

**ONFEM HOLDINGS LTD :
SUBSIDIARIES SUED FOR \$HK6.55 MILLION**

Two wholly owned subsidiaries of publicly listed ONFEM Holdings Ltd (Code: 230, Main Board, The Stock Exchange of Hongkong Ltd) have been sued for more than \$HK6.55 million.

The Plaintiff in both High Court Actions is Po Lap Engineering (China) Company Ltd, which has issued Proceedings against Condo Curtain Wall Company Ltd and Condo Engineering (China) Ltd.

The 2000 Annual Report of ONFEM shows, at Page 75, that Condo Curtain Wall is a wholly owned subsidiary, but there is no mention of Condo Engineering.

However, in view of the fact that both companies are said to share the same Registered Office, in Kwaichung, the New Territories, the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), TARGET has assumed that Condo Engineering is, also, a wholly owned subsidiary.

Po Lap Engineering has sued Condo Curtain Wall for \$HK4.88 million, *'being the outstanding amount of various contracting works of glass curtain wall installation rendered to the Defendant under the various contracts made between the Plaintiff and the Defendant ...'* (Paragraph 3 of the Statement of Claim, attached to the Writ of Summons, Number 1099)

With regard to Condo Engineering, Po Lap Engineering has sued for about \$HK1.62 million *'being the outstanding amount of various contracting works of glass curtain wall installation rendered to the Defendant under the contracts made between the Plaintiff and the Defendant ...'* (Paragraph 3 of the Statement of Claim, attached to the Writ of Summons, Number 1100)

The latest Action represent the second High Court Writ issued against Condo Curtain Wall et al, this year, since, on February 6, Bondway (Asia) Company Ltd sued the ONFEM subsidiary for about \$HK452,926, alleging that it had not been paid for goods, sold and delivered to Condo Curtain Wall.

However, in 2001, Condo Curtain Wall was sued twice for an aggregate of at least \$HK2.11 million.

ONFEM is a company that is controlled by organs of the PRC State, which hold about 54 percent of the Issued and Fully Paid-Up Share Capital.

The Company is, principally, engaged in the construction of special projects, manufacturing and trading, and property rentals and management.

However, in the past few years, ONFEM has been having its fair share of problems.

The Interim Report of the Company, published on or about September 21, 2001, states that, for the first half of the year, to June 30, 2001, ONFEM suffered a Loss Attributable to Shareholders of about \$HK192.24 million.

For the comparable period in 2000, ONFEM recorded a Net Profit Attributable to Shareholders of about \$HK7.15 million.

There is mention of the *'Condo Group Ltd'* in the 2001 Interim Report, however, TARGET can find no such name of such a subsidiary in the 2000 Annual Report.

On the assumption that Condo Group Ltd is the holding company of the Condo companies, the Interim Report states that this group, as at June 30, 2001, had *'total contracts on hand ...valued at approximately HK\$128,000,000.'* (Page 17)

Arthur Anderson and Company, ONFEM's Auditors for the 2001 Financial Year, qualified its opinion for the 2000 Year by stating, inter alia:

'We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited because of the following matter:

'As explained in Note 13(a) to the accompanying financial statements, the Group held approximately 15.3 per cent of the common stock of Greater Beijing Region Expressways Limited ("GBRE"), a company incorporated in the British Virgin Islands, with an original investment cost of approximately HK\$244 million and a carrying value of approximately HK\$122 million as at 31 December 2000. Pursuant to a winding up order issued by the High Court Of Hong Kong against Greater Beijing First Expressways Limited ("GBFE"), a key principal subsidiary of GBRE, on 12 June 2000, all the financial information of GBFE was withheld by the liquidator. As such, the Group was unable to provide adequate financial information for us to assess the fair value of GBRE or GBFE. There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence to determine the fair value of the investment... '.

The Interim Report of ONFEM indicates that Provisions for the impairment of non-trading securities amounted to about \$HK243.60 million, writing off the investments, completely.

The Consolidated Income Statement shows a *'Provision for Impairment in Value of Non-trading Securities'* of about \$HK131.30 million.

However, even without this Provision, ONFEM would have suffered a Loss Attributable to Shareholders of not less than \$HK61 million, according to TARGET's financial analyst.

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