



HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00969)

Interim Report **2006**

HUA LIEN

UNAUDITED INTERIM RESULTS

The board of directors (the "Board") of Hua Lien International (Holding) Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2006, together with the comparative figures for the corresponding period in 2005, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30th June 2006

		Six months ended 30th June	
		2006	2005
	Note	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	(3)	368,218	395,077
Cost of sales		(354,443)	(375,849)
Gross profit		13,775	19,228
Other operating income		6,730	2,863
Distribution costs		(186)	(428)
Administrative expenses		(10,129)	(12,303)
Profit from operations		10,190	9,360
Finance costs		(5,046)	(4,471)
Profit before taxation	(4)	5,144	4,889
Income tax expense	(5)	(984)	(780)
Profit for the period		4,160	4,109
Attributable to:			
Equity holders of the Company		800	1,253
Minority interests		3,360	2,856
		4,160	4,109
Dividend	(6)	–	–
Earnings per share (cents)	(7)	0.12	0.18

CONDENSED CONSOLIDATED BALANCE SHEET

at 30th June 2006

	Note	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	(8)	252,422	270,562
Prepaid lease payments on land use rights		41,465	41,948
Deferred tax assets		22,932	22,653
		316,819	335,163
Current assets			
Inventories		244,551	245,628
Trade and other receivables	(9)	427,203	436,166
Prepaid lease payments on land use rights		966	966
Pledged bank deposits		1,500	10,100
Bank balances and cash		19,131	35,816
		693,351	728,676
Current liabilities			
Trade and other payables	(10)	50,301	80,998
Loan from a director		17,129	16,848
Tax liabilities		10,974	12,850
Amounts due to minority shareholders of subsidiaries		1,638	1,165
Bank borrowings – due within one year	(11)	181,655	204,614
		261,697	316,475
Net current assets		431,654	412,201
Total assets less current liabilities		748,473	747,364

		30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Non-current liabilities			
Bank borrowings – due after one year	(11)	–	358
		<u>748,473</u>	<u>747,006</u>
Capital and reserves			
Share capital	(12)	68,640	68,640
Reserves		<u>631,937</u>	<u>631,183</u>
Equity attributable to equity shareholders of the Company		700,577	699,823
Minority interests		<u>47,896</u>	<u>47,183</u>
Total equity		<u>748,473</u>	<u>747,006</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2006

	Attributable to equity holders of the Company								
	Share capital	Translation reserve	Goodwill reserve	Special reserve	PRC statutory reserves	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2006	68,640	6,497	(24,509)	238,966	21,296	388,933	699,823	47,183	747,006
Exchange difference arising on translation of foreign operations recognised directly in equity	-	(46)	-	-	-	-	(46)	-	(46)
Profit for the period	-	-	-	-	-	800	800	3,360	4,160
Pre-determined distribution (Note 13 (c))	-	-	-	-	-	-	-	(2,647)	(2,647)
At 30th June 2006 (unaudited)	68,640	6,451	(24,509)	238,966	21,296	389,733	700,577	47,896	748,473
At 1st January 2005	68,640	6,480	(24,509)	238,966	20,266	386,378	696,221	47,834	744,055
Profit for the period	-	-	-	-	-	1,253	1,253	2,856	4,109
Pre-determined distribution	-	-	-	-	-	-	-	(2,647)	(2,647)
At 30th June 2005 (unaudited)	68,640	6,480	(24,509)	238,966	20,266	387,631	697,474	48,043	745,517

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30th June 2006

	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	5,489	(25,860)
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	8,601	(197)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	(25,782)	7,864
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,692)	(18,193)
CASH AND CASH EQUIVALENTS AT 1st JANUARY	30,869	25,298
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(46)	–
CASH AND CASH EQUIVALENTS AT 30th JUNE	19,131	7,105
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	19,131	12,093
Bank overdraft	–	(4,988)
	19,131	7,105

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock of Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal accounting policies

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2005.

In the current period, the Group has applied, for the first time, a number of Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments to Hong Kong Accounting Standards ("HKAS (Amendments(s))") and interpretations ("HK (IFRIC)-INT(s)") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The application of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required. The Group has not early applied any new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of the Group.

3. 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 2006

	USA HK\$'000	PRC HK\$'000	Others HK\$'000	Consolidated HK\$'000
TURNOVER	<u>294,683</u>	<u>73,535</u>	–	<u>368,218</u>
RESULTS				
Segment results	<u>7,116</u>	<u>1,609</u>	<u>1,465</u>	10,190
Finance costs				<u>5,046</u>
Profit before taxation				5,144
Income tax expense				<u>984</u>
Profit for the period				<u>4,160</u>

Six months ended 30th June 2005

	USA HK\$'000	PRC HK\$'000	Others HK\$'000	Consolidated HK\$'000
TURNOVER	<u>353,639</u>	<u>41,438</u>	<u>-</u>	<u>395,077</u>
RESULTS				
Segment results	<u>8,723</u>	<u>601</u>	<u>36</u>	9,360
Finance costs				<u>4,471</u>
Profit before taxation				4,889
Income tax expense				<u>780</u>
Profit for the period				<u>4,109</u>

4. Depreciation and amortization

During the period, the operating profit has been arrived at after charging depreciation and amortization of HK\$18,884,000 (six months ended 30th June 2005: HK\$21,620,000).

5. Income tax expense

Six months ended 30th June	
2006	2005
HK\$'000	HK\$'000

The charge comprises:

PRC enterprise income tax	1,263	1,263
Deferred tax	(279)	(483)
	<u>984</u>	<u>780</u>

PRC enterprise income tax is calculated at the applicable prevailing rates in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

6. Dividend

The directors of the Company do not recommend the payment of an interim dividend for the period ended 30th June 2006 (six months ended 30th June 2005: Nil).

7. Earnings per share

The calculation of the earnings per share for the period is based on profit for the period attributable to the equity holders of the Company of HK\$800,000 (six months ended 30th June 2005: HK\$1,253,000) and on the weighted average number of 686,400,000 shares (six months ended 30th June 2005: 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 2006 and 2005.

8. Additions to property, plant and equipment

During the period, there were additions of property, plant and equipment amounted to HK\$261,000 (six months ended 30th June 2005: HK\$477,000).

9. Trade and other receivables

The Group has a policy of allowing an average credit period of 90 days to its trade customers. Included in the trade and other receivables are trade receivables of HK\$214,014,000 (31st December 2005: HK\$231,336,000). The aged analysis of which at the balance sheet date is as follows:

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Up to 30 days	45,020	62,166
31 – 60 days	43,259	77,000
61 – 90 days	47,784	46,906
91 – 180 days	77,951	45,264
181 days – 1 year	–	–
	214,014	231,336

10. Trade and other payables

Included in trade and other payables are trade payables of HK\$29,733,000 (31st December 2005: HK\$61,353,000). The aged analysis of which at the balance sheet date is as follows:

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Up to 30 days	6,504	14,651
31 – 60 days	7,216	14,677
61 – 90 days	5,580	13,430
91 – 180 days	7,738	12,676
181 days to 1 year	1,629	4,026
Over 1 year	1,066	1,893
	<u>29,733</u>	<u>61,353</u>

11. Bank borrowings

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Secured bank loans	101,116	119,486
Unsecured bank loans	80,539	80,539
Secured bank overdraft	–	4,947
	<u>181,655</u>	<u>204,972</u>

The bank borrowings are repayable as follows:

Within one year or on demand	181,655	204,614
One to two years	–	358
Two to five years	–	–
	<u>181,655</u>	<u>204,972</u>
Less: Amount due within one year shown under current liabilities	<u>(181,655)</u>	<u>(204,614)</u>
Amount due after one year	<u>–</u>	<u>358</u>

12. Share capital

	Number of ordinary shares of HK\$0.1 each	Value HK\$'000
<i>Authorised:</i>		
At 30th June 2006 and 31st December 2005	<u>1,500,000,000</u>	<u>150,000</u>
<i>Issued and fully paid:</i>		
At 30th June 2006 and 31st December 2005	<u>686,400,000</u>	<u>68,640</u>

13. Commitments

(a) Operating lease commitments

	30th June 2006 HK\$'000	30th June 2005 HK\$'000
Minimum lease payments paid during the period under operating leases in respect of land and buildings and office premises	<u>694</u>	<u>694</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases that fall due as follows:

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Within one year	<u>1,241</u>	1,357
In the second to fifth year inclusive	<u>4,621</u>	4,621
Over five years	<u>1,733</u>	2,310
	<u>7,595</u>	<u>8,288</u>

Operating lease payments principally represent rentals payable by the Group for certain of its factory properties and office premises. Leases are negotiated for terms of 1 to 20 years and rentals are fixed throughout the lease terms.

(b) *Capital commitments*

The Group did not have any significant capital commitments at the balance sheet date.

(c) *Other commitments*

Under the terms of the cooperative joint venture agreement in respect of 江門市華聯制皮工業有限公司(Jiangmen Hua Lien Tannery Co., Ltd.) (the "Jiangmen Hua Lien"), a subsidiary of the Company, Galloon International (Holding) Company, Limited (the "Galloon International"), is entitled to all of the net profit or loss of Jiangmen Hua Lien throughout the entire cooperative joint venture period after the payment of a pre-determined distribution by Jiangmen Hua Lien each year to the PRC joint venture partner. In the event that Jiangmen Hua Lien does not have sufficient distributable profit to make the required payments to the PRC joint venture partner, Galloon International is responsible for making such payments to the PRC joint venture partner as compensation. At 30th June 2006, the pre-determined distributions to be paid to the PRC joint venture partner over the entire cooperative joint venture period are as follows:

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Amount payable:		
Within one year	5,239	5,239
One to two years	5,239	5,239
Two to five years	13,751	13,751
Over five years	50,214	52,861
	74,443	77,090

14. Related party transactions

During the period, the Group had certain transactions with related parties. Details of these transactions for the period and balances at 30th June 2006 with these related parties are as follows:

(a) Transactions

A subsidiary entered into a lease agreement (the "Lease Agreement") with Xian People's Tannery to lease the land use rights related to the site on which the factory building of the subsidiary is located at a monthly rental of RMB102,000 (approximately HK\$96,000). During the period, the Group paid rental expense of approximately HK\$578,000 (six months ended 30th June 2005: HK\$578,000) to Xian People's Tannery. The amount paid was in accordance with the terms of the Lease Agreement.

(b) Balances

Details of balances with the related parties at the balance sheet date are set out in the condensed consolidated balance sheet.

(c) Others

Details of an arrangement with a joint venture partner of Galloon International in respect of the distribution of profits in Jiangmen Hua Lien are set out in note 13(c).

15. Pledge on assets

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
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The following assets of the Group are pledged to secure banking facilities granted to the Group

Plant and machinery	28,093	34,427
Prepaid lease payments on land use right and buildings	81,742	85,979
Inventories	73,397	79,815
Bank deposits	1,500	10,100
	184,732	210,321

16. Contingent liabilities

Bank of East Asia, Shenzhen Branch (“the Bank”) lodged litigation against Jiangmen Hua Lien for repayment of the principal of approximately Rmb11,241,000 (approximately equivalent to HK\$10,800,000) and the interest accrued thereon and claimed that the Company accepts joint and several liabilities thereof. A hearing was held in 深圳市中級人民法院 (Shenzhen Intermediate People’s Court) on 28 August 2006. The court did not award any judgement thereto. The date of the next hearing remains uncertain. The liabilities have carried in the accounts by the Group. The Company is currently negotiating with the Bank with a view to reach out-of court settlements on appropriate terms. The Board does not consider that the litigation will have material influence on the Group’s operation.

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\$20 million (31 December 2005: HK\$47 million)

Saved as disclosed above, the Group did not have any material contingent liabilities.

17. Post balance sheet event

The Xian Production Plant suspended operation in September 2006 by reason of the Notice issued by 西安市人民政府 (Xian People’s Government). Pursuant to the Notice, enterprise located in the area surrounding 大興路 (Daxing Road), Xian, the PRC are encourage to relocate to other new industrial zones or logistic zones in Xian to confirm with the government’s plan of town restructuring.

The Group started to transfer the customer orders of Xian Production Plant to other two plants of the Group in Guangdong Province, the PRC.

The Company issued an announcement on 11th August 2006 on details of this suspension of Xian Production

BUSINESS REVIEW

For the six months ended 30th June 2006, the Group had a turnover of HK\$368,218,000, with a decrease of 7% compared to HK\$395,077,000 for the same period in 2005. The slight decrease was attributed to the sluggish market in USA that slowed down orders from customers.

The consolidated net profit attributable to the equity holders of the Company for the period ended 30th June 2006 was HK\$800,000, represents a decrease of approximately 36% over the corresponding period last year. Basic earnings per share was 0.12 cents (six months ended 30th June 2005: 0.18 cents). The reduction in consolidated net profit was due to the 1% reduction in gross profit margin caused by a 6% increase of average cost of raw materials which was higher than the 5% increase in the average selling price.

With regard to geographical market segments, USA remained to be the main contributor to the Group's turnover. For the period ended 30th June 2006, turnover from USA represented 80% of total sales turnover as compared to 89% in 2005 and the business from the PRC market showed an increase of 77% as compared to the same period in 2005. The change was due to a shift in the market focus of the Company in response to a decrease of order from USA and the Group increased the sales to PRC customers. The increase in segment result in other countries was the income derived from the processing of raw cowhides for other tanneries in South East Asia.

FINANCIAL REVIEW

Liquidity and financial resources

The Group financed its operation with cash flow generated internally and banking facilities. As at 30th June 2006, the Group's total borrowings were HK\$181,655,000 as compared to HK\$204,972,000 at 31st December 2005. Of the total borrowings, an amount of HK\$181,655,000 (31st December 2005: HK\$204,614,000) was repayable within one year and HK\$ Nil (31st December 2005: HK\$358,000) was repayable after one year.

Shareholders' equity of the Group as at 30th June 2006 amounted to approximately HK\$700,577,000 (31st December 2005: HK\$699,823,000). 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 2006 was 25.9% (31st December 2005: 29.3%)

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.

Pledge of assets

At the balance sheet date, certain of the Group's plant and machinery with an aggregate carrying value of HK\$28,093,000 (31st December 2005: HK\$34,427,000), prepaid lease payments on land use right and buildings of HK\$81,742,000 (31st December 2005: HK\$85,979,000), inventories HK\$73,397,000 (31st December 2005: HK\$79,815,000) and bank deposits of HK\$1,500,000 (31st December 2005: HK\$10,100,000) were pledged to banks to secure general banking facilities granted to the Group.

EMPLOYEE REMUNERATION POLICY

As at 30th June 2006, the Group employed 948 (31st December 2005: 1,106) 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, the demand for the second half of the year remains strong.

Pressure from rising material cost is still expected. Our Group will maintain its cautious policy on inventory and examine the possibility of selling price adjustment to mitigate the pressure from the upward trend in the cost of raw materials onto our business.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2006, the interests of the directors in the ordinary shares in the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long position in the shares of the Company

Name of director	Number of ordinary shares held		
	Beneficial Owner	Held by controlled corporation (Note)	Approximately percentage of interest %
Liaw Yuan Chian ("Mr. Liaw")	–	363,500,039	52.96%
Fu Heng Yang	<u>216,000</u>	<u>–</u>	<u>0.03%</u>

Note: Mr. Liaw was deemed to have interests in 363,500,039 ordinary shares in the Company, which were held by Joyce Services Limited, a company in which Mr. Liaw has 58.87% beneficial interests.

Save as disclosed above, as at 30th June 2006, there were no other interests or short positions of the directors in any shares of the Company which have been notified to the Company pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which any such director was taken or deemed to have under such provisions of SFO) or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") which was adopted pursuant to a resolution passed on 4th January 2000 for the primary purpose of providing incentives to directors and eligible employees will expire on 3rd January 2010. Under the Scheme, the Board of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 30 days of the date of offer, upon payment of HK\$1 per grant. Options may be exercised at any time from the period commencing on the date falling 6 months after the date of grant of share option to the 5th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares.

No options have been granted or agreed to be granted under the Scheme since its adoption.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme as disclosed above, at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouses or children under the age of 18, had any rights to subscribe for securities in the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2006, the interest or short positions of the persons, other than the interests disclosed under the heading "Director's interest in securities", in the shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO was as follow:

Long position in the shares of the Company

Name	Number of ordinary shares held	% of the issued share capital
Wong Pi Chao	<u>48,862,000</u>	<u>7.1%</u>

Saved as disclosed above, as at 30th June 2006, the Company had not been notified of any other person, other than the directors of the Company, who has interest or short positions in the shares of the Company representing 5% or more of the Company's issued share capital.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company had complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006 except for the following:

Code Provision A.4.1

None of the existing independent non-executive directors of the Company is appointed for a specific term. However, all the independent non-executive directors are subject to retirement by rotation at each annual general meeting under the bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG code.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The Audit Committee comprises three independent non-executive directors has held meetings to review with management the accounting principles and practices adopted by the Group and discussing internal controls and financial reporting matters including a review of the unaudited condensed interim accounts for the six months ended 30th June 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all the directors, all the directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

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.

By order of the Board
Shih Chian Fang
Chairman

Hong Kong, 22nd September 2006