

**HENGAN INTERNATIONAL GROUP COMPANY LTD :  
A FIRST-CLASS COMPANY, MOPPING UP THE MONEY**

While criticism could be levelled against publicly listed Hengan International Group Company Ltd (Code:1044 - \$HK1.80), with regard to some of the Directors' incestuous business dealings with admitted related companies, one has to tip one's hat to Management for its outstanding achievements: A 911.40-percent increase in Profits Attributable to Shareholders over a period of the past 5 Financial Years -- in spite of the Asian financial meltdown from 1997 to the middle of 1999.

The Net Profits have risen from the 1995 figure of about \$HK29.91 million to the 1999 figure of about \$HK302.51 million.

And this is not a hi-tech company or an Internet-related company: It is a *'bread-and-butter'* company, manufacturing only sanitary napkins for females, children and adults.

Hengan International's recently released 1999 Annual Report, for the Year, ended December 31, 1999, shows a Profit Attributable to shareholders of about \$HK302.51 million.

This represents an increase in the Bottom Line of about \$HK16.12 million, or 5.63 percent, over the 1998 Year's Results.

Admittedly, the 1999 Results were the lowest recorded increase in Net Profits, Year-On-Year, going back to 1995, but, in view of the difficult trading conditions in the People's Republic of China (PRC), where the Company trades, one should not be too critical about Management's performance and, if anything, one should consider applauding Management in view of what it has achieved, all things considered.

Hengan International went public at the end of 1998 when it placed a number of tranches of shares at \$HK2.80 per share.

As at May 9, 2000, the share price was just \$HK1.85 per share in spite of record earnings in the last Financial Year.

As has happened to many companies, in nearly all industries during the past few years, turnovers have shrunk, necessitating managements to tighten up in order to maintain reasonable levels of profitability.

And some companies have failed miserably in achieving the desired results.

In the case of Hengan International, its Turnover fell in the 1999 Financial Year (ended December 31) to about \$HK1.13 billion, about 13.74 percent lower than the Turnover, recorded in the 1998 Year.

However, the Company still managed to log in a record Net Profit of about \$HK302.51 million.

What helped the Bottom Line, in the last Year, was interest income, amounting to about \$HK33.54 million, which was the result of the Company, having oodles of cash.

As at the 1999 Balance Sheet Date, bank balances and cash amounted to about \$HK596.95 million. This was down from the 1998 Balance Sheet Date when the Company had about \$HK855.76 million in cash and bank balances.

The following is a reproduction of Note 3 at Page 48 of the 1999 Annual Report: It requires no further explanation:

## **Revenue and Turnover**

	Year ended December 31	
	1999 (\$HK'000)	1998 (\$HK'000)
<b><u>Turnover</u></b>		
<b><u>Sale of Goods</u></b>	955,171	1,217,701
Sanitary Napkins	100,056	63,938
Disposable Baby Diapers	<u>74,443</u>	<u>27,641</u>
Semi-finished Goods Materials	<b><u>1,129,670</u></b>	<b><u>1,309,280</u></b>
<b>Totals</b>		
<b><u>Other Revenues</u></b>	33,538	
	15,966	
Interest Income		6,321
Government Subsidy Income	6,583	Nil
Income from Advances to a Related Company	<u>16,966</u>	
Others	<b><u>75,053</u></b>	<u>Nil</u>
<b>Totals</b>		<b><u>6,321</u></b>

It is very clear that the '*Other Revenues*', amounting to a little more than \$HK75 million, was the main reason that allowed this Company to achieve its record-setting 1999 Results.

But Hengan International could have earned more if it had not indulged in funding one of the Directors' little private companies.

### **The Related Party Transactions**

According to the Consolidated Balance Sheet at Page 39 of the 1999 Annual Report, there is an amount due from a related company, amounting to about \$HK53 million.

Note 16 at Page 56 of the Report makes the following statement:

#### **DUE FROM A RELATED COMPANY**

*The Group made certain temporary advances to a company beneficially owned by the Executive Directors of the Company except for Mr. Yue Wai Leung, Stan (Note 25 (b)). The advances were settled subsequent to 31<sup>st</sup> December, 1999 and are analysed as follows:*

	Maximum amount outstanding during the year (\$HK'000)	Amount outstanding at 31 <sup>st</sup> December 1999 (\$HK'000)	Amount outstanding at 31 <sup>st</sup> December 1998 (\$HK'000)
Changde Hengan Paper Products Company Ltd	53,009	53,009	Nil

Note 25(b) gives further elaboration of this matter:

*'As mentioned in note 16 to the accounts, during the year, the Group made temporary advances totalling HK\$46.4 million to Changde Paper for its purchases of plant and machineries and raw materials. In this regard, the Group was entitled to income from Changde Paper amounting to*

*HK\$6.6 million for the year ended 31<sup>st</sup> December, 1999. As at 31<sup>st</sup> December, 1999, the advances and income accrued thereon amounted to HK\$53 million, which has been fully settled subsequently.'*

Changde Paper is owned and controlled, at least beneficially, by the following Executive Directors:

Sze Man Bok	Chairman of Hengan International
Hui Chi Lin	Deputy Chairman and Chief Executive Officer
Yeung Wing Chun	
Hung Ching Shan	
Zhang Shi Pao	
Wu Shi Jie (deceased)	
Xu Da Zuo	
Xu Chun Man	

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