

THE MIDAS TOUCH

Publicly listed Hung Fung Group Holdings Ltd (Code: 1141 – Main Board, The Stock Exchange of Hongkong Ltd) has been hit with a claim from Midas Printing Ltd (Code: 1172 – Main Board, The Stock Exchange of Hongkong Ltd) for more than \$HK3.20 million.

The allegations by Midas Printing, contained in High Court Action Number 561 of 2001, relate to purported invoices, allegedly sent to Hung Fung Group, going back to May 2000.

The Statement of Claim, attached to the Writ of Summons, states:

'3. In consideration for the Plaintiff agreeing to provide a special reduced rate in favour of the Defendant (Hung Fung Group), the Defendant on 27th February 1998 entered into a written agreement with the Plaintiff (Midas Printing) (hereinafter called the Agreement), which provides, inter alia: -

- (i) That the Defendant appoints the Plaintiff to provide printing services to "the Group";*
- (ii) "The Group" as defined in the Agreement are the Defendant and its Related Companies. "Related Companies" are further defined in the first Agreement, in gist, as follows:-*

"Hung Cheong Holdings Limited, Hung Cheong Toys International Limited, Hung Cheong Toys Factory Limited, Hung Cheong Toys Manufacturing Limited, Hung Cheong Toys Trading Limited, Huang Chiang Chen Hung Cheong Plastics Factory Company Limited and any entity (other than the Defendant):

(a) the majority of whose voting shares or securities are; or

(b) which does not have voting shares or securities, but a majority of the ownership interest representing the right to make decisions for such entity is;

owned or controlled, by directly or indirectly, by the Defendant; "

- (iii) The Plaintiff shall invoice the relevant member of the Group from time to time for printing charges and other related charges and the Defendant undertakes to punctually settle or procure the punctual settlement of the invoices by irrevocable letter of credit with 99 days from the month end statement.*
- (iv) Late payment would carry interest at 2% per month; ... '.*

Between the period May 15, 2000 and September 30, 2000, the Statement of Claim purports to have issued a total of not less than 181 invoices to the Hung Fung Group, but, to date, it is alleged that Midas Printing has not received its money.

Midas Printing, therefore, wants \$HK3,195,529.06 plus interest at the rate of 2 percent per month on the said sum until payment is made, plus costs of the Action.

According to TOLFIN (TARGET's Computerised, On-Line Information Services) Hung Fung Group was sued twice in the High Court and twice in the District Court, in the past year.

On October 18, 2000, Hung Fung Group and Hung Cheong Toys International Ltd was sued by Wesco China Ltd for \$HK1,336,764.31 for an alleged amount due.

Two days later, on October 20, 2000, the same 2 Defendants were named in an Action, brought by DBS Kwong On Bank Ltd. In that High Court Writ, Number 9585 of 2000, DBS Kwong On Bank was seeking \$HK4,413,480.63, also, being an alleged amount due.

The 2 District Court Writs were filed by The Centre (62) Ltd and the solicitors firm of Iu, Lai and Li.

The Centre (62) Ltd sued not only Hung Fung Group, but also Sunstar Nominees Ltd. The Nature of the Claim was Possession.

The solicitors firm of Iu, Lai and Li sued for \$HK99,385, for alleged Services Rendered to Hung Fung Group.

The Independent Commission Against Corruption

On December 4, 2000, The Stock Exchange of Hongkong Ltd announced that Hung Fung Group had not received any information from The Independent Commission Against Corruption (ICAC) with regard to the ICAC's investigations into an alleged \$HK90-million credit and bribes scam.

The Stock Exchange announcement stated, inter alia:

'In response to the press announcement of ICAC and related newspaper reports on 10 October 2000 regarding his (Mr Chan Chun Hung, the former Chairman of Hung Fung Group) alleged involvement in a HK\$90 million credit and bribes scam, Mr. Chan confirmed to the new board of directors consisting of Mr. Tam Sun Wing ("Mr. Tam"), Mr Ho Sun Fung, Allan ("Mr. Ho"), Ms Wu Ching Yan, Stina ("Ms Wu") and the 2 independent non-executive directors of the Company (namely, Mr. Au Son Yiu and Mr. Goh Gen Cheung) (the "New Board") that the Company and its subsidiaries have never received nor obtained monies, assets or credit facilities by illegal means, and that the latest available unaudited consolidated management accounts of the Group reveal that the Group still sustains a profitable operation. It is the Company's intention and determination that the Company will continue to comply with all Hongkong laws and applicable rules and regulations.

'As stated in the announcement of the Company dated 14 October 2000, three independent persons were appointed new executive directors of the Company with effect from 11 October 2000 and the three executive directors of the Company resigned on 11 October 2000.

'At the request of the Company, trading in the shares on the Company was suspended with effect from 10:00 a.m. on 9 October 2000 pending release of this announcement. An application has been made for resumption of trading of the shares with effect from 10:00 a.m. on 17 October 2000 ...

'The New Board noted from the press announcement of ICAC and related newspaper reports (the "Reports") on 10 October 2000 that the ICAC had arrested Mr. Chan for his alleged involvement in a scam over the obtaining by four shell companies (the "Alleged Four Companies") during April 1999 to December 1999 (the "Relevant Period") of credit facilities totaling HK\$90 million (the "Alleged Facilities") by offering advantages to a former manager of a bank and that the monies of the Alleged Facilities (the "Alleged Monies") have been withdrawn from the Alleged Four Companies and injected into the subsidiaries of the Company (the "Allegations").

'So far as the New Board is aware, Mr. Chan had been arrested but no charge has yet been laid against him. Mr. Chan has confirmed to the New Board that the Group have not received or obtained monies, assets or credit facilities by illegal means, and that the latest available unaudited consolidated management accounts of the Group reveal that the Group still sustains a profitable operation.

‘The New Board is aware that suspicious transactions are alleged to have taken place between the Alleged Four Companies and the Group. However, the New Board does not have details regarding the identity and ownership of the Alleged Four Companies and therefore cannot verify whether any monies received by the Group came from any of the alleged Four Companies and in any event cannot verify whether any Alleged Monies actually came from any Alleged Facilities granted to the Alleged Four Companies.

‘The audited consolidated accounts of the Group for the year ended 31 March 2000 (the “Audited Accounts”) as shown in the annual report of the Company published on 28 August 2000 have incorporated the results of the Group during 1 April 1999 to 31 March 2000 which already covers the Relevant Period. The New Board considers that there is at this stage insufficient evidence on the basis of which it is necessary to make an enquiry on the accuracy of the Audited Accounts. Nonetheless, should the New Board subsequently have concrete evidence to query the accuracy of the Audited Accounts, the New Board would consider engaging independent auditors to conduct a special investigation into and a review of the books and records of the Group for reporting to the New Board as to whether any monies from suspicious transactions or sources had ever been injected into the Group at all and the effect thereof (if any) on the financial position of the Group ...’.

(In order to make it easier for subscribers to try to understand the above situation, TARGET has not bothered to insert ‘sics’ at the numerous places where it would have been appropriate so to do. All mistakes are for the account of Hung Fung Group and/or The Stock Exchange of Hongkong Ltd)

Hung Fung Group announced on January 5, 2001 that, due to the fact that many records of the accounts of subsidiaries and associates were incomplete, the Interim Results could not be finalised.

‘Until the Company receives all relevant information and records relating to these entities,’ the Interim Result could not be released, the Company announced.

Trading in the shares of Hung Fung Group is suspended.

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