HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 969)

ANNUAL RESULTS
FOR THE YEAR ENDED 31ST DECEMBER 2005

The board of directors (the "Board") 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 2005, together with the comparative figures for the corresponding period in 2004, as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Turnover	(2)	**874,629**	861,163
Cost of sales		**(832,005)**	(801,641)
Gross profit		**42,624**	59,522
Other operating income		**5,562**	9,744
Distribution costs		**(720)**	(935)
Administrative expenses		**(25,555)**	(27,128)
Profit from operations		**21,911**	41,203
Interest on bank borrowings wholly repayable within five years		**(10,271)**	(10,743)
Profit before tax	(3)	**11,640**	30,460
Income tax expenses	(4)	**(3,414)**	(6,126)
Profit for the year		**8,226**	24,334
Attributable to:			
Equity holders of the Company		**3,585**	19,768
Minority interests		**4,641**	4,566
		8,226	24,334
Dividend	(5)	**–**	–
Earnings per share (cents)	(6)	**0.52**	2.88

CONSOLIDATED BALANCE SHEET
at 31st December 2005

	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets		
Property, plant and equipment	**270,562**	310,542
Prepaid lease payments on land use rights	**41,948**	42,914
Available-for-sale financial assets/Investment securities	**–**	233
Deferred tax assets	**22,653**	22,901
	335,163	376,590
Current assets		
Inventories	**245,628**	256,527
Trade and other receivables	**436,166**	330,906
Prepaid lease payments on land use rights	**966**	966
Pledged bank deposits	**10,100**	13,224
Bank balances and cash	**35,816**	26,768
	728,676	628,391
Current liabilities		
Trade and other payables	**80,998**	37,192
Bills payable	**–**	15,486
Loan from a director	**16,848**	15,287
Tax liabilities	**12,850**	14,250
Amounts due to minority shareholders of subsidiaries	**1,165**	145
Bank borrowings – due within one year	**204,614**	149,022
	316,475	231,382
Net current assets	**412,201**	397,009
Total assets less current liabilities	**747,364**	773,599
Non-current liabilities		
Bank borrowings – due after one year	**358**	29,544
Net assets	**747,006**	744,055
Capital and reserves		
Share capital	**68,640**	68,640
Reserves	**631,183**	627,581
Equity attributable to shareholders	**699,823**	696,221
Minority interests	**47,183**	47,834
Total equity	**747,006**	744,055

NOTES TO THE FINANCIAL STATEMENTS

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has converged all Hong Kong Financial Reporting Standards ("HKFRSs") with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board at 1 January 2005. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects.

In 2005, the Group has adopted all HKFRSs pertinent to its operations. The applicable HKFRSs are set out below and the 2004 accounts have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combination

The accounting standards which have material effects on the Group are set out below:

Prepaid lease payments on land use rights

In previous years, the land use rights and buildings were classified under property, plant and equipment and stated at cost less accumulated depreciation and any impairment losses.

Upon adoption of HKAS 17, the Group's land use rights are reclassified as an operating lease, because the tile of the land is not expected to pass to the Group by the end of the lease term, and are reclassified from fixed assets to prepaid lease payments on land use rights, while buildings continue to be classified as part of the property, plant and equipment. Prepaid lease payments on land use rights under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

This change in accounting policy has had no effect on the consolidated income statement and retained earnings. The comparatives on the consolidated balance sheet for the year ended 31 December 2005 have been restated to reflect the reclassification of land use rights.

Financial Instruments

In the current year, the Group has applied HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

Effect of changes in the accounting policies on consolidated balance sheet:

	31 December 2005		31 December 2004	
	HKAS 17 HK$	HKAS 39 HK$	HKAS 17 HK$	HKAS 39 HK$
Increase/(decrease) in assets				
Property, plant and equipment	**(42,914)**		(43,880)	–
Prepaid lease payments on land use rights	**42,914**		43,880	–
Available-for-sale financial assets		**–**		233
Investment securities		**–**		(233)

The adoption of other new HKFRSs does not result in substantial changes to the Group's accounting policies except certain presentation and disclosure of the accounts would be affected.

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").

Segment information about these geographical markets is presented below:

2005

	USA *HK$'000*	**PRC** *HK$'000*	**Others** *HK$'000*	**Consolidated** *HK$'000*
TURNOVER	**768,903**	**105,726**	**–**	**874,629**
RESULT				
Segment result	**19,755**	**2,004**	**152**	**21,911**
Finance charges				**(10,271)**
Profit before tax				**11,640**
Income tax expenses				**(3,414)**
Profit for the year				**8,226**

2004

	USA *HK$'000*	PRC *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
TURNOVER	673,668	187,495	–	861,163
RESULT				
Segment result	32,684	8,062	457	41,203
Finance charges				(10,743)
Profit before tax				30,460
Income tax expenses				(6,126)
Profit for the year				24,334

3. **DEPRECIATION AND AMORTIZATION**

During the year, the operating profit has been arrived at after charging depreciation and amortization of approximately HK$41,660,000 (2004: HK$43,254,000).

4. **INCOME TAX EXPENSES**

	2005 *HK$'000*	2004 *HK$'000*
Current tax:		
Hong Kong profits tax calculated at 17.5% (2004: 17.5%) of the estimated assessable profit	**26**	9
PRC enterprise income tax	**3,140**	4,485
	3,166	4,494
Deferred tax		
Current year	**248**	2,434
Attributable to a change in PRC enterprise income tax rate	**–**	(802)
	248	1,632
	3,414	6,126

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.

5. **DIVIDEND**

The Directors do not recommend the payment of a dividend for the years ended 31st December 2005 and 2004 and propose that the accumulated profits be retained.

6. **EARNINGS PER SHARE**

The calculation of the earnings per share for the period is based on profit for the year attributable to the equity holders of the Company of approximately HK$3,585,000. (2004: HK$19,768,000) and on the weighted average number of 686,400,000 shares (2004: 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 2005 and 2004.

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 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.

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.

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: 42 million) and bank deposits of approximately HK$10 million (2003: 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 to14%. 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.

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 for the year ended 31 December 2005 except for the deviation as stated below:

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 Articles of Association 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.

Code Provision 4.2

According to Articles of Association of the Company, every director appointed to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next annual general meeting and shall then be eligible for eligible for re-election at that meeting, and at each annual general meeting one-third of directors for the time being shall retire from office by rotation except the managing director of the Board.. The company proposes to put forward a special resolution to the shareholders of the Company for approval at the forthcoming annual general meeting such that the Articles of Association will be amended in order to with CG code.

Code Provision E.1.2

The Chairman of the Board was unable to attend the annual general meeting held on 10th June 2005 as he had another engagement outside Hong Kong that was important to the Company's business.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended 31 December 2005.

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.

PUBLICATION OF ANNUAL REPORT

The 2005 annual report will be published on published on the website of The Stock Exchange of Hong Kong Limited in due course.

By order of the Board
Shih Chian Fang
Chairman

Hong Kong, 24th April 2006

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