



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

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**IN THE MATTER OF THE *SECURITIES ACT*  
R.S.O. 1990, c.S.5, as amended**

**- and -**

**IN THE MATTER OF  
MORGAN DRAGON DEVELOPMENT CORP.,  
JOHN CHEONG (aka KIM MENG CHEONG),  
HERMAN TSE, DEVON RICKETTS  
and MARK GRIFFITHS**

**STATEMENT OF ALLEGATIONS OF  
STAFF OF THE ONTARIO SECURITIES COMMISSION**

Staff of the Ontario Securities Commission (“Staff”; the “Commission”) make the following allegations:

**I. OVERVIEW**

1. The allegations in this matter concern unregistered trading and the illegal distribution of limited partnership units (“LP Units”), from September 2007 through July 2011 (the “Material Time”).

2. During the Material Time, John Cheong (“Cheong”) and Herman Tse (“Tse”) and their employees solicited the sale of LP Units, which constituted securities as defined in the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the “Act”), from Ontario to residents of Alberta, British Columbia, Saskatchewan and Alberta (“LP Investors”). The majority of the LP Units were sold through an Ontario corporation called Morgan Dragon Development Corp. (“MDDC”). The LP Units were sold in circumstances where no registration or prospectus exemption was available, and in some cases to LP Investors who were not accredited.

3. Although MDDC was registered with securities regulators during parts of the Material Time, the majority of the solicitation and sale of the LP Units was conducted through MDDC sales staff who were not registered with any regulator to engage in the business of trading in securities, but who sold securities for MDDC as their primary job function.

## **II. THE RESPONDENTS**

4. MDDC is a company incorporated pursuant to the laws of Ontario with its head office in Markham, Ontario. MDDC is in the business of promoting and distributing units of limited partnerships that hold and develop interests in real estate in the Province of Saskatchewan. MDDC also has an office in Saskatoon, Saskatchewan.

5. On May 15, 2009, MDDC registered with the Commission as a Limited Market Dealer (“LMD”), and continued its registration with the Commission as an Exempt Market Dealer (“EMD”) on September 28, 2009. On October 5, 2010, MDDC also became registered as an EMD with securities regulators in British Columbia, Alberta and Manitoba. MDDC has not been registered with any securities regulator in any capacity since January 27, 2012.

6. Cheong, also known as Kim Meng Cheong, is an Ontario resident and is the Secretary, the Treasurer, and a Director of MDDC, and also holds the title of Managing Director of the company. From May 15, 2009, until January 27, 2012, Cheong was designated as MDDC’s Dealing Representative. Cheong was also designated as MDDC’s Designated Compliance Officer while MDDC was registered as a Limited Market Dealer, but became the Chief Compliance Officer after MDDC’s transition to the Exempt Market Dealer regime in September 2009. Cheong owns 50% of the shares of MDDC.

7. Tse is a Saskatchewan resident and is the President and a Director of MDDC. Tse operates MDDC’s Saskatoon office. From May 15, 2009, until January 27, 2012, Tse was designated as MDDC’s Ultimate Designated Person. Tse owns 50% of the shares of MDDC.

8. Cheong and Tse were the directing minds of MDDC from November 1, 2007, and thereafter throughout the Material Time.

9. Devon Ricketts (“Ricketts”) is an Ontario resident. Ricketts has never been registered with the Commission in any capacity. Throughout the Material Time, Ricketts was employed by

MDDC to sell and solicit the sale of LP Units on behalf of MDDC and to train and supervise a staff of unregistered telephone salespeople engaged in the same activity. Ricketts' job title at MDDC was "Area Sales Manager."

10. Mark Griffiths ("Griffiths") is an Ontario resident. From at least as early as April 2008 through at least July 2011, Griffiths was employed at MDDC selling LP Units with the job titles of "Senior Sales Representative" and "Senior Marketing Consultant." Griffiths has never been registered with the Commission in any capacity.

### **III. PARTICULARS**

#### **Illegal Distribution and Trading Without Registration**

11. The Respondents' distribution of LP Units was accomplished through an organized campaign of telephone solicitation conducted from MDDC's offices in Markham, Ontario. The distribution of LP Units was overseen by Cheong and managed by Ricketts. Sales calls were made by Ricketts, Griffiths and other MDDC sales staff, all of whom were employed to sell securities as their primary job function, and compensated on the basis of a commission of between 8% and 10% of the value of the securities they sold.

12. Ricketts and Griffiths both made cold calls to prospective and existing LP Investors for the sole purpose of selling them LP Units, as well as corresponding with them regarding the purchase of LP Units and coordinating the signing of subscription agreements and the receipt of investor funds by MDDC once LP Units were purchased. Cheong supervised this activity, and also spoke to and corresponded with potential and existing investors for the purpose of selling securities.

13. The Respondents sold units in three limited partnerships registered under the *Limited Partnerships Act*, R.S.O. 1990, c. L.16, as amended: MD Land Pool Limited Partnership ("Phase 1"), MD Land Pool Limited Partnership Phase 2 ("Phase 2"), and MD Land Pool Dundurn Limited Partnership ("Dundurn") (collectively referred to as the "Limited Partnerships").

14. From September 2007 through June 2008, the Respondents sold units of Phase 1 to at least 46 LP Investors and raised approximately \$2,236,000.

15. From July 2008 through March 2009, the Respondents sold units of Phase 2 to at least 43 LP Investors and raised approximately \$2,113,000.
16. From July 30, 2009, through December 31, 2010, the Respondents sold units of Dundurn to at least 40 LP Investors and raised a total of \$898,000.
17. In total, the Respondents raised approximately \$5,247,000 from the distribution of LP Units.
18. The solicitation and sale of LP Units by the Respondents constituted trading and acts in furtherance of trading, as defined in the Act.
19. The LP Units sold by the Respondents were not previously issued and the trading of such securities was a distribution, as defined in the Act.
20. No preliminary prospectus or prospectus was ever filed by any of the Limited Partnerships or by MDDC, nor was any receipt issued by the Director.

#### **IV. ALLEGATIONS**

21. Staff make the following specific allegations:
  - (a) During the Material Time, MDDC, Cheong, Ricketts and Griffiths engaged in or held themselves out as engaging in the business of trading in securities without being registered to do so, in circumstances in which no exemption was available, contrary to s. 25(1)(a) of the Act, as that section existed at the time the conduct commenced, and contrary to s. 25(1) of the Act, as subsequently amended on September 28, 2009;
  - (b) During the period when MDDC and Cheong were registered to trade in securities, MDDC retained employees whose primary job function was to engage in or hold themselves out as engaging in the business of trading in securities without being registered to do so, in circumstances in which no exemption was available, contrary to s. 25(1)(a) of the Act, as that section existed at the time the conduct commenced, and contrary to s. 25(1) of the Act, as subsequently amended on September 28, 2009;

(c) During the Material Time, MDDC, Cheong, Ricketts and Griffiths distributed securities without a preliminary prospectus and prospectus having been filed and receipts having been issued for them by the Director and without an exemption from the prospectus requirement, contrary to section 53(1) of the Act; and,

(d) Cheong and Tse, being directors, officers and directing minds of MDDC, did authorize, permit or acquiesce in the commission of the violations of sections 25 and 53 of the Act, as set out above, by MDDC or by the employees, agents or representatives of MDDC, contrary to section 129.2 of the Act.

22. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

**DATED** at Toronto this 22nd day of March, 2012.