



British Columbia Securities Commission

Citation: 2018 BCSECCOM 330

Amended Notice of Hearing

Aik Guan “Frankie” Lim, Scott Thomas Low and Darrell Wayne Wiebe

FS Financial Strategies Inc., FS Financial Strategies Services Inc., 3i Capital ClearPath Limited Partnership, FS Financial Services Inc., FS Financial Services (Alberta) Inc., Verico FS Capital Inc. and FS Financial Systems Inc. (collectively, the FS Group)

Chun Ying “Jim” Pan, Chung-Sheng “Johnson” Kao, George Lay, Gagan Deep Bachra, Chi Kay “Dixon” Wong and Meng Cher “Philip” Tsai (collectively, the nominee directors)

Section 161 of the *Securities Act*, RSBC 1996, c. 418

- ¶ 1 The British Columbia Securities Commission will hold a hearing at which the executive director will tender evidence, make submissions and apply for orders against the respondents under sections 161, 162 and 174 of the *Securities Act*, RSBC 1996, c. 418 (the Act), based on the following facts:

Summary

Fraud

1. Between November 2012 and January 2017, Lim and Low, directors and founders of the FS Group, dishonestly raised over \$47 million for the FS Group by failing to disclose its true financial condition to investors. They concealed the fact that the FS Group was not profitable, its financial situation was deteriorating and it survived by raising money from investors to cover its increasing expenses.
2. Wiebe was the general manager of the FS Group and was aware of its true financial condition. He routinely advised Lim and Low about how much money the FS Group needed to raise to meet its ongoing financial obligations.
3. In 2015, Lim and Low also diverted \$770,000 of the \$47 million raised from investors to help fund a movie production featuring Lim’s son. They did so after telling investors that the FS Group would use the money for its insurance business.

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4. By engaging in the conduct set out in this amended notice of hearing, Lim and Low perpetrated a fraud against each investor in the FS Group, contrary to section 57(b) of the Act.
5. By engaging in the conduct set out in this amended notice of hearing, Wiebe perpetrated a fraud against each investor in the FS Group or, in the alternative, he reasonably should have known that Lim and Low were perpetrating a fraud, contrary to section 57(b) of the Act.

Illegal distributions

6. The FS Group distributed over \$47 million of its securities in the form of unsecured loan agreements without filing a prospectus. Prospectus exemptions were not available for about \$29 million of these sales.
7. By engaging in the conduct set out in this amended notice of hearing, the FS Group contravened section 61 of the Act every time it distributed a security to an investor without an exemption.
8. While they were directors of one or more companies in the FS Group, Lim, Low, Pan, Kao, Lay, Bachra, Wong and Tsai authorized, permitted or acquiesced in the FS Group's contraventions of section 61 of the Act and therefore, by virtue of section 168.2 of the Act, they also contravened section 61.

Unregistered trading

9. Lim, Low, FS Services, FS Alberta, FS Capital and FS Systems sold almost \$33 million of the FS Group's securities in the form of unsecured loan agreements. They were not registered under the Act to sell securities when they did so.
10. By engaging in the conduct set out in this amended notice of hearing, Lim, Low, FS Services, FS Alberta, FS Capital and FS Systems contravened section 34(a) of the Act every time they sold a security to an investor.
11. While they were directors of FS Services, FS Alberta, FS Capital, and FS Systems, Lim, Low, Pan, Kao, Lay, Bachra, Wong and Tsai authorized, permitted or acquiesced in those FS Group companies' contraventions of section 34(a) of the Act and therefore, by virtue of section 168.2 of the Act, they also contravened section 34(a).

Breach of undertaking

12. Lim and Low gave undertakings to the executive director to cease trading and distributing securities in 2014. Despite these undertakings, Lim and Low



continued their fund raising activities for the FS Group until 2017, raising an additional \$29.34 million using unsecured loan agreements. By engaging in the conduct set out in this amended notice of hearing, Lim and Low contravened section 57.6 of the Act.

Background

Lim, Low and Wiebe

13. Lim, Low and Wiebe are residents of British Columbia. Lim and Wiebe were licensed by the Insurance Council of British Columbia throughout the relevant period. Low was licensed by the Insurance Council for most of the relevant period. Lim, Low and Wiebe were former registrants under the Act.
14. Lim and Low were the directors or *de facto* directors of each company in the FS Group during the relevant period. They directed and controlled the FS Group and treated the companies as one entity.

FS Group

15. The FS Group was in the insurance business.
16. Each company in the FS Group was a British Columbia company except FS Financial Services (Alberta) Inc. (FS Alberta), which was an Alberta company, and FS Financial Systems Inc. (FS Systems), which was a federal company registered in British Columbia.
17. None of the companies in the FS Group was ever registered under the Act.
18. FS Financial Strategies Inc. (FS Strategies) and FS Financial Strategies Services Inc. (FS Strategies Services) were the only companies in the FS Group licensed by the Insurance Council during the relevant period.

Nominee directors

19. After Lim and Low gave their undertakings to the executive director to cease trading and distributing securities in 2014, they used other companies in the FS Group to raise money. They installed FS Group staff as the nominee directors of FS Alberta, Verico FS Capital Inc. (FS Capital) and FS Systems.
20. All of the nominee directors are residents of British Columbia except Kao, who is a resident of Alberta.
21. During the relevant period, Pan, Wong and Tsai were licensed by the Insurance Council and were registered under the Act. Kao was licensed by the Alberta Insurance Council.



22. During the relevant period, Lay and Bachra were licensed mortgage brokers. They were former registrants under the Act.

Misconduct

Fraud

23. Lim and Low, with Wiebe's assistance, raised over \$47 million for the FS Group in the form of unsecured loan agreements promising investors annual interest of 10% to 12%, payable monthly.
24. Throughout the time they were raising funds from investors, the FS Group's business expenses exceeded its revenues resulting in significant shortfalls. Lim, Low and Wiebe covered the shortfalls by raising more money from investors.
25. Rather than disclose the FS Group's true financial condition to investors, they instead created an illusion of profitability by:
- Expanding rapidly by opening new offices
 - Paying investors monthly returns
 - Representing that they planned to go public
 - Donating money to various charities
 - Hosting annual staff and client parties at expensive hotels
 - Emphasizing the expansion and purported success of the business at weekly staff meetings
 - Paying its insurance agents salaries rather than the industry norm of commission-based compensation
 - Paying its insurance agents discretionary bonuses.
26. Many of the FS Group's staff invested in the FS Group and promoted the investment to their insurance clients, who then also invested in the FS Group.

Illegal distributions

27. The FS Group distributed securities during the relevant period as follows:

Respondent	Distribution	# of Investors	Illegal distribution	# of Investors
FS Strategies	\$13,543,898	147	\$7,244,985	94
FS Strategies Services	\$910,000	26	\$635,000	19
FS Services	\$4,605,000	37	\$1,480,000	20
FS Alberta	\$17,437,980	103	\$12,729,980	72
FS Capital	\$8,915,000	55	\$5,380,000	35



Respondent	Distribution	# of Investors	Illegal distribution	# of Investors
FS Systems	\$1,925,000	21	\$1,620,000	15
Total	\$47,336,878	389	\$29,089,965	255

28. Lim, Low and the nominee directors authorized, permitted or acquiesced in the FS Group's illegal distributions as follows:

Respondent	FS Group company	Amount	Total
Lim and Low	FS Strategies	\$7,244,985	\$29,089,965
	FS Strategies Services	\$635,000	
	FS Services	\$1,480,000	
	FS Alberta	\$12,729,980	
	FS Capital	\$5,380,000	
	FS Systems	\$1,620,000	
Pan and Kao	FS Alberta	\$12,729,980	\$12,729,980
Lay and Bachra	FS Capital	\$5,380,000	\$5,380,000
Wong and Tsai	FS Systems	\$1,620,000	\$1,620,000

Unregistered trading

29. Lim, Low, FS Services, FS Alberta, FS Capital and FS Systems sold securities when they were not registered to do so as follows:

Respondent	Unregistered trading
Lim and Low	\$32,882,980
FS Services	\$4,605,000
FS Alberta	\$17,437,980
FS Capital	\$8,915,000
FS Systems	\$1,925,000

30. Lim, Low and the nominee directors authorized, permitted or acquiesced in the FS Group's unregistered trading during the relevant period as follows:

Respondent	FS Group company	Amount	Total
Lim and	FS Services	\$4,605,000	
	FS Alberta	\$17,437,980	



Respondent	FS Group company	Amount	Total
Low	FS Capital FS Systems	\$8,915,000 \$1,925,000	\$32,882,980
Pan and Kao	FS Alberta	\$17,437,980	\$17,437,980
Lay and Bachra	FS Capital	\$8,915,000	\$8,915,000
Wong and Tsai	FS Systems	\$1,925,000	\$1,925,000

Hearing Process

- ¶ 2 The respondents or their counsel are required to attend at the 12th Floor Hearing Room, 701 West Georgia Street, Vancouver, British Columbia, on **Tuesday, November 6, 2018, at 9:00 a.m.** if they wish to be heard before the Commission sets a date for the hearing. Relevant information gathered by Commission Staff in the investigation of this matter will be disclosed to the respondents upon request to the Executive Director.
- ¶ 3 At the hearing, the respondents may be represented by counsel, make submissions and tender evidence. The respondents are requested to advise the Commission of their intention to attend the hearing by informing the Secretary to the Commission at PO Box 10142, Pacific Centre, 701 West Georgia Street, Vancouver, BC V7Y 1L2 phone: (604) 899-6500; email: commsec@bcsc.bc.ca.
- ¶ 4 If the respondents or their counsel do not appear at the hearing, the executive director will apply to have questions of liability and sanction heard at the same time. Determinations adverse to the respondents may be made in their absence.

Peter J. Brady

Oct 24 2018 1:50 PM -07:00

- ¶ 5 Peter J. Brady
Executive Director