

NOTICE UNDER SECTIONS 204 AND 205 OF THE
SECURITIES AND FUTURES ORDINANCE (Chapter 571)
(the *Ordinance*)

It appears to the Securities and Futures Commission (the *Commission*), for the reasons set out in the Statement of Reasons annexed hereto, that the Commission should exercise the powers conferred by sections 204 and 205 of the Ordinance.

THE COMMISSION HEREBY GIVES NOTICE THAT:—

Except with the prior written consent of the Commission, such consent to be granted by the Chief Executive Officer or the Executive Director of Intermediaries and Investment Products of the Commission:—

1. Pursuant to section 204(1) of the Ordinance, Man Lung Hong Securities Limited (the *Specified Corporation*) is prohibited from carrying on, whether directly or through agents, all of the regulated activities for which it is licensed by the Commission.
2. Pursuant to section 205(1) of the Ordinance, the Specified Corporation is:—
 - (a) prohibited from disposing of any relevant property (as defined in section 205(2) of the Ordinance) or dealing with any relevant property in any manner; and
 - (b) prohibited from assisting, counselling or procuring another person to dispose of any relevant property or dealing with any relevant property in any manner.

Pursuant to the provisions of section 217 of the Ordinance, an application may be made to the Securities and Futures Appeals Tribunal for a review of the decision to impose the prohibitions imposed by this Notice. Such application must be made within twenty-one days after the day on which this Notice is served on the Specified Corporation. Further, pursuant to section 208 of the Ordinance, the Specified Corporation may apply to the Commission for the prohibitions imposed by the Notice to be withdrawn, substituted or varied.

This Notice takes effect at the time of service upon the Specified Corporation.

Dated this 31st day of August 2007

For and on behalf of
Securities and Futures Commission
Martin Wheatley
Chief Executive Officer

STATEMENT OF REASONS
PURSUANT TO SECTION 209(2) OF THE SECURITIES AND FUTURES ORDINANCE
(Chapter 571) (the *Ordinance*)

1. Man Lung Hong Securities Limited (the *Specified Corporation*) is a corporation licensed under the Ordinance to carry on a business in Type 1 regulated activity, namely, dealing in securities. Mr Ip Shu Kun (*Ip*) is a licensed representative of the Specified Corporation and Mr Tsui Wai Man (*Tsui*) is a shareholder and one of its two Responsible Officers until he resigned on 24 August 2007.
2. It appears to the Securities and Futures Commission (the *Commission*) that:—
 - (a) the Specified Corporation has facilitated Ip, a licensed representative, to dissipate, transfer or otherwise deal with clients' property in a manner prejudicial to the interest of its clients and the Specified Corporation has deliberately covered such dissipation, transfer or dealing from those clients;
 - (b) the Specified Corporation is not a fit and proper person to carry on the regulated activities for which it is licensed; and
 - (c) the imposition of the prohibitions set out in the Notice issued by the Commission under sections 204 and 205 of the Ordinance to which this Statement of Reasons is attached, is desirable in the interest of the investing public and in the public interest.
3. The Commission has reached these views on the basis of the following matters:—

Misappropriation of Client Securities

- (a) In a signed statement that Ip provided to the Commission on 28 August 2007, he admitted that he had misappropriated securities belonging to clients of the Specified Corporation since 1991.
- (b) Ip claimed that the Specified Corporation would issue bought/sold notes for trades carried out each day and gave them to him for delivery to the clients but he did not forward them to clients whose securities he had misappropriated. He further claimed that until about July 2006 the Specified Corporation did not issue monthly statements to clients.
- (c) Ip claimed that he had arranged for clients to deposit settlement payments into his personal accounts at HSBC, Standard Chartered Bank, Hang Seng Bank and Bank of East Asia upon their request.
- (d) Ip admitted that he had sold two stocks from the account of a client of the Specified Corporation, without the client's authority. He further admitted that he sent a forged statement to the client to conceal his misappropriation.
- (e) In a signed statement that Tsui provided to the Commission on 28 August 2007, he claimed that in mid-2006 Ip told the Specified Corporation that he had misappropriated securities from over 10 clients. Tsui further claimed that a shareholders' meeting was held and it was resolved that no statements would be issued to clients whose securities had been misappropriated by Ip until he could repay them. This was for the purpose of protecting the reputation of the Specified Corporation. In the meantime, the Specified Corporation allowed Ip to continue to take buying/selling orders from clients. Tsui claimed that a client whose securities had previously been misappropriated by Ip made a complaint to the Specified Corporation in August 2007 that securities had been misappropriated from her account and the amount involved was much greater than what Ip had previously told the Specified Corporation. On 20 August 2007, Ip provided the Specified Corporation with a list of sixteen client accounts which he claimed he had misappropriated assets from. After verification with the relevant clients, the Specified Corporation discovered that the amount of misappropriated assets was more than what Ip represented. As of 30 August 2007, over 20 clients of the Specified Corporation have reported their securities being misappropriated by Ip.
- (f) In a complaint filed by a client of the Specified Corporation, to the Commission on 28 August 2007, she claimed that there should be holdings in fifteen stocks worth HK\$2,498,682 in her account with the Specified Corporation but she was told that the cash balance in her account was only HK\$4,000 as at 28 August 2007. She further claimed she had deposited money into Ip's personal account at Chi Yu Banking Corporation to settle trades placed by her, and Ip had told her that he had other accounts in HSBC and Bank of East Asia for settling clients' transactions. She provided a copy of a transfer advice issued by Chi Yu Banking Corporation Limited which showed fund was transferred from her account to an account in the name of 'Ip Shu Kun'.
- (g) In a complaint filed by another client of the Specified Corporation, to the Commission on 28 August 2007, she claimed that holdings in four stocks held in her account with the Specified Corporation had been sold without her authority and forged bought notes of another 4 stocks had been provided to her by Ip. She further claimed she had deposited money into Ip's personal bank account for settlement but Ip had not placed the buy orders for her. She also claimed that she had never received monthly statements since she opened her account with the Specified Corporation and had only received bought notes but not sold notes. Her loss was around HK\$1.54 million.
- (h) In a complaint filed by a further client of the Specified Corporation, to the Commission on 28 August 2007, he claimed that holdings in four stocks worth HK\$249,450 in his account with the Specified Corporation had been misappropriated. He further claimed he had deposited money into Ip's personal account with the Bank of China for the purchase of securities.

The Securities and Futures (Financial Resources) Rules (FRR)

- (i) The Specified Corporation reported having liquid capital of approximately HK\$3.3 million and shareholders' funds of approximately HK\$5.9 million as at 30 August 2007 after making a provision of HK\$8 million for potential client claims arising from Ip's misappropriation. The shortfall amounts reported by the Specified Corporation's clients amounted to approximately HK\$20 million as of 30 August 2007. The reported shortfall casts doubt over the adequacy of the provision made by the Specified Corporation for

the potential client claims and, in turn, the financial position of the Specified Corporation.

Commission's conclusions

- (j) The Commission have reasons to believe that the Specified Corporation has contravened section 10(1) of the Securities and Futures (Client Securities) Rules for failing to take reasonable steps to ensure that client securities are not misappropriated and section 11(2) of the Securities and Futures (Contract Notes, Statements of Account and Receipt) Rules for failing to provide to a number of clients monthly statements of account within the prescribed time limit. This calls into serious doubt the integrity of the Specified Corporation and its fitness and properness to remain licensed.
- (k) The Commission considers it desirable in the interest of the clients of the Specified Corporation, and more particularly in the interest of preserving their assets, and in the wider interest of the investing public or in the public interest to impose on the Specified Corporation the prohibitions stipulated in the Notice to which this Statement of Reasons is attached.

Dated this 31st day of August 2007

For and on behalf of
Securities and Futures Commission
Martin Wheatley
Chief Executive Officer