

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 2004, together with comparative figures in 2003, are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30th June	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited) (Restated)
Turnover	(2)	397,689	248,127
Cost of sales		374,319	223,730
Gross profit		23,370	24,397
Other operating income		7,602	2,886
		30,972	27,283
Distribution costs		681	758
Administrative expenses		12,467	14,550
		13,148	15,308
Profit from operation	(3)	17,824	11,975
Interest on bank borrowings wholly repayable within five years		4,877	5,324
Profit before tax		12,947	6,651
Income tax expense	(4)	2,058	984
Profit before minority interests		10,889	5,667
Minority interests		3,682	2,104
Net profit for the period		7,207	3,563
Dividend	(5)	–	–
Earnings per share (cents)	(6)	1.05	0.52

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30th June 2004 HK\$'000 (Unaudited)	31st December 2003 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	(7)	367,878	381,567
Investment securities		341	341
Deferred tax assets		24,563	24,533
		392,782	406,441
Current assets			
Inventories		328,245	328,618
Trade and other receivables	(8)	306,721	291,242
Amounts due from minority shareholders of subsidiaries		369	1,156
Pledged bank deposits		19,263	20,542
Bank balances and cash		16,560	22,328
		671,158	663,886
Current liabilities			
Trade and other payables	(9)	54,843	71,005
Bills payable		1,795	3,506
Loan from a director		12,769	9,195
Tax liabilities		11,868	12,706
Bank borrowings – due within one year	(10)	222,961	216,478
		304,236	312,890
Net current assets		366,922	350,996
Total assets less current liabilities		759,704	757,437
Non current liabilities			
Bank borrowings – due after one year	(10)	26,449	32,424
Minority interests		49,595	48,560
Net assets		683,660	676,453
Capital and reserves			
Share capital	(11)	68,640	68,640
Reserves		615,020	607,813
Shareholders' funds		683,660	676,453

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 2004	68,640	6,480	(24,509)	238,966	18,699	368,177	676,453
Net profit for the period	-	-	-	-	-	7,207	7,207
At 30th June 2004	68,640	6,480	(24,509)	238,966	18,699	375,384	683,660
At 1st January 2003	68,640	6,480	(24,509)	238,966	17,056	341,767	648,400
Net profit for the period (restated)	-	-	-	-	-	3,563	3,563
At 30th June 2003	68,640	6,480	(24,509)	238,966	17,056	345,330	651,963

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	4,647	9,620
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(6,973)	(4,950)
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING ACTIVITIES	(2,326)	4,670
NET CASH (OUTFLOW) INFLOW FROM FINANCING ACTIVITIES	(3,772)	20,812
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,098)	25,482
CASH AND CASH EQUIVALENTS AT 1st JANUARY	22,328	22,275
CASH AND CASH EQUIVALENTS AT 30th JUNE	16,230	47,757
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	16,560	47,757
Bank overdraft	(330)	–
	16,230	47,757

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 Hong Kong Statement 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 2003 annual financial statements. As explained in 2003 annual financial statements, comparative amounts for the six month ended 30th June 2003 restated to increase charge to income tax of approximately HK\$153,000 and a decrease of minority interests of approximately HK\$657,000 as a result of the change in estimate of deferred tax.

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 2003.

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 2004

	USA HK\$'000	PRC HK\$'000	Other HK\$'000	Consolidated HK\$'000
TURNOVER	322,268	75,421	–	397,689
RESULT				
Segment result	15,563	2,261	–	17,824
Finance charges				(4,877)
Profit before taxation				12,947
Income tax expense				(2,058)
Profit before minority interests				10,889

Six months ended 30th June 2003

	USA HK\$'000	PRC HK\$'000	Other HK\$'000	Consolidated HK\$'000 (Restated)
TURNOVER	167,372	72,017	8,738	248,127
RESULT				
Segment result	3,923	7,966	86	11,975
Finance charges				(5,324)
Profit before taxation				6,651
Income tax expense				(984)
Profit before minority interests				5,667

3. Depreciation and amortization

During the period, the operating profit has been arrived at after charging depreciation and amortization of HK\$22,123,000 (six months ended 30th June 2003: HK\$20,453,000).

4. Income tax expense

	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000 (Restated)
The charge comprises:		
PRC enterprise income tax	2,088	831
Deferred tax	(30)	153
	2,058	984

PRC enterprise income tax is calculated at the prevailing rates. Pursuant to the relevant laws and regulations in the PRC, certain of the Company'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 PRC enterprise income tax expense for both years has been provided for after taking these tax incentives into account. The Charge for the PRC enterprise income tax for the period ended 30th June 2004 was subject to the rate ranging from 15% to 24%.

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

5. Dividend

The directors of the Company do not recommend the payment of an interim dividend for the period ended 30th June 2004 (six months ended 30th June 2003: Nil).

6. Earnings per share

The calculation of the earnings per share for the period is based on profit for the period of HK\$7,207,000 (six months ended 30th June 2003: HK\$3,563,000) and on the weighted average number of 686,400,000 shares (six months ended 30th June 2003: 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 2004 and 2003.

7. Additions to property, plant and equipment

During the period, there were additions of property, plant and equipment amounted to HK\$8,436,389 (six months ended 30th June 2003: HK\$6,944,000).

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\$247,575,000 (31st December 2003: HK\$242,699,000). The aged analysis of which at the balance sheet date is as follows:

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Up to 30 days	59,612	74,393
31 – 60 days	64,737	54,135
61 – 90 days	42,239	32,467
More than 90 days	80,987	81,704
	247,575	242,699

9. Trade and other payables

Included in trade and other payables are trade payables of HK\$35,649,000 (31st December 2003: HK\$41,276,000). The aged analysis of which at the balance sheet date is as follows:

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Up to 30 days	20,096	15,594
31 – 60 days	5,068	10,582
61 – 90 days	1,691	2,216
More than 90 days	8,794	12,884
	35,649	41,276

10. Bank borrowings

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Secured bank loans	168,070	167,892
Unsecured bank loans	81,010	81,010
Secured bank overdraft	330	–
	249,410	248,902
The bank borrowings are repayable as follows:		
Within one year or on demand	222,961	216,478
One to two years	12,242	12,141
Two to five years	14,207	20,283
	249,410	248,902
Less: Amount due within one year shown under current liabilities	(222,961)	(216,478)
Amount due after one year	26,449	32,424

11. Share capital

	Number of ordinary shares of HK\$0.1 each	Value HK\$'000
Authorised:		
At 30th June 2004 and 31st December 2003	1,500,000,000	150,000
Issued and fully paid:		
At 30th June 2004 and 31st December 2003	686,400,000	68,640

12. Commitments

(a) Operating lease commitments:

	30th June 2004 HK\$'000	30th June 2003 HK\$'000
Minimum lease payments paid during the period under operating leases in respect of land and buildings and office premises	689	689

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

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Within one year	1,240	1,346
In the second to fifth year inclusive	4,621	4,621
Over five years	4,621	4,621
	10,482	10,588

12. Commitments *(Continued)*

(a) Operating lease commitments: *(Continued)*

Operating lease payments principally represent rentals payable by the Group for certain of its factory properties and office premises. Leases are negotiated for terms of 1 to 20 years and rentals are fixed throughout the lease terms.

(b) Capital commitments:

Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment

30th June 2004 HK\$'000	31st December 2003 HK\$'000
-	2,089

12. Commitments (Continued)

(c) Other commitments:

Under the terms of the cooperative joint venture agreement in respect of Jiangmen Hua Lien Tannery Co., Ltd. (the "Jiangmen Hua Lien"), a subsidiary of the Company, Galloon International (Holding) Company, Limited (the "Galloon International"), is entitled to all of the net profit or loss of Jiangmen Hua Lien throughout the entire cooperative joint venture period after the payment of a pre-determined distribution by Jiangmen Hua Lien each year to the PRC joint venture partner. In the event that Jiangmen 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 2004, the pre-determined distributions to be paid to the PRC joint venture partner over the entire cooperative joint venture period are as follows:

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Amount payable:		
Within one year	5,239	5,239
One to two years	5,239	5,239
Two to five years	13,751	13,751
Over five years	60,693	63,339
	84,922	87,568

13. Related party transactions and balances

During the period, the Group had certain transactions with related parties. Details of these transactions for the period and balances at 30th June 2004 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 2003: 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) Others

Details of an arrangement with a joint venture partner of Galloon International in respect of the distribution of profits in Jiangmen Hua Lien are set out in note 12(c).

14. Pledge of assets

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
The following assets of the Group are pledged to secure banking facilities granted to the Group		
Property, plant and equipment	103,480	115,955
Bank deposits	19,263	20,542
	122,743	136,497

15. Comparative figures

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

BUSINESS REVIEW

For the six months ended 30th June 2004, the Group had a turnover of HK\$397,689,000, a sixty percent increase as compared to HK\$248,127,000 for the same period in 2003. The substantial increase in business was partly due to the reduction of leather smuggled into PRC and the shut-down of many illegally-operated tanneries in PRC further to the anti-smuggling measures of the Customs General Administration of PRC.

The consolidated net profit for the period ended 30th June 2004 was HK\$7,207,000, represents an increase of approximately 102% over the corresponding period last year. Basic earnings per share was 1.05 cents (six months ended 30th June 2003: 0.52 cents). A penetration pricing strategy featured by striking a balance between volume of business and gross margin was used to target at price-sensitive customers to encourage them to shift over from competitive suppliers.

With regard to geographical market segments, USA remained to be the main contributor to the Group's turnover. For the period ended 30th June 2003, turnover from USA represented 81% of total sales turnover as compared to 67.5% in 2003. The growth in turnover from USA was however achieved at the expense of selling price reductions. The business from the PRC market shows a growth rate of 4.7% as compared the same period in 2003. To maintain the profit margin of the Group to certain extent, the Group had withdrawn from the non-profitable East Asia market during the first half of 2004.

FINANCIAL REVIEW

Liquidity and financial resources

The Group financed its operation with cash flow generated internally and banking facilities. As at 30th June 2004, the Group's total borrowings was HK\$249,410,000 as compared to HK\$248,902,000 at 31st December 2003. Of the total borrowings, an amount of HK\$222,961,000 (31st December 2003: HK\$216,478,000) was repayable within one year and HK\$26,449,000 (31st December 2003: HK\$32,424,000) was repayable after one year.

Shareholders' funds of the Group as at 30th June 2004 amounted to approximately HK\$683,660,000 (31st December 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 30th June 2004 was 36.5% (31st December 2003: 36.8%).

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\$103,480,000 (31st December 2003: HK\$115,955,000) and bank deposits of HK\$19,263,000 (31st December 2003: HK\$20,542,000) were pledged to banks to secure general banking facilities granted to the Group.

Employee remuneration policy

As at 30th June 2004, the Group employed 994 (31st December 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 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

Looking forward, it is expected that strong demand will continue into the second half of the year. As the penetration pricing policy has successfully secured new market share, we may consider selling to certain markets at normal prices in order to secure a more healthy profit margin.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2004, the interests of the directors in the ordinary shares in the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long position in the shares of the Company

Name of director	Number of ordinary shares held		
	Beneficial owner	Held by controlled corporation (Note)	Approximately percentage of interest %
Liaw Yuan Chian ("Mr Liaw")	–	363,500,039	52.96%
Fu Heng Yang	216,000	–	0.03%

Note: Mr Liaw was deemed to be interested in 363,500,039 ordinary shares in the Company, which 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 2004, there were no other interests or short positions of the directors in any shares of the Company which have been notified to the Company pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which any such director was taken or deemed to have under such provisions of SFO) or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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 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 grant. Options may be exercised at any time from the period commencing on the date falling 6 months after the date of grant of 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 grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARE OR DEBENTURES

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 2004, the interest or short positions of the persons, other than the interests disclosed under the heading "Director's interest in securities", in the shares of the Company as recorded in the register maintained pursuant to 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 2004, the Company had not been notified of any other person, other than the directors of the Company, who has interest or short positions in the shares of the Company representing 5% 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 2004.

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 2004.

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, 24th September 2004