



## INTERIM RESULTS

The board of directors (the "Board") of Hua Lien International (Holding) Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the period ended 30th June 2002, together with comparative figures in 2001, are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June	
	Notes	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Turnover	(2)	<b>272,613</b>	351,929
Cost of sales		<b>238,727</b>	297,757
Gross profit		<b>33,886</b>	54,172
Other revenue		<b>3,978</b>	5,725
		<b>37,864</b>	59,897
Administrative expenses		<b>12,699</b>	13,207
Selling expenses		<b>995</b>	4,122
		<b>13,694</b>	17,329
Operating profit	(3)	<b>24,170</b>	42,568
Finance charges		<b>5,763</b>	6,437
Profit from ordinary activities before taxation		<b>18,407</b>	36,131
Taxation	(4)	<b>1,646</b>	3,490
Profit before minority interests		<b>16,761</b>	32,641
Minority interests		<b>6,050</b>	7,841
Profit for the period		<b>10,711</b>	24,800
Dividend	(5)	–	–
Earnings per share (Cents)	(6)	<b>1.56</b>	3.61



## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30th June 2002 HK\$'000 (Unaudited)	31st December 2001 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	(7)	388,833	402,694
Investment securities		926	926
		<b>389,759</b>	<b>403,620</b>
Current assets			
Inventories		346,639	297,312
Trade and other receivables	(8)	215,283	224,822
Taxation recoverable		2,181	2,088
Pledged bank deposits		16,744	14,574
Bank balances and cash		19,948	27,527
		<b>600,795</b>	<b>566,323</b>
Current liabilities			
Trade and other payables	(9)	56,470	80,293
Bills payable		2,895	7,344
Loan from a director		8,057	10,512
Taxation payable		11,340	11,073
Amount due to minority shareholders		3,262	5,032
Bank borrowings – due within one year	(10)	192,827	165,938
		<b>274,851</b>	<b>280,192</b>
Net current assets		<b>325,944</b>	<b>286,131</b>
Total assets less current liabilities		<b>715,703</b>	<b>689,751</b>
Non current liabilities			
Bank borrowings – due after one year	(10)	35,730	101
Minority interests		50,914	63,065
Net assets		<b>629,059</b>	<b>626,585</b>
Capital and reserves			
Share capital	(11)	68,640	68,640
Reserves	(12)	560,419	557,945
Shareholders' funds		<b>629,059</b>	<b>626,585</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

		<b>Six months ended 30th June</b>	
Notes	<b>2002 HK\$'000 (Unaudited)</b>	2001 HK\$'000 (Unaudited)	
	<b>626,585</b>	591,189	
Total shareholders' funds at 1st January			
Profit for the period	<b>10,711</b>	24,800	
Dividend	<b>8,237</b>	6,864	
	<b>629,059</b>	609,125	
Total shareholders' funds at 30th June			

**CONDENSED CASH FLOW STATEMENT**

		<b>Six months ended 30th June</b>	
	<b>2002 HK\$'000 (Unaudited)</b>	2001 HK\$'000 (Unaudited)	
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	<b>(26,149)</b>	46,639	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(9,292)</b>	(31,294)	
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING	<b>(35,441)</b>	15,345	
NET CASH INFLOW (OUTFLOW) FROM FINANCING	<b>15,262</b>	(38,584)	
DECREASE IN CASH AND CASH EQUIVALENTS	<b>(20,179)</b>	(23,239)	
CASH AND CASH EQUIVALENTS AT 1st JANUARY	<b>(19,058)</b>	21,069	
CASH AND CASH EQUIVALENTS AT 30th JUNE	<b>(39,237)</b>	(2,170)	
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash	<b>19,948</b>	27,035	
Trust receipt and import loans	<b>(59,150)</b>	(29,205)	
Bank overdraft	<b>(35)</b>	-	
	<b>(39,237)</b>	(2,170)	



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS:

### 1. Basis of presentation of the financial statements

These unaudited consolidated condensed interim financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAPs") 25 Interim Financial Reporting issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following new or revised SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

The adoption of the above SSAPs does not have a material effect on the Group's results in the current and prior periods.

### 2. Business and geographical segments

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments are its primary reporting format.

#### **Business segment**

The Group is solely engaged in the manufacture and sale of leather. All of the Group's turnover, contribution to operating profit and assets were attributable to this business segment.

**Geographical segments**

The Group reports its primary segment information by geographical location of its customers who are principally located in the United States of America ("USA") and the People's Republic of China ("PRC").

Segment information about these geographical markets is presented below:

**Six months ended 30th June 2002**

	<b>USA</b> <i>HK\$'000</i>	<b>PRC</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
REVENUE				
External sales	<b>141,678</b>	<b>87,944</b>	<b>42,991</b>	<b>272,613</b>
RESULT				
Segment result	<b>12,698</b>	<b>7,930</b>	<b>3,542</b>	<b>24,170</b>
Finance charges				<b>(5,763)</b>
Profit before taxation				<b>18,407</b>
Taxation				<b>(1,646)</b>
Profit before minority interests				<b>16,761</b>

**Six months ended 30th June 2001**

	USA <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE				
External sales	230,030	74,171	47,728	351,929
RESULT				
Segment result	24,373	13,863	4,332	42,568
Finance charges				(6,437)
Profit before taxation				36,131
Taxation				(3,490)
Profit before minority interests				32,641



### 3. Depreciation and amortization

During the period, the operating profit has been arrived at after charging depreciation and amortization of HK\$21,306,000 (six months ended 2001: HK\$16,914,000).

### 4. Taxation

	Six months ended 30th June	
	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
PRC Enterprise income tax	<b>1,646</b>	3,490

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The charge of PRC enterprise income tax for the period has been provided for after taking these tax incentives into account.

No provision for Hong Kong Profit Tax has been made in the financial statements as the companies operating in Hong Kong did not have any estimated assessable income.

A portion of the Group's profit is not subject to taxation in the jurisdiction in which it operates.

There was no significant unprovided deferred taxation for the period or at the balance sheet date.

### 5. Dividend

The directors of the Company do not recommend the payment of an interim dividend for the period ended 30th June 2002 (six months ended 30th June 2001: Nil).



## 6. Earnings per share

The calculation of the earnings per share for the period is based on profit for the period of HK\$10,711,000 (six months ended 30th June 2001: HK\$24,800,000) and on the weighted average number of 686,400,000 shares (six months ended 30th June 2001: 686,400,000 shares) in issue during the period.

The Company has no dilutive potential ordinary shares in issue during the periods ended 30th June 2002 and 2001.

## 7. Additions to property, plant and equipment

During the period, there were additions of property, plant and equipment amounted to HK\$7,502,000 (six months ended 30th June 2001: HK\$29,067,000).

## 8. Trade and other receivables

The Group has a policy of allowing an average credit period of 60 days to its trade customers. Included in the trade and other receivables are trade receivables of HK\$204,504,000 (31st December 2001: HK\$201,651,000). The aged analysis of which at the balance sheet date is as follows:

	<b>30th June 2002 HK\$'000</b>	31st December 2001 HK\$'000
Up to 30 days	<b>52,717</b>	80,847
31 – 60 days	<b>46,788</b>	59,991
61 – 90 days	<b>44,463</b>	27,535
More than 90 days	<b>60,536</b>	33,278
	<b>204,504</b>	201,651



## 9. Trade and other payables

Included in trade and other payables are trade payables of HK\$35,010,000 (31st December 2001: HK\$58,150,000). The aged analysis of which at the balance sheet date is as follows:

	<b>30th June 2002 HK\$'000</b>	31st December 2001 HK\$'000
Up to 30 days	<b>19,759</b>	51,525
31 – 60 days	<b>1,584</b>	2,902
61 – 90 days	<b>2,110</b>	765
More than 90 days	<b>11,557</b>	2,958
	<hr/> <b>35,010</b> <hr/>	<hr/> 58,150 <hr/>

## 10. Bank borrowings

	<b>30th June 2002 HK\$'000</b>	31st December 2001 HK\$'000
Secured bank loans	<b>138,416</b>	75,679
Unsecured bank loans	<b>90,106</b>	90,209
Secured bank overdraft	<b>35</b>	151
	<hr/> <b>228,557</b> <hr/>	<hr/> 166,039 <hr/>
The bank loans are repayable:		
Within one year	<b>192,827</b>	165,938
One to two year	<b>6,872</b>	75
Two to five years	<b>28,858</b>	26
	<hr/> <b>228,557</b> <hr/>	<hr/> 166,039 <hr/>
Less: Amount due within one year shown under current liabilities	<hr/> <b>(192,827)</b> <hr/>	<hr/> (165,938) <hr/>
Amount due after one year	<hr/> <b>35,730</b> <hr/>	<hr/> 101 <hr/>



**11. Share capital**

	<b>Number of ordinary shares of HK\$0.1 each</b>	<b>Value <i>HK\$'000</i></b>
Authorised:		
At 30th June 2002 and 31st December 2001	1,500,000,000	150,000
Issued and fully paid:		
At 30th June 2002 and 31st December 2001	686,400,000	68,640

**12. Reserves**

	<b>Translation reserve <i>HK\$'000</i></b>	<b>Goodwill reserve <i>HK\$'000</i></b>	<b>Special reserve <i>HK\$'000</i></b>	<b>PRC statutory reserves <i>HK\$'000</i></b>	<b>Retained Profits <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
At 1st January 2002	6,480	(24,509)	238,966	12,852	324,156	557,945
Profit for the period	-	-	-	-	10,711	10,711
2001 final dividend paid	-	-	-	-	(8,237)	(8,237)
At 30th June 2002	6,480	(24,509)	238,966	12,852	326,630	560,419



### 13. Commitments

#### (a) Operating lease commitments:

	<b>30th June 2002 HK\$'000</b>	30th June 2001 HK\$'000
Minimum lease payments paid during the period under operating leases in respect of land and buildings	<b>689</b>	667

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>30th June 2002 HK\$'000</b>	31st December 2001 HK\$'000
Within one year	<b>1,346</b>	1,206
In the second to fifth year inclusive	<b>4,789</b>	5,097
Over five years	<b>6,410</b>	6,931
	<b>12,545</b>	13,234

Operating lease payments principally represent rentals payable by the Group for certain of its factory properties. Leases are negotiated for an average term of 13 years and rentals are fixed for an average term of 13 years.

#### (b) Capital commitments:

	<b>30th June 2002 HK\$'000</b>	31st December 2001 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	-	8,737

**(c) Other commitments:**

Under the terms of the cooperative joint venture agreement in respect of Xin Hui Hua Lien Tannery Co., Ltd. ("Xin Hui Hua Lien"), a subsidiary of the Company, Galloon International (Holding) Company, Limited ("Galloon International"), is entitled to all of the net profit or loss of Xin Hui Hua Lien throughout the entire cooperative joint venture period after the payment of a pre-determined distribution by Xin Hui Hua Lien each year to the PRC joint venture partner. In the event that Xin Hui Hua Lien does not have sufficient distributable profit to make the required payments to the PRC joint venture partner, Galloon International is responsible for making such payments to the PRC joint venture partner as compensation. At 30th June 2002, the pre-determined distributions to be paid to the PRC joint venture partner over the entire cooperative joint venture period are as follows:

	<b>30th June 2002 HK\$'000</b>	31st December 2001 HK\$'000
Amount payable:		
Within one year	<b>5,239</b>	5,239
One to two years	<b>5,239</b>	5,239
Two to five years	<b>15,180</b>	15,180
Over five years	<b>69,768</b>	72,388
	<b>95,426</b>	98,046

**14. Related party transactions**

During the period, the Group had certain transactions with related parties. Details of these transactions for the period and balances at 30th June 2002 with these related parties are as follows:

**(a) Transactions**

A subsidiary entered into a lease agreement (the "Lease Agreement") with Xian People's Tannery to lease the land use rights related to the site on which the factory building of the subsidiary is located at a monthly rental of Rmb 102,000 (approximately HK\$96,000). During the period, the Group paid rental expense of approximately HK\$578,000 (six month ended 30th June 2001: HK\$578,000) to Xian People's Tannery and the amount paid was in accordance with the terms of the Lease Agreement.

**(b) Balances**

Details of balances with the related parties at the balance sheet date are set out in the condensed consolidated balance sheet.

**(c) Other**

The Group was committed to pay a pre-determined distribution to the PRC joint venture partner of Xin Hui Hua Lien, details of which are set out in note 13 (c).

**15. Pledge of assets**

	<b>30th June 2002 HK\$'000</b>	31st December 2001 HK\$'000
The following assets of the Group are pledged to secure banking facilities granted to the Group		
Property, plant and equipment	<b>114,980</b>	79,021
Bank deposits	<b>16,744</b>	14,574
	<b>131,724</b>	93,595

**16. Contingent liabilities**

	<b>30th June 2002 HK\$'000</b>	31st December 2001 HK\$'000
Bills discounted with recourse	<b>1,234</b>	1,339

**17. Comparative figures**

Certain comparative figures have been reclassified to conform with current period presentation.



## **BUSINESS REVIEW**

For the six months ended 30th June 2002, the Group recorded a turnover of HK\$272,613,000, representing a 22.5% decrease as compared to HK\$351,929,000 for the same period in 2001. The decrease in the Group's turnover was caused by the economic downturn in its major markets making the demand for leather products to be sluggish. As a result, the manufacturers of leather products had become extremely cautious in their inventory management that many of them had scaled down their production. The above had led to the fall in the leather orders of the Group.

The consolidated profit for the period ended 30th June 2002 was HK\$10,711,000, representing a decrease of approximately 56.8% over the corresponding period last year. Basic earnings per share was 1.56 cents (six months ended 30th June 2001: 3.61 cents). The decrease in profit was mainly due to the HK\$79,316,000 decrease in turnover and the slight 3% decrease in gross profit margin. The decrease in gross profit margin was caused by an increase of the prices of raw hide originated from the PRC.

With regard to geographical market segments, USA remains to be the main contributor to the Group's turnover. For the period ended 30th June 2002, turnover from USA represented 51.9% of total sales turnover as compared to 65.3% in 2001. The reason for the decline in turnover from USA was mainly due to the continued slowdown of the US economy. On the other hand, turnover from the PRC increased by 11.1% over the total turnover of the same period last year. The increase of turnover from the PRC was brought by expanding its market share through tapping into the potential markets in the Central and Western PRC. Turnover from other countries did not show material changes over the same period last year.



## **FINANCIAL REVIEW**

### **Liquidity and financial resources**

The Group financed its operation with cash flow generated internally and banking facilities. As at 30th June 2002, the Group's total borrowings was HK\$228,557,000 as compared to HK\$166,039,000 at 31st December 2001. Of the total borrowings, an amount of HK\$192,827,000 (31st December 2001: HK\$165,938,000) was repayable within one year and HK\$35,730,000 (31st December 2001: HK\$101,000) was repayable after one year.

Shareholders' funds of the Group as at 30th June 2002 amounted to approximately HK\$629,059,000 (31st December 2001: HK\$626,585,000). The Group's gearing ratio which is measured on the basis of the Group's total borrowings over the shareholders' funds as at 30th June 2002 was 36.3% (31st December 2001: 26.5%)

The sales and purchases of the Group are mainly denominated in Renminbi, US 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, US 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 Group had contingent liabilities in relation to the bills discounted with recourse of HK\$1,234,000 (31st December 2001: HK\$1,339,000)

### **Pledges of assets**

At the balance sheet date, certain of the Group's property, plant and equipment with an aggregate carrying value of HK\$114,980,000 (31st December 2001: HK\$79,021,000) and bank deposits of HK\$16,744,000 (31st December 2001: HK\$14,574,000) were pledged to banks to secure general banking facilities granted to the Group.



### **Employee remuneration policy**

As at 30th June 2002, the Group employed 1,122 (31st December 2001: 1,176) full time management, administrative and production staff in Hong Kong, Taiwan and the PRC.

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

### **PROSPECTS**

The global economic downturn is very unlikely to turnaround before the end of this year. However, there have been signs that the demand for leather has begun to rebound gradually as shown by the increase in orders received recently. Therefore, the Board expects improvements in the Group's performance in the second half of 2002 as compared to the first half.

To further increase the Company's market share in the PRC market, the Group's market strategy is to further enlarge its customer base in the shoe manufacturing sector in the PRC through holding a series of private trade shows in the country for launching a new series of high-value-added new products.

Since early this year, the Company has entered into a series of negotiations with Guangdong Hyundai Mobis Company Limited ("Mobis") for the supply of upholstery leather for their car seat production. The Company has recently signed a letter of intent with Mobis but the contract for the above is still subject to the results of the laboratory tests and the negotiation of other trading terms. If the Company can successfully secure the above contract, the Company's upholstery leather production will be a new momentum for its future business growth.

For the second half of the year, the Group will continue to adopt a prudent approach in its operating control and financial policy.



## USE OF PROCEEDS

The Company issued 68,640,000 new ordinary shares of HK\$0.10 each for cash at HK\$1 per share on 27th January 2000 (the "New Issue") in accordance with terms as set out in the Company's prospectus (the "Propectus") dated 18th January 2000 in connection with the listing of the Company's share on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and a net proceed of HK\$61,042,000 was raised. According to the plan for the use of proceeds as disclosed in the Prospectus, as at 30th June 2002, the Group has utilised approximately HK\$27,997,000 to finance the construction and purchase of machinery and equipment for a new workshop, HK\$16,271,000 for the purchase of machinery and equipment for the new production facilities in Aixi Town, Xin Hui City, the PRC, approximately HK\$4,000,000 for the improvement of the waste water treatment facilities and HK\$9,340,000 as general working capital. The balance of the net proceeds as at 30th June 2002 of approximately HK\$3,434,000 is placed as short-term deposits with financial institutions and will be applied towards the intended uses as stated in the Prospectus.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2002, 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
Liaw Yuan Chian ("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 62.59% beneficial interest.





## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

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 the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for share in the Company.

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

Other than the share option scheme as disclosed above, at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangement 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 30th June 2002, 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.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of Directors, the Company has complied with the requirements of the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30th June 2002.



## **AUDIT COMMITTEE**

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30th June 2002.

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

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

By order of the Board  
**Chaiteerath Boonchai**  
*Chairman*

Hong Kong, 23rd September 2002