

**HEMBLY INTERNATIONAL HOLDINGS LTD:
THE GROWING DEBT LOAD MUST BE PRESSING**

Considering that the total borrowings of Hembly International Holdings Ltd () (Code: 3989, Main Board, The Stock Exchange of Hongkong Ltd) amounted to about \$HK287.50 million, and considering that that sum of money was equivalent to about 67 percent of the Turnover of the Company for the 2005 Financial Year, it would not be unfair to state that Hembly International was more than a little top-heavy at the time that it launched its **Initial Public Offering (IPO)** on the last day of June.

And, since nearly 81 percent of the total borrowings are due to be repaid in the Current Financial Year, ending December 31, 2006, it would not be unfair to state that this Company could be facing a cash crunch in the event of any substantial loss of existing custom.

Hembly International published its Placing and Public Offer Prospectus on June 30, 2006, when it Offered 60 million, 10-cent Shares at a price, being not less than \$HK1.70 per Share and not more than \$HK2.30 per Share.

The Company Placed 53.28 million Shares with institutional investors and 6.72 million Shares were those Shares, Offered to investors of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

Last Wednesday, it was officially announced that the Offer Price would be \$HK1.70 per Share, the bottom price, in fact, and that only 559 valid applications for Shares of the Public Offer tranche had been received, equivalent to about 1.24 times the total number of shares on Offer in this tranche.

The Placing shares, investors were told, had been '*moderately over-subscribed*'.

Be that as it may, the Company netted about \$HK86.40 million from its cash-raising exercise – which is not bad, everything considered.

Along with the Public Offer tranche and the Share Placement tranche, at the time of the IPO, the Chairman, Mr Ngok Yan Yu (), took the opportunity to Place 7.20 million of his personal shares, netting about \$HK10.40 million for himself.

The Prospectus stated, at Page 159, that it wanted to raise about \$HK103.90 million, net of expenses, for the following purposes:

1. \$HK48 million to be used '*for the expansion of existing joint ventures*' and to establish new ones;
2. \$HK15 million to purchase additional production machinery and other equipment;
3. \$HK15 million to expand the Company's supply chain service centres;
4. \$HK10 million '*for the repayment of a portion of bank overdrafts which amounted to approximately HK\$18.40 million as at 30 April 2006 ...*';
5. \$HK8 million to be used to produce '*an information management system*' (TARGET assumes this to be a computer system of sorts); and,

6. \$HK7.90 million to be used as General Working Capital.

Since Hembly International missed its target cash injection by about \$HK17.50 million, Management will just have to tailor its expansion appetite to the depth of its pocket.

As is normal in the HKSAR, there is that 'open-door' statement in IPO Prospectus, which goes along the lines that, in event that the net proceeds from the cash-raising exercise are not utilised in full, immediately, the money will be placed with banks, finance companies, etc, for safe keeping.

Clearly, the \$HK86 million or so from this IPO will be in the hands of bankers in the HKSAR for some time, just one look at the above wish list makes that very clear.

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