



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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 969)

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

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June	
		2004	2003
		HK\$'000	HK\$'000
	<i>Notes</i>	(Unaudited)	(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 borrowing 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

NOTES :

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.

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”).

HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED

Segment information about these geographical markets is presented below:

Six months ended 30th June 2004

	USA <i>HKS'000</i>	PRC <i>HKS'000</i>	Others <i>HKS'000</i>	Consolidated <i>HKS'000</i>
TURNOVER	<u>322,268</u>	<u>75,421</u>	<u>-</u>	<u>397,689</u>
RESULT				
Segment result	<u>15,563</u>	<u>2,261</u>	<u>-</u>	17,824
Finance charges				(4,877)
Profit before taxation				12,947
Income tax expense				<u>(2,058)</u>
Profit before minority interests				<u>10,889</u>

Six months ended 30th June 2003

	USA <i>HKS'000</i>	PRC <i>HKS'000</i>	Others <i>HKS'000</i>	Consolidated <i>HKS'000</i> (Restated)
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				(5,324)
Profit before taxation				6,651
Income tax expense				<u>(984)</u>
Profit before minority interests				<u>5,667</u>

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 comprise		
PRC enterprise income tax	2,088	831
Deferred tax	(30)	153
	<u>2,058</u>	<u>984</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. 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.

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.

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.

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

All information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules in force prior to 31 March 2004, which remains applicable to results announcements in respect of accounting periods commencing before 1 July 2004 under transitional arrangements, will be published on the Stock Exchange's website in due course.

By order of the Board
Chaiteerath Boonchai
Chairman

Hong Kong, 24th September 2004

As at the date of this announcement, the Board comprises Mr. Chaiteerath Boonchai, Mr. Liaw Yuan Chian and Mr. Shih Chian Fang as executive directors; and Mr. Fu Heng Yang, Mr. Yu Chi Jui and Ms. Li Xiao Wei as independent non-executive directors.

Please also refer to the published version of this announcement in China Daily dated 27 September 2004.