

G.N. 7387

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 of even date, that the Commission should exercise the powers conferred by sections 204 and 205 of the Ordinance.

THE COMMISSION HEREBY GIVES NOTICES THAT:—

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

1. Pursuant to section 204 of the Ordinance, Great Honest Investment Company 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) and dealing with any relevant property; and
 - (b) prohibited from assisting, counselling or procuring another person to dispose of any relevant property or deal with any relevant property.
3. 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the Ordinance, the Specified Corporation may apply to the Commission for the prohibitions imposed by the Notice to be withdrawn, substituted or varied.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 9th day of November 2007

For and on behalf of
Securities and Futures Commission
Alexa LAM
Chief Executive Officer (Acting)

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

1. Great Honest Investment Company Limited (‘the Specified Corporation’) is a corporation licensed under the Ordinance to carry on Type 1 regulated activity, namely, dealing in securities. Chung Yuet Sheung Lorrain (‘Chung’) is one of the responsible officers and a majority shareholder of the Specified Corporation.
2. It appears to the Securities and Futures Commission (‘the Commission’) that:—
 - (a) property of the Specified Corporation’s clients might be dissipated, transferred or otherwise dealt with in a manner prejudicial to the interest of the clients;
 - (b) the Specified Corporation is not a fit and proper person to carry on the regulated activity for which it is licensed;
 - (c) the Specified Corporation has failed to comply with the requirement specified in section 180(2) of the Ordinance and, in purported compliance with such requirement, has furnished the Commission with information which was at the time when it was furnished false or misleading in a material particular;
 - (d) the licence of the Specified Corporation may be revoked or suspended on any of the grounds specified in section 194(1); and

- (e) the imposition of the prohibitions set out in the Notice issued by the Commission of even date under sections 204 and 205 is desirable in the interest of the investing public and in the public interest.
3. The Commission has reached this view on the basis of the following matters:—
- (a) Between November 2006 and January 2007, SFC staff carried out an on site inspection of the Specified Corporation. In the course of follow up work between February and April 2007, SFC staff discovered about 25 instances where clients' accounts had been debited in respect of cheques made payable to third parties. These cheques totalled nearly \$27 million. Eighteen of these cheques were payable to Chung's brother in law, Siu Yun Piu ('Siu'). Chung is authorised as a sole signatory for Siu's bank account. Between March and August 2007, the SFC corresponded and followed up with the Specified Corporation in relation to the inspection findings including the issue of the third party cheques. In the course of this correspondence, Chung informed the SFC that the clients had instructed the Specified Corporation to issue these cheques to third parties and she provided written instructions purporting to be signed by the clients concerned. The SFC was not satisfied with the explanations provided by the Specified Corporation in relation to the inspection findings and, in September 2007, the SFC commenced an investigation under section 182 of the Ordinance. During the course of interviews with clients of the Specified Corporation in early November 2007, one of these clients has confirmed to the SFC that she did not authorise the withdrawal of funds from her account (3 cheques totalling over \$8 million payable to Siu) and that she did not sign the written instruction for the transfer of funds which Chung provided to the SFC.
- (b) Although this client had apparently signed a circularisation confirmation sent by independent accountants in March 2007, the client has denied ever confirming her balance to the accountants.
- (c) During the course of the interviews with clients in November 2007, significant discrepancies have been found between the account statements received by clients and the client account records maintained by the Specified Corporation. In one case, a client has confirmed to the SFC that he gave instructions to subscribe for an Initial Public Offering and deposited funds by way of cheque payable to the Specified Corporation. Whilst the funds were paid into the Specified Corporation's bank account, the deposit and allotment are not reflected in the internal records kept by Specified Corporation for the client's account. Further, the allotted shares were recorded as a stock deposit in the securities trading account of Great Honest Finance Company Limited, a licensed money lender which is owned by Chung and her brother. The statement sent to the client indicates that the deposit was paid into his account and shares were allotted. However, this statement was issued by Great Honest Finance Company Limited. The statement he received also indicated his account had been credited with a refund in respect of the Initial Public Offering. However, this is not reflected in the internal records kept by the Specified Corporation for the client. It appears that the refund was paid into the bank account of Great Honest Finance Company Limited. The client has confirmed that he did not authorise this transfer of his shares and refund monies. The same client applied for another Initial Public Offering the following month. The statement he received reflected this application, the receipt of a refund and his sale of the allotted shares. However, the Specified Corporation's account records for this client do not refer to any such activity.
- (d) In another case of discrepant records, statements sent to the same client showed he had 2 million shares on hand in September 2006 whilst the internal records of the Specified Corporation indicate that the shares had been sold the previous month. The client has confirmed to the SFC that he did not give instructions for the sale of these shares at that time. The records of the Specified Corporation indicate that another 2 million shares were purchased for the client's account about 4 months after the unauthorised sale.
- (e) On 5 November 2007, the same client placed a sell order in respect of 1.5 million shares which he held in a certain counter. However, the CCASS daily stock balance report indicates that the Specified Corporation did not have sufficient stock on hand.
- (f) In another case, a client wrote a cheque for \$3 million by way of an opening deposit for her account with the Specified Corporation. However, the Specified Corporation's account records for this client do not show the deposit. Without her knowledge or agreement, the funds were paid into the securities trading account of Great Honest Finance Company Limited. In a written response to the SFC, Chung said that the payment was in settlement of money owed by the client to Great Honest Finance

Company Limited. However, the client denies ever having had any dealings with Great Honest Finance Company Limited. This client has also denied that the signature appearing on her account opening agreement and on the circularisation confirmation received by the accountants is hers.

- (g) In a number of cases, the SFC has found that client addresses and telephone numbers recorded in the Specified Corporation's database, which were provided to the SFC during the inspection, are incorrect. In the case of one of the clients referred to above, the address supplied to the SFC appears to be connected to Chung and Chung intercepted the SFC interview notice addressed to that client. This raises an issue as to whether the accountants' circularisations were received by all clients.
- (h) In light of all the matters set out above, the Commission has grave concerns over the Specified Corporation's reputation, character and reliability and has reason to believe that the Specified Corporation is not a fit and proper person to carry on the regulated activity for which it is licensed.
- (i) Further, it appears to the Commission that, in relation to the matters described above and on the basis of the information currently available, the Specified Corporation may have breached section 5(1)(b) of the Securities and Futures (Client Money) Rules, sections 6(1)(a) and 10(1) of the Securities and Futures (Client Securities Rules), section 3(1)(a) of the Securities and Futures (Keeping of Records) Rules and section 384 of the Securities and Futures Ordinance.
- (j) In light of all these matters and with a view to preserving the integrity of clients' assets, the Commission considers it desirable in the interest of the investing public and in the public interest to impose on the Specified Corporation the prohibitions set out in the Notice issued by the Commission on even date.

Dated this 9th day of November 2007

For and on behalf of
Securities and Futures Commission
Alexa LAM
Chief Executive Officer (Acting)