

Joint Press Release - Action against Ping On Securities Limited

28 Jul 1998

The Securities and Futures Commission ("SFC") and The Stock Exchange of Hong Kong Limited (the "Exchange") jointly announce today that they have taken action against Ping On Securities Limited ("Ping On"), a Securities Dealer and a Member of the Exchange, and against its Dealing Directors, Mr Chu Poy Ying ("Mr Chu") and Mr Chan Man Tin, Michael ("Mr Chan"), and its Dealer's Representative, Mr Leung Chiu Bun ("Mr Leung").

The action arose because serious failings were found at Ping On during the period 1 December 1996 to 31 March 1997 as follows:

- Mr Leung had engaged in illegal short-selling activities through his nominee account in Ping On.
 - Clients of Ping On had engaged in illegal short-selling activities.
 - Mr Leung had engaged in trading malpractices by diverting orders which had been executed for clients to his nominee account in Ping On, thus depriving them from the benefit of these trades.
 - Mr Chu had engaged in illegal short-selling activities through a nominee account in Ping On and had also engaged in in-house manual cross trades for clients which were intended to delay settlement of trades for clients' benefit.
 - Five employees of Ping On had conducted dealing activities without being registered.
- Mr Chu was the person at Ping On directly responsible for the day to day operations and management of Ping On. The failings identified were therefore directly attributable to him. His illegal short-selling activities and the use of nominee account and in-house manual cross trades further increased the gravity with which the SFC and the Exchange viewed his misconduct.

Mr Chan, another Dealing Director of Ping on, together with Mr Chu were responsible to ensure that proper internal controls and procedures were developed and implemented at Ping On and staff were properly supervised and registered. The SFC and the Exchange found that both Mr Chan and Mr Chu seriously failed to carry out their responsibilities in this respect.

The SFC has decided to publicly reprimand Ping On and Mr Chan, and suspend the registration of Mr Chu for a period of 5 months and the registration of Mr Leung for a period of 24 months, both suspensions effective from 29 July 1998. In addition, the Disciplinary Committee of the Exchange (the "Disciplinary Committee") has decided to publicly censure Ping On, Mr Chu, Mr Chan and Mr Leung, and also fine Ping On HK\$40,000, Mr Chu HK\$30,000, Mr Chan HK\$10,000 and Mr Leung HK\$4,000.

In deciding on this course of action, the SFC and the Disciplinary Committee took into account that following an inspection of the business of Ping On by the Exchange, Ping On had appointed an independent firm of accountants to review its operations and report to the Exchange. The Exchange is satisfied that the deficiencies identified have been rectified.

A copy of the Notice of Public Censure published by the Exchange is attached for your reference.

For further information, please contact Mr Chan Chi-keung of the SFC at 2842-7624 or Mr Henry Law of the Exchange at 2840-3862.

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July 28, 1998

NOTICE OF PUBLIC CENSURE

The Stock Exchange of Hong Kong Limited (the "Exchange") announces that on 14 July 1998, the Disciplinary Committee heard the cases of the Member, Ping On Securities Limited ("Ping On"), its Dealing Directors, Mr Chu Poy Ying ("Mr Chu") and Mr Chan Man Tin, Michael ("Mr Chan") and its Sales Representative, Mr Leung Chiu Bun ("Mr Leung"). The Disciplinary Committee found a charge against each of Ping On, Mr Chu, Mr Chan and Mr Leung for breach of the Rules of the Exchange proved.

The substance of the charge proved against Ping On, Mr Chu, Mr Chan and Mr Leung was that during the period 1 December 1996 to 31 March 1997, Ping On had failed to have satisfactory internal control procedures, resulting that: -

- (i) Mr Chu had engaged in illegal short-selling activities through a nominee account in Ping On and had also engaged in in-house manual cross trades for clients which were intended to delay settlement of trades for clients' benefit;
- (ii) Mr Leung had engaged in illegal short-selling activities through his nominee account in Ping On and had also engaged in trading malpractices by diverting orders which had been executed for clients to his nominee account in Ping On, thus depriving them from the benefit of these trades;
- (iii) Five employees of Ping On had conducted dealing activities without being registered; and
- (iv) Clients of Ping On had engaged in illegal short-selling activities.

Mr Chu was the person at Ping On directly responsible for the day to day operations and management of Ping On. The failings identified were therefore directly attributable to him. His illegal short-selling activities and the use of nominee account and in-house manual cross trades further increased the gravity with which the Exchange viewed his misconduct.

Mr Chan and Mr Chu were responsible to ensure that proper internal controls and procedures were developed and implemented at Ping On and that staff were properly supervised and registered. The Exchange found that both of them seriously failed to carry out their responsibilities in this respect.

Having considered that following an inspection of the business of Ping On by the Exchange, Ping On had appointed an independent firm of accountants to review its operations and report to the Exchange and the Exchange was satisfied that the deficiencies identified had been rectified, the Disciplinary Committee resolved that a penalty of public censure plus a fine of HK\$40,000 be imposed on Ping On, a penalty of public censure plus a fine of HK\$30,000 be imposed on Mr Chu, a penalty of public censure plus a fine of HK\$10,000 be imposed on Mr Chan and a penalty of public censure plus a fine of HK\$4,000 be imposed on Mr Leung. The penalty of public censure is hereby imposed on each of Ping On, Mr Chu, Mr Chan and Mr Leung.

The Disciplinary Committee would remind all Members that they should endeavour to improve their internal control procedures so that proper checks and balances were in place to prevent their staff from engaging in trading malpractices.

For and on behalf of

The Stock Exchange of Hong Kong Limited

Fanny Chung

Secretary - Disciplinary Committee

Hong Kong, 28 July 1998