

**HESHUN HOLDINGS COMPANY LTD :
THE CHAIRMAN PROPS UP THE COMPANY**

The most striking aspect of the latest addition to the rolls of The Stock Exchange of Hongkong Ltd is that the company could be said to be potentially technically insolvent.

As strange as the above statement may sound, it is easy to substantiate.

The company is Heshun Holdings Company Ltd, Code 285 on the Main Board.

The Company is in the business of producing and distributing '*a variety of differential chemical fibre products, such as polyester differential filaments and modified polypropylene filaments of fine and ultra fine denier. These products are mainly used for the manufacture of various high quality fabrics, ornamental textile products and industrial textile products.*' (Page v of the Prospectus)

But the Accountants' Report at Page 97 of the Prospectus indicates Net Current Liabilities of renminbi 483,027,000, as at April 30, 2000.

Which must be considered worrying to anybody with an ounce of brains since the Company is, clearly, fully dependent of bank support for day-to-day operations.

Current Assets, as at April 30, 2000, stood at renminbi 60,876,000 of which prepayments and other receivables amounted to renminbi 47,437,000 with cash in the bank and cash equivalents standing at just about renminbi 8.18 million.

Against the Current Assets, short-term bank loans stood at about renminbi 275.01 million, a tax bill, amounting to about renminbi 65.09 million, an amount of renminbi 106.13 million, being due to a related party, and accounts payable and accruals of about renminbi 97.67 million.

The amount, due to a related party, relates to Mr Chen Shun Li, the Chairman and principal shareholders of the Company.

Note 4(g) at Page 99 of the Prospectus states that the renminbi 106.13 million was owed to him and '*is unsecured, non-interest bearing and without repayment term. Had interest been charged to the Group based on the average interest rate on bank loans of the Group during the Relevant Periods, the interest expense, which was not capitalized up to the date of the report, would have been increased to RMB 2,808,000 ...*'.

Put another way: The Chairman has been bankrolling his company, probably because the Company's bankers are giving Heshun Holdings a hard time.

Heshun Holdings Placed a total of 418.50 million shares and Offered a total of 46.50 million shares to the general public on October 31.

The 10-cent Par Value Shares were all sold at a Premium of 40 cents each over the Par Value.

The \$HK232.50 million Gross Proceeds from this exercise was cut down to \$HK208.50 million after everybody got their pound of flesh from this Company, which is domiciled in Bermuda, but its operations are carried out in the People's Republic of China (PRC).

The money is supposed to be used as follows:

1. Renminbi * 140 million for the construction of a new production plant in the PRC;

2. Renminbi 45 million for the acquisition of Dalian Huayang Engineering Company Ltd;
3. Renminbi 25 million for the establishment of a an ultra fine POY line (Pre-oriented yarn);
4. Renminbi 10 million to upgrade production facilities; and,
5. Renminbi 2 million to be tipped into the General Working Capital Account.

(Editor's Note: \$HK1 = renminbi 1.07)

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