

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December, 2000.

REORGANISATION AND LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

Pursuant to a group reorganisation to rationalise the group structure in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the group formed after the completion of the group reorganisation on 5th January, 2000 and the shares of the Company were listed on the Stock Exchange from 2nd February, 2000.

Details of the group reorganisation are set out in note 1 to the financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 32 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2000 are set out in the consolidated income statement on page 23 of the annual report.

The directors recommend a final dividend of 1 Hong Kong cent per share.

FINANCIAL SUMMARY

A summary of the Group's results for the past five years, and its assets and liabilities for the past three years is set out on page 57 of the annual report.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital of the Company are set out in note 21 to the financial statements.

Details of the share options of the Company are set out in note 22 to the financial statements.

Directors' Report

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 23 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$73 million for the purpose of expanding its business. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Liaw Yuan Chian ("Mr. Liaw")

Chaiteerath Boonchai

Chen Siu Chao ("Ms. Chen")

Independent non-executive directors:

Fu Heng Yang

Wang Hung Chuan

In accordance with Article 116 of the Company's Articles of Association, Mr. Liaw, being the managing director of the Company, is not required to retire by rotation and Ms. Chen retires and, being eligible, offers herself for re-election at the forthcoming annual general meeting.

The terms of office of each of the independent non-executive directors is the period up to his retirement by rotation as required by the Company's Articles of Association.

Directors' Report

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing 5th January, 2000, which will continue thereafter unless and until terminated by either party by giving to the other party not less than six months' prior written notice.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2000, the interests of the directors in the ordinary shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of ordinary shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Liaw	–	–	363,500,039	–

The 363,500,039 ordinary shares in the Company were held by Joyce Services Limited, a company in which Mr. Liaw has a 62.59% beneficial interest.

As at 31st December, 2000, Mr. Liaw and Ms. Chen each held 126,000 and 3,000 non-voting deferred shares respectively in Hua Lien (Hong Kong) Company Limited, the Company's subsidiary. The rights and restrictions of such non-voting deferred shares are set out in note 32(ii) to the financial statements.

Save as disclosed above and other than one nominee ordinary share in Hua Lien (Hong Kong) Company Limited held by Mr. Liaw in trust for Hua Lien Group (Holding) Company, Limited, the Company's subsidiary as at 31st December, 2000, none of the directors or any of their associates had any interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Directors' Report

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

A share option scheme was adopted by the Company on 4th January, 2000, under which the directors of the Company may be granted options to subscribe for shares in the Company. No share option had been granted under the share option scheme since its adoption.

Save as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of the Company or any other body corporate and none of the directors, their spouses or children under the age of 18, had any rights to subscribe for securities in the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed under the heading "Directors' interests in securities", the Company had not been notified of any interests representing 10% or more of the Company's issued share capital.

CONNECTED TRANSACTIONS

Details of a discloseable connected transaction during the year in respect of a lease agreement entered into between Xian Hua Lien Tannery Co., Ltd. ("Xian Hua Lien"), a subsidiary of the Company, and a minority shareholder of Xian Hua Lien are set out on note 31(a) to the financial statements. In the opinion of the independent non-executive directors, the transaction entered into by the Group was in accordance with the terms of the lease agreement.

Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 62% of the Group's total sales and the sales attributable to the Group's largest customer was approximately 24% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 54% of the total purchases of the Group and the largest supplier accounted for approximately 25% of the total purchases of the Group.

None of the directors, their associates or any shareholder which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

CORPORATE GOVERNANCE

As the Company only became a listed company on 2nd February, 2000, the requirements of the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code of Best Practice") apply to the Company from that date onwards. The Company has complied from 2nd February, 2000 to 31st December, 2000 with the Code of Best Practice.

The Company's audit committee was formed on 2nd February, 2000 comprising the independent non-executive directors, Messrs. Fu Heng Yang and Wang Hung Chuan. The terms of reference of the audit committee have been established with regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

Directors' Report

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Liaw Yuan Chian

Hong Kong, 20th April, 2001