

**WING HONG (HOLDINGS) LTD:
WILL THIS COMPANY RECORD A LOSS FOR
ITS FIRST YEAR AS A PUBLICLY LISTED COMPANY ?**

Within 10 months of Wing Hong (Holdings) Ltd, going public on the Main Board of The Stock Exchange of Hongkong Ltd, its share price sank 76 percent, from 25 cents per share to about 5.60 cents per share, and the company had amassed claims in various Courts of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) in excess of \$HK20 million.

And, within 90 days of the Company's Placing and Offer Prospectus, being placed in the hands of prospective investors, Management of Wing Hong (Holdings) released its Interim Report, for the 6 months, ended September 30, 2004, showing that:

1. The Company's Turnover had dropped by 69.93 percent, Year-On-Year, from about \$HK493.56 million to about \$HK148.39 million; and,
2. The Net Profit Attributable to Shareholders had fallen by about 96.32 percent, Year-On-Year, from about \$HK11.46 million to \$HK422,000.

Today, Wing Hong (Holdings) is facing what surely must be one of its biggest challenges for some time because, if United Electrical Company Ltd is correct in respect of its allegations, contained in High Court Action Number 1436, Wing Hong Contractors Ltd, a wholly owned subsidiary of Wing Hong (Holdings), will have to cough up more than \$HK20 million.

In addition, the costs of this High Court Action are bound to cost the Company millions of Hongkong dollars.

The Litigation

United Electrical Company Ltd has issued High Court Action Number 1436, naming 2 Defendants:

- | | |
|--|---------------------------|
| 1. Wing Hong Contractors Ltd | 1 st Defendant |
| 2. Tung Yuen Hong Electrical Company Ltd | 2 nd Defendant |

The 2nd Defendant is said to be in liquidation, today, but prior to it being placed in liquidation, it was '*an electrical contractor in the government's list of approved electrical contractors ...*', according to Paragraph 3 of the Statement of Claim, attached to Writ of Summons Number 1436.

The Statement of Claim alleges that, on or about November 15, 2001, Wing Hong Contractors and Tung Yuen Hong entered into a '*Specialist Domestic Subcontract*' with Tung Yuen Hong, being awarded '*the terms of the Domestic Subcontract for the installation of and maintenance of the electrical works ("Electrical Works") within the Yaumatei ("YMT"), Tsimshatsui ("TST"), Kwun Tong ("KT"), Kowloon Bay ("KB"), and Mongkok ("MK") districts (collectively "5 Districts") as issued by the ASD (Architectural Services Department) from time to time on works orders under the Main Contract in accordance with their conditions for a term of years from 2001 to 2004.*'

Wing Hong Contractors, prior to entering into its Specialist Domestic Subcontract arrangement with Tung Yuen Hong, had been awarded an ASD contract to carry out certain building works as instructed by the ASD from time to time.

The terms and conditions of the Specialist Domestic Subcontract are spelled out in the Statement of Claim in some detail.

At Paragraph 7 of the recitals, it is alleged that Wing Hong Contractors and Tung Yuen Hong entered into a supplementary agreement to the Domestic Subcontract *'in that Wing Hong agrees to pay Tung Yuen Hong 93% of all monies received for Tung Yuen Hong's work carried out under the Domestic Subcontract, full payments will be made within 14 days of receipt of such payment by Wing Hong from ASD ["Variation"].'*

Then, at Paragraph 8 of the Statement of Claim:

'Further, on about 5th August 2004, Wing Hong and Tung Yuen Hong had entered into an agreement supplementary to the Domestic Subcontract in that Wing Hong is empowered to make direct payment to United (United Electrical Company Ltd, the Plaintiff to the Action) in respect of Electrical Works executed by United ("Supplementary Agreement"). United will refer to the Supplementary Agreement at the trial of this action for its full term and effect in law and in particular the following express terms thereof:

(a) By Clause 32.1 the Subcontractor shall ensure that it promptly pays all and any of its own sub-contractors and suppliers. The Main Contractor shall keep proper records of payment.

(b) If:

By Clause 32.2.1, the Subcontractor fails to pay any of its own sub-contractors or suppliers as required by the relevant sub-contract or supply agreement; and

By Clause 32.2.2., the sub-contractor or supplier requests payment from the Main Contractor,

then the Main Contractor shall be entitled to, but shall not be obliged to, make a direct payment to such sub-contractor and supplier of the amount which the Main Contractor reasonably believes is owing to the relevant sub-contractor or supplier.

(c) By Clause 32.4, the Subcontractor acknowledges that any direct payment made by the Main Contractor to any of the Subcontractor's own sub-contractors or suppliers under this Clause 32 shall be deemed to be a valid payment to discharge any obligation that the Main Contractor has to pay the Sub-contractor under the Sub-Contract to the extent of the amount of the direct payment.'

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