

**HUA LIEN INTERNATIONAL (HOLDING) COMPANY LTD :
FOR WHAT REASON DOES THE BOSS LEND MONEY TO HIS COMPANY ?**

When it becomes apparent that a director of a company is forced to lend money to his company, for whatever reason, red warning flags must be flying, as far as this analyst is concerned.

In the case of Hua Lien International (Holding) Company Ltd, the Founder and Managing Director, Mr Liaw Yuan Chian, has afforded his company a \$HK16.10-million loan which is ‘... *unsecured and interest-free. Repayment of a portion of the loan amounting to \$4,800,000 is subordinated to certain bank borrowings granted to the (Hua Lien International) Group, and the remaining balance of the loan is repayable in January 2001 but subject to the availability of adequate financial resources for that purpose by that time.*’ (The figure of \$HK16.10 million goes up by another \$HK500,000, later on in this report ...stand by)

Unlike the afore-mentioned, reproduced 6-point statement, which is quite likely to be overlooked by the vast majority of people, trying to work their way through the mass of information, contained in a 172-page New Issue Prospectus, in order not to keep TARGET’s readers in the dark any longer, Hua Lien International is the latest candidate to try to grace the rolls of The Stock Exchange of Hongkong Ltd.

That this Issue is unlikely to put much fire in the bellies of many investors goes without saying (Sponsors and Managers, notwithstanding).

Hua Lien International is a company which is in the business of ‘*the processing of raw hides and skins into leather. Its finished leather is principally sold to manufacturers of leather goods such as footwear and handbags as well as to leather traders...*’, the Company’s Prospectus states.

Prospective investors are being offered a total of 68.64 million shares of a Par Value of 10 cents per share at an Offer Price of \$HK1 per share.

In addition, certain Vendors will be Placing a total of another 34.32 million shares.

Joyce Services Ltd, a British Virgin Islands’s company, which appears to be beneficially controlled by Managing Director Liaw Yuan Chian, is the private company, which will benefit, greatly, from this flotation -- because it is the company that will be Placing most of the 34.32 million shares.

And it may appear strange to some people to learn that TIS Taiwan International Securities (Hongkong) Ltd, ‘*one of the Sponsors and one of the Underwriters, and its associates will have, in aggregate, 8.78 % shareholding interest in the Company immediately following the completion of the Share Offer and the Capitalisation Issue.*’ (Page 84 of the Prospectus)

That would appear to indicate that TIS and its associates are taking a stake to the extent of 6,026,592 shares in the Company.

Now, the question must, immediately, spring to mind: For what reason would Managing Director Liaw Yuan Chian and his mates care about, what one would assume should be, the relatively smallish amount of \$HK34.32 million, when taken in the context of this float?

And, for what reason would TIS and its associates want to take, what one would assume should be, an insignificant investment in a New Issue, a New Issue which requires the financial support, today, and shall require it for the next few years, from its Founder?

The Reason For Going Public

The Prospectus of Hua Lien International states that the Net Proceeds of this flotation, amounting to \$HK60.34 million, are intended to be utilised as follows:

1. \$HK27 million to be applied to purchasing some new machinery and to help in the financing of a new workshop;
2. \$HK20 million to buy some other new machinery;
3. \$HK4 million to improve a waste water treatment facility; and,
4. \$HK9.34 million to be added to the General Working Capital Account.

For the past 43 months, Hua Lien International has been doing very nicely, thank you very much, according to the Prospectus, at Page 102.

The following is taken directly from the Combined Results of the Company, found in Appendix 1:

	Year Ended December 31			
	1996	1997	1998	Seven Months To July 31, 1999
	<i>(All Figures Are Denominated in \$HK'000)</i>			
Turnover	305,022	462,424	601,554	376,953
Cost Of Sales	233,633	359,942	489,089	294,068
Gross Profit	71,389	102,482	112,465	82,885
Other Income#	5,234	9,092	3,943	5,071
Less: Selling Expenses Administrative Expenses Financing Charges	28,719	32,214	33,104	19,149
Profit Before Taxation	47,904	85,522	83,304	68,807
Taxation	26	3,440	4,463	7,788
Profit Before Minority Interests	47,878	82,082	78,841	61,019
Minority Interests	10,008	14,475	13,889	9,909
Profit Attributable To Shareholders	37,870	67,607	64,952	51,110

Other Income refers to income, derived from the sales of scrap material, interest income, Management fee income, and others

For the period, 1996 through to the first 7 months of 1999, interest on bank borrowings has been fairly consistent, ranging from a low of about \$HK9.05 million to a high of about \$HK9.95 million.

While no Director has taken anything out of the Company by way of fees, and other Directors' emoluments have never exceeded \$HK190,000 for any one Financial Year, and while staff costs have been well contained throughout the track-record period, the Company appears to have been unable to reduce its heavy reliance on bankers – and on its Managing Director, by all appearances.

And the Company has paid the price for this reliance.

If Managing Director Liaw Yuan Chian had not afforded the Company that unsecured \$HK16.10-million loan, the situation, no doubt, would have been that much worse, TARGET speculates.

As at October 31, 1999, this Company had outstanding borrowings of about \$HK162.90 million.

These borrowings comprised:

- | | |
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| 1.Secured Bank Loans | : \$HK135.80 million |
| 2.Unsecured Bank Loans | : \$HK 10.50 million |
| 3.Managing Director Liaw Yuan Chian's unsecured loan | : \$HK16.60 million. |

Before TARGET readers jump up and down at the fact that Mr Liaw Yuan Chian's loan to the Company is stated as being \$HK16.60 million in the above paragraph whereas, 2 paragraphs earlier, it was stated as being \$HK500,000 less, this is due to the time difference, the last figure, \$HK16.60 million, being the updated one.

At this point, it is only too clear that this Company is heavy in debt and needs cash to lift part of the burden.

The debt burden is extremely significant if one notes that the Total Tangible Assets, as at July 31, 1999, stood at a figure which is just shy of \$HK440 million.

The outstanding borrowings, as at October 31, 1999, represented about 37 percent of Total Tangible Assets, for those who like to do their sums.... [CLICK TO ORDER FULL ARTICLE](#)

