

“The Group will continue to dedicate itself to manufacture the best quality leather that fulfill the needs and exceed the expectation of our customers.”

Mr. SHIH Chian Fang Chairman

BUSINESS REVIEW

For the year ended 31st December 2005, the Group had a turnover of HK\$874,629,000, an 1.6 percent increase compared to HK\$861,163,000 in 2004. The growth in turnover was brought by increases in selling prices during the year.

The Group's net profit attributable to the equity holders of the Company for the year ended 31st December 2005 was HK\$3,585,000, represents a decrease of approximately 81.9 percent over last year. Basic earnings per share was HK0.52 cents (2004: HK2.88 cents). The reduction in consolidated net profit was due to a two percent reduction in gross margin brought by an eight percent increase of average cost of raw materials and a six percent increase in average selling price. The increase in average cost of raw materials was mainly caused by an increase in the cost of chemicals and raw hides of PRC origin. The former was a direct result of a surge in crude oil prices worldwide and the latter was caused by a sudden increase in demand for raw hides from PRC when many tanneries shifted to purchase raw hides within PRC in response to the restriction of tax-free import of raw hides from overseas implemented after the bonded trade contract failed to be renewed close to the end of last year.

With regard to geographical market segments, USA remained to be the main contributor to the Group's turnover. For the year ended 31st December 2005, turnover from USA represents 87.9 percent of total sales turnover as compared to 78.2 percent in 2004 and the business from the PRC market showed a decrease of 43.6 percent as compared to the same period in 2004. As mentioned in the Interim Report, the change was due to a shift in the market focus of the Company in response to the increase in costs of raw materials. In order to mitigate the impact of increase in costs, the Company increased the sales to more profitable customers from USA and reduced the sales to less profitable customers in PRC.



Turnover and contribution to operating profit is derived from dedication to quality.

HUA LIEN INTERNATIONAL

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 2005, the Group's total borrowings is HK\$204,972,000 as compared to HK\$178,566,000 at 31st December 2004. Of the total borrowings, HK\$204,614,000 (2004: HK\$149,022,000) is repayable within one year and HK\$358,000 (2004: HK\$29,544,000) is repayable after one year.

Shareholders' funds of the Group as at 31st December 2005 amounts to HK\$699,823,000 (2004: HK\$696,221,000). 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 2005 is 29.3% (2004: 25.6%).

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.

CHAIRMAN'S STATEMENT

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 amounted to approximately HK\$47 million (2004: HK\$75 million).

Pledge of Assets

At 31st December 2005, certain of the Group's prepaid lease payment on land use right, property, plant and equipment with an aggregate carrying value of approximately HK\$120 million (2004: HK\$126 million), inventories of approximately HK\$80 million (2004: HK\$42 million) and bank deposits of approximately HK\$10 million (2004: HK\$13 million) were pledged to banks to secure general banking facilities granted to the Group.

Employee Remuneration Policy

At 31st December 2005, the Group employed 1,106 (2004: 1,048) 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

Increasing pressure from cost escalation is expected to continue. The prices of raw hides of PRC origin continue to increase after the formal abolishment of tax-free import for raw hides from overseas under bonded trade contract in PRC in January 2006. More and more tanneries shifted to purchase the raw hides within PRC to avoid the import custom duty of 5% to 14%. On the demand side, the sales for the first quarter of 2006 remains strong, the Group will adjust its selling prices wherever appropriate to cope with the changes in costs of materials.

DIVIDEND

The Board of Directors does not recommend the payment of a dividend for the year ended 31st December 2005. (2004: Nil)

By order of the Board

Shih Chian Fang

Chairman

Hong Kong, 24th April 2006