

**KITH HOLDINGS LTD :  
LENDING MONEY TO A CIGARETTE FACTORY TO GUARANTEE BUSINESS ?**

If a huge Provision for Bad and Doubtful Debts appears in the next year or so, it should not surprise the minority shareholders of Kith Holdings Ltd (Code: 1201 -- \$HK1.03), the packaging and printing company, headed by Chairman Andrew Hui King Chun.

Not that TARGET is suggesting, at this juncture, that there should be such a Provision, but one cannot but beg the question about Provisions of this nature when one discovers that a not inconsiderable credit line has been afforded to just one of the major customers of this Company.

And this credit line, amounting to about \$HK68.42 million, equates to about 24 percent of the Total Turnover of the Company for the Financial Year, ended December 31, 1999.

As it is, Kith Holdings is not exactly managed by a fiery Board of Directors since it would be fair to say that it is just limping along, at best.

The Company, listed on The Stock Exchange of Hongkong Ltd, turned in a Profit Attributable to Shareholders of about \$HK31.83 million for the 1999 Year, down from the 1998 Year when the comparable Profit was about \$HK51.94 million.

Note 17 at Page 79 of the 1999 Annual Report makes for very interesting reading as it could be one of the reasons that the Company has not been doing so well, of late.

Note 17 reads as follows:

***'TRADE RECEIVABLES FROM MINORITY SHAREHOLDERS***

*'The amounts are unsecured, interest-free and repayable in accordance with the credit terms as agreed with respective minority shareholders. Included in the amounts is an amount due from Yunnan Zhaotong Cigarette Factory ("YZCF") of approximately HK\$68,420,000 (1998: HK\$14,572,000 classified as an amount due from a former minority shareholder). YZCF was previously a minority shareholder of the Group up to January 1998, and became a minority shareholder again after the Group disposed of 10% equity interest of a subsidiary to YZCF during the year.'*

Note 27, found at Page 88 of the 1999 Annual Report of Kith Holdings, throws more light on this matter.

It states:

***'RELATED PARTY TRANSACTIONS***

*'During the year (ended December 31, 1999), the Group had the following significant related party transactions which were carried out in the normal course of the Group's business:*

- (a) on 31<sup>st</sup> May, 1999, the Group entered into an agreement to dispose 15% equity interest in Yunnan Qiaotong Package Printing Company Limited ("Qiaotong"), a subsidiary of the Group, to Yunnan Zhaotong State-owned Asset Administration Company Limited ("YZSAACL"), a minority shareholder of Qiaotong, at a consideration of approximately*

*HK\$26,971,000. Upon the completion of the transaction, YZAACL holds 30%equity interest in Qiaotong ...'. (TARGET has made no changes to the original wording or punctuation)*

Page 48 of the 1999 Annual Report throws even more light on the subject of the \$HK68.42 million, owed to Kith Holdings by Yunnan Zhaotong Cigarette Factory (YZCF).

It states:

*'YZCF is one of the principal customers of Yunnan Qiaotong JV. As at 31<sup>st</sup> December, 1999, the trade receivable resulted from the sales made to YZCF was approximately HK\$68,420,000, which represented 33% of the Group's net asset value as at that date. The amount is unsecured, interest-free and repayable in accordance with the credit terms as agreed by YZCF.'*

And Page 55 of the 1999 Annual Report shows that one customer is responsible for 55 percent of total sales, while the 5 largest customers are, together, responsible for 91 percent of total sales.

Further, if that is not sufficiently worrying, Pages 45 and 46 of the 1999 Annual Report shows that sales to YZCF totalled about \$HK155.16 million in the past Financial Year.

This represents about 55 percent (actually, the figure is 54.51 percent) of total sales for the 1999 Year.

The importance of the \$HK68.42 million cannot be underscored, boldly enough, because, should YZCF not be able to repay the money that it owes to Kith Holdings, that publicly listed company could be in serious trouble in a very big way.

And this type of thing has happened, many hundreds of time in the past in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

### **The Financials**

Kith Holdings could never be accused of being a dynamic company because, if anything, it has all the hallmarks of being somewhat of a dud.

To the Company's credit, over the past 5 Financial Years, it has not made a loss ... [CLICK TO ORDER FULL ARTICLE](#)

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