Hembly International BUY

Hong Kong/ China

Price: HK$2.12
Target: HK$3.40 *(+60%)*

Report type

Initiating coverage

Tickers

Bloomberg:	3989 HK
Reuters:	3989.HK

Sector

Consumer

Company website

www.hembly.com

Major shareholder

Mr. Ngok Yan Yu	52.79%
New World	12.58%
Credit Suisse Securities	8.9%
Evolution Master Fund	5.7%

Share data

Market cap (US$m):	68.6
Total no. of shares (m):	252.3
52-week Hi/Lo (HK$)	3.19/1.70
Free float (%):	34.6%

Results announcements

Interim:	Sept
Final:	April

Analyst

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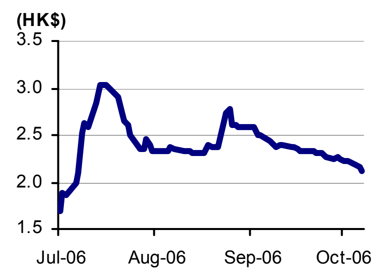
Price chart



Multiple brand power

Source: www.lottosport.com and www.morgan.fr

Hembly is engaged in the provision of one-stop supply chain management (SCM) services on apparel and accessories to international brand apparel makers, as well as distribution and retail of apparel and footwear in the PRC. Its major customers include United Colors of Benetton, Sisley, Morgan, Lotto, Salewa, Lafuma, Quiksilver, Diesel, DKNY, Moschino, Valentino and See by Chloe.

From virtual manufacturing to retailing. Hembly began as a garment trader and quickly evolved to become a value added apparel SCM services company. It has begun to move further downstream into retailing through the formation of 50:50 JVs (a total of 69 POS as of June 30th 06) with brand customers such as Stonefly, Lotto and Sisley in addition to JVs with Morgan and Salewa.

Teaming up with international renowned brand names. The 50:50 retail JVs with the renowned international brands will enjoy the best of both worlds – brand premium and local knowledge. The operations will require minimal incremental marketing and promotion costs while enjoy an enviable foreign brand equity premium in terms of pricing and margins.

Scaleable business model. Only 15% of the garments were produced in-house in 2005 with the rest sourcing to some 20 major sub-contractors in China and Vietnam. As such, the company can command a high ROE and can easily ramp up its business without incurring any major capex. The risk of the downstream expansion into retailing is relatively low since the company has full control over the back-end production and inventory management. Higher profit margins will be achieved once the retail networks reach economies of scale.

Multi-national management team. The board consists of top-notch management with >15 years' garment/apparel experience from China, Hong Kong, Italy and France. Most of the directors' interests are directly tied with the company in the form of share ownership. The company expects to pay out 30% of profit as dividends.

Strategic investor provides synergies. Smart Fame, part of the New World Group which owns >20 department stores in China and Hong Kong, holds a 12.2% stake in Hembly. New World will help Hembly identify retail shop locations and negotiate good rental rates going forward.

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Table 1: Valuation table

Year to Dec	Net profit HKm	EPS* HK$	EPS Δ%	PE x	P/B x	EV/EBITDA x	Yield %	ROE %	ROCE %	Gearing %
03A	25.4	0.100	-	21.1	14.7	14.8	n.a.	97.9	28.9	204.7
04A	30.9	0.122	21.6	17.4	6.7	10.8	n.a.	74.6	24.7	185.7
05A	58.2	0.230	88.5	9.2	2.6	4.8	n.a.	56.7	25.1	104.5
06F	75.6	0.299	30.0	7.1	2.6	3.9	4.2	43.0	23.4	65.0
07F	112.1	0.443	48.3	4.8	2.1	2.5	6.3	49.3	31.4	67.9
08F	150.7	0.596	34.3	3.6	1.5	2.2	8.4	48.7	37.2	31.7

**Fully diluted EPS*

Source: company data and SBI E2-Capital

Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the Sole Bookrunner, Lead Manager and Underwriter for the Hembly IPO (77.28m shares at HK$1.7) on July 12, 2006.

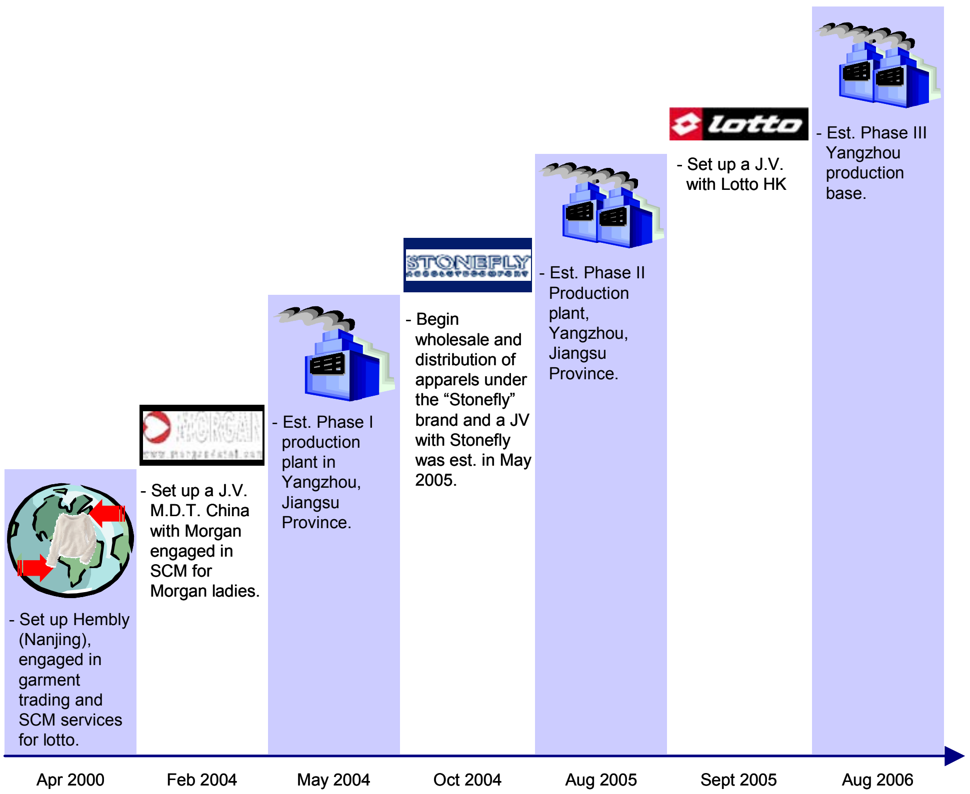
Background

From garment trading to supply chain management services….

…then to China retailing together with the European brand customers

Hembly was established in April 2000 as a garment trader and has since quickly evolved into a one-stop Supply Chain Management (SCM) services provider on apparel products and fashion accessories to international brand names, thanks to its scalable operating model with both in-house manufacturing and extensive outsourcing, as well as stringent quality control capabilities. Major SCM customers include Morgan, United Colors of Benetton, Lotto, Lafuma and Quiksilver. The Group is a niche market player in the international brand and high-tech apparel market, with an exclusive right to provide SCM services for Morgan in China through M.D.T. China, a 51%-owned joint venture with Morgan. Benefiting from the global outsourcing trend and the close working relationship with its key customers, the Group has expanded downstream into the fast-growing distribution and retail of apparel and footwear market in the PRC through joint ventures with international brand owners, namely Stonefly and Lotto. In September 2006, Hembly has formed another JV with Benetton Group. The JV will act as an exclusive distributor of apparel and accessories under the Sisley trade mark in the PRC.

Chart 1: Hembly's roadmap



Source: SBI E2-Capital and Hembly

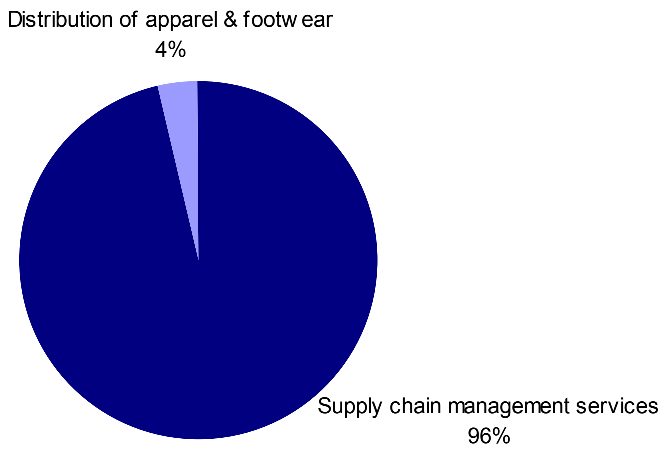
Chart 2: Shareholding structure

Source: Hembly

Chart 3: Map of Hembly's network

Source: SBI E2-Capital and Hembly

Chart 4: Revenue breakdown by segments FY12/05



Source: Hembly

Porters five models

Chart 5: Porters five forces

I. Competitive Rivalry
- High-value-added SCM services from sourcing to distribution
- Scalable business operation model
- Strategic alliances with key brand owners
- High exposure to the Europe market

II. Power of Suppliers
- Source from different countries, including the PRC, Korea, Taiwan and Japan

III. Power of Buyers
- High cost in switching to other suppliers
- Services provided by the Group are unique

IV. Threat of Substitutes
- Other OEM apparel manufacturers
- Other apparel retailers

V. Threat of New Entrants
- Strategic JVs ensure exclusivity

Source: SBI E2-Capital

Competitive advantages

1) A one-stop supply chain management (SCM) services provider in apparel industry

Hembly provides one-stop SCM services, covering, product design and development, raw material sourcing, laboratory testing, production management, quality assurance all the way to the packaging and logistics management of the final goods. These services ensure that customers can outsource their procurement office virtually at no additional cost and enable Hembly to develop close working relationship with its clients. Over the years, Hembly has established a proven track record in providing SCM services by serving over 50 international brand name customers such as Morgan from France and Benetton from Italy.

2) Scalable business model

Expandable operating structure at minimal costs

Hembly operates in a dual-operation model, it outsources substantially most of the production to other garment manufacturers and undertake the apparels which require higher quality standard and technology advancement in its own plants. In 2005, around 85% of total apparel sales are outsourced to these subcontractors. Such dual-operation model allows the Group to maintain an expandable operating structure while minimising its capital expenditure, hence maintaining a relative low fixed overhead cost structure.

Enjoying a higher margin with stricter quality control

Apart from in-house production, it also has around 20 main subcontractors in Jiangsu and Guangdong Province and Vietnam. These subcontractors are mainly responsible for the production of apparels, allowing the Group to focus on stricter quality control and sourcing of better quality fabric. Its in-house production facilities are mainly responsible for the production of high-end apparels, thus enabling the Group to enjoy a higher margin than its peers.

Ability to cater for a more diverse product range and order sizes

The scalable operation allows Hembly to cater for an unlimited product range and different order sizes, which are vital to brand owners who are actively looking for product diversities and quality upgrades. Brand owners can extend their product coverage beyond Hembly's own production capabilities. This superior outsourcing capability is advantageous for the Group to cater for customers from Europe, which usually place smaller order sizes but wider product range.

3) Strategic partnership with core customers

Mutual benefits from strategic partnerships

Hembly's unique SCM services have successfully cultivated close client relationship leading to high degree of reliance on Hembly's services. In other words, customers buying from Hembly have basically outsourced their procurement office to Hembly. Indeed, Hembly has entered into a number of exclusive strategic partnerships with key customers, such as Morgan, Benetton, Stonefly, Lotto and Salewa in order to solidify such bonding. We believe these alliances are of mutual benefits. Beside enjoying secured and reliable product sources, these JVs also open up opportunities for Hembly and its partners to explore the downstream retail market in China.

4) Downstream expansion into the high-growth PRC retail industry

Expanding into the high-growth PRC retail industry at minimal risk

Leveraging on the close business relationship with world brand owners and their expertise in retail operations, Hembly has expanded downstream to include the distribution and retailing of apparel and footwear in the PRC in mid 2004. The expansion enables Hembly to diversify its business and enjoy the high-growth China retail market with minimal risk while leveraging on its SCM platform and the retailing expertise from the brand owners. The SCM platform earns a stable recurring cash flow for the expansion into the high-growth PRC retail business. Note that the retail stores usually take six months to achieve breakeven.

The retail expansion is under Hembly's three 50%-owned JVs with Benetton, Stonefly and Lotto. They operate under the name Sisley, STF and Lotto China. They operate in the form of self-owned shops and franchises. The retail shops are located in prime shopping malls along China's costal regions, mainly in tier-one cities, such as Shenzhen, Shanghai, Nanjing and Tianjin.

Potential JVs in the future

Apart from Benetton, Stonefly and Lotto, Hembly's client portfolio includes other well-known international brands such as Morgan, Moschino, DKNY jeans, Diesel, Salewa, Lafuma, RED Valentino, See by Chloe and etc. They represent huge opportunities for forming retail JVs in China in the future.

5) Niche market player with stringent quality assurance

High quality control, resulting in negligible defective rate

In the high fashion industry, product quality goes parallel with brand value. A key element to Hembly's success attributes to its quality assurance system and its niche market position. Hembly adopts a high standard of quality control procedure, with a team of 82 professional quality control experts to closely monitor the subcontractors in various stages throughout the manufacturing process. As a result, the defective rate is negligible. The Group's production facilities in Yangzhou and Nanjing have already obtained ISO9001-2000.

The requirement for product quality and sophistication by international brand owners make them difficult in selecting suitable outsourcing partners, since their product diversity is hard to be filled by any single subcontractor. Hembly is here to fill their needs through its in-house production facilities, which mainly cater for the production of apparel requiring high technology advancement.

Growth drivers

1) Increasing outsourcing trend to the PRC

Table 2: China textile & apparel exports

Units: USD billion	2004	2005	YoY (%)	1Q05	1Q06	QoQ (%)
Textile exports						
Apparel	62	74	*19*	14	17	*22*
Non-apparel textiles	36	44	*22*	9	11	*21*
Total textile exports	98	118	*20*	23	28	*22*

Source: CTEI

Table 3: Major export market and their share of exports

Units: USD billion	2004	2005	YoY (%)	1Q05	1Q06	QoQ (%)
US	12	20	*67*	4	3.9	*(3)*
Japan	17	18	*6*	4	4.4	*10*
HK	17	15	*(12)*	3	3.7	*23*
EU	12	19	*58*	4	4.5	*13*
Others	39	46	*18*	8	11.5	*44*

Source: CTEI

Global Outsourcing to the PRC continues to rise

After the bilateral agreements with the EU in September and the US in November, order visibility has become much better for apparel exporters in China. China recorded 21% YoY increase in total textile exports in 2005, with apparel and non-apparel textiles increasing by 19% YoY and 22% YoY. For 1Q06, total textile exports grew by a double-digit of 22.2% YoY. The major export markets include U.S, Japan, H.K. and EU. They accounted for 14%, 16%, 13% and 16% of total China textile exports in 1Q06.

The strong export growth means that global outsourcing of textile and apparel manufacturing to the PRC continues to rise, despite the imposition of safeguard measures after the full abolishment of the quota system in 2005. The PRC is the top textile and garment exporting countries in the world. It accounted for c.20% and c.30% of total apparel imports in the U.S. and EU in 2005.

2) Establishing joint ventures and strategic alliances with brand owners

To pave the way for both vertical and horizontal expansion, the Group has formed joint ventures and strategic alliances with its major customers such as Morgan, Benetton, Lotto and Stonefly. Furthermore, it is actively exploring cooperative opportunities with other international brand owners by signing a letter of intent with Salewa for the provision of SCM service.

2.1) Morgan

Morgan places at least 700,000 pieces of order each year

The Group formed a 51%-owned JV, M.D.T. China, with Morgan in August 2004. The JV is responsible for the production of ladies fashion under the Morgan brand name and the sourcing of fabrics, accessories, components and other raw materials used by Morgan. While the Group will provide its expertise in SCM service, Morgan undertakes to place orders to M.D.T. China of not less than 700,000 pieces for each of the three years 2005 to 2007 covered by the Morgan Initial Business Plan. The Nanjing garment manufacturing plant was set up in November 2004, specially catering for this JV's factory workshop in China. Apart from the SCM services, the Group is also engaged in trademark licensing for Morgan's timepiece and eyewear productssince February 2006, which is complimentary to its core businesses.

2.2) Stonefly

Exploring the apparel and footwear retail market in the PRC, Hong Kong and Macau

The Group formed a 50%:50% owned JV, STF with Stonefly in February 2005 through Milan Star, an indirect, non-wholly owned subsidiary of the Group. STF is responsible for the development, sourcing, distribution, marketing and retailing of men, ladies and children's apparel and footwear under the brand name of Stonefly in the PRC, Hong Kong and Macau. The Group will provide expertise in terms of sourcing network, sub-contracting system and the quality control system to STF.

2.3) Lotto

The Group formed a 50%-owned JV, Lotto China with Lotto in September 2005. Lotto China is responsible for the development, sourcing, manufacturing, distribution, marketing and retailing of men, ladies and children apparel, footwear and sports accessories under the brand name of Lotto in the PRC, Hong Kong and Macau

2.4) Benetton

In September, the Group formed a 50%-owned JV with Benetton Group S.p.A for the exclusive distribution and retail of men and women's apparel and accessories under the "Sisley" trade mark in PRC. The JV will also be engaged in the sourcing and manufacturing for Sisley on a non-exclusive basis. There are 30 retail outlets under Sisley in PRC. All of them they will be transferred to the JV. The JV plans to open not less than 150 Sisley outlets over the next five years in PRC.

3) Tapping the burgeoning PRC retail market

Tapping the PRC retail market at minimal risk

Retail sales of consumer goods in China now undergo dramatic growth, it increased from c. RMB1.6 trillion in 1994 to c. RMB5.4 trillion in 2004, representing a CAGR of 12.7%, which is higher than the GDP growth for the same period at a CAGR of 11.3%.

We are optimistic that the demand for quality merchandise and branded consumer goods will stay robust due to the rise in average income in China. The per capita annual disposable income of urban households in the PRC has increased from approximately RMB3,496.2 in 1994 to RMB9,421.6 in 2004, or a CAGR of 10.4%. In view of this, Hembly expands vertically into the PRC retail industry, leveraging on the existing SCM platform and the close working relationship with international brand owners. The Group's clients provide expertise in the operation of retail business, while the Group provides comprehensive souring networks and knowledge of domestic consumer preference. Since, the retail operations are carried out through JVs with the international brand owners, the Group will be able to tap the burgeoning PRC retail market at minimal risk and marketing efforts. Furthermore, the retail business commands a higher gross margin than the SCM services. The expansion into the retailing business will improve the overall margins.

Through the JVs, the Group operates a total of 29 POS (Stonefly: 24 POS; Lotto: 5 POS) at the end of 2005 under both the self-operated stores and franchise model. Total POS grew to 69 (Stonefly: 24 POS; Lotto: 45 POS) in June 2006. These POS are mainly located in first-tier cities such as Shanghai, Beijing, Shenzhen and Guangzhou. The size of POS ranges from 25 to 80 square metres. Apart from POS, the Group targets to open flagship stores with average store size of c.200 square metres. The Group plans to expand the total POS to 150 in 2006 and 242 in 2007, representing an addition of 121 and 115 POS for the respective periods.

Clustering effect

The Group will be able to open shops with different brand owners at the same locations, hence increasing the bargaining power over rental rate and minimize fixed overhead costs on back office operations.

Table 4: Retail expansion

	2005		2006F		2007F	
	Self - owned	Franchisee	Self - owned	Franchisee	Self - owned	Franchisee
Stonefly	18	6	28	10	35	20
Lotto	-	5	9	59	40	80
Sisley	-	-	44	-	67	-
	18	**11**	**81**	**69**	**142**	**100**
Total		**29**		**150**		**242**

Source: SBI E2-Capital

Chart 6: Stonefly sales outlet

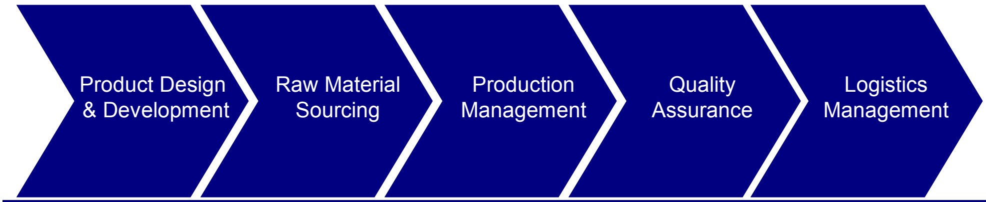
Source: Hembly

Chart 7: Lotto sales outlet

Source: Hembly

SCM services provided by Hembly

Chart 8: SCM services



Source: SBI E2-Capital

1) Product design & development

Hembly employs a team of three full time in-house designers to exchange fashion and design ideas with customers. Running parallel with the design process, it also makes suggestions on the use of fibre and materials. The Group will then develop a wide selection of sketches for customers to consider. Upon picking the appropriate designs within a short period of time, sample garment will be produced for final modifications and approval. Finalized sample will then be passed to the manufacturers for mass production.

2) Raw material sourcing

The Group's major raw materials used in the apparel production mainly include synthetic fibre, such as polyester and nylon, cotton, down and accessories such as labels, zippers and buttons. The Group sources its material from the PRC (53% of total), Japan (2%), Korea (17%), Taiwan (5%) and Hong Kong (17%). Payments are made by LC and open account. The Group normally purchases raw materials and commences production upon receipt of customers' confirmed purchase orders. As a result, it is able to maintain a low level of raw materials inventory and avoid excessive lock-up of working capital.

3) Production management

3.1) Production facilities

Through virtual manufacturing arrangements, Hembly maintains good control over material sourcing as well as the manufacturing process. Currently, Hembly maintains two production bases in Yangzhou and Nanjing to cater mainly for the manufacturing of (i) high-quality products; (ii) high-technology apparels and (iii) orders with short lead-time. The designed production capacity for Yangzhou and Nanjing plants is expected to reach c. 1.7m pieces and 477,000 pieces annually. These facilities can also act as a buffer to smooth out the subcontracting works.

Chart 9: Nanjing production plant

Source: Hembly

Chart 10: Yangzhou production plants

Source: Hembly

Table 5: Production facilites

Location	Production capacity (pieces)	Avg. no. of production lines	Avg. utilization rate (FY12/05)	Products	Date of commencement
Yangzhou					
Phase I	323,000	12	70%	Pants, jacket, sportswear & outdoor wear	May-04
Phase II	484,000	18	70%	Pants, jacket, sportswear & outdoor wear	Aug-05
Phase III	914,000	Jacket: 16 Pants: 18	n.a.	Pants & jackets	Aug 2006
Nanjing (Morgan)	477,000	Woven: 4 Knitted: 4	50%	Padding jacket, knitted wear & high fashion	Mar-05
Total	**2,198,000**	**70**			

Source: Hembly

3.1) Subcontractors

Table 6: Outsourcing percentage

(%)	2004	2005
Percentage of apparel produced by:		
- Subcontractors	92.6	84.8
- The Group's own production facilities	5.2	15.2
- Import and export countries	2.2	0

Source: Hembly

It has over 100 subcontractors and most of them are located in Jiangsu and Guangdong with a few in Vietnam. The subcontractors have an average five years working relationship with Hembly. The aggregate production capacity of these subcontractors accounted for 85% of garment sales in 2005. The Group will normally provide the raw materials from its own sourcing platform to these subcontractors. As a result, the Group will bear the raw material cost, while the subcontractor’s charges will include mainly just labour costs.

3.1.1) Quota costs

Quota costs are immaterial

Before the abolition of export quotas system in January 2005, Hembly purchased export quota through open tenders. Total quota costs amounted to HK$14.3m in 2004 and there was no quota cost in 2005. Historically, around 28% of total garment sales are required to be sold under the existing quota system.

For 2006, China changed its quota allocation system. Under the new system, 70% of the quotas are allocated to companies based on their export history and the remaining 30% are auctioned over the Internet in two tranches. The first trance was completed in December 2005, and the second on in April 2006. Thus, the Group was allocated with 700,000 pieces of export quotas by the PRC government free of charge. Furthermore, it has obtained additional 373,000 pieces of export quotas through the tender process for a charge of HK$4.6 per piece. The quota costs are significantly lower than the industrial average. Moreover, as the Company is a niche market player, it does not participate in mass production. As a result, quota costs are immaterial for the Group. Hembly’s products are mostly high-end with an average selling price between RMB400 to RMB1,500. This segment is not subjected to quota restrictions.

4) Quality assurance

The Group adopts stringent quality control procedures and standard throughout the apparel production process, including selection of suppliers and subcontractors, raw material testing, in-line inspection and final inspection during the production period. Its production facilities in Yanzhou and Nanjing have already obtained ISO9001-2000. The comprehensive and high standard quality control procedures are highly recognized with negligible defective rate.

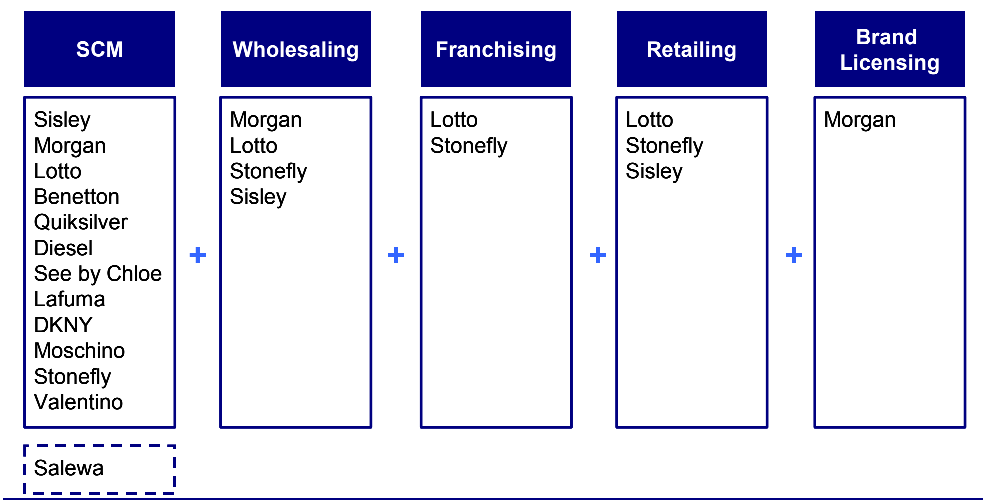
5) Logistics management

The Group will provide logistics management services, to its customers, mainly on the transportation of finished goods to the customer's desired locations.

Customers

Hembly's major SCM services customers mainly consist of mid-end European brands, including Morgan, Benetton, Lotto, Salewa, Quicksilver, Diesel, Five Seasons, Lafuma, Team Sportia, Diadora and Sergio Tacchini with a majority of them focusing on sportswear and casual wear. These clients are mainly located in Italy, France and Germany. In 2005, the top three SCM customers were Benetton (27% of sales), Lotto (19% of sales) and Morgan (10% of sales). Hembly's distribution and retail business customers include Sisley, Stonefly and Lotto. It is currently actively seeking opportunities to add more valuable brands to its retail portfolio.

Chart 11: Customer value chain



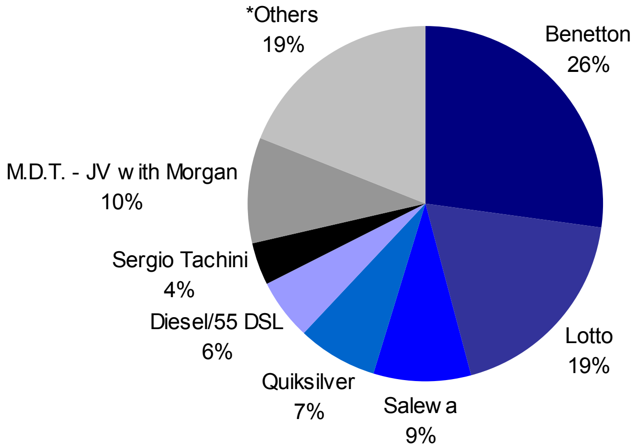
Source: Hembly

Table 7: Major SCM customers

Brand	Origin	Years of relationship	Major product type
Lotto	Italy	5	Sports wear and related products
Salewa	Germany	5	Outdoor wear
Benetton	Italy	5	Casual wear
Five Seasons	Sweden	5	Outdoor wear
Lafuma	France	5	Casual wear
Quiksilver	USA	2	Causal wear, accessories, eyewear and wetsuits
55DSL SA	Switzerland	2	Causal and sports wear

Source: Hembly

Chart 12: Revenue breakdown by brands (FY12/05)



Source: Hembly

** Others: Diadora, Five Seasons, Armani Jeans, Columbia Sportswear, Lafuma, DKNY, See By CHOLE, Moschino, Valentino and etc.*

Table 8: Sales by geographical area

Year to Dec (HK$m)	2003	%	2004	%	2005	%
Europe						
Italy	199.6	76.1	168.4	59.5	280.7	68.2
France	9.6	3.7	39.6	14.0	60.9	14.8
Germany	20.2	7.7	19.4	6.9	17.2	4.2
Sweden	13.1	5.0	16.4	5.8	3.3	0.8
Belgium	1.3	0.5	4.1	1.4	-	-
Turkey	0.2	0.1	2.6	0.9	2.1	0.5
Denmark	4.8	1.8	2.0	0.7	-	-
Other European countries	7.8	3.0	4.9	1.7	10.3	2.5
US	1.2	0.5	5.9	2.1	7.1	1.7
The PRC and Hong Kong	-	-	14.4	5.1	22.2	5.4
Others	4.3	1.6	5.5	1.9	8.0	2.0
Total	**262.1**	**100.0**	**283.1**	**100.0**	**411.8**	**100.0**

Source: Hembly

Risk factors

Reliance on a few major customers

The largest customer of the Group accounted for approximately 44%, 32% and 26% respectively of the Group's turnover for each of the three years ended 2003 to 2005. There is no assurance that these customers will continue to place orders with the Group in the future. However, this risk is lower due to the JV partnership with the customers, together with increasing number of customers.

Reliance on subcontractors

The Group subcontracts a majority of the production process out to the garment manufacturers. They represented approximately 25%, 28% and 27% respectively of the Group's total cost of sales between 2003 to 2005. If there is any disruption in these subcontractors and if the Company fails to find replacements on a timely basis, the Group's business operations will be adversely affected.

Reliance on the European market

The Group relies heavily on the European market, particularly Italy, France, Germany and Sweden. They represented approximately 98%, 88% and 88% of the Group's sales between 2003 to 2005. Any depreciation in Euro, economic downturn of these countries or stricter safeguard measures imposed will affect the Group.

Seasonal factor

The Group experiences seasonal fluctuations in its turnover. It generally records higher turnover from May to August when overseas customers normally commence preparations for the launch of the new fall and winter collections. They normally account fro c. 50% of total annual sales.

Export quotas and other possible trade barriers

The quotas removal in 1st January 2005 led to a surge of apparel exports from the PRC to key markets like EU. In response to the influx of textile and clothing imports, the US and EU imposed safeguard measures on Chinese textile and apparel imports. There is no guarantee that there will be no further safeguard measures or trade disputes in the future.

RMB appreciation

The Group's operations are mainly based in the PRC, but most of its revenues come from U.S. and Europe. Most of its revenues are denominated in US dollars. Any RMB appreciation will affect the profitability of the Group. Note that 61% of the Group's COGS are settled by RMB.

Financial analysis

Exceptional performance in times of industry downturn

The Group achieved strong sales and earnings growth of 46.5% and 88.5% in FY12/05 because of an increase in order flow and a widened customer base from the SCM segment as a result of increasing outsourcing trend from Europe. The Group was able to achieve exceptional performance in 2005 during which a lot of apparel manufacturers suffered decelerating growth as a result of the uncertainties arising from trade disputes between PRC, US and Europe.

Higher than industry average margin and ROE

Over the years, Hembly was able to deliver margin improvements because of the increasing number of higher-margin customers and the provision of value-added SCM services. Overall gross and operating margins reached 33.2% and 17.8% in FY12/05, compared with 27.4% and 13.4% in FY12/04. The transformation from the "pure" wholesale distribution model to its existing wholesale vis-à-vis retail distribution will also benefit its margins in the future, although we expect operating margin to experience some downward pressure due to higher operating expenses initially. Inventory turnover increased to 62 days in FY12/05A from an average of 42 days in the past two years because of the development of downstream retail business.

Compared to the industry average, the Group's ROE and operating margin are at the high end, thanks to its asset-light dual operation business model, which does not require a heavy capital outlay. (refer to Appendix IV)

Gearing will improve going forward

Hembly's total net debt amounted to HK$155m at end-2005, with net gearing of 105%. The high gearing and interest expenses are mainly due to the large amount of trade financing and a high interest rate of c. 8% charged by banks prior to its listing, since the Group's asset base is small. We expect net gearing to decline to 65% in FY12/06F.

The strong growth momentum continued into 1H FY12/06A. Both sales and operating profit rose by 48.7% and 67.7%. Gross and operating margins improved significantly, by 1.1 and 1% to 36% (1H05: 34.9%) and 19.4% (1H05: 18.4%) respectively. Sales from the SCM business alone rose 48.7% because of widening customer base and their gradually enlarged order sizes. Sales from distribution and retailing recorded a growth of 3x. There are a total of 24 POS for Stonefly and 45 POS for Lotto as of June 2006. Lotto made a profit in 1H06, while losses from Stonefly narrowed to HK$1m. The Group started to pay an interim dividend in 1H06, amounting to c. 20% payout. It targets a full-year payout of 30% in FY12/06F.

Valuation

We believe the Sum-of-The-Parts method is the most appropriate valuation method in deriving the fair value for Hembly because its business consists of two segments, including SCM and Distribution & Retailing. The valuation for these two segments varies a lot in the market. To be conservative, we assume a breakeven for the Distribution & Retailing business in 2007F, our valuation only reflects the contribution of the SCM services. We apply an average earnings multiple of 7.6x for apparel manufacturing in 2007F and come up with a fair value of HK$3.4. (refer to Appendix IV)

We cross-check our valuation by applying the Discounted Cash Flow (DCF) method, which suggests a fair value of HK$3.6, equivalent to 8x FY12/07F P/E, based on a terminal growth rate of 1% and WACC of 17%.

Table 9: DCF model

Capital structure	
- Debt (%)	20.0
- Equity (%)	80.0
WACC (%)	17.0
Risk free rate (%)	5.3
Equity risk premium (%)	8.3
Cost of equity (%)	20.1
Cost of debt (%)	5.8
Terminal growth rate (%)	1.0
Tax rate (%)	17.5
DCF valuation (HK$m)	1,058.2
Less: Net debt (HK$m)	(155.0)
Equity value	903.1
Per share value (HK$)	**3.6**

Source: SBI E2-Capital

Table 10: Earnings model

Year to Dec (HK$m)	2004	2005	2006F	2007F	2008F	2009F	2010F
Sales breakdown							
- SCM	283.1	412.0	538.3	694.3	817.2	940.6	1,058.7
- Distribution & Retail	8.8	15.8	32.6	153.6	240.1	313.7	372.7
- Royalty Income	0.1	0.2	0.2	0.3	0.3	0.3	0.3
Sales	**292.0**	**428.0**	**571.2**	**848.2**	**1,057.6**	**1,254.6**	**1,431.7**
Cost of goods sold	(212.1)	(285.7)	(380.8)	(543.5)	(659.0)	(776.0)	(883.0)
Gross profit breakdown							
- SCM	76.2	136.3	172.3	222.2	270.4	311.2	350.3
- Distribution & Retail	3.7	5.7	18.0	82.4	128.1	167.3	198.4
- Royalty Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross profit	**79.9**	**142.1**	**190.3**	**304.7**	**398.6**	**478.6**	**548.7**
Operating expenses	(42.1)	(68.9)	(94.8)	(170.5)	(222.1)	(263.4)	(300.6)
Other operating income	1.5	2.8	1.8	1.8	1.8	1.8	1.8
Operating profit	**39.3**	**76.0**	**97.3**	**136.0**	**178.3**	**217.0**	**249.9**
Non-operating profit	0.3	-	-	-	-	-	-
Finance cost	(5.3)	(12.4)	(11.5)	(9.1)	(8.0)	(6.7)	(6.5)
Profit from associated companies	-	-	-	-	-	-	-
PreTax Profit	34.3	63.6	85.8	126.9	170.3	210.2	243.4
Taxation	(3.4)	(5.1)	(9.6)	(14.2)	(19.1)	(23.5)	(27.2)
Minority Interests	(0.0)	(0.3)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Net Profit	**30.9**	**58.2**	**75.6**	**112.1**	**150.7**	**186.1**	**215.5**

Source: SBI E2-Capital

Industry overview

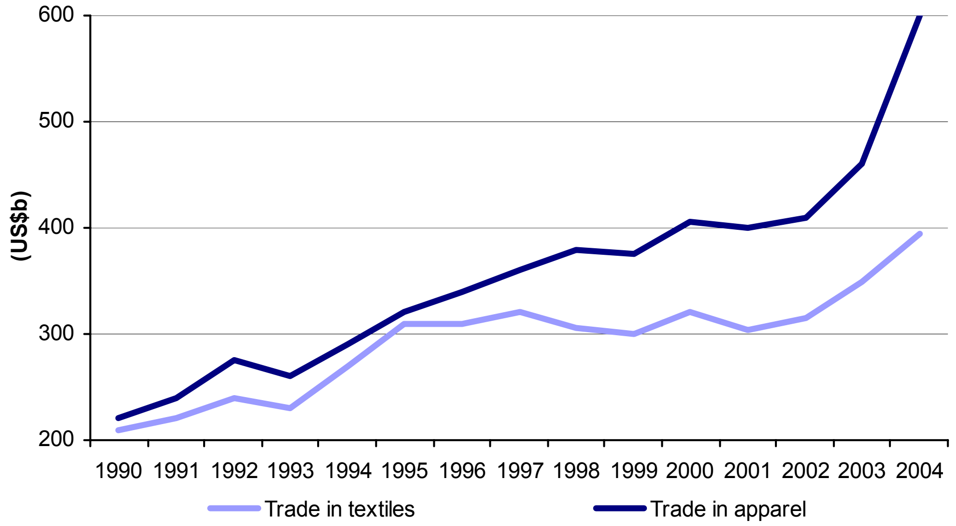
A brief history on international apparel trade

Over the past four decades, trades in apparel industry increased by almost hundred fold from less than USD6b in 1962 to about USD600b in 2004. However, the industry growth has been limited due to various trade regimes implemented under the General Agreement on Tariffs and Trade (GATT) until 1994. In 1995, the World Trade Organization (WTO) was established and Agreement on Textiles and Clothing (ATC) was introduced with an aim to gradually phase out all restrictions then existed in four stages over a period of ten years ending 1st January 2005. By removing the quota system, it directly lowers the total procurement cost as buyers can now place larger orders from a single country without paying the quota premium. Buyers can also reduce the number of sourcing offices and save administrative costs. In terms of product prices, countries previously protected by the quota system will now have to face competition from suppliers around the world. This also helps drive down the overall product prices.

Global apparel and textile market

The benefit of the lowered trade barrier is illustrated in the chart below. World trade in apparel products grew by some 110% since 1990 in nominal terms, while textile trade also recorded a strong 64% growth during the period. Noted that the growth was particularly strong after 2001, when China was asserted into the WTO.

Chart 13: World trade in textiles and apparel 1990-2004



Source: International Trade Statistics 2005, WTO

The European apparel market

According to the WTO, EU market was the most active both in terms of import and export of apparel trade in 2004, accounting for about 35.6% and 29.1% of the world's total respectively. EU is also the largest importer of China made textile-related products.

The Chinese apparel market

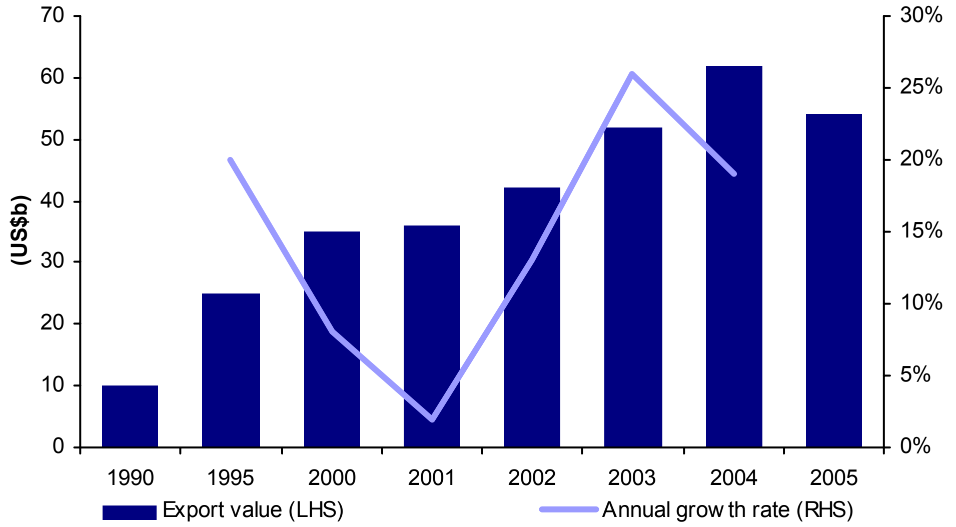
China is one of the world's largest exporters of textile and apparel products. In 2004, it exported some USD95.29b worth of textile and apparel products, accounting for about 41.2% of the world's total. Noted that China's market share was just 8.6% back in 1980. The substantial gain can be attributable to China's accession into the WTO in 2000. Stripping out the textile portion, China exported some USD61.9b in 2004, up by 18.8% from a year ago.

Table 11: European Union (25) textile and clothing import and export

	Import (EUR billion)		Export (EUR billion)	
	2004	Jan-May 2005	2004	Jan-May 2005
PRC	14.91	7.39	0.83	0.37
Turkey	10.55	4.44	2.09	0.75
India	4.44	2.21	0.21	0.09
Romania	4.22	1.53	2.99	1.14
Bangladesh	3.89	1.36	0.02	0.01
Tunisia	2.84	1.18	1.86	0.74
Morocco	2.55	0.97	1.60	0.61
Pakistan	2.35	0.79	0.07	0.02
Hong Kong	2.03	0.37	1.46	0.60
Switzerland	1.56	0.60	3.58	1.47
Indonesia	1.75	0.54	0.13	0.05
USA	1.24	0.52	4.80	1.78

Source: Eurostal

Chart 14: Total export value of the apparel industry in the PRC



Source: Ministry of Commerce of the PRC

All trade barriers to be lifted by 2008

Although the ATC requires the lifting of quantitative restrictions by 1st January 2005, it allows certain protective measures for WTO members to safeguard their domestic industries and markets until 2008. In light of the sharp rise in Chinese exports into the US and EU markets since it has become a member of the WTO, these two major markets have exercised their rights and entered into transitional agreement with China to limit the increase in textile-related imports.

As for the EU market, China has agreed to a 3-year transition arrangement to limit the increase of textile exports to EU in each of the coming three years to about 8% to 12.5% before 2008, when the market is fully liberalized. The limit applies to products such as pullovers, men's trousers, blouses, t-shirts, dresses and bras.

Regarding the US market, China has entered into an agreement with the US to impose quotas on 34 textile and clothing products starting from 1st January 2006. The agreement limits the growth in Chinese clothing imports to 10% in 2006, 12.5% in 2007 and 15% in 2008. The US also reserves the right to use further safeguard mechanism for other product categories currently not covered by the agreement.

Appendix I: Company profile

Business background

Hembly was established in April 2000 as a garment trader and has since quickly evolved into a one-stop Supply Chain Management (SCM) services provider on apparel products and fashion accessories to international brand names, thanks to its scalable operating model comprising both in-house manufacturing and extensive outsourcing, as well as stringent quality control capabilities. Major SCM customers include Morgan, Benetton, Lotto, Lafuma and Quiksilver. The Group is a niche market player in the international brand and high-tech apparel market, with an exclusive right to provide SCM services for Morgan in China through M.D.T. China, a joint venture with Morgan. Benefiting from the global outsourcing trend and the close working relationship with its key customers, the Group has expanded downstream into the fast-growing apparel and footwear distribution and retailing market in the PRC through joint ventures with international brands, namely Sisley, Stonefly and Lotto.

Shareholding structure

	Shares (m)	(%)
Mr. Ngok Yan Yu	133.2	52.79
New World Development Co. Ltd.	31.8	12.58
Credit Suisse Securities	22.5	8.90
Evolution Master Fund	14.4	5.72
Public	64.9	20.01
Total	**252.4**	**100.00**

Management team

Mr. Ngok Yan Yu, Chairman and Founder. He is responsible for the group's overall management and strategic development. He has over 10 years of management experience.

Mr. Lam Hon Keung, Keith, Deputy Chairman. He is responsible for business advisory and strategic consulting. He was a former district board member and legislative councilor.

Ms. Tang Chui Yi, Janny, Chief Executive Officer and Co-founder. She is responsible for the day-to-day management of the Group. She has over 15 years of experience in the garment industry. Ms. Tang used to work in Yangtzekiang Garment Co. Ltd. She was graduated from the Hong Kong Polytechnic University, with a master degree in Management from the University of Kent at Canterbury, U.K.

Mr. Wong Ming Yeung, Executive Director. He is responsible for sales and marketing of the Group in H.K. He has over 13 years of experience in the textile and garment industry.

Mr. Antonio Piva, Executive Director. He is the Managing Director of Hembly (Nanjing) Garment. Mr. Piva used to work as the operation General Manager of Benetton in Croazia.

Mr. Marcello Appella, Executive Director. He is responsible for sales and marketing of the Group in Finance. He has over 20 years of experience in the apparel industry. Mr. Appella used to work in international brand names such as Eminence, Adidas, New Man and Jockey International.

Corporate milestones

2000: Begin garment trading in the PRC

2003: Build the 1st production plant in Yangzhou, Jiangsu province

2004: Set up a JV with M.D.T. China, with Morgan and beings wholesale and distribution of apparels under the "Stonefly" brand

2005: Build the 2nd production plant in Yangzhou and set up a JV with Lotto H.K.

Corporate governance issues

The company intends to pay out no less than 30% of profit after listing.

All shareholders are subject to at least a one-year lockup after listing, including Smart Fame, which is an indirect wholly-owned subsidiary of the New World Group. Smart Fame invested US$4m in Hembly on Oct 3, 2005.

Deloitte Touche Tohmatus is the auditor of the Group.

Mr. Keith Lam is a former appointed Legislative Councillor and district board member of the HKSAR and a former board member of Kowloon-Canton Railway Corporation. He was bestowed an officer of the O.B.E. in 1993.

Use of proceeds

Estimated net proceeds of HK$120m, of which:	HK$m
Setting up new JVs and expanding existing JVs	58
Acquiring additional production machinery and equipment	20
Expanding supply chain service center	15
Repaying a portion of bank overdraft	12
Implementing an information management system	8
General working capital	7

Staff counts

A total of 1,302 staffs in different locations, of which:	
Management	21
Customer service and sales support	93
Finance and administration, IT	135
Production	885
Purchasing, shipping and warehouse	86
Quality control	82

Expansion plans

To set up new JVs with brand customers

Expansion of supply chain service centres

Downstream expansion into PRC retail industry

Appendix II: Qualitative analysis

Strengths

One-stop supply chain management services.

Strong tie with key customers.

Minimal investment in manufacturing facilities.

Scalable operation model.

Weaknesses

Reliance on the European market.

New to the PRC retail market.

Opportunities

Robust growth in the PRC retail industry.

Increasing outsourcing by international customers.

Threats

Keen market competition.

Further trade barriers imposed by customers' countries.

Competitors

High Fashion, YGM (375 HK), Prime Success (210 HK), Li Ning (2331 HK) and Ports (589 HK).

Entry barriers

Strategic alliances and JVs formed with key customers.

High quality design and quality control teams.

Customers

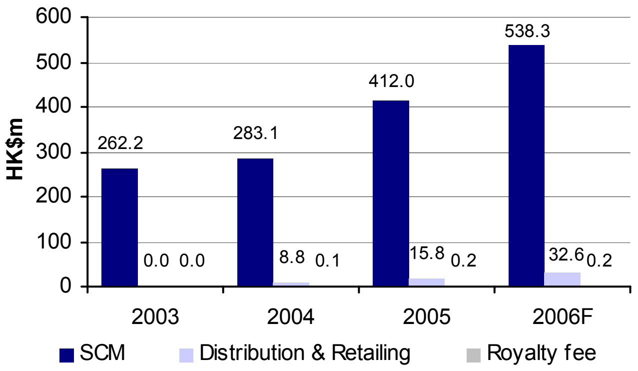
The top five customers in terms of revenue contributions in 2005 were Benetton (27%), Lotto (19%), Salewa (9%), Quiksilver (7%) and Diesel/55 DSL (6%).

Suppliers

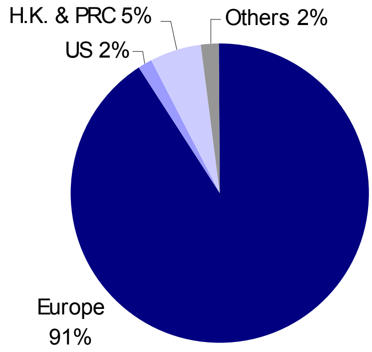
Major supplier countries include the PRC (53% of 2005 purchases), Hong Kong (23%), Japan (2%), Korea (17%) and Taiwan (5%).

Appendix III: Financial analysis

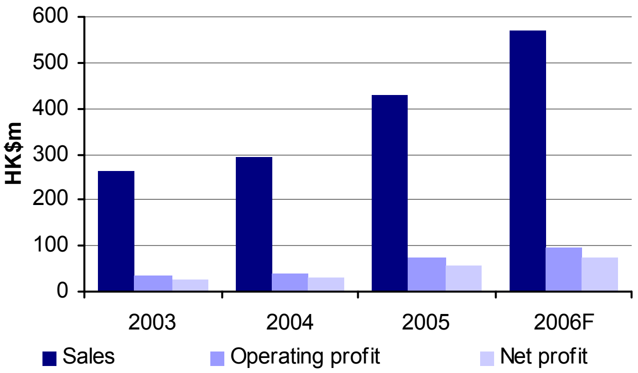
Sales breakdown by business segment



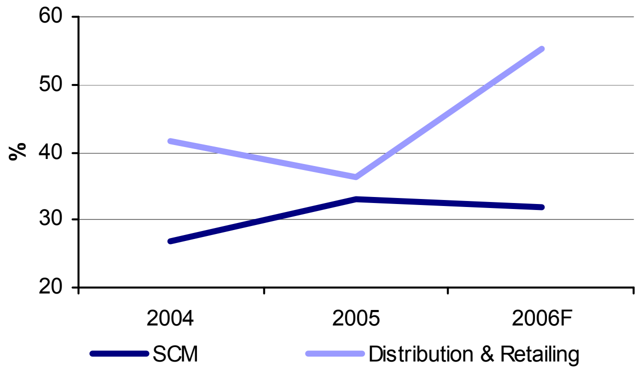
Sales breakdown by market (FY12/05)



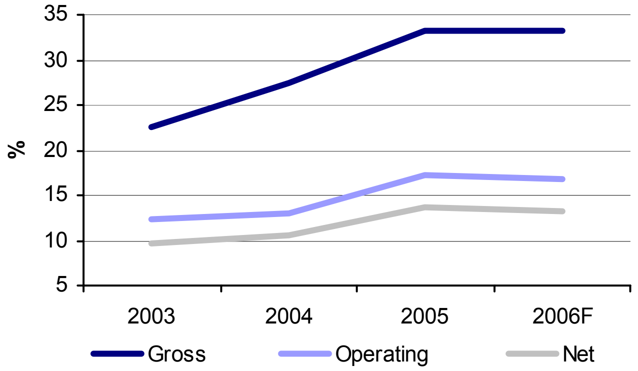
Sales and earnings trends



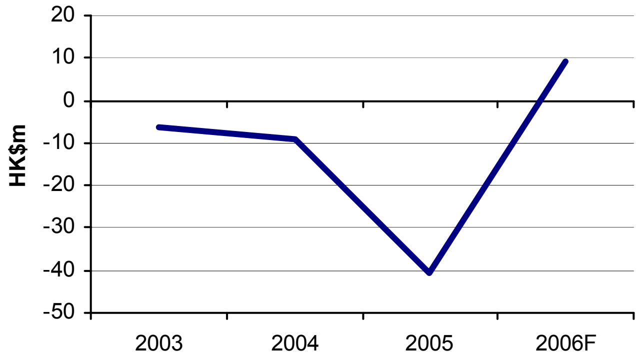
Gross margin trends by business segments



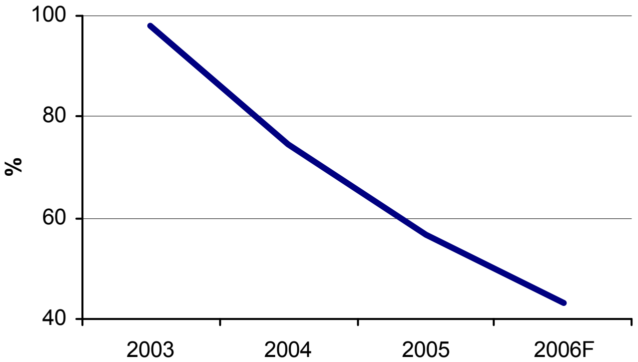
Margin trends for Hembly



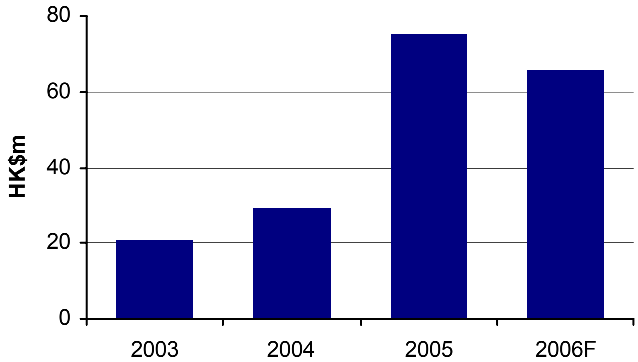
Free cash flow trends



ROE trends



Capex trends



Appendix IV: Peers valuation comparison

Quote	Name	Market cap. (US$m)	PE (x) 2005A	2006F	2007F	P/B x	ROA %	ROE %	Gross margin %	EBIT margin %	Yield %	Net gearing	2006F profit Growth (%)
Sourcing agents													
494	Li & Fung	8,694	33.2	27.9	22.1	10.5	13.5	38.1	10.2	3.3	3	Cash	25
915	Linmark	86	8.0	6.1	5.1	1.8	6.7	14.9	53.8	3.9	7	Cash	30
Average			***20.6***	***17.0***	***13.6***	***6.2***	***10.1***	***26.5***	***32.0***	***3.6***	***5***		***28***
Apparel manufacturers													
393	Glorious Sun	487	15.1	14.0	12.3	2.2	7.5	15.5	42.8	8.0	4	Cash	12
311	Luen Thai	169	13.1	5.5	5.3	1.0	3.4	6.7	18.8	3.8	-	Cash	152
928	Tack Fat	195	10.0	5.6	5.1	2.1	7.4	17.4	23.8	15.5	4	106	15
448	Hang Ten	93	6.3	-	-	2.1	11.1	21.3	54.3	7.5	1	Cash	-
3398	China Ting	442	6.6	8.4	7.2	2.1	25.1	40.5	36.6	23.5	6	Cash	(20)
Average			***12.7***	***8.3***	***7.6***	***1.8***	***6.1***	***13.2***	***28.5***	***9.1***	***2***		***59***
Footwear retailers													
210	Prime Success	1,300	39.4	29.5	21.6	11.0	20.3	39.8	43.6	12.0	1%	Cash	32
1179	Mirabell	91	10.9	9.2	7.9	1.6	11.2	15.2	58.7	5.6	3%	Cash	(6)
Average			***25.1***	***19.3***	***14.7***	***6.3***	***15.7***	***27.5***	***51.2***	***8.8***	***2***		***13***
Apparel retailers													
2331	Li Ning	1,176	39.0	35.1	26.2	6.0	12.2	17.2	47.0	11.0	1	Cash	34
589	Ports	929	37.2	31.5	24.5	7.6	19.0	23.0	65.3	21.8	2	Cash	44
375	YGM Trading	132	6.4	5.2	3.8	2.1	17.6	25.5	63.7	13.0	6	Cash	24
3322	Win Hanverky	538	-	-	-	7.5	20.7	60.5	34.8	18.0	-	21.5	-
608	High Fashsion	62	7.1	-	-	0.7	4.6	10.0	28.6	2.1	6	25	-
Average			***22.4***	***23.9***	***18.2***	***4.8***	***14.8***	***27.2***	***47.9***	***13.2***	***3.8***		***34***
Total Average			**20.2**	**17.1**	**13.5**	**4.8**	**11.7**	**23.6**	**39.9**	**8.7**	**3.2**		**34**
	Hembly	**69**	**9.2**	**7.1**	**4.8**	**2.6**	**24.1**	**56.7**	**33.2**	**17.1**	**-**	**105**	**30**

Source: SBI E2-Capital, Bloomberg

No direct comparable. Due to the uniqueness of Hembly's business model, it is difficult to find a direct comparable. The upstream supply chain management service segment is a mixture of sourcing agents and apparel manufacturing companies, which is trading at an average P/E range of 17x for 2006F. The industry average P/E range for downstream footwear and apparel retailers is between 19.3x to 23.9x for 2006F. Currently, Hembly's distribution and retail businesses operate at a relatively small scale. Retail contributed only c.4% of total sales in 2005A but is expected to grow to c.10% in 2007F.

Appendix V: Infopage

P & L (HK$m)	04A	05A	06F	07F	08F
Year to Dec					
Turnover	**292.0**	**427.8**	**571.2**	**848.2**	**1,057.6**
% chg	*11.4*	*46.5*	*33.5*	*48.5*	*24.7*
Gross profit	79.9	142.1	190.3	304.7	398.6
EBITDA	40.0	79.4	103.3	144.3	187.8
Depre./amort.	(2.3)	(6.2)	(7.8)	(10.1)	(11.3)
EBIT	37.7	73.2	95.5	134.2	176.5
Net int. income/(exp.)	*(3.8)*	*(9.6)*	*(9.7)*	*(7.3)*	*(6.2)*
Exceptionals	0.3	-	-	-	-
Associates	-	-	-	-	-
Jointly-controlled entit.	-	-	-	-	-
Pre-tax profit	**34.3**	**63.6**	**85.8**	**126.9**	**170.3**
Tax	(3.4)	(5.1)	(9.6)	(14.2)	(19.1)
Minority interests	(0.0)	(0.3)	(0.6)	(0.6)	(0.6)
Net profit	**30.9**	**58.2**	**75.6**	**112.1**	**150.7**
% chg	*21.6*	*88.5*	*30.0*	*48.3*	*34.3*
Dividends	**-**	**-**	**22.7**	**33.6**	**45.2**
Retained earnings	30.9	58.2	98.3	145.8	195.8
EPS (HK$) - Basic	0.172	0.323	0.346	0.443	0.596
EPS (HK$) - F.D.	0.122	0.230	0.299	0.443	0.596
DPS (HK$)	n.a.	n.a.	0.090	0.133	0.179
No. sh.s o/s (m) - W.A.	180.0	180.0	218.6	252.9	252.9
No. sh.s o/s (m) - Y.E.	180.0	180.0	252.9	252.9	252.9
No. sh.s o/s (m) - F.D.	252.9	252.9	252.9	252.9	252.9
Margins (%)					
Gross	27.4	33.2	33.3	35.9	37.7
EBITDA	13.7	18.6	18.1	17.0	17.8
EBIT	12.9	17.1	16.7	15.8	16.7
Pre-tax	11.8	14.9	15.0	15.0	16.1
Net	10.6	13.6	13.2	13.2	14.2

Balance Sheet (HK$m)	04A	05A	06F	07F	08F
Year to Dec					
Fixed assets	50.6	121.7	139.3	151.4	158.0
Intangible assets	-	-	-	-	-
Other LT assets	21.5	35.3	40.4	43.9	45.8
Cash	32.3	84.6	90.2	4.7	38.2
Accounts receivable	60.3	93.4	112.2	166.7	207.8
Other receivables	14.1	47.3	40.7	60.5	75.4
Inventories	28.2	69.2	65.5	97.3	121.4
Due from related co.s	38.1	32.4	28.1	28.1	28.1
Other current assets	3.1	1.4	1.5	1.5	1.5
Total assets	**248.2**	**485.4**	**518.0**	**554.1**	**676.2**
Accounts payable	(16.6)	(43.2)	(38.9)	(55.5)	(67.3)
Other payable	(26.8)	(34.0)	(39.2)	(55.9)	(67.8)
Tax payable	(0.1)	(2.8)	(4.7)	(7.0)	(9.3)
Due to related co.s	-	(5.0)	(3.8)	(3.8)	(3.8)
ST debts	(114.7)	(191.6)	(184.1)	(144.5)	(130.0)
Other current liab.	(9.6)	(9.3)	(2.2)	(2.2)	(2.2)
LT debts	(23.2)	(48.0)	(38.4)	(30.7)	(24.6)
Other LT liabilities	(0.1)	(2.6)	(2.6)	(2.6)	(2.6)
Total liabilities	**(191.0)**	**(336.5)**	**(313.9)**	**(302.3)**	**(307.7)**
Share capital	3.0	0.0	134.4	134.4	134.4
Reserves	53.9	148.3	69.1	116.8	233.4
Shareholders' funds	**56.9**	**148.3**	**203.5**	**251.2**	**367.8**
Minority interest	0.3	0.7	0.6	0.6	0.6
Total	**57.2**	**149.0**	**204.0**	**251.8**	**368.5**
Capital employed	195.1	388.6	426.5	427.0	523.1
Net (debt)/cash	(105.6)	(155.0)	(132.3)	(170.6)	(116.4)

Cash Flow (HK$m)	04A	05A	06F	07F	08F
Year to Dec					
EBIT	37.7	73.2	95.5	134.2	176.5
Depre./amort.	(2.3)	(6.2)	(7.8)	(10.1)	(11.3)
Net int. paid	(3.8)	(9.6)	(9.7)	(7.3)	(6.2)
Tax paid	(9.6)	(0.3)	(4.9)	(7.2)	(9.7)
Dividends received	-	-	-	-	-
Gross cashflow	**27.1**	**70.1**	**89.0**	**130.1**	**172.1**
Chgs. in working cap.	(21.8)	(47.6)	(19.4)	(69.6)	(53.4)
Operating cashflow	**5.3**	**22.5**	**69.6**	**60.5**	**118.8**
Capex	(29.3)	(75.3)	(65.8)	(25.8)	(19.7)
Free cashflow	**(9.1)**	**(40.7)**	**9.0**	**35.5**	**96.5**
Dividends paid	-	-	(22.7)	(33.6)	(45.2)
Net distribution to MI	-	-	-	-	-
Investments	-	(3.0)	-	-	-
Disposals	0.3	0.6	-	-	-
New shares	0.0	31.0	134.4	-	-
Others	(43.7)	(37.4)	(98.0)	(40.1)	2.8
Net cashflow	**(52.5)**	**(49.4)**	**22.7**	**(38.2)**	**54.1**
Net (debt)/cash - Beg.	(53.1)	(105.6)	(155.0)	(132.3)	(170.6)
Net (debt)/cash - End.	(105.6)	(155.0)	(132.3)	(170.6)	(116.4)

Interim Results (HK$m)	05A	06A
Six months to Jun		
Turnover	**165.2**	**262.8**
% chg	*n.a.*	*59.1*
Profit from operations	30.3	50.9
Interest expenses	(4.8)	(10.0)
Associates	-	-
Jointly-controlled entit.	-	-
Pre-tax profit	**25.5**	**40.9**
Tax	(2.5)	(4.4)
Minority interests	(0.0)	(1.5)
Net profit	**23.0**	**35.0**
% chg	*n.a.*	52.3
EPS (HK$) - W.A.	0.192	0.160
DPS (HK$)	-	0.030

Shareholding Structure		
Shareholders	**Share o/s (m)**	**%**
Mr. Ngok Yan Yu	133.2	52.8
New World Development Co. Ltd.	31.8	12.6
Credit Suisse Securities	22.5	8.9
Evolution Master Fund	14.4	5.7
Public	64.9	20.0
Total	**252.4**	**100.0**

Key Ratios	04A	05A	06F	07F	08F
Net gearing (%)	186	105	65	68	32
NET ROE (%)	74.6	56.7	43.0	49.3	48.7
EBIT ROCE (%)	24.7	25.1	23.4	31.4	37.2
Dividend payout ratio (%)	-	-	30.0	30.0	30.0
Effective tax rate (%)	9.9	8.0	11.2	11.2	11.2
Net interest cover. (x)	10.0	7.6	9.8	18.5	28.5
A/R days	64.6	65.6	65.7	60.0	64.6
A/P days	20.2	25.5	26.2	20.3	21.2
Inventory days	43.7	62.2	64.6	54.7	60.6

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