

## Chairman's Statement



***“The Group will continue to dedicate itself to manufacture the best quality leather that fulfill the needs and exceed the expectation of our customers.”***

**Mr. CHAITEERATH Boonchai**  
Chairman

### BUSINESS REVIEW

The Group's turnover for the year ended 31 December, 2000, was HK\$814,387,000, representing an 8.4% increase as compared to HK\$751,724,000 in 1999. The growth of turnover was largely contributed by Xin Hui Galloon Tannery Company Limited (“Xin Hui Galloon”), the third manufacturing plant of the Group, located in Aixi Town of Xin Hui City in Guangdong Province that started production during the year.

The consolidated profit attributable to shareholders of the Group for the year ended 31st December, 2000 was HK\$52,526,000, representing a decrease of approximately 40.6% over the corresponding period last year. Basic earnings per share was 7.71 cents (1999: 14.31 cents). The decrease in profit attributable to shareholders was due mainly to the increase of raw hide price caused by the spur on demand of leather from the recovery of economy in Asia. The price of imported raw hide had driven up to very high level in second half of the year when the foot and mouth disease started to spread in the fourth quarter of the year. The significant increase in raw hide price cannot be fully compensated by the increase in selling price of the finished leather in the second half of the year. As the fourth quarter was the peak season of our Group, the significant increase of raw hide price during the period had a great negative impact on the profit margins for the whole year. On the other hand, Xin Hui Galloon had not achieved economy of scale during the first year operation and therefore its contribution to the gross profit of the Group was relatively low. Consequently, the gross profit rate of the Group for the year decreased by approximately 5.2% and the profit attributable to shareholder also decreased.

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Turnover and contribution to operating profit is derived from dedication to quality.

On geographical segments, USA remains to be the main contributor to the Group's turnover. For the year ended 31st December 2000, turnover from USA increased to 77.7% from 62.3% in 1999. Turnover from regions of the People's Republic of China, Taiwan, Thailand and other region declined. The reason for the decline was that the net margin generated from those regions were lower than the USA market and so the Group had reduced the sales to those regions.

During the year, the demand for leather manufactured by Xin Hui Hua Lien Tannery Co. Ltd and Xian Hua Lien Tannery Co. Ltd remained strong. The finished leather applied the Yamazaki technology were well received by OEM manufacturers in PRC who ultimately export their products to Japan. As the new workshop were still under construction and production volume was low and the contribution was not high during the year. Xin Hui Galloon has adopted focus marketing strategy that targeted on customers that demand high quality furniture leather. As Xin Hui Galloon is still developing his customer base, the production volume of Xin Hui Galloon had not yet achieved economy of scale during the year.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

During the year, the Group relied primarily upon funds generated internally from the Group's operating activities and bank borrowings. As at 31st December, 2000, the Group had total borrowings of HK\$171,065,000 as compared to HK\$154,877,000 at 31st December, 1999. Of the total borrowings, approximately HK\$169,623,000 (1999: HK\$150,766,000) was repayable within one year; approximately HK\$1,442,000 (1999: HK\$4,111,000) was repayable after one year.



Management team of Hua Lien International (Holding) Company Limited

Shareholders' funds of the Group as at 31 December, 2000 amounted to approximately HK\$584,325,000 (1999: HK\$476,174,000). The Group's gearing ratio which is measured on the basis of the Group's total borrowings over the shareholders' funds as at 31st December, 2000 was 29.3% (1999: 32.5%).

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**Mr. Liaw Yuan Chian**  
Managing Director

The sales and the purchases of the Group are mainly denominated in Renminbi, US dollar and Hong Kong dollar. Hence, the Group's exposure to foreign exchange is expected to be insignificant. Bank borrowings are also mainly denominated in Renminbi, US dollar and Hong Kong dollar and the interests are charged on a floating rate basis. Management oversees the movement of interest rates very closely and takes appropriate measures to minimize the Group's interest rate risks when necessary.

### **Contingent Liabilities**

At 31st December, 2000, the Group did not have any significant contingent liabilities. The Company issued guarantees of approximately HK\$37,800,000 (1999: Nil) to bankers to secure general banking facilities granted to certain subsidiaries of which approximately HK\$8,273,000 (1999: Nil) was utilized at the balance sheet date.

### **Pledge of Assets**

At the balance sheet date, certain of the Group's property, plant and equipment with a carrying value of HK\$125 million (1999: 59 million) and bank deposits of approximately HK\$11 million (1999: 5.1 million) were pledged to various banks to secure general banking facilities granted to the Group.

### **Employee Remuneration Policy**

As at 31st December, 2000, the Group employed approximately 1,264 (1999: 929) full time management, administrative and production staff in Hong Kong, Taiwan and PRC.

## Chairman's Statement



Xin Hui Galloon Tannery Co. Ltd, the third manufacturing plant of our Group.

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the salary trend in various regions, and will be regularly reviewed every year. The Company has set up stock options plan and provided free housing to staff in the PRC.

### PROSPECTS

The price of raw hide has demonstrated an increasing trend worldwide because of the growth in demand of leather products spurred on by the economic recovery and the reduction of supply of raw hide caused by the current foot and mouth disease in Europe. The current reduction of the local supply of raw hide to those tanneries in European country forces them to source the raw hide outside Europe and push up the worldwide price. Although foot and mouth disease has a strong short-term impact, the food and mouth disease has a finite lifespan and the situation will improve after implementation of various measures by the EC member countries. In view of the increasing cost of raw hide, the Group has increased price of finished leather, which reduces the impact on profit margins. The Directors believes that most of small tanneries without sound financial background will be out of business under the pressure of high raw hide price. As a result, such consolidation will benefit the future development of our Company.

The Directors expected that the finished leather applying Mr. Yamazaki's technology would be one of the principal products of the Group in future. The construction of new workshop is underway and is expected to complete in December 2001. The Group is well positioned for exploring the Japan market and expects future growth in export sales to Japan in future. The finished leather using Kangaroo will develop after the completion of new workshop in order to further diversify the source of raw materials.

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The Directors believe that long term development of furniture leather should head towards quality. Xin Hui Galloon had made important progress in exploring new markets in different regions, especially northern part of China, to enlarge customer base for its key product line of special furniture leather and it has started to produce leather for leisure footwear in second quarter of 2001 that will enhance the production volume and drive down the unit cost of production.

It is estimated that PRC will successfully enter the World Trade Organization and the Directors expects that the demand for leather and leather products manufactured in PRC will increase significantly and the Company, being one of the major leather manufacturer in PRC, will definitely benefit from such development in future.

### DIVIDEND

The Directors are pleased to recommend a final dividend of 1 Hong Kong cent per share for the year ended 31st December, 2000 (1999: nil) to its shareholders as appeared on its registrar of members on Tuesday, 29th May, 2001. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the final dividend will be paid on 28th June, 2001.

No interim dividend was paid during the year (1999: nil).

By order of Board

**Chaiteerath Boonchai**

*Chairman*

Hong Kong, 20th April, 2001