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One year's jail for \$600,000 sub-underwriting commissions fraud

18 September 2012

A former senior executive of a securities company, charged by the ICAC, was today (Tuesday) jailed for one year at the District Court for deceiving sub-underwriting commissions totalling about \$600,000 in relation to rights issue, open offer and share placement exercises of three listed companies.

Franco Tong Sui-lun, 46, a director-cum-responsible officer formerly employed by Quam Securities Company Limited (Quam), was also ordered to pay a restitution of about \$600,000 to his former employer.

In sentencing, Judge Frankie Yiu Fun-che said the defendant breached the trust placed in him by his then employer as he had played an active and major role in the fraud scam. Hence, the defendant deserved an immediate custodial sentence.

The defendant earlier pleaded guilty to four counts of fraud.

The case arose from a corruption complaint referred by the Securities and Futures Commission (SFC). Subsequent ICAC enquiries revealed the above fraud offences.

The court heard that at the material times, the defendant was a salaried director-cum-responsible officer of Quam, a wholly-owned subsidiary of publicly listed Quam Limited.

Upon the defendant's requests, two clients opened securities accounts with Quam, and authorised him to use those accounts for his own trading.

In January 2006, Quam entered into an agreement with listed KanHan Technologies Group Limited (KanHan) as an underwriter in its rights issue exercise.

The defendant falsely represented to Quam that one of the said clients had genuinely accepted the offer by Quam as a sub-underwriting agent to procure subscribers for 20,000,000 rights shares of KanHan for a commission of 2% of the subscription price.

With intent to defraud, the defendant induced Quam to release a sub-underwriting commission of \$22,800 to the client's securities account in May 2006.

The court heard that the defendant also induced Quam to release a sub-underwriting commission of \$48,256 to the securities account of the other client in May 2007 for genuinely accepting the offer as a sub-underwriting agent to procure subscribers for 30,160,000 offer shares of listed Hua Xia Healthcare Holdings Limited for a commission of 2% of the subscription price.

On other occasions, the defendant falsely represented to Quam that the above two clients had genuinely accepted the offers by Quam as sub-underwriting agents to procure subscribers for 47,300,000 placing shares of listed Galileo Holdings Limited for a commission of 2% of the placing price.

As a result, Quam was induced to release two sub-underwriting commissions of \$260,150 each to the securities accounts of the two said clients in September 2007.

The two clients had never agreed to accept the sub-underwriting offers nor had they received any of the sub-underwriting commissions, the court was told.

The SFC and Quam Limited had rendered full assistance to the ICAC during its investigation.

The prosecution was today represented by Senior Counsel Andrew Bruce and Public Prosecutor Joey Ma, assisted by ICAC officer Bryan Tang.

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