



**Mr. CHAITERATH Boonchai** Chairman

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

### BUSINESS REVIEW

For the year ended 31st December 2004, the Group had a turnover of HK\$861,163,000, a 5.1% increase as compared to HK\$819,057,000 in 2003. As mentioned in the interim report, the increase in turnover was due to the reduction in supply of smuggling leathers and shut down of many illegal operated tanneries in PRC.

The Group's net profit for the year ended 31st December 2004 was HK\$19,768,000, represents an increase of approximately 176.8% over last year. Basic earnings per share was HK2.88 cents (2003: HK1.04 cents). The gross profit margin remained stable at approximately 7%. The HK\$12.6 million increase in net profit was mainly due to a HK\$4.9 million increase in gross profit with the increase in turnover and a HK\$9.7 million decrease in administrative expenses.

With regard to geographical market segments, USA remained to be the main contributor to the Group's turnover. For the year ended 31st December 2004, turnover from USA represents 78.2% of total sales turnover as compared to 76.3% in 2003. The turnover from the PRC represents 21.8% of total turnover as compared to 22.1% in 2003. To maintain the profit margin of the Group, the Group had withdrawn from the non-profitable East Asia market for the year of 2004.



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

# HUA LIEN INTERNATIONAL

## FINANCIAL REVIEW

### Liquidity and Financial Resources

During the year, the Group has relied primarily upon funds generated internally from the Group's operating activities and revolving credit facilities provided by the Group's principal bankers. As at 31st December 2004, the Group's total borrowings is HK\$178,566,000 as compared to HK\$248,902,000 at 31st December 2003. Of the total borrowings, HK\$149,022,000 (2003: HK\$216,478,000) is repayable within one year and HK\$29,544,000 (2003: HK\$32,424,000) is repayable after one year.

Shareholders' funds of the Group as at 31st December 2004 amounts to HK\$696,221,000 (2003: HK\$676,453,000). 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 2004 is 25.6% (2003: 36.8%).

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

### Contingent Liabilities

At the balance sheet date, the Company had given guarantees to banks in respect of general banking facilities granted to subsidiaries and the aggregate amount utilised by subsidiaries, including bills payable, amounted to HK\$75 million (2003: HK\$103 million).

### Pledge of Assets

At 31st December 2004, certain of the Group's land and buildings, plant and machinery, and construction in progress with an aggregate carrying value of HK\$126 million (2003: HK\$116 million), inventories of HK\$42 million (2003: Nil) and bank deposits of HK\$13 million (2003: HK\$21 million) were pledged to banks to secure general banking facilities granted to the Group.

### Employee Remuneration Policy

At 31st December 2004, the Group employed 1,048 (2003: 957) full time management, administrative and production staff in Hong Kong, Taiwan and the PRC.

The Group's emolument policies are formulated on the bases of individual performance and the salary trend in the various regions, and are reviewed every year. The Company has set up share options plan and provides staff quarters to staff in the PRC.

## PROSPECTS

The demand in the first quarter of 2005 remains strong when compared to that of the same period in 2004. During the second quarter of 2005, the Group will start to produce for the few raw hides processing contracts which it has recently secured. The Group believes that the new business will bring new source of profits to its shareholders.

The Group will continue to pursue its prudent policy and maintain stable earning for the coming year.

## DIVIDEND

The Board of Directors does not recommend the payment of a dividend for the year ended 31st December 2004 (2003: Nil).

By order of the Board

**Chaiteerath Boonchai**

*Chairman*

Hong Kong, 22nd April 2005