



**HUA LIEN INTERNATIONAL (HOLDING)  
COMPANY LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

**ANNOUNCEMENT OF FINAL RESULTS  
FOR THE YEAR ENDED 31ST DECEMBER 2003**

The Board of Directors (the “Directors”) of Hua Lien International (Holding) Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December 2003 together with the comparative amounts for 31st December 2002, are as follows:

HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED

**CONSOLIDATED INCOME STATEMENT**

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i> <i>(Restated)</i>
Turnover	(b)	<b>819,057</b>	851,428
Cost of sales		<b>(764,398)</b>	(757,438)
Gross profit		<b>54,659</b>	93,990
Other operating income		<b>9,196</b>	11,841
Distribution costs		<b>(1,931)</b>	(2,153)
Administrative expenses		<b>(36,874)</b>	(44,415)
Profit from operations	(c)	<b>25,050</b>	59,263
Interest on bank borrowings wholly repayable within five years		<b>(11,372)</b>	(11,630)
Profit before tax		<b>13,678</b>	47,633
Income tax expense	(d)	<b>(2,300)</b>	(1,192)
Profit before minority interests		<b>11,387</b>	46,441
Minority interests		<b>(4,237)</b>	(11,143)
Net profit for the year		<b><u>7,141</u></b>	<b><u>35,298</u></b>
Dividend	(e)	—	<b><u>8,237</u></b>
Earnings per share (cents)	(f)	<b><u>1.04</u></b>	<b><u>5.14</u></b>

*Notes:*

**(a) Change in Accounting Policy**

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard (“HKFRS”) issued by the Hong Kong Society of Accountants (“HKSA”). The term HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAP(s)”) and Interpretations approved by the HKSA.

### **Income taxes**

In the current year, the Group has adopted SSAP No. 12 (Revised) “Income taxes”. The principal effect of the implementation of SSAP No.12 (Revised) is in relation to deferred tax. SSAP No. 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in the 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. In the absence of any specific transitional requirements in SSAP No.12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. As a result of this change in policy, the opening accumulated profits at 1st January 2002 has been increased by approximately HK\$15,666,000, which is the cumulative effect of the change in policy on the results for periods prior to 2002. The effect of the change is an increased credit to income tax in the current year of approximately HK\$1,586,000 (2002: HK\$5,837,000) and a decreased minority interests of approximately HK\$517,000 (2002: an increased of HK\$591,000).

The effect of this change in policy resulted in a significant change in an estimate of the amount reported in the unaudited consolidated condensed interim financial statements of the Company for the six months ended 30th June 2003. Accordingly, the interim financial statements should be restated to correct this change in estimate, resulting in an increased charge to income tax for the six months ended 30th June 2003 of approximately HK\$153,000 (2002: an increased credit of HK\$2,983,000) and a decreased minority interests of approximately HK\$657,000 (2002: an increased of HK\$255,000)

### **(b) 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 and contribution to operating profit were attributable to this business segment.

#### **Geographical segment**

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 (the “PRC”).

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## 2003

	USA <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Other <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER	<u>624,698</u>	<u>181,314</u>	<u>13,045</u>	<u>819,057</u>
RESULT				
Segment result	<u>17,626</u>	<u>7,162</u>	<u>262</u>	25,050
Finance charges				<u>(11,372)</u>
Profit before tax				13,678
Income tax expense				<u>(2,300)</u>
Profit before minority interests				<u>11,378</u>

## 2002

	USA <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Other <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> <i>(Restated)</i>
TURNOVER	<u>640,895</u>	<u>166,312</u>	<u>44,221</u>	<u>851,428</u>
RESULT				
Segment result	<u>47,171</u>	<u>6,624</u>	<u>5,468</u>	59,263
Finance charges				<u>(11,630)</u>
Profit before tax				47,633
Income tax expense				<u>(1,192)</u>
Profit before minority interests				<u>46,441</u>

### (c) Depreciation and Amortisation

During the year, the profit from operations has been arrived at after charging depreciation and amortisation of approximately HK\$43,634,000 (2002: HK\$45,899,000).

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## (d) Income Tax Expense

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> <i>(Restated)</i>
Current tax:		
Hong Kong Profits Tax calculated at 17.5% (2002: 16.0%) of the estimated assessable profit	32	47
PRC enterprise income tax	<u>3,854</u>	<u>6,982</u>
	<u>3,886</u>	<u>7,029</u>
Deferred tax:		
Current year	<b>(3,189)</b>	(5,837)
Attributable to a change in PRC enterprise income tax rate	<u>1,603</u>	—
	<u>(1,586)</u>	<u>(5,837)</u>
	<u><b>2,300</b></u>	<u>1,192</u>

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.

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

## (e) Dividend

The Directors do not recommend the payment of a dividend for the years ended 31st December 2003 and 2002 and propose that the accumulated profits be retained. The amount for 2002 represented final dividend of 1.2 Hong Kong cent per share for the year ended 31st December 2001 amounted to approximately HK\$8,237,000.

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## (f) Earnings Per Share

The calculation of the earnings per share for the year is based on net profit for the year of approximately HK\$7,141,000 (2002: HK\$35,298,000) and on 686,400,000 shares (2002: 686,400,000 shares) in issue during the year.

The Company has no dilutive potential ordinary shares in issue during years ended 31st December 2003 and 2002.

## (g) Transfer to and from reserves

	Translation reserve <i>HK\$ '000</i>	Goodwill reserve <i>HK\$ '000</i>	Special reserve <i>HK\$ '000</i>	PRC statutory reserves <i>HK\$ '000</i>	Accumulated profits <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
At 1st January 2002						
– as originally stated	6,480	(24,509)	238,966	12,852	324,156	557,945
– adjustment on adoption of Statement of Standard Accounting Practice No. 12 (Revised) "Income taxes" (note a)	–	–	–	–	15,666	15,666
– as restated	6,480	(24,509)	238,966	12,852	339,822	573,611
Transfer	–	–	–	4,204	(4,204)	–
Net profit for the year	–	–	–	–	35,298	35,298
Dividend	–	–	–	–	(8,237)	(8,237)
At 31st December 2002 and 1st January 2003	6,480	(24,509)	238,966	17,056	362,679	600,672
Transfer	–	–	–	1,644	(1,644)	–
Net profit for the year	–	–	–	–	7,141	7,141
At 31st December 2003	<u>6,480</u>	<u>(24,509)</u>	<u>238,966</u>	<u>18,700</u>	<u>368,176</u>	<u>607,813</u>

## BUSINESS REVIEW

For the year ended 31st December 2003, the Group had a turnover of HK\$819,057,000, a 3.8% decrease as compared to HK\$851,428,000 in 2002. The decrease in the Group's turnover was mainly caused by the economic downturn brought by the outbreak of Severe Acute Respiratory Syndrome (SARS).

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The Group's net profit for the year ended 31st December 2003 was HK\$7,141,000, represents a decrease of approximately 79.8% over last year. Basic earnings per share was HK cents 1.04 (2002: HK cents 5.14). The decrease in profit was due to the decline in turnover and gross profit. The 4.3 % decrease in gross profit ratio was due to the shifting of demand to lower price range products, the selective reduction in selling price of some product lines to combat keen market competition and the increase in production cost caused by the increase in the prices of raw hides in the PRC.

With regard to geographical market segments, USA remained to be the main contributor to the Group's turnover. For the year ended 31st December 2003, turnover from USA represents 76.3% of total sales turnover as compared to 75.3% in 2002. The turnover from the PRC represents 22.1% of total turnover as compared to 19.5% in 2002. The increase in orders in the PRC market was brought by the growth in the PRC economy and the Group's continual efforts in product development. The turnover from other countries declined to 1.6% from 5.2% as those markets remained to be sluggish in 2003.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

During the year, the Group has relied primarily upon funds generated internally from the Group's operating activities and revolving credit facilities provided by the Group's principal bankers. As at 31st December 2003, the Group's total borrowings is HK\$248,902,000 as compared to HK\$242,665,000 at 31st December 2002. Of the total borrowings, HK\$216,478,000 (2002: HK\$210,351,000) is repayable within one year and HK\$32,424,000 (2002: HK\$32,314,000) is repayable after one year.

Shareholders' funds of the Group as at 31st December 2003 amounts to HK\$676,453,000 (2002: HK\$669,312,000). The Group's gearing ratio which is measured on the basis of the Group's total borrowings over the shareholders' funds as at 31st December 2003 is 36.8% (2002: 36.3%).

The sales and purchases of the Group are mainly denominated in Renminbi, United States 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, United States 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 Company had given guarantees to banks in respect of general banking facilities granted to subsidiaries and the aggregate amount utilised by subsidiaries, including bills payable, amounted to HK\$103 million (2002: HK\$246 million).

### **Pledge of Assets**

At 31st December 2003, certain of the Group's land and buildings, plant and machinery, and construction in progress with an aggregate carrying value of HK\$116.0 million (2002: HK\$144.5 million) and bank deposits of HK\$21 million (2002: HK\$21 million) were pledged to banks to secure general banking facilities granted to the Group.

### **Employee Remuneration Policy**

At 31st December 2003, the Group employed 957 (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 bases of individual performance and the salary trend in the various regions, and are reviewed every year. The Company has set up share options plan and provides staff quarters to staff in the PRC.



## **PROSPECTS**

The demand in the first quarter of 2004 had shown satisfactory growth when compared to the same period in 2003 and it is anticipated that 2004 will be a year of recovery. However, the keen competition and the persistent high level of raw hides prices in the PRC continues to affect the Group's profit margin.

Faced with the challenging operating environment, the Group will take proactive measures to reduce the negative effect on the Group's profitability by developing more high value-added products targeted for the PRC market and will continue to adopt a prudent approach in its operating control and financial policy.

## **DIVIDEND**

The Board of Directors does not recommend the payment of a dividend for the year ended 31st December 2003. (2002: Nil)

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the year, the Company has not redeemed any of its shares, and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the year ended 31st December 2003 with the code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

## **AUDIT COMMITTEE**

The audit committee comprises two members, Mr. Fu Heng Yang and Mr. Yu Chi Jui, Both are independent non-executive directors.

During the year, the audit committee held two meetings and reviewed and commented on the Company's draft annual and interim financial reports.

**PUBLICATION OF RESULTS ANNOUNCEMENT ON THE  
EXCHANGE'S WEBSITE**

A detailed results announcement containing all the information required by paragraphs 45(1), 45(2) and 45(3) of Appendix 16 of the Listing Rules will be subsequently published on the Exchange's website in due course.

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

Hong Kong, 23rd April 2004

*As at the date hereof, the Board comprises five directors, of which three are executive directors, namely Mr. Chaiteerath Boonchai, Mr. Liaw Yuan Chian and Mr. Shih Chian Fang and two are independent non-executive directors, namely Mr. Fu Heng Yang and Mr. Yu Chi Jui.*

Please also refer to the published version of this announcement in China Daily dated 26 April 2004.