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Omega Securities licence revoked --- SC introduces scheme to reimburse stockbroking company clients --- Hwang DBS given branch operation

The Securities Commission ("SC") today revoked the licence of Omega Securities Sdn Bhd ("Omega Securities") pursuant to Section 27 of the Securities Industry Act 1983.

The SC had on 4 May 1998 issued a show cause letter to Omega Securities, pursuant to Section 27 of the Securities Industry Act 1983, on why its stockbroking licence should not be suspended or revoked. On the same day, the stockbroking company ceased its licensed business activity when the SC had decided not to grant written consent under Section 20A of the Securities Industry Act 1983 after the company failed to meet the minimum liquid funds (MLF) requirement under Rule 17A of the Kuala Lumpur Stock Exchange's (KLSE) Rules Relating to Member Companies. The decision not to grant written consent was due to the large deficit of RM555,594,350 which Omega Securities failed to address as required under KLSE Rule 17A.

Omega Securities was placed under trading restrictions by KLSE on 17 February 1998 because it was not able to fulfil prudential and business conduct standards of the securities laws and KLSE rules. On 15 April 1998 the Exchange, upon a directive from the SC, had informed the stockbroking company that an agreement in principle must be reached for a restructuring exercise in the form of a merger or acquisition within a two-week period which ended 30 April 1998. Omega Securities failed to arrive at such an agreement resulting in the issuance of the abovementioned show cause letter to the stockbroking company. After due consideration to Omega Securities' response to the show cause letter the SC decided to revoke the stockbroking company's licence.

Securities Commission reimbursement scheme for stockbroking company clients

The SC has structured an arrangement to mitigate potential losses which clients of stockbroking companies may suffer as a result of mismanagement and violations of rules, regulations and securities laws.

The scheme involves a willing stockbroking company deemed fit by the SC undertaking to reimburse clients of a stockbroking company whose licence has been revoked. The qualitative and quantitative requirements to undertake this scheme would include, among others, the willing stockbroking company having complied with prudential and business conduct standards of securities laws and KLSE rules and having the financial and management resources to implement the reimbursement scheme without affecting its existing stockbroking business.

By undertaking to implement the scheme, the willing stockbroking company will be allowed to open a branch or branches depending on the amount it commits to the scheme. Where it is qualified, the company will also be allowed to submit corporate proposals to the SC on behalf of clients.

Reimbursement of Omega Securities' clients

Hwang DBS Sdn Bhd ("HDBS") has come forward and agreed to participate in the SC's reimbursement scheme by undertaking to pay Omega clients a total sum of RM70 million. Of the



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stockbroking companies that met the SC qualitative and quantitative criteria, HDBS had demonstrated the greatest interest in participating in the merger process and was agreeable to undertake the SC scheme to reimburse Omega Securities' clients.

The scheme will involve clients closing their accounts with Omega Securities and HDBS reimbursing each client a predetermined and pre-approved value for their net amounts owing to them.

The amounts reimbursed can be more than what may be received from the Compensation Fund but clients may not be reimbursed in full. All clients are entitled to the full amount of their claims if it is below RM100,000. Clients with claims of RM100,000 and above will be reimbursed for their first RM100,000 in full, while reimbursements for the excess of the claim will be pro-rated in decreasing percentages.

If there is any sum remaining at all from the reimbursement scheme to Omega Securities clients it will be deposited in the Compensation Fund.

All clients with net amounts owing to them are entitled to benefit from this scheme except those whose accounts are under investigation by the SC. No claims will be entertained from these clients until the investigation is completed. If investigators do not establish any reason to deny reimbursement to these clients, their claims will be met in accordance with this scheme.

The scheme has been introduced so that clients do not suffer excessive losses while simultaneously ensuring that the Compensation Fund is not unduly strained. The SC had announced earlier that SC and KLSE, with the approval of the Minister of Finance, will boost the Compensation Fund to RM314 million.

This reimbursement scheme is only possible if there are third parties willing to participate, otherwise clients will have to resort to the Compensation Fund.

The KLSE will oversee the implementation of the scheme and will be providing details of it in another announcement which will also include details on the Compensation Fund.

SECURITIES COMMISSION

5 June 1998