
Enforcement News

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Former Morgan Stanley investment banker guilty of insider dealing

Former managing director of Morgan Stanley Asia Ltd (Morgan Stanley), Mr Du Jun, was today found guilty of insider dealing in \$86 million worth of shares of CITIC Resources Holdings Ltd (CITIC Resources) during an acquisition deal in 2007.

His Honour Judge Andrew Chan found Du guilty of all ten charges of insider dealing after a 38-day trial in the District Court following an investigation by the Securities and Futures Commission (SFC).

This is the tenth successful case of insider dealing that the SFC has secured since the first conviction of its kind in July 2008.

Du was remanded in jail custody pending further submissions tomorrow before sentencing (Note 1).

"Today's verdict underscores our dedication and commitment to protect ordinary investors from this type of misconduct and the SFC will continue to take on cases like this to ensure Hong Kong is protected from this kind of market misconduct," said Mr Mark Steward, the SFC's Executive Director of Enforcement.

During the trial, the court heard that Du purchased the shares whilst in possession of price sensitive information concerning a proposed deal by the listed company to acquire oil field assets in China.

On nine occasions between 15 February 2007 and 30 April 2007, Du purchased a total of 26.7 million shares of CITIC Resources at a cost of \$86 million while he was part of the Morgan Stanley team involved in advising CITIC Resources and possessed information not known to the market.

The deal was announced by CITIC Resources on 9 May 2007. Du subsequently realised a profit of \$33.4 million from selling 13 million of the shares he had purchased.

The court also found Du guilty of counselling or procuring his wife Ms Li Xin, who was not facing any charges, to deal in CITIC Resources shares on 27 February 2007.

During the course of the investigation, the SFC obtained an injunction order from the High Court freezing \$46.5 million of Du's liquid assets. This High Court order marks the first time the SFC was granted an injunction order under section 213 of the SFO to freeze the assets of a suspect during an insider dealing investigation (Note 2).

The SFC's powers to execute search warrants and to audio record interviews were challenged and the defendant also sought judicial review against the SFC and its lead investigator for acting improperly (Note 3).

Du left Hong Kong after the SFC completed the investigation. The SFC sought assistance from the Commercial Crime Bureau (CCB) of the Police to arrest and charge Du.

On 10 July 2008, Du was detained at the Hong Kong International Airport upon his arrival from Beijing

and was brought to the Eastern Magistracy for a hearing the next day. Du was prohibited from leaving Hong Kong and was ordered to surrender his travelling documents pending trial. His case was transferred to the District Court (Note 4).

The SFC acknowledges the support of the CCB whose assistance at the end of the investigation ensured this case could be prosecuted.

The case was prosecuted by the Department of Justice on behalf of the HKSAR.

End

Notes:

1. The maximum penalty for insider dealing -- 10 years in jail and a fine of \$10 million -- can only be imposed upon conviction by indictment.
2. Please see SFC press release dated [18 December 2007](#) for details.
3. Please see SFC press release dated [2 November 2007](#), [18 December 2007](#) and [18 January 2008](#) for details.
4. Please see SFC press release dated [11 July 2008](#) and [5 September 2008](#) for details.

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