

## 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 2003, together with comparative figures in 2002, are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30th June	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover	(2)	248,127	272,613
Cost of sales		223,730	238,727
Gross profit		24,397	33,886
Other operating income		2,886	3,978
		27,283	37,864
Administrative expenses		14,550	12,699
Selling expenses		758	995
		15,308	13,694
Operating profit	(3)	11,975	24,170
Finance charges		5,324	5,763
Profit from ordinary activities before taxation		6,651	18,407
Taxation	(4)	831	1,646
Profit before minority interests		5,820	16,761
Minority interests		2,761	6,050
Profit for the period		3,059	10,711
Dividend	(5)	–	–
Earnings per share (cents)	(6)	0.45	1.56

**CONDENSED CONSOLIDATED BALANCE SHEET**

	Notes	<b>30th June 2003 HK\$'000 (Unaudited)</b>	31st December 2002 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	(7)	<b>370,179</b>	383,689
Investment securities		<b>454</b>	454
		<b>370,633</b>	384,143
Current assets			
Inventories		<b>339,543</b>	318,589
Trade and other receivables	(8)	<b>275,055</b>	276,800
Pledged bank deposits		<b>18,786</b>	20,561
Bank balances and cash		<b>47,757</b>	22,287
		<b>681,141</b>	638,237
Current liabilities			
Trade and other payables	(9)	<b>49,581</b>	48,608
Bills payable		<b>4,221</b>	3,001
Loan from a director		<b>11,407</b>	8,146
Taxation payable		<b>11,791</b>	14,488
Amount due to minority shareholders of subsidiaries		<b>2,346</b>	4,302
Bank borrowings – due within one year	(10)	<b>234,829</b>	210,351
		<b>314,175</b>	288,896
Net current assets		<b>366,966</b>	349,341
Total assets less current liabilities		<b>737,599</b>	733,484
Non current liabilities			
Bank borrowings - due after one year	(10)	<b>38,444</b>	32,314
Minority interests		<b>47,696</b>	52,770
Net assets		<b>651,459</b>	648,400
Capital and reserves			
Share capital	(11)	<b>68,640</b>	68,640
Reserves		<b>582,819</b>	579,760
Shareholders' funds		<b>651,459</b>	648,400

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Translation reserve	Goodwill reserve	Special reserve	PRC statutory reserves	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003	68,640	6,480	(24,509)	238,966	17,056	341,767	648,400
Profit for the period	—	—	—	—	—	3,059	3,059
At 30th June 2003	<u>68,640</u>	<u>6,480</u>	<u>(24,509)</u>	<u>238,966</u>	<u>17,056</u>	<u>344,826</u>	<u>651,459</u>
At 1st January 2002	68,640	6,480	(24,509)	238,966	12,852	324,156	626,585
Profit for the period	—	—	—	—	—	10,711	10,711
Dividend	—	—	—	—	—	(8,237)	(8,237)
At 30th June 2002	<u>68,640</u>	<u>6,480</u>	<u>(24,509)</u>	<u>238,966</u>	<u>12,852</u>	<u>326,630</u>	<u>629,059</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Six months ended 30th June</b>	
	<b>2003</b> <b>HK\$'000</b> <b>(Unaudited)</b>	<b>2002</b> <b>HK\$'000</b> <b>(Unaudited)</b>
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	<b>9,620</b>	(26,149)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(4,950)</b>	(9,292)
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING	<b>4,670</b>	(35,441)
NET CASH INFLOW FROM FINANCING	<b>20,812</b>	27,977
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<b>25,482</b>	(7,464)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	<b>22,275</b>	27,377
CASH AND CASH EQUIVALENTS AT 30th JUNE	<b>47,757</b>	19,913
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	47,757	19,948
Bank overdraft	-	(35)
	<b>47,757</b>	19,913

## 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 (the "SSAP") 25 Interim Financial Reporting issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2002 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 2002 except for the adoption of the new and revised SSAP 12 (revised) Income Taxes (the "SSAP 12 (Revised)"), which is effective for the first time in the preparation of the unaudited consolidated condensed financial statements for the period. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax.

In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing difference were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has no significant effect on the results for the current or prior accounting period. Accordingly, no prior period adjustment has been required.

### 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.

## 2. Business and geographical segments *(Continued)*

### 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 (the “USA”) and the People’s Republic of China (the “PRC”).

Segment information about these geographical markets is presented below:

#### Six months ended 30th June 2003

	USA HK\$'000	PRC HK\$'000	Others HK\$'000	Consolidated HK\$'000
TURNOVER	<u>167,372</u>	<u>72,017</u>	<u>8,738</u>	<u>248,127</u>
RESULT				
Segment result	<u>3,923</u>	<u>7,966</u>	<u>86</u>	11,975
Finance charges				<u>(5,324)</u>
Profit before taxation				6,651
Taxation				<u>(831)</u>
Profit before minority interests				<u>5,820</u>

#### Six months ended 30th June 2002

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

### 3. Depreciation and amortization

During the period, the operating profit has been arrived at after charging depreciation and amortization of HK\$20,453,000 (six months ended 30th June 2002: HK\$21,306,000).

### 4. Taxation

	<b>Six months ended 30th June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
PRC enterprise income tax	<b>831</b>	1,646

PRC enterprise income tax is calculated at the prevailing rates. 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 tax exemption and tax reduction period can be extended by the relevant tax authorities. 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 2003 (six months ended 30th June 2002: Nil).

**6. Earnings per share**

The calculation of the earnings per share for the period is based on profit for the period of HK\$3,059,000 (six months ended 30th June 2002: HK\$10,711,000) and on the weighted average number of 686,400,000 shares (six months ended 30th June 2002: 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 2003 and 2002.

**7. Additions to property, plant and equipment**

During the period, there were additions of property, plant and equipment amounted to HK\$6,944,000 (six months ended 30th June 2002: HK\$7,502,000).

**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\$248,468,000 (31st December 2002: HK\$255,498,000). The aged analysis of which at the balance sheet date is as follows:

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
Up to 30 days	35,704	67,661
31 - 60 days	27,657	61,301
61 - 90 days	33,565	80,333
More than 90 days	151,542	46,203
	<hr/> <b>248,468</b> <hr/>	<hr/> 255,498 <hr/>



**9. Trade and other payables**

Included in trade and other payables are trade payables of HK\$26,193,000 (31st December 2002: HK\$23,972,000). The aged analysis of which at the balance sheet date is as follows:

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
Up to 30 days	8,124	9,211
31 - 60 days	1,038	2,824
61 - 90 days	2,528	3,986
More than 90 days	14,503	7,951
	<u>26,193</u>	<u>23,972</u>

**10. Bank borrowings**

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
Secured bank loans	156,971	154,369
Unsecured bank loans	116,302	88,284
Secured bank overdraft	–	12
	<u>273,273</u>	<u>242,665</u>
The bank loans are repayable as follows:		
Within one year or on demand	234,827	210,351
One to two years	12,005	32,314
Two to five years	26,441	–
	<u>273,273</u>	<u>242,665</u>
Less: Amount due within one year shown under current liabilities	<u>(234,829)</u>	<u>(210,351)</u>
Amount due after one year	<u>38,444</u>	<u>32,314</u>

## 11. Share capital

	Number of ordinary shares of HK\$0.1 each	Value HK\$'000
Authorised :		
At 30th June 2003 and 31st December 2002	1,500,000,000	150,000
Issued and fully paid :		
At 30th June 2003 and 31st December 2002	686,400,000	68,640

## 12. Commitments

### (a) Operating lease commitments:

	30th June 2003 HK\$'000	30th June 2002 HK\$'000
Minimum lease payments paid during the period under operating leases in respect of land and buildings	689	689

**12. Commitments** *(Continued)***(a) Operating lease commitments:** *(Continued)*

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 2003 HK\$'000</b>	31st December 2002 HK\$'000
Within one year	1,345	1,373
In the second to fifth year inclusive	4,677	4,761
Over five years	5,198	5,776
	<u>11,220</u>	<u>11,910</u>

Operating lease payments principally represent rentals payable by the Group for certain of its factory properties. Leases are negotiated for an average term of 10 years and rentals are fixed throughout the lease terms.

**(b) Capital commitments:**

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	—	3,712

**(c) Other commitments:**

Under the terms of the cooperative joint venture agreement in respect of Jiang Men Hua Lien Tannery Co., Ltd. (the "Jiang Men Hua Lien"), formerly Xin Hui Hua Lien Tannery Co Ltd, a subsidiary of the Company, Galloon International (Holding) Company, Limited (the "Galloon International"), is entitled to all of the net profit or loss of Jiang Men Hua Lien throughout the entire cooperative joint venture period after the payment of a pre-determined distribution by Jiang Men Hua Lien each year to the PRC joint venture partner. In the event that Jiang Men Hua Lien does not have sufficient distributable profit to make the required payments to the PRC joint venture

**12. Commitments** (Continued)**(c) Other commitments:** (Continued)

partner, Galloon International is responsible for making such payments to the PRC joint venture partner as compensation. At 30th June 2003, 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 2003 HK\$'000</b>	31st December 2002 HK\$'000
Amount payable:		
Within one year	5,239	5,239
One to two years	5,239	5,239
Two to five years	14,465	14,465
Over five years	65,218	67,864
	<hr/> <b>90,161</b> <hr/>	<hr/> 92,807 <hr/>

**13. 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 2003 with these related parties are as follows:

**(a) Transactions**

- (i) 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 months ended 30th June 2002: HK\$578,000) to Xian People's Tannery and the amount paid was in accordance with the terms of the Lease Agreement.
- (ii) During the period, a subsidiary sold goods amounting to approximately HK\$2,342,000 (Six month ended 30th June 2002: Nil) to Chai Watana Tannery Public Company Limited, a shareholder of the Company. The transactions were carried out with reference to market price.

**13. Related party transactions** *(Continued)***(b) Balances**

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

**(c) Others**

The Group was committed to pay a pre-determined distribution to the PRC joint venture partner of Jiang Men Hua Lien, details of which are set out in note 12(c).

**14. Pledge of assets**

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
The following assets of the Group are pledged to secure banking facilities granted to the Group		
Property, plant and equipment	<b>137,563</b>	144,548
Bank deposits	<b>18,786</b>	20,561
	<b>156,349</b>	165,109

**15. Comparative figures**

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

## BUSINESS REVIEW

For the six months ended 30th June 2003, the Group had a turnover of HK\$248,127,000, a nine percent decrease as compared to HK\$272,613,000 for the same period in 2002. The decrease in the Group's turnover was largely brought by changes in the market dynamics as a result of the outbreak of Severe Acute Respiratory Syndrome (the "SARS") in PRC. These changes included the sudden changes in buying activities of markets such as Japan and the decline in demand in PRC.

The consolidated profit for the period ended 30th June 2003 was HK\$3,059,000, represents a decrease of approximately 71.4% over the corresponding period last year. Basic earnings per share was 0.45 cents (six months ended 30th June 2002: 1.56 cents). The decrease in profit was due to the decrease in gross profit as a result of price competition. During the SARS period, buyers from markets with higher spending power such as Japan were refrained from making buying trips to PRC. To compensate the business lost from these markets, suppliers in this region changed to target at the large but price sensitive market USA and most suppliers resorted to price reduction to attract buyers in this market. The above ended in intense price competition. As a result, the Group was under strong pressure to reduce its prices in order to maintain its market share and compensate business loss from PRC and other Asian markets as a result of SARS.

With regard to geographical market segments, USA remains to be the main contributor to the Group's turnover. For the period ended 30th June 2003, turnover from USA represents 67.5% of total sales turnover as compared to 52.0% in 2002. The growth in turnover from USA was however at the expense of lower margins due to selling price reductions. On the other hand, the decrease in turnover from PRC and other countries of 18.1% and 79.7% respectively over the same period last year was caused by the sudden changes in buying patterns of these markets and the decline in demand in PRC due to the outbreak of SARS in PRC.

## FINANCIAL REVIEW

### Liquidity and financial resources

The Group financed its operation with cash flow generated internally and banking facilities. As at 30th June 2003, the Group's total borrowings was HK\$273,273,000 as compared to HK\$242,665,000 at 31st December 2002. Of the total borrowings, an amount of HK\$234,829,000 (31st December 2002: HK\$210,351,000) was repayable within one year and HK\$38,444,000 (31st December 2002: HK\$32,314,000) was repayable after one year.

Shareholders' funds of the Group as at 30th June 2003 amounted to approximately HK\$651,459,000 (31st December 2002: HK\$648,400,000). 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 2003 was 41.9% (31st December 2002: 37.4%)

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**

The Group has no significant contingent liabilities at the balance sheet date.

### **Pledges of assets**

At the balance sheet date, certain of the Group's property, plant and equipment with an aggregate carrying value of HK\$137,563,000 (31st December 2002 : HK\$144,548,000) and bank deposits of HK\$18,786,000 (31st December 2002: HK\$20,561,000) were pledged to banks to secure general banking facilities granted to the Group.

### **Employee remuneration policy**

As at 30th June 2003, the Group employed 1,064 (31st December 2002: 1,066) 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**

Despite the overall economy has recovered to pre-SARS level fairly quickly, the demand of finished leather from our major markets has remained sluggish. This may be caused by the accumulation of stock during the SARS period which still has to be cleared. In view of the current economic situation, the Board holds a conservative view towards the Group's business in the second half of the year.

Faced with the challenging operating environment, the Group will continue to adopt a prudent approach in its operating control and financial policy.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2003, the interests and short positions of the directors of the Company in the shares of the Company as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

### Long position in the shares of the Company

Name of director	Number of ordinary shares held			
	Personal Interests	Family interests	Corporate interests	Other Interests
Liaw Yuan Chian ("Mr Liaw")	–	–	363,500,039	–
Fu Heng Yang	2,700,000	–	–	–

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.

Save as disclosed above, as at 30th June 2003, none of the directors of the Company and their associates had any interests or short positions in shares of the Company recorded in the register maintained by the Company pursuant to section 352 of the SFO.

## 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 2003, the interest or short positions of the persons, other than directors of the Company, in the shares of the Company as recorded in the register kept under section 336 of the SFO was as follow:

### Long position in the shares of the Company

Name	Number of ordinary shares held	% of the issued share capital
Wong Pi Chao	48,826,000	7.1%

Saved as disclosed above, as at 30th June 2003, the Company was not aware of any other person, other than the directors of the Company, who has an interests or a short positions in the shares of the Company as recorded in the register kept under 336 of the SFO.

## 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 2003.

## **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 2003.

## **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, 25th September 2003