GOLD WO INTERNATIONAL HOLDINGS LTD : ALL THAT GLITTERS MAY NOT BE GOLD

The 2 things that stand out, clearly, on reading the prospectus of one of the latest candidates to apply to join the ranks of the Main Board of The Stock Exchange of Hongkong Ltd, is that it has piss-poor administration; and, the Promoters believe, most sincerely, that Christmas has come early, this year.

The company, to which TARGET is referring, is Gold Wo International Holdings Ltd, to be known as Stock Code Number 90.

Gold Wo International is Placing 72 million, one-cent shares at a Premium of 49 cents per share and is Offering 28 million, one-cent shares, also at a Premium of 49 cents per share.

Of the shares that are being Placed and Offered, the Chairman and his wife, Mr and Mrs Fu Chu Kan, which comprise 2 Executive Directors out of 3 Executive Directors, which constitute the entire Board of Directors, are selling out their holdings to the extent of 28 million shares.

That little sale will gross Mr Fu Chu Kan and Madame Fu Yin Ling about $HK13.72 million.

This is not bad going for the Fus, especially since the company, that has been founded, has a history of only about one decade, plus or minus a month.

The net proceeds, raised in this exercise, the Prospectus states at Page 55, will be used as follows:

1. $HK17 million *'to acquire plant and machinery'*; and,
2. $HK9.30 million *'as additional working capital'*.

This Company is in the business of manufacturing and selling household products, made of melamine and silicon rubber, including tableware, ashtrays, soap dishes and clocks.

In addition, the Company produces silicon rubber keypads.

The Company's production facilities are located in Qiao Tou Town, Dongguan, the People's Republic of China (PRC), but Gold Wo International does not hire the staff to man the presses and what-have-you. In 1993, a wholly owned subsidiary of Gold Wo International entered into a Processing Agreement with Dongguan Qiao Tou Town Foreign Economic Development Corporation whereby that PRC entity agreed to engage staff to man Gold Wo International's machinery, with Gold Wo International, agreeing to pay for the production of its goods in accordance with an agreed schedule of charges.

That Processing Agreement appears to have worked well for Management of Gold Wo International since it only has to engage the services of 11 bodies, while Dongguan Qiao Tou Town Foreign Economic Development Corporation has to employ nearly 700 workers to man the 115,261-square foot factory, which sports 73 automatic oil hydraulic machines, among other things.

In a way, this is a very clever arrangement, but it is, nevertheless, a 2-edged sword because it must mean that the 11-member team, that forms the nucleus of Gold Wo International, is short on Management time, and this could be a real problem if push comes to shove.

Further, in the event that there is a violent disagreement between Dongguan Qiao Tou Town Foreign Economic Development Corporation and senior Management of Gold Wo International, Gold Wo International will, definitely, come off second best.

Page 41 of the Prospectus shows that, of the 11 Gold Wo International staff members, 4 staff members are engaged in sales and marketing, 6 staff members are engaged in finance and administration, and just one person is engaged in purchasing.

So, it is safe to state that Dongguan Qiao Tou Town Foreign Economic Development Corporation has, just about, absolute control of the operations of this Company.

But, as TARGET has already stated, the arrangement between the PRC, State-run entity, Dongguan Qiao Tou Town Foreign Economic Development Corporation, and Gold Wo International has worked for the past 8 years; there is no reason that it should not work well in the future.

The following are the Company's Trading Results for the past 43 months:

	Financial Year ended March 31			Seven Months to October 31
	1998	1999	2000	2000
	All Figures are Denominated in $HK'000 (unless otherwise stated)			
Turnover	74,049	94,777	102,825	77,183
Cost of Sales	(49,267)	(63,384)	(69,812)	(51,462)
Gross Profit	24,782	31,393	33,013	25,721
Other Revenue	132	405	538	158
Selling and Distribution Costs	(1,230)	(1,516)	(1,864)	(1,390)
Administrative Expenses	(5,519)	(6,141)	(5,121)	(3,703)
Other Operating Expenses	Nil	(1,700)	(200)	(700)
Profit from Operating Activities	18,165	22,441	26,366	20,086
Finance Costs	(1,895)	(1,806)	(1,899)	(1,278)
Profit before Taxation	16,270	20,635	24,467	18,808
Taxation	(736)	(2,305)	(1,484)	(2,095)
Net Profit Attributable to Shareholders from Ordinary Activities	15,534	18,330	22,983	16,713
Dividends Paid	5,000	8,000	10,000	13,000
Earnings Per Share	4.70 cents	5.60 cents	7.0 cents	5.10 cents

It is clear that Gold Wo International has done very nicely since 1998, but it is, also, only too clear that its rise in Profits has been made possible while riding on the crest of the biggest financial boom in the history of the United States of America.

The Prospectus, at Page 28, states that the tableware, produced at the Dongguan factory, comprise trays, plates, bowls, cups, spoons, forks, and children's dining sets, designed for the mass market.

The ashtrays, that the Company produces for its customers on a contract basis, in accordance with customers' specifications, are *'usually sold as premium and/or gift items for international cigarette or beer manufacturers'*.

As for the soap dishes, they are designed to meet the mass market, too, while the clocks, actually, they are melamine cases for clocks, not the clocks and mechanisms, themselves, are, also, premium and/or gift items.

The keypads, made of silicon rubber, are *'made mainly for use in electronic calculators, databanks, electronic organisers, remote controls for audio-visual equipment and mobile telephones'*. (Page 28)

As may be deduced, all of the above are not essential items and, because of the smallish production runs of this Company, it is unlikely that Gold Wo International would be able to compete with the *'big boys'*.

A complete breakdown of the Company's Turnover is given at Page 27 of the Prospectus as follows:

TURNOVER BY PRODUCT

	Financial Year ended March 31			Seven Months to October 31
	1998	1999	2000	2000
	All Figures are Denominated in $HK'000			
Tableware	31,943	48,602	62,080	49,819
Rubber Keypads	28,425	25,433	21,705	11,849
Ashtrays	1,956	4,003	12,565	10,699
Soap Dishes	1,966	3,391	2,302	2,126
Clocks	9,729	13,348	4,173	2,690
TURNOVER	**74,049**	**94,777**	**102,825**	**77,183**

Sales of tableware have been the consistent winner over the past 43 months, but sales of rubber keypads, soap dishes and clocks have been declining, in some cases, rather rapidly, during this period.

Only sales of ashtrays, *'usually sold as premium and/or gift items for international cigarette or beer manufacturers'*, have seen any appreciable rise in sales.

And sales of ashtrays are executed at the Company's lowest Profit Margins, averaging about 21.24 percent per year over the past 43 months, according to TARGET's calculations.

For the Financial Year, ended March 31, 2001, Management of Gold Wo International has forecast a Net Profit Attributable to Shareholders of not less than $HK32 million.

That represents a gain over the 2000 Financial Year of about 39.25 percent.

TARGET cannot help but wonder whether or not, in view of the international, economic downturn, profits of this Company will drop, appreciably, in the Current Financial Year, ending March 31, 2002.

The relative smallness of this Company makes TARGET think that it could easily be vulnerable to any major downturn in economic activity, internationally, due to the relatively small mix of product, on which it is totally reliant.

The Adjusted Net Tangible Assets of Gold Wo International are given at Page 54:

Combined Net Tangible Assets of the Group as at October 31, 2000	$HK41,803,000
Combined Profit after Taxation of the Group for the 3 Months ended January 31, 2001, based on its Unaudited Management Accounts	$HK11,080,000
Estimated Net Proceeds of the Issue of New Shares	$HK26,300,000
Adjusted Net Tangible Assets of the Group	$HK79,183,000
Adjusted Net Tangible Asset Value Per Share	19.80 cents *

*Based on 400 million shares in issue

Lax Management

The history of Gold Wo International, going back to the 1998 Financial Year, is studded with problems with regard to the taxation, payable to the Inland Revenue Department of the Hongkong Special Administrative Region (HKSAR) of the PRC.

According to Page 79 of the Prospectus, the Company paid a tax penalty in 1998 and another one in respect of the 1999 Financial Year.

The penalties were $HK332,000 and $HK1,626,000, respectively.

Note (b) (i), at Page 79 states: *'The tax penalty arose from the failure of a member of the Group to notify the IRD* (Inland Revenue Department) *of the chargeability of its assessable profit for the years of assessments of 1997/98 and 1998/99.'*

Under ***'Risk Factors'***, contained at Page 13 of the Prospectus, it is stated:

> *'The Group is presently dealing with the IRD on the following matters: (1) the Group has applied to IRD for a 50:50 offshore claim in respect of its profit in accordance with the relevant Hong Kong tax regulations and such claim has not yet been agreed with the IRD; and (2) Top Executive* (Developments Ltd)*, a wholly-owned subsidiary of the Company, has delayed in notifying the IRD of the chargeability of its assessable profit within the statutory time limit for the years of assessment of 1997/1998 and 1998/1999. Although the amount of tax and the penalty payable has not yet been notified by IRD, tax penalties in the sum of $1,958,000 have been provided for in the accounts of Top Executive in this respect of the two years ended 31st March 1999. There is no assurance that the IRD will agree with the Group regarding the said basis and the tax penalty of Top Executive. In addition, RAL* (Richlink International Holdings Ltd) *and GWMPL* (Gold Wo Melamine Product Company Ltd) *had not filed profits tax returns for the year of assessment of 1999/2000 within the time prescribed by the IRD. Thus, the financial position of the Group may be adversely affected as a result of any unfavourable outcome concerning the aforesaid taxation issues.'*

TARGET, without any hesitation, would label the above IRD admissions as being the result of lax or mal-administration; and, the situations, as described above, ... CLICK TO ORDER FULL ARTICLE

While TARGET makes every attempt to ensure accuracy of all data published, TARGET cannot be held responsible for any errors and/or omissions.

If readers feel that they would like to voice their opinions about that which they have read in TARGET, please feel free to e-mail your views to editor@targetnewspapers.com or targnews@hkstar.com. TARGET does not guarantee to publish readers' views, but reserves the right so to do subject to the laws of libel.