

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 NOTICE THAT:—

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

1. Pursuant to section 204 of the Ordinance, Whole Win Securities 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.

THE COMMISSION HEREBY CONSENTS AS FOLLOWS:—

3. The Specified Corporation is permitted, until further notice, to take all actions necessary to settle securities transactions in the Central Clearing and Settlement System in Hong Kong, including, but not limited to the related delivery and receipt of securities and funds and matters incidental thereto and to fulfil obligations to clients including the return of securities or funds to clients or pursuant to clients' instructions, and the provision and receipt of nominee services.
4. 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the Ordinance, the Specified Corporation may apply to the Commission for the prohibitions imposed by the Notice to be withdrawn, substituted or varied.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 26th day of May 2006

For and on behalf of
Securities and Futures Commission

Martin WHEATLEY
Chairman

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

1. Whole Win Securities Limited ('the Specified Corporation') is a corporation licensed under the Ordinance to carry on Type 1 regulated activity, namely, dealing in securities.
2. It appears to the Securities and Futures Commission ('the Commission') that:—
 - (a) the Specified Corporation is not a fit and proper person to carry on the regulated activity for which it is licensed; and
 - (b) 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; and
 - (c) 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) On 10 May 2006, the Specified Corporation reported in writing a required liquid capital deficit of HK\$1,645,000 as at 31 March 2006.
 - (b) On 16 May 2006, the Specified Corporation submitted returns as at the end of April 2006 indicating that this deficit had been rectified.
 - (c) On 19 May 2006, the Specified Corporation submitted a revised financial return to the Commission and reported that it had an excess liquid capital of HK\$2,593,000 as at 30 April 2006. It submitted supporting documents on 23 May 2006.
 - (d) During the review of the Specified Corporation's liquid capital computation as at 30 April 2006, the Commission identified certain unusual cash client receivables in an aggregate amount of HK\$29,120,000 which represents 123% of shareholders' funds as of 30 April 2006. On 24 May 2006, the Commission's onsite review on the Specified Corporation's books and records revealed that the above unusual cash client receivables include dishonoured cheques from a margin client in the sum of HK\$25,000,000 and advances to a director of the Specified Corporation in the sum of HK\$4,120,000.
 - (e) Upon questioning by Commission staff, the accounting staff of the Specified Corporation admitted on 25 May 2006 that the financial return as of 30 April 2006 submitted to the Commission did not represent a true and accurate picture of its financial status. Following this admission, on 26 May 2006, the Specified Corporation submitted a revised liquid capital computation and reported that it indeed had a required liquid capital deficit of HK\$27,828,000 as at 30 April 2006. During a discussion with the Commission's staff on 26 May 2006, a director of the Specified Corporation, Kenny Leung, admitted that he had knowingly included dishonoured cheques from a margin client which should not be regarded as liquid assets in the liquid capital computation by about HK\$25 million since December 2005.
 - (f) The Specified Corporation has therefore breached section 146 of the Ordinance and has furnished financial resources returns to the Commission which are false and misleading. In light of all the matters set out above, the Commission has grave concerns over the Specified Corporation's reputation, character, reliability, financial integrity and solvency. The Commission therefore 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.
 - (g) The Commission has also assessed the Specified Corporation's liquidity and the potential risk to its clients. The Specified Corporation reported in its financial return as at 30 April 2006 that it has almost fully utilized its bank facilities with total outstanding borrowings of HK\$23,675,000, which is secured by client securities, representing about 95% of its total margin loan receivables. As of 30 April 2006, the Specified Corporation has only HK\$319,000 bank balances and cash.

- (h) Despite its tight liquidity, it is a Hong Kong Stock Exchange participant and it holds client securities of HK\$232,924,000 and client money of HK\$3,760,000 as at 30 April 2006. After excluding unusual cash client receivables set out in paragraph (d), the Specified Corporation would not have sufficient capital to carry out its daily operations. Currently, the Specified Corporation solely relies on the available banking facilities, mainly secured by margin clients' securities collateral, to finance its operations. It therefore puts its clients, particularly margin clients, at high risk situation.
- (i) 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 26th day of May 2006

For and on behalf of
Securities and Futures Commission

Martin WHEATLEY
Chairman