

Messy state of Wing On Bank's affairs \$154m rights issue may be rejected 6-2

By Eva To

SHAREHOLDERS of Wing On (Holdings) look set to vote down the company's subscription commitment for the \$154 million rights issue of Wing On Bank.

At the company's Extraordinary General Meeting scheduled for June 12, minority shareholders are certain to query the wisdom of the subscription proposal in view of the "messy" state of the bank's 1985 figures.

Auditors of the bank resolved that the consolidated profit and loss account "does not give a true and fair view" of the results of Wing On Bank Group for the year, ended December 31, 1985.

Though the major shareholders who hold 68.8% of the voting shares of Wing On (Holdings) have committed to vote in favour of this subscription proposal, it is still far below the 75% generally needed to approve special resolutions of public companies.

Accounting sources said the stance of Wing

On Bank's auditors is the most serious an auditor can adopt.

Accountants would sometimes refuse to "qualify" accounts to show their reservation or "disclaim" accounts in more serious cases. But to state that the accounts do "not give a true and fair view" of the results has far graver implications.

It reflects the auditors' assertive position that there is something radically wrong with the accounts. It could even indicate that the auditors have evidence to back up their stance.

Peat, Marwick, Mitchell and Co, and Price Waterhouse are the joint auditors for Wing On Bank.

Furthermore, the auditors raised two points of uncertainties that might materially affect the results of the bank.

The first concern is that the financial statements of the Wing On Bank Group have been prepared on the assumption that the capital reconstruction scheme as proposed earlier will become a reality.

There is no guarantee that this is so.

Second, the provision made in the financial statements for doubtful loans and advances was based on information available and on direc-

tors' "best estimates" of the net realisable value in the existing market conditions.

The auditors cautioned that the actual proceeds which would be obtained on realisation of the security would be influenced by the market conditions at that time.

Moreover, there is enough ground for the regulatory bodies to file prosecutions against the bank's management since, as noted by the bank's auditors, the financial statements do not constitute the statutory accounts of the bank as required by the Companies Ordinance.

This, apparently, violates the Companies Ordinance and possibly breaches the Banking Ordinance and other regulations.

The Financial Secretary said last week that the government is considering prosecution against people involved in the near-collapse of Wing On Bank and Ka Wah Bank.

The financial advisor of Wing On (Holdings) told *Business Standard* yesterday that the company recently sold certain minor assets to reduce its borrowing in the wake of the capital reconstruction of Wing On Bank.

"Some minor assets like quoted securities were sold, but none of the major assets has been disposed of," he said.