

**TA FU INTERNATIONAL HOLDINGS LTD :
ANYBODY WANT TO BUY INTO AN INSOLVENT WOOD COMPANY ?**

The way that things are going for publicly listed Ta Fu International Holdings Ltd (Code: 1041), this Company could well be headed for the scrap heap.

And there appears to be no way to save it.

One of the major troubles with this Company is that there is no way to know, by reading the Annual Reports of the Company, what is its true financial situation.

One is given tidbits of information, in accordance with reporting requirements, as specified in The Companies Ordinance, Chapter 32, The Laws of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), but it seems that the information is never complete information.

It is, of course, information that is the truth, but not the entire truth; and, one discovers little worms, creeping out of the Company's woodwork, a year or so later.

Even the Auditors of the Company, Deloitte Touche Tohmatsu, have issued, what amounts to, an absolute disclaimer with regard to the accounts for the Financial Year, ended December 31, 1999.

Signing off on May 29, 2000, some of the highlights of Deloitte's many disclaimers in respect of the 1999 Results included:

' ... As set out in note 8 to the financial statements, provision for bad and doubtful debts amounting to approximately US\$4,776,000 has been made in respect of the amount due from Tianjin Fornia Industry Co. Ltd. ("TFI"), a former subsidiary of the Company. However, in the absence of any reliable financial information regarding the financial position of TFI, we were unable to assess the ability of the Group to recover the amount due from TFI. According, we were unable to form an opinion as to whether the provision is appropriate ...'.

Note 8 of the 1999 Annual Report of Ta Fu International states the following:

'Included in the provision for bad and doubtful debts is an amount of approximately US\$4,776,000 set aside for the debt due from Tianjin Fornia Industry Co., Ltd. ("TFI"), a former subsidiary of the Company. The balance relates mainly to plant and machinery and raw materials supplied to TFI prior to its disposal by the Group. In the opinion of directors, the amount due therefrom is irrecoverable.'

The 'balance', mentioned on line 4, above, relating to plant and machinery and raw materials in the above extract, taken from Note 8, amounts to \$US9,034,000.

Note 11 at Page 42 of the 1999 Annual Report shows that TFI was dumped, during the 1999 Year.

One assumes that Ta Fu International got paid nothing for this former subsidiary since, if the subsidiary could not pay its debts, it, clearly, did not have any disposable cash to hand over to Ta Fu International.

Getting back to the Auditor's disclaimers, Deloitte's states, also:

'Included in trade and other receivables as at 31 December 1999 is a debt amounting to approximately US\$2,010,000 due from the acquirer of a former associate in respect of which

US\$1,884,000 remains unsettled at the date of this report. Also, included in the amounts due from associates is a debt amounting to approximately US\$3,776,000 due from an existing associate. These debts have been long outstanding and the Group has no security. Accordingly, in our opinion, provisions of US\$1,884,000 and US\$3,776,000, respectively, should have been made for these amounts, increasing net liabilities at 31 December 1999 and increasing loss for the year then ended by the same amount ...'.

On the assumption that Deloitte's is correct (and it is unlikely that it would not be correct), then the Net Loss of Ta Fu International, for the Financial Year, ended December 31, 1999, should have been the amount, shown on the Consolidated Income Statement, \$US30,505,000, plus \$US5,660,000, aggregating \$US36,165,000.

One would not think that such a situation could get worse than this.

But, in the case of Ta Fu International, it does.

Enter, Stage Right: The Stock Exchange of Hongkong Ltd

On August 16, 2000, Ta Fu International made an announcement, which, in TARGET's opinion, was a bit of a shocker.

The announcement stated, inter alia, that The Stock Exchange of Hongkong Ltd had reserved '*its rights to take any action against the Company and/or its directors, if appropriate, under the Rules*' for failure to disclose details of corporate guarantees, granted in respect of loans to associated companies.

The August 16 Announcement explained that Ta Fu International had given corporate guarantees to certain creditor banks in order to secure loans to be granted to the following companies:

1. Tainjin Fortune Timber Company Ltd; and,
2. Liao Yuan City Fuyuan Wood Industry Company Ltd.

To Tianjin Fortune Timber, the amount of money that was outstanding, as at May 31, 2000, was \$US3,055,612.

To Liao Yuen City Fuyuan, the amount of money that was outstanding as at May 31, 2000, was \$US885,000.

Tianjin Fortune Timber is/was owned as to 49.50 percent by Ta Fu International while the legal equity interest in Liao Yuen City Fuyuan is/was 35.40 percent.

These corporate guarantees go back to between ... [CLICK TO ORDER FULL ARTICLE](#)

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