu submitted an application for immigration to Hong Kong under the CIES (Note 1).

Under the scheme, Zhu was required to acquire \$6.5 million worth of Hong Kong listed securities and keep them in a "specific financial assets" account (CIES account) between April 2007 and October 2008. The valuation of securities held in his CIES account was based on the transaction price at which Zhu acquired the securities.

On 11 February 2008, Zhu placed a series of sell-and-cancel orders for small lots of Fudan-Zhangjiang shares with a broker firm. Every new sell order in the series was placed at a higher spread which facilitated Zhu's subsequent placing of a large sell order of 500,000 shares at \$2.00, which was 2.9 times higher than the then prevailing nominal price of \$0.70.

Shortly afterwards, Zhu placed a buy order for 460,000 Fudan-Zhangjiang shares, also at \$2.00, through his CIES account with another broker. Zhu's sell and buy orders matched with one another (in effect Zhu traded with himself at an inflated price) and the transacted price caused the nominal price of Fudan-Zhangjiang shares to increase by 185%.

The SFC alleged the sale and purchase of 460,000 Fudan-Zhangjiang shares conducted by Zhu was a wash sale which involved no change in the ultimate beneficial ownership (Note 2).

Zhu also admitted that, by inflating the transaction price of the 460,000 Fudan-Zhangjiang shares, he could satisfy the investment requirement of CIES with less money.

End

Notes:

1. Under the CIES, eligible applicants are required to make capital investment in Hong Kong in certain classes of assets in Hong Kong, including Hong Kong listed securities. After seven years of continuous ordinary residence in Hong Kong, applicants and their dependents can apply for right of

abode.

2. A surveillance check by the CIES broker triggered the cancellation of the wash sale just before market close on 11 February 2008. However, the orders before the cancellation were misleading to the market as they could have been taken as genuine trades conducted by different participants.

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