



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

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

(Stock Code: 969)

**ANNOUNCEMENT OF FINAL RESULTS  
FOR THE YEAR ENDED 31ST DECEMBER 2004**

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 2004 together with the comparative amounts for 31st December 2003, are as follows:

## CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	(b)	<b>861,163</b>	819,057
Cost of sales		<b>(801,641)</b>	(764,398)
Gross profit		<b>59,522</b>	54,659
Other operating income		<b>9,744</b>	9,196
Distribution costs		<b>(935)</b>	(1,931)
Administrative expenses		<b>(27,128)</b>	(36,874)
Profit from operations	(c)	<b>41,203</b>	25,050
Interest on bank borrowings wholly repayable within five years		<b>(10,743)</b>	(11,372)
Profit before tax		<b>30,460</b>	13,678
Income tax expenses	(d)	<b>(6,126)</b>	(2,300)
Profit before minority interests		<b>24,334</b>	11,378
Minority interests		<b>(4,566)</b>	(4,237)
Net profit for the year		<b>19,768</b>	7,141
Dividend	(e)	–	–
Earnings per share (cents)	(f)	<b>2.88</b>	1.04

*Notes:*

### **Basis of Preparation of financial statements**

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). They have been prepared under the historical cost convention.

## Potential impact arising from recently issued accounting standards

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. The new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

### (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”).

#### 2004

	USA <i>HK\$’000</i>	PRC <i>HK\$’000</i>	Other <i>HK\$’000</i>	Consolidated <i>HK\$’000</i>
TURNOVER	<u>673,668</u>	<u>187,495</u>	<u>–</u>	<u>861,163</u>
RESULT				
Segment result	<u>32,684</u>	<u>8,062</u>	<u>457</u>	41,203
Finance charges				<u>(10,743)</u>
Profit before tax				30,460
Income tax expense				<u>(6,126)</u>
Profit before minority interests				<u>24,334</u>

**2003**

	<b>USA</b> <i>HK\$'000</i>	<b>PRC</b> <i>HK\$'000</i>	<b>Other</b> <i>HK\$'000</i>	<b>Consolidated</b> <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				(11,372)
Profit before tax				13,678
Income tax expense				<u>(2,300)</u>
Profit before minority interests				<u>11,378</u>

**(c) Depreciation and Amortisation**

During the year, the profit from operations has been arrived at after charging depreciation and amortisation of approximately HK\$43,254,000 (2003: HK\$43,634,000).

**(d) Income Tax Expenses**

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax calculated at 17.5% (2003: 17.5%) of the estimated assessable profit	9	32
PRC enterprise income tax	<u>4,485</u>	<u>3,854</u>
	<u>4,494</u>	<u>3,886</u>
Deferred tax:		
Current year	2,434	(3,189)
Attributable to a change in PRC enterprise income tax rate	<u>(802)</u>	<u>1,603</u>
	<u>1,632</u>	<u>(1,586)</u>
	<u>6,126</u>	<u>2,300</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 2004 and 2003 and propose that the accumulated profits be retained.

**(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\$19,768,000 (2003: HK\$7,141,000) and on 686,400,000 shares (2003: 686,400,000 shares) in issue during the year.

The Company has no dilutive potential ordinary shares in issue during the years ended 31st December 2004 and 2003.

**(g) Transfer to and from reserves**

	Translation reserve	Goodwill reserve	Special reserve	PRC statutory reserves	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 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 and 1st January 2004	6,480	(24,509)	238,966	18,700	368,176	607,813
Transfer	-	-	-	1,566	(1,566)	-
Net profit for the year	-	-	-	-	19,768	19,768
At 31st December 2004	<u>6,480</u>	<u>(24,509)</u>	<u>238,966</u>	<u>20,266</u>	<u>386,378</u>	<u>627,581</u>

## **BUSINESS REVIEW**

For the year ended 31st December 2004, the Group had a turnover of HK\$861,163,000, a 5.1% increase as compared to HK\$819,057,000 in 2003. As mentioned in the interim report, the increase in turnover was due to the reduction in supply of smuggling leathers and shut down of many illegal operated tanneries in PRC.

The Group's net profit for the year ended 31st December 2004 was HK\$19,768,000, represents an increase of approximately 176.8% over last year. Basic earnings per share was HK2.88 cents (2003: HK1.04 cents). The gross profit margin remained stable at approximately 7%. The HK\$12.6 million increase in net profit was mainly due to a HK\$4.9 million increase in gross profit with the increase in turnover and a HK\$9.7 million decrease in administrative expenses.

With regard to geographical market segments, USA remained to be the main contributor to the Group's turnover. For the year ended 31st December 2004, turnover from USA represents 78.2% of total sales turnover as compared to 76.2% in 2003. The turnover from the PRC represents 21.8% of total turnover as compared to 22.1% in 2003. To maintain the profit margin of the Group, the Group had withdrawn from the non-profitable East Asia market for the year of 2004.

## **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 2004, the Group's total borrowings is HK\$178,566,000 as compared to HK\$248,902,000 at 31st December 2003. Of the total borrowings, HK\$149,022,000 (2003: HK\$216,478,000) is repayable within one year and HK\$29,544,000 (2003: HK\$32,424,000) is repayable after one year.

Shareholders' funds of the Group as at 31st December 2004 amounts to HK\$696,221,000 (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 31st December 2004 is 25.6% (2003: 36.8%).

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\$75 million (2003: HK\$103 million).

### **Pledge of Assets**

At 31st December 2004, certain of the Group's land and buildings, plant and machinery, and construction in progress with an aggregate carrying value of HK\$126 million (2003: HK\$116 million), inventories of HK\$42 million (2003: Nil) and bank deposits of HK\$13 million (2003: HK\$21 million) were pledged to banks to secure general banking facilities granted to the Group.

### **Employee Remuneration Policy**

At 31st December 2004, the Group employed 1,048 (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 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 2005 remains strong when compared to that of the same period in 2004. During the second quarter of 2005, the Group will start to produce for the few raw hides processing contracts which it has recently secured. The Group believes that the new business will bring new source of profits to its shareholders.

The Group will continue to pursue its prudent policy and maintain stable earning for the coming year.

## **DIVIDEND**

The Board of Directors does not recommend the payment of a dividend for the year ended 31st December 2004. (2003: 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.

## **COMPLIANCE WITH CODE OF BEST PRACTICE**

The Company has complied throughout the year ended 31st December 2004 with the Code of Best Practice as set out in Appendix 14 to the rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")



The Company has adopted the Model Code (Appendix 10 to the Listing Rules) as its own code of the conduct regarding securities transaction by directors. Having made specific enquiry of all directors, all directors declared that they complied with the model code throughout the year, except Mr. Fu Heng Yang (the “Mr Fu”) who fail to meet the margin call of TIS securities (HK) Limited (the “TIS”), TIS sold, at its discretion his shares in the Company, amounting to 2,484,000 share on 14 April 2004 (the “Disposal”) during the blackout period. Mr. Fu has not notified the Company’s Managing Director and obtain a dated written acknowledgement prior to the Disposal but had faxed a copy of his letter dated 16 April 2004 to the Manging Director afterwards. The Listing Committee of the Stock Exchange of Hong Kong Limited had imposed a public statement which involved criticism on Mr. Fu for the said breaches on 18th January 2005.

#### **AUDIT COMMITTEE**

The audit committee comprises three members, Mr. Fu, Mr. Yu Chi Jui and Ms Li Xiao Wei, all of them 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, 22nd April 2005

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

Please also refer to the published version of this announcement in China Daily.