



# SFC PRESS RELEASE

16 November 2005

TO THE BUSINESS EDITOR  
FOR IMMEDIATE RELEASE

## **SFC Reprimands Young Champion Securities Limited for Breaching the Code of Conduct**

The SFC has reprimanded Young Champion Securities Limited for breaching the Code of Conduct for Persons Registered with the SFC (April 2001) and the Management, Supervision and Internal Control Guidelines for Persons Registered with or Licensed by the SFC (May 1997) (Note 1).

The reprimand follows an SFC investigation into suspected market manipulation of three warrants during the period from 29 October 2001 to 16 July 2002 (the relevant period). The SFC found that the prices of the warrants had risen rapidly after issue to levels higher than those of their underlying stocks. Considering that the conversion ratio of the warrants was one to one (i.e. one warrant to be converted into one ordinary share), no sensible investor would have been interested in buying the warrants at these price levels since, apart from the cost of the warrants, the investor would have to pay the exercise price for converting the warrants into shares.

Nonetheless, a corporate client of Young Champion dealt extensively in the warrants during the relevant period. On 30 trading days within the relevant period, the client bought two of the warrants at prices above those of their underlying stocks. These acquisitions accounted for all the daily market turnover of the two warrants on 14 trading days.

The SFC found that upon receipt of the dealing instructions from the client, Young Champion's staff failed to ascertain basic information relating to the warrants such as the gearing ratio and premium. Two dealing directors of Young Champion were aware of the client's transactions, one of them admitted that, despite being aware of the abnormality in the warrants pricing, he continued to take the client's orders as he considered that his main concern was the settlement of trades by the client. The other dealing director considered that his job was mainly to execute orders and to check the financial position of the client prior to the execution and market monitoring was the job of the SFC (Note 2). The SFC attributed the acts of the two dealing directors to the company, as they were the only dealing directors of the company at the time and they constituted the company's directing mind and will.

As a licensee, Young Champion has a duty to protect the interests of its clients and the integrity of the market. Where an irregularity was noted, its staff should have made reasonable enquiry with the client as to whether there was an error in the dealing instructions and should have advised the client of the irregularity. If the client failed to satisfy its staff on



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reasonable grounds that the trades were legal or proper, Young Champion should have ceased to trade on behalf of that client. The SFC also found that Young Champion had failed to put in place appropriate and effective procedures in relation to dealing and related review processes to prevent or detect improper activities. Young Champion should also have procedure in place requiring its staff to check basic information relating to the warrants prior to order execution.

In light of the above findings, the SFC concludes that the fitness and properness of Young Champion has been called into question, and decides to reprimand Young Champion.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "In conducting its business activities, a licensee should act with due skill, care and diligence, in the best interests of its clients and the integrity of the market. A licensee bears the responsibility to establish and maintain appropriate and effective procedures in relation to dealing and related review processes to prevent or detect errors, omissions, fraud and other unauthorised or improper activities. Failure to do so will subject the licensee to disciplinary action."

Ends

Notes to Editor:

1. Young Champion is licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities.
2. Disciplinary proceedings against the first dealing director are in progress. The second dealing director no longer maintains his licence with the SFC.
3. For enquiries, please contact Ernest Lau at 2840 9470.

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