

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 31 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 21 of the annual report.

The directors recommend a final dividend of 1.2 Hong Kong cents per share.

SHARE CAPITAL

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

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$46 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

Shih Chian Fang

Chen Siu Chao

(appointed on 29th May, 2001)

(resigned on 29th May, 2001)

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

Independent non-executive directors:

Fu Heng Yang

Yu Chi Jui

(appointed on 29th May, 2001)

Wang Hung Chuan

(resigned on 29th May, 2001)

In accordance with Articles 99 and 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 Mr. Chaiteerath Boonchai, Mr. Shih Chian Fang and Mr. Yu Chi Jui retire by rotation and, being eligible, offer themselves 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.

Mr. Liaw and Mr. Chaiteerath Boonchai have each entered into a service contract with the Company for an initial term of three years commencing from 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 2001, 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	–



DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

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, 2001, Mr. Liaw held 126,000 non-voting deferred shares 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 31 (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, 2001, 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.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") which was adopted pursuant to a resolution passed on 4th January, 2000 for the primary purpose of providing incentives to directors and eligible employees, will expire on 3rd January, 2010. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 30 days of the date of offer, upon payment of HK\$1 per option. Options may be exercised at any time from the period commencing on the date falling 6 months after the date of grant of the share option to the 5th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the share for the five business days immediately preceding the date of grant.

No options had been granted or agreed to be granted under the Scheme since its adoption.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme 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, 2001, 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 30(a)(i) 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 is required to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 41% of the Group's total sales and the sales attributable to the Group's largest customer was approximately 12% of the Group's total sales.



MAJOR CUSTOMERS AND SUPPLIERS (Cont'd)

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 63% of the Group's total purchases and the Group's largest supplier accounted for approximately 33% of the Group's total purchases.

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, or the laws in the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2001 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

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, 19th April, 2002