



HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

2003 INTERIM RESULTS ANNOUNCEMENT

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

NOTES:

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.

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	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
Taxation				(831)
Profit before minority interests				5,820

Six months ended 30th June 2002

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

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

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
PRC enterprise income tax	831	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.

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 2002, 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 2002, 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.

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.

PUBLICATION OF DETAILED INTERIM RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

A detailed interim results announcement containing all the information in respect of the Company required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

By order of the Board
Chaiteerath Boonchai
Chairman

Hong Kong, 25th September 2003