EURO TRADE FORFAITING INC
Form 10-K405
September 28, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ____________ TO ____________

COMMISSION FILE NO.: 000-26031

EURO TRADE & FORFAITING, INC.

Exact name of Registrant as specified in its charter

UTAH	87-0571580
State or other jurisdiction of incorporation or organization	IRS Employer Identification No.

SUITE 1620 - 400 BURRARD STREET, VANCOUVER, BRITISH COLUMBIA, CANADA V6C 3A6

Address of principal executive office   Zip Code

Registrant's telephone number including area code: (604) 683-5767

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON SHARES
Title of Class

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the Registrant's voting stock held by non-affiliates of the Registrant as of September 24, 2001 was approximately $3,829,612. The last reported sale price of the common shares of beneficial interest on the OTC Bulletin Board on September 24, 2001 was $0.20 per share.

As of September 24, 2001, the Registrant had 22,240,724 common shares of beneficial interest, $0.001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrants 2001 proxy statement to be filed within 120 days of the period ended June 30, 2001 are incorporated by reference in Part III hereof.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

Statements in this report, to the extent they are not based on historical events, constitute forward-looking statements. Forward-looking statements include, without limitation, statements regarding the outlook for future operations, forecasts of future costs and expenditures, evaluation of market conditions, the outcome of legal proceedings, the adequacy of reserves, or other business plans. Investors are cautioned that forward-looking statements are subject to an inherent risk that actual results may vary materially from those described herein. Factors that may result in such variance, in addition to those accompanying the forward-looking statements, include changes in general economic and business conditions; governmental regulations; the ability of management to execute its business plan; interest rates, and other economic conditions; actions by competitors; natural phenomena; actions by government authorities; uncertainties associated with legal proceedings; technological development; future decisions by management in response to changing conditions; and misjudgments in the course of preparing forward-looking statements.

PART I

ITEM 1. BUSINESS

THE COMPANY

Euro Trade & Forfaiting Inc. ("Euro Trade") is organized under the laws of the State of Utah. In this document, unless the context otherwise requires, the "Company" refers to Euro Trade and its wholly-owned subsidiaries, and all references to monetary amounts are in U.S. dollars unless otherwise indicated.

Euro Trade was originally incorporated as Rotunda Oil and Mining, Inc. on November 19, 1980 under the laws of the State of Utah. On November 20, 1998 the Company entered into an Acquisition Agreement and Plan of Reorganization with Euro Trade & Forfaiting Company Limited ("Euro Trade Limited"), pursuant to which the Company acquired all of the issued and outstanding common stock of Euro Trade Limited and changed its name to Euro Trade & Forfaiting, Inc.

The Company is principally based in Vancouver, British Columbia, Canada and its operations are primarily conducted internationally. The Company currently has two employees.

DESCRIPTION OF BUSINESS

The Company operates in the financial services business internationally, engaging primarily in merchant banking activities, including the financing of trade receivables (forfaiting). The Company was originally organized in 1998 to operate in the forfaiting business.

Forfaiting involves the refinancing of trade receivables on a discount basis without recourse to the previous holder. The forfaiter purchases from an exporter the debt due by an importer when credit is required. The debt is usually evidenced by a series of negotiable financial instruments such as promissory notes or bills of exchange. This financial service is available in all major currencies for export contracts in excess of $250,000. Depending on transaction parameters, such as country and bank risk, the financing periods range between a few months and several years.

Forfaiting transactions are normally comprised of bills of exchange drawn and accepted under a letter of credit or promissory notes issued by an importer. Typically, the bills of exchange or promissory notes are "avaled" by the importer's bank. An aval is a guarantee, usually a bank guarantee, that is separate from the underlying trade contract. In a typical transaction, the bank avals, or makes an unconditional guarantee of repayment, if the debtor fails to repay. An aval is the preferred form of guarantee as it is self-evident, irrevocable and unconditional so long as the law of the country of the buyer does not impose specific restrictions. Bills of exchange are usually issued in hard currencies such as U.S. dollars, deutschmarks and other recognized currencies and are priced relative to the average life London Interbank Offering Rate (LIBOR), plus a margin to reflect the credit risk, and are discounted through maturity.

The Company's forfaiting transactions are financed through a mixture of capital and borrowings from banks which are asset backed (secured) facilities. At present, the level of gearing (leverage) that the Company undertakes is limited by the board of directors to two to one, borrowings to capital. The level of gearing within this limit depends on market conditions and the desire of the Company to expand or constrict the size of its trading portfolio.

Income from forfaiting comes from fees relating to the negotiation of the transaction and capital gains on the sale of the assets. Capital gains are the result of an improvement in the perceived credit risk or because of a downward movement in interest rates during the period the assets are held in the portfolio. The Company also earns a yield over and above the carrying costs of the assets to maturity.

Non-recourse trade finance purchases are frequently made "subject to receipt of satisfactory documentation" and sometimes pay under reserve before the documentation is finally approved. If the Company commits to a purchase, it is commonly communicated to the seller before the Company has had an opportunity to review the underlying documentation in detail. The Company may specify certain detailed aspects of the documentation, which it expects the seller to be able to satisfy. If the detailed documentation supporting the transaction is materially incomplete, the Company is not required to proceed with the purchase.

The Company will commonly commit to purchase a transaction from an exporter at a pre-determined rate of interest and to hold the commitment open for a period to time to allow the exporter to negotiate its contract with the importer. These commitments are fee earning and require the Company to take an informed view of the interest rate outlook in the particular currency concerned. In the event of fraud, the "non-recourse" element of the transaction is nullified and each party may proceed against the person from whom they purchased the commitment.

In any forfaiting transaction, the Company makes a full assessment of the counterparty, country, hard currency availability and bank credit risks. If the transaction is a primary market deal involving an exporter unknown to the Company, the Company will make a full credit assessment of the exporter as well as check on its previous experience and performance as an exporter. In the case of a secondary market transaction, the Company primarily deals only with banks or financial institutions with which it has dealt before. If the transaction comes through an intermediary, the Company will make a complete check of the exporter and the intermediary. The creditworthiness of all counterparties with whom the Company conducts business is reviewed at least annually.

In 1999, the Company's forfaiting business was negatively affected by, among other things, a global decrease in forfaiting activity generally, relating primarily to the economic crisis in Asia. The Company's forfaiting business was further negatively affected in 2000 and 2001 by the continuing economic crisis and the Company being involved in several litigation matters involving, among others, the Company and certain of its current and former officers, directors and shareholders. See "Item 3. Legal Proceedings".

As a result of the global decline in forfaiting activity, particularly in the Asian markets where the Company was most active, the Company determined in 2001 to expand its business to include merchant banking activities.

Such merchant banking operations will include financial and management services for corporate finance transactions, including bridge financing and corporate restructurings and seeking controlling interests in businesses or assets which the Company believes are undervalued and will potentially generate positive cash flow from operations as opportunities arise. Through merchant banking partnerships, the Company may provide companies and their management with investment capital and financial direction. The Company intends to generate fees for services provided, including options and other conversion privileges to participate as an equity investor in businesses to which merchant banking services have been provided.

The Company may also provide short-term bridge financing to corporations to assist in capital transactions or to further their business plans and, in certain circumstances, a corporation's financial flexibility may be enhanced by the Company acquiring loans owing to a party's traditional lenders, which would then be restructured on financial terms consistent with the party's immediate requirements.

The distribution of the Company's income by business activity and geographic region is set out in the following table for the periods indicated:

	YEARS ENDED JUNE 30,		
	2001	2000	1999
	(in thousands)		
INCOME SOURCE			
Sale of forfaiting assets	$ (85)	$ 706	$4,907
Interest income	889	1,215	2,218
Loss on investments	(622)	-	-
Fees and charges	26	316	514
Structured trades	-	-	105
Other	65	98	-
Total	$ 273	$2,335	$7,744

The composition of the notes by country of the issuing financial institution is as follows:

	AS AT JUNE 30,		
	2001	2000	1999
Turkey	-%	70%	23%
Russia	-	-	26
Ukraine	-	-	5
Czech Republic	100	22	4
Indonesia	-	-	35
Nigeria	-	8	2
Germany	-	-	5
Total	100%	100%	100%

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COMPETITION

The Company competes against other forfaiting companies and investment banks, merchant banks and other investment managers for appropriate forfaiting business and investments, as applicable. These businesses are highly competitive and are subject to fluctuations based upon many factors over which the Company has no control, such as the condition of public markets, interest rates and the state of capital markets. Many of the Company's competitors are national or international companies with far greater resources, capital and access to information than the Company. As a result, the Company may become involved in transactions with more risk than if it had greater resources.

ITEM 2. PROPERTIES

The Company's principal executive offices are located in Vancouver, British Columbia, Canada and are rented.

ITEM 3. LEGAL PROCEEDINGS

On November 3, 2000, the Company commenced an action, as amended, in the United States District Court, Southern District of New York (the "New York Court") against its former Chief Executive Officer, John Vowell, its former Chairman, Chandra Sekar, its former Chief Financial Officer, Naren Desai, John W. Duffell and John Does 1-10 (collectively, the "Defendants") alleging, in part, that Mr. Vowell, Mr. Sekar and Mr. Desai breached their fiduciary duties to the Company and, along with the other Defendants, participated in a wide-ranging fraudulent scheme to benefit themselves and their associates at the expense of the Company (the "Euro Trade Action"). The Company is seeking to recover from the Defendants, among other things, actual and punitive damages, as well as the return of certain shares issued to the Defendants as a result of their fraudulent behaviour. In April 2001, the Company entered into a settlement agreement with one of the Defendants, John Vowell, pursuant to which Mr. Vowell agreed to transfer to the Company 1,250,000 common shares of the Company and to cooperate and assist the Company in its claims against the other Defendants.

On November 22, 2000, Clarion Investment and Mortgage and Clifftown Holdings International Inc. and others (collectively, "Clifftown") commenced an action, as amended, in the United States District Court for the District of Columbia against, among others, the Company alleging, among other things, that the Company violated certain United States federal securities laws and breached its duty to state certain material facts or to correct certain material facts previously disclosed in its public filings with the Securities and Exchange Commission (the "Clifftown Action"). The Company considers the Clifftown Action to be without merit and intends to vigorously defend itself against Clifftown's allegations. The Company regards the Clifftown Action to be a response to the Euro Trade Action. The Clifftown Action has subsequently been transferred to the New York Court to be heard with the Euro Trade Action.

On December 18, 2000, North Cascade Limited, Collingwood Investments Limited and Kishor Kumar Kantilal Naik (collectively, "Collingwood") commenced an action, as amended, in the New York Court against, among others, the Company as nominal defendant alleging, among other things, violations of federal securities laws and applicable state law arising out of an alleged improper acquisition of control of the Company by certain defendants, including directors of the Company (the "Collingwood Action"). The Collingwood Action was brought by Collingwood in its own right and, derivatively, to assert claims on behalf of the Company. On April 3, 2001, Collingwood filed a Notice of Voluntary Dismissal with the New York Court, thereby dismissing the amended verified complaint brought by Collingwood against, among others, the Company as nominal defendant. A copy of the Notice of Voluntary Dismissal was sent to all shareholders of record of the Company as of March 31, 2001.

Although the Company considers the Clifftown Action to be without merit, it is unable to predict the final outcome at this time. An adverse outcome could materially affect the Company's results of operations and financial position. In addition, the Company's involvement in the Euro Trade Action and the Clifftown Action, regardless of their eventual outcome, will likely be costly and time consuming. Substantial expenses are expected to be incurred in connection with the litigation. Accordingly, there can be no assurance that the litigation may not have a material adverse impact on the Company's results of operations and financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

(a) Market Information. The Company's common stock has been trading on the OTC Bulletin Board under the symbol "ETFC" since December 1998. The following table sets forth the high and low closing prices of the Company's common stock for the periods indicated.

FISCAL QUARTER ENDED	HIGH	LOW
1999		
March 31	$27.00	$4.00
June 30	$22.00	$5.00
September 30	$ 7.63	$3.56
December 31	$ 6.63	$3.13
2000		
March 31	$ 4.75	$2.13
June 30	$ 2.94	$0.51
September 30	$ 0.63	$0.41
December 31	$ 0.56	$0.16
2001		
March 31	$ 0.31	$0.24
June 30	$ 0.30	$0.14
Period ended September 24, 2001	$ 0.25	$0.16

(b) Shareholder Information. As of September 24, 2001, there were approximately 540 holders of record of the Company's common shares and a total of 22,240,724 common shares were issued and outstanding.

(c) Dividend Information. The Company has not declared or paid cash dividends or made distributions in the past and does not anticipate that it will pay cash dividends or make distributions in the foreseeable future. The Company intends to retain and invest future earnings to finance its operations.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial information for the Company for each of the last five years. The information has been reclassified to conform with the current year's presentation and is qualified in its entirety by, and should be read in conjunction with, the more detailed financial statements and related notes contained elsewhere herein.

	YEARS ENDED JUNE 30,				
	2001	2000	1999	1998	1997(1)
	(IN THOUSANDS, OTHER THAN PER SHARE AMOUNTS)				
Revenues	$ 273	$ 2,335	$ 7,744	$ 5,216	$ 460
Net income (loss)	$ (3,388)	$ (1,659)	$ 4,114	$ (4,992)	$ 304
Net income (loss) per common share,					
Basic	$ (0.16)	$ (0.10)	$ 0.28	$ (0.42)	$ 0.03
Diluted	$ (0.16)	$ (0.10)	$ 0.28	$ (0.42)	$ 0.03
Weighted average common shares outstanding,					
Basic	21,713	16,945	14,468	11,945	11,945
Diluted	21,713	16,945	14,468	11,945	11,945
Current assets	$ 29,974	$ 26,759	$ 42,950	$ 35,423	$ 9,453
Current liabilities	$ 490	$ 3,767	$ 18,524	$ 15,204	$ 9,152
Working capital	$ 29,484	$ 22,992	$ 24,426	$ 20,222	$ 301
Total assets	$ 29,974	$ 26,759	$ 42,950	$ 35,516	$ 9,456
Long-term liabilities	$ -	$ -	$ -	$ -	$ -
Shareholders' equity	$ 29,484	$ 22,992	$ 24,426	$ 20,312	$ 304
Cash dividends	$ -	$ -	$ -	$ -	$ -

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(1) Euro Trade Limited commenced operations in February 1997 and became a wholly-owned subsidiary of the Company on November 20, 1998.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion of the financial condition and results of operations of the Company for the three years ended June 30, 2001 should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this annual report. Certain amounts in the Company's financial statements and related notes have been restated to conform to the current presentation. The following management discussion and analysis of financial condition and results of operations are based upon the restated financial statements for all prior years as aforesaid.

RESULTS OF OPERATIONS

ACQUISITIONS

The Company continues to pursue strategic alternatives to maximize the value of its portfolio. Some of these alternatives have included, and will continue to include, selective acquisitions, divestitures and sales of certain assets. The Company has provided, and may from time to time in the future provide, information regarding portions of its business to interested parties for such purposes.

The following table sets forth the approximate percentage relationship to total revenues of principal items contained in the Company's Consolidated Statements of Operations for the fiscal years ended June 30, 2001, 2000 and 1999.

	JUNE 30,		
	2001	2000	1999
Total revenue	100%	100%	100%
Costs of revenue			
Interest	9	23	10
Provisions for losses	-	23	-
Gross profit	91	54	90
General and administrative expenses and foreign currency transaction losses	(1,332)	125	37
Net income (loss)	(1,241)	(71)	53

FOR THE YEAR ENDED JUNE 30, 2001 COMPARED TO THE YEAR ENDED JUNE 30, 2000

Revenues for 2001 decreased 88% to $0.3 million from $2.3 million in 2000, primarily due to the Company's decreased activity in the forfaiting business as a result of the continued economic slowdown in Asia and the Company focusing on litigation matters. Cost of revenues, comprising interest expense and provision for losses on forfaiting assets, decreased to $25,000 in 2001 from $1.1 million in 2000. There was no loan loss revenue charged to income in 2001, compared to $0.5 million charged in the same period in 2000. Interest expense decreased to $25,000 in 2001 from $0.5 million in 2000, reflecting the Company's decreased activity in the forfaiting business.

Interest income decreased 27% to $0.9 million in 2001 from $1.2 million in 2000.

General and administrative expenses decreased to $2.8 million in 2001 from $3.3 million in 2000. Professional fees paid increased to $1.8 million in 2001, compared to $0.1 million in 2000, primarily as a result of legal fees paid in connection with the Company's continuing litigation.

Net loss in 2001 totalled $3.4 million, or $0.16 per share of common stock, compared to net loss of $1.7 million, or $0.10 per share of common stock, in 2000.

FOR THE YEAR ENDED JUNE 30, 2000 COMPARED TO THE YEAR ENDED JUNE 30, 1999

Revenues for 2000 decreased 70% to $2.3 million from $7.7 million in 1999, primarily due to the Company's decreased activity in the market. Cost of revenues, comprising interest expense and provision for losses on forfaiting assets, increased to $1.1 million in 2000 from $0.7 million in 1999 as a result of an increase of $0.5 million in loan loss reserves charged to income in 2000. Interest expense decreased 26% to $0.5 million in 2000 from $0.7 million in 1999, reflecting the Company's decreased activity in the market.

Interest income decreased 45% to $1.2 million in 2000 from $2.2 million in 1999, primarily as a result of a reduction in forfaiting assets.

General and administrative expenses were $3.3 million and $2.9 million for the years ended 2000 and 1999, respectively. These expenses are primarily personnel and occupancy costs.

Net loss in 2000 totalled $1.7 million, or $0.10 per share of common stock, compared to net income of $4.1 million, or $0.28 per share of common stock, in 1999.

PROVISION FOR LOSSES

The Company's forfaiting assets portfolio at June 30, 2001 and 2000 was $1.0 million and $4.6 million, respectively, while the provision for losses was $1.0 million for June 30, 2001 and 2000, respectively. Loss expense charged to the provision account was nil, $0.5 million and nil for the years ended June 30, 2001, 2000 and 1999, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash and cash equivalents at June 30, 2001 of $16.5 million, compared to $16.3 million at June 30, 2000.

Operating activities used cash of $7.1 million in 2001, compared to providing cash of $13.6 million in 2000. A decrease in forfaiting assets provided cash of $3.6 million in 2001, compared to $13.0 million in 2000. An increase in accounts payable and other accrued expenses provided cash of $0.4 million in 2001, compared to a decrease of same using cash of $0.4 million in 2000. An increase in interest and other receivable used cash of $12,000 in 2001, compared to a decrease of same providing cash of $1.1 million in 2000.

Investing activities provided no cash in 2001, compared to using cash of $5.0 million in 2000.

Financing activities provided cash of $7.3 million in 2001, compared to using cash of $2.2 million in 2000, primarily as a result of the issuance of common shares and warrants in 2001. In 2001, a change in restricted cash balances provided cash of $1.1 million, compared to $12.0 million in 2000. The Company did not pay any dividends on its common shares in 2001.

In 2001, the Company received in settlement from its former Chief Executive Officer and cancelled 1.2 million shares of its common stock. In 2001, the Company also repurchased and cancelled 2.0 million shares of its common stock from one vendor in a private transaction for an aggregate of $0.5 million.

INFLATION

In the opinion of management, inflation has not had a material effect on the operations of the Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks from changes in interest rates and foreign currency exchange rates which may affect its results of operations and financial condition. The Company manages these risks through internal risk management policies which are administered by management committees. The Company does not enter into derivative contracts for its own account to hedge against these risks.

INTEREST RATE RISK

The Company is subject to the effects of interest rate fluctuations on its financial instruments. A sensitivity analysis of the projected incremental effect of a hypothetical 10% change in 2001 and 2000 year-end interest rates on the fair value of its financial instruments is provided in the following table:

	AS AT JUNE 30, 2001			AS AT JUN	
	CARRYING VALUE	HYPOTHETICAL(1) VALUE	POTENTIAL LOSS	CARRYING VALUE	HYPOTHETI VALUE
			(THOUSANDS)		
Financial assets:					
Forfaiting assets	$ 1	$ 1	$ -	$ 3,617	$
Investments(2)	805	805	-	-	
Note receivable	5,000	4,978	(22)	5,000	
Financial liabilities:					
Bank loans payable	$ -	$ -	$ -	$ 3,318	$

(all due within one year)

(1) Reflects a 10% increase in interest rates of financial assets and a 10% decrease in interest rates of financial liabilities.

(2) Consists of treasury bills only. Convertible debentures are, in theory, subject to interest rate risk. However, since they are trading at a deep discount, the impact of the hypothetical increase in interest rate risk on the convertible debenture is not determinable.

FOREIGN CURRENCY EXCHANGE RATE RISK

The reporting currency of the Company is the U.S. dollar. The Company holds financial instruments primarily denominated in U.S. dollars, deutschmarks, sterling pounds, and euros. A depreciation of other currencies against the U.S. dollar will decrease the fair value and an appreciation of such currencies against the U.S. dollar will increase the fair value of such financial instruments. The Company's financial instruments which may be sensitive to foreign currency exchange rate fluctuations are forfaiting assets, investments, restricted cash and bank loans payable. The following table provides information about the Company's exposure to foreign currency exchange rate fluctuations for the carrying amount of financial instruments that may be sensitive to such fluctuations as at June 30, 2001 and 2000 and expected cash flows from these instruments:

AS AT JUNE 30, 2001	CARRYING VALUE	FAIR VALUE	EXPECTED FUTURE CASH FLOW 2002	2003	2004	2005	2006	THEREAFT
			(THOUSANDS)					
Forfaiting assets	$ 1	$ 1	$ 1	$ -	$ -	$ -	$ -	$ -
Investments	343	343	343	-	-	-	-	-
Cash restricted	-	-	-	-	-	-	-	-
Bank loans payable	-	-	-	-	-	-	-	-

AS AT JUNE 30, 2000	CARRYING VALUE	FAIR VALUE	EXPECTED FUTURE CASH FLOW 2001	2002	2003	2004	2005	THEREAFTE
			(THOUSANDS)					
Forfaiting assets	$3,617	$3,617	$3,617	$ -	$ -	$ -	$ -	$ -
Cash restricted	1,139	1,139	1,139	-	-	-	-	-
Bank loans payable	(3,681)	(3,681)	(3,681)	-	-	-	-	-

EQUITY PRICE RISK

Changes in trading prices of equity securities may affect the fair value of equity securities or the fair value of other securities convertible into equity securities. An increase in trading prices will increase the fair value and a decrease in trading prices will decrease the fair value of equity securities or instruments convertible into equity securities. The Company's financial instruments which may be sensitive to fluctuations in equity prices are investments. The following table provides information about the Company's exposure to fluctuations in equity prices for the carrying amount of financial instruments sensitive to such fluctuations and expected cash flows from these instruments:

AS AT JUNE 30, 2001	CARRYING VALUE	FAIR VALUE	EXPECTED FUTURE CASH FLOW 2002	2003	2004	2005	2006	THEREAFTER
			(THOUSANDS)					
Investments(1)	$6,490	$6,490	$6,490	$ -	$ -	$ -	$ -	$6,925

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(1) Investments consist of equity securities and debt securities convertible into equity securities.

The Company had no equity price risk at June 30, 2001.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and supplementary data required with respect to Item 8 and as listed in Item 14 of this annual report, are included in this annual report commencing on page 16.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

In January 2000, the Company's board of directors changed independent accountants from Marc Lumer & Company ("MLC") to Peterson Sullivan P.L.L.C. There were no disagreements between the Company and MLC, and nor was there any adverse opinion, disclaimer of opinion, modification or qualification contained in any financial report prepared by MLC for the past two years. Reference is made to the Company's Form 8-K dated March 7, 2000 and Form 8-K/A dated March 21, 2000 for further information concerning the Company's change of auditor.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

The executive officers and directors of the Company are as follows:

Michael J. Smith, age 53, has been the President, Chief Executive Officer and a director of the Company since February 4, 2000. Mr. Smith is the President, Chief Executive Officer and a director of MFC Bancorp Ltd. and is the Chief Executive Officer, Chief Financial Officer and a director of TriMaine Holdings, Inc. and Drummond Financial Corporation.

James Carter, age 56, has been the Secretary and a director of the Company since February 4, 2000. Mr. Carter is currently a Vice President of MFC Bancorp Ltd. He served as President and a director of Pine Resources Corporation from October 1998 to December 1999 and was the President and Chief Executive Officer of Carlin Resources Corp. from 1994 to 1998.

Slobodan Andjic, age 57, became a director of the Company on October 10, 2000. Mr. Andjic has served as Vice President and a director of Swiss Investment Group since 1998. He served as an advisor to the President of Mercur and a director and coordinator of the Mercur group of companies from 1996 to 1998. Mr. Andjic was the Chairman of Yugoexport Athens Company from 1994 to 1996.

Simon Law, age 41, became a director of the Company on November 27, 2000. Mr. Law has been a director of Kelsion Secretarial and Consultants Ltd. in Hong Kong since 1990.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, require the Company's directors and executive officers and persons who beneficially own more than 10% of the common shares (collectively, the "Reporting Persons"), to file with the SEC initial reports of beneficial ownership (Form 3) and reports of changes in beneficial ownership of common shares and other equity securities of the Company (Form 4). Reporting Persons are required by SEC regulations to furnish to the Company copies of all Section 16(a) reports that they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company, all Section 16(a) filing requirements applicable to the Reporting Persons were complied with for the fiscal year ended June 30, 2001.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the Registrant's definitive proxy statement to be filed within 120 days of the Registrant's fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from the Registrant's definitive proxy statement to be filed within 120 days of the Registrant's fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from the Registrant's definitive proxy statement to be filed within 120 days of the Registrant's fiscal year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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All other schedules have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(2) LIST OF EXHIBITS

21 List of Subsidiaries of Registrant.

(b) The Registrant did not file any reports on Form 8-K during the fourth quarter of the fiscal year.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
Euro Trade & Forfaiting, Inc.

We have audited the accompanying consolidated balance sheets of Euro Trade & Forfaiting, Inc. and Subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated statements of operations, changes in shareholders' equity, and cash flows for the year ended June 30, 1999, were audited by another accountant. His report, dated September 13, 1999, expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Euro Trade & Forfaiting, Inc. and Subsidiaries as of June 30, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ Peterson Sullivan P.L.L.C.

Peterson Sullivan P.L.L.C.
Seattle, Washington
August 16, 2001

EURO TRADE & FORFAITING, INC.

CONSOLIDATED BALANCE SHEETS
June 30, 2001 and 2000
(In Thousands of Dollars)

	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	$ 16,535	$16,338
Restricted cash balances	-	1,139
Forfaiting assets	1	3,617
Investments	7,295	-
Note receivable	5,000	5,000

Interest receivable	223	211
Deposits and other current assets	920	454
	$ 29,974	$26,759

LIABILITIES

Current Liabilities		
Accounts payable and other accrued expenses	$ 490	$ 86
Bank loans payable	-	3,681
Total current liabilities	490	3,767

SHAREHOLDERS' EQUITY

Shareholders' Equity		
Common stock, par value $0.001; 50,000,000 shares authorized; 22,240,724 and 16,945,224 shares issued and outstanding at June 30, 2001 and 2000, respectively	22	17
Additional paid-in capital	35,139	25,264
Retained deficit	(5,677)	(2,289)
	29,484	22,992
	$ 29,974	$26,759

The accompanying notes are an integral part of these consolidated financial statements.

EURO TRADE & FORFAITING, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended June 30, 2001, 2000, and 1999
(In Thousands of Dollars, except for per share amounts)

	2001	2000	1999
Revenue	$ 273	$ 2,335	$ 7,744
Expenses			
Interest	25	546	733
Provision for losses on forfaiting assets	-	537	-
General and administrative	2,755	3,289	2,891
Foreign currency transaction losses (gains)	881	(378)	6

	3,661	3,994	3,630
Net income (loss)	$ (3,388)	$ (1,659)	$ 4,114
Basic and diluted earnings (loss) per share	$ (0.16)	$ (0.10)	$ 0.28
Weighted average number of common shares outstanding (in thousands)	21,713	16,945	14,468

The accompanying notes are an integral part of these consolidated financial statements.

EURO TRADE & FORFAITING, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended June 30, 2001, 2000, and 1999
(In Thousands of Dollars)

	Common Stock				
	Number of Shares Issued and Outstanding	Amount	Additional Paid-in Capital	Retained Deficit	Total
Balance at June 30, 1998	11,945,224	$ 12	$ 25,044	$ (4,744)	$20,312
Shares issued in 1999; paid for in the next year	5,000,000	-	-	-	-
Net income	-	-	-	4,114	4,114
Balance at June 30, 1999	16,945,224	12	25,044	(630)	24,426
Payment for shares issued in prior year	-	5	220	-	225
Net loss	-	-	-	(1,659)	(1,659)
Balance at June 30, 2000	16,945,224	17	25,264	(2,289)	22,992
Issuance of shares and warrants	8,500,000	8	10,549	-	10,557
Redemption and					

cancellation of shares	(3,204,500)	(3)	(674)	-	(677)
Net loss	-	-	-	(3,388)	(3,388)
Balance at June 30, 2001	22,240,724	$ 22	$ 35,139	$ (5,677)	$29,484

The accompanying notes are an integral part of these consolidated financial statements.

EURO TRADE & FORFAITING, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2001, 2000, and 1999
(In Thousands of Dollars)

	2001	2000	1999
Cash Flows from Operating Activities			
Net income (loss)	$(3,388)	$(1,659)	$ 4,114
Adjustments to reconcile net income (loss) to cash flows from operating activities			
Unrealized loss on investments	622	-	-
Provision for losses on forfaiting assets	-	537	-
Changes in operating assets and liabilities			
Interest and other receivables	(12)	1,126	(814)
Forfaiting assets	3,616	13,003	(2,514)
Accounts payable and other accrued expenses	404	(368)	(1,892)
Purchase of investments	(9,690)	-	-
Proceeds from sale of investments	1,346	-	-
Other	(39)	927	94
Net cash flows from operating activities	(7,141)	13,566	(1,012)
Cash Flows from Investing Activities			
Purchase of note receivable	-	(5,000)	-
Cash Flows from Financing Activities			
Payment of bank loan	(3,681)	(5,074)	(4,101)
Payment of other amounts due to bank	-	(9,315)	9,315
Change in restricted cash balances	1,139	12,009	(7,600)
Issuance of shares and warrants	10,557	-	-
Repurchase of shares	(677)	-	-
Payment received for shares issued in prior year	-	225	-
Net cash flows from financing activities	7,338	(2,155)	(2,386)

Net increase (decrease) in cash and cash equivalents	197	6,411	(3,398)
Cash and cash equivalents, beginning of year	16,338	9,927	13,325
Cash and cash equivalents, end of year	$16,535	$16,338	$ 9,927

The accompanying notes are an integral part of these consolidated financial statements.

EURO TRADE & FORFAITING, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company and Summary of Significant Accounting Policies

Euro Trade & Forfaiting, Inc. ("the Company") is a merchant banking company whose activities also include trade financing primarily with importers and exporters.

In November 1998, the stockholders of the Company exchanged their stock for the common stock of another company in a transaction accounted for as a reverse purchase whereby the Company is the continuing entity.

The notes to the financial statements are stated in United States dollars as rounded to the nearest thousand.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid debt instruments purchased with original maturities of three months or less. The Company usually has cash or cash equivalents at financial institutions in excess of insured limits.

On a cash basis, interest payments were $45, $540, and $700 in 2001, 2000 and 1999, respectively. No cash payments were made for income taxes in 2001, 2000 and 1999.

Restricted Cash Balances

Occasionally, the Company borrows the funds necessary to purchase forfaiting assets. The lender may require a portion of collections on forfaiting assets be deposited into restricted cash accounts until the lender is repaid. Upon repayment, the cash is released to the Company.

Investments

Investments primarily include trading securities that are accounted for at market value. Investments also include non-marketable securities that are accounted for at cost (unless there is a loss in value that is other than temporary, in which case cost would be adjusted down accordingly). In determining realized gains and losses, cost is based on the specific identification method.

Note 1. (Continued)

Forfaiting Activities and Notes Receivable

Forfaiting activities involve purchasing short-term debt due to an exporter from an importer at a discount, then either reselling the debt or holding it until maturity. Debts acquired are referred to as forfaiting assets and are generally supported by negotiable financial instruments (such as promissory notes or letters of credit). Debts acquired are usually guaranteed by a bank in the importer's country and, subject to the quality of the guarantor, are marketable to financial institutions.

Forfaiting assets and notes receivable are stated net of allowances for credit losses, accrued interest, reimbursable expenses, and unamortized loan fees.

Forfaiting assets and notes receivable are classified as impaired when there is no longer reasonable assurance of the timely collection of principal and interest. Whenever a contractual payment is 90 days past due, forfaiting assets and notes receivable are automatically classified as impaired unless they are fully secured and in the process of collection. When a forfaiting asset or a note receivable is deemed impaired, its carrying amount is reduced to its estimated realizable amount, which is measured by discounting the expected future cash flows at the effective interest rate. As a practical expedient, it may also be based on a loan's observable market price or the fair value of collateral, if it is collateral dependent. In subsequent periods, any increase in the carrying value of an impaired forfaiting asset or a note receivable is credited to the provision for credit losses. Impaired forfaiting assets and notes receivable are returned to performing status when there is no longer any reasonable doubt regarding timely collection of principal and interest, all amounts in arrears including interest have been collected, and all charges for loan impairment have been reversed. Where a portion of a forfaiting asset or a note receivable is written off and the remaining balance is restructured, the new forfaiting asset or note receivable is carried on the accrual basis when there is no longer any reasonable doubt regarding collectibility of principal and interest, and payments are not 90 days past due. Collateral is obtained if, based on an evaluation of credit-worthiness, it is considered necessary for the overall borrowing facility.

Assets acquired in satisfaction of forfaiting assets are recorded at the lesser of their fair value at the date of transfer or the carrying value of the asset. Any excess of the carrying value of the forfaiting asset over the fair value of the assets acquired is written off. Operating results and gains and losses on disposal of such assets are treated as write-offs and recoveries.

Interest income from forfaiting assets or notes receivable is recognized when earned using the interest accrual method, unless the forfaiting asset or note receivable is classified as impaired at which time recognition of interest income ceases. Interest on impaired loans is credited to the carrying value of the loan when received.

Note 1. (Continued)

Due to the relatively short term of the Company's receivable amounts, exposure to interest rate sensitivity is not significant.

Taxes on Income

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax laws or rates.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted earnings per share takes into consideration common shares outstanding (computed under basic earnings per share) and potentially dilutive common shares. There were no potentially dilutive common shares at June 30, 2000 or 1999. Potentially dilutive common shares at June 30, 2001, were warrants to purchase common stock described in Note 4, but due to the current year loss, the effect of these warrants is antidilutive.

Foreign Currency Transactions

The Company's functional currency is the United States dollar. Gains and losses resulting from foreign currency transactions are included in the determination of net income or loss.

Comprehensive Income

There are no reconciling items between the net loss presented in the Statements of Operations and comprehensive loss as defined by SFAS No. 130, "Reporting Comprehensive Income."

Segment Reporting

Management considers the Company to operate in only one business segment. Accordingly, any disclosures required by SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," are already incorporated in other financial statement disclosures.

Note 1. (Continued)

New Accounting Standards

Management has determined that any new accounting standards issued through the date of the independent auditors' report do not have an effect on these financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from the estimates that were used.

Note 2. Investments

Investments are summarized as follows:

	June 30, 2001	June 30, 2000
United States Treasury Bills	$ 805	$ -
Convertible Bonds	4,827	-
Equity Securities	1,663	-
Totals	$ 7,295	$ -

Convertible bonds represent debt from a company that matures on December 5, 2006. Included in equity securities is an investment in shares that represents 42% of total equity securities at June 30, 2001. The change in unrealized holding losses on trading securities which has been included in earnings was $(622) during 2001.

Note 3. Forfaiting Assets

At June 30, 2001, the forfaiting asset bears interest at 8.8%, but as the asset is impaired, interest is not being accrued. The following table represents the number of debts outstanding and the country where the debts originated:

	June 30, 2001			June 30, 20		
Country	Number	Balance	Percentage of Balance	Number	Balance	Perce
Turkey	-	$ -	-%	1	$ 3,253	
Czech Republic	1	1,000	100	1	1,000	
Nigeria	-	-	-	1	363	

Totals	1	1,000	100%	3	4,616
Loss reserve		(999)			(999)
		$ 1			$ 3,617

Management has determined that certain debts are impaired. Impaired and non-impaired debts are summarized as follows:

	June 30, 2001	June 30, 2000
Non-impaired debt	$ -	$ 3,616
Impaired debt at face value	1,000	1,000
Totals	$ 1,000	$ 4,616

The fair value of non-impaired debt approximates carrying value due to the short-term nature of the debts. The carrying value of impaired debt has been adjusted to fair value with a loss reserve as follows:

	June 30, 2001	June 30, 2000
Face value of impaired debt	$ 1,000	$ 1,000
Loss reserve	(999)	(999)
Fair value of impaired debt	$ 1	$ 1

Note 3. (Continued)

The loss reserve has been established only for impaired debt. A reserve for non-impaired debt was not considered necessary by management. Activity on the loss reserve is summarized as follows:

	June 30, 2001	June 30, 2000
Balance, beginning of year	$ 999	$ 6,740
Loss expense	-	537
Reductions due to sale of assets or write-offs	-	(6,278)
Balance, end of year	$ 999	$ 999

Management believes the reserve for losses is adequate to offset future losses in the Company's current loan portfolio. A specific loss reserve of $999 was established during the year ended June 30, 2000, using a loan-by-loan analysis and relates to the forfaiting asset originated in the Czech Republic. When determining the reserve for losses, management considers many factors including the country risk (exposures in less developed countries and management's overall assessment of the underlying economic conditions in those countries). Also considered are items that mitigate losses including collateral associated with debts. The outstanding debt originating in the Czech Republic is currently due.

Note 4. Transactions with Affiliates

A person who is an officer and a director of the Company is also an officer and a director of another related company ("the Affiliate"). The Affiliate is a shareholder in the Company and has a management agreement with the Company expiring in January 2003. Fees under the management agreement may be earned by the Affiliate based on the Company's future performance.

The Company has a note receivable from the Affiliate in the amount of $5,000 at June 30, 2001 and 2000. The note is due January 31, 2002, bears interest at 8.25% and is unsecured. Interest income on the note was $412 for the year ended June 30, 2001, and $155 for the year ended June 30, 2000. Based on the short-term nature of this note receivable, fair value approximates carrying value.

The Company has $10,695 on deposit with a bank subsidiary of the Affiliate at June 30, 2000. The Company had no deposit with this bank subsidiary at June 30, 2001. Interest income from this deposit amounted to $152 for the year ended June 30, 2001, and $86 for the year ended June 30, 2000.

Note 4. (Continued)

In 2001, the Company reimbursed expenses (plus a 15% service charge) paid by the Affiliate amounting to $327.

The Company issued 8,500,000 shares of common stock through a private placement that was underwritten by the Affiliate. Underwriting fees of $918 were paid to the Affiliate out of the proceeds of this stock issuance. For each share issued, a warrant to purchase an additional share for $1.35 was issued. These warrants expire in November 2005. For each warrant exercised, the Company is required to pay the Affiliate 8% of the proceeds.

The Company also paid management fees of $17 and $280 during the years ended June 30, 2000 and 1999, respectively, to companies controlled by a former shareholder. There were no management fees paid to these companies during the year ended June 30, 2001.

Note 5. Bank Loans Payable

	June 30, 2001	June 30, 2000
Loans payable to banks secured by forfaiting assets	$ -	$ 3,318
Other short-term bank borrowings	-	363
	$ -	$ 3,681

The weighted average interest rate on bank loans payable was 6.3%, 6.5%, and 6.2% for the years ended June 30, 2001, 2000, and 1999, respectively. The fair value of bank loans payable approximates carrying value based on the interest rates and short-term nature of the loans.

Note 6. Income Taxes

There is no current or deferred tax provision for the years ended June 30, 2001, 2000, or 1999. Differences between the U.S. statutory tax rate and the Company's effective tax rate are as follows:

	June 30, 2001	June 30, 2000	June 30,
Tax at U.S. statutory rate	$ (1,152)	$ (564)	$
Change in valuation allowance for deferred tax asset	1,152	564	(
Income tax expense	$ -	$ -	$

The deferred tax asset is composed of the following:

	June 30, 2001	June 30, 2000
Net operating tax loss carryforwards	$ 1,088	$ 439
Loss reserve	340	340
Unrealized loss on securities	269	-
Other	234	-
Valuation allowance	(1,931)	(779)
	$ -	$ -

The Company has net operating tax loss carryforwards of $3,199 for United Kingdom income tax purposes. These losses do not expire.

Note 7. Legal Actions

The Company is involved in two related legal actions. One of the actions was brought by the Company in the United States District Court, Southern District of New York against certain of the Company's former officers and others. The Company alleges that the defendants participated in a fraudulent plan to benefit themselves at the Company's expense. The Company is seeking monetary damages as well as the return of Company shares previously issued to certain of the defendants. The Company and one of the defendants (who was also a former officer) entered into a settlement agreement whereby the defendant transferred 1,170,000 common shares back to the Company. These shares are included in the total of shares redeemed and cancelled during 2001 in the Consolidated Statements of Changes in Shareholders' Equity.

An action was brought against the Company which alleges that the Company violated certain United States security laws and breached its duty to state certain material facts or to correct certain material facts previously disclosed in public filings with the Securities and Exchange Commission. This action is to be heard along with the action discussed in the preceding paragraph. The Company believes this action is without merit and intends to vigorously defend itself against it.

No asset or liability have been recorded in the June 30, 2001, consolidated financial statements because of the two legal actions.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EURO TRADE & FORFAITING, INC.

Dated: September 24, 2001

By: /s/ Michael J. Smith

Michael J. Smith
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Michael J. Smith Date: September 24, 2001

Michael J. Smith
President, Chief Executive Officer
Director

/s/ James Carter Date: September 24, 2001

James Carter
Director

/s/ Slobodan Andjic Date: September 24, 2001

Slobodan Andjic
Director

/s/ Simon Law Date: September 24, 2001

Simon Law
Director

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
21	List of Subsidiaries of Registrant.