



HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00969)

Interim Report **2007**

HUALIEN

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 2007 together with the comparative figures as follow:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2007

	Notes	Six months ended 30th June	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Turnover	(3)	303,145	368,218
Cost of sales		(307,322)	(354,443)
Gross (loss) profit		(4,177)	13,775
Other operating income		5,922	6,730
Distribution costs		(119)	(186)
Administrative expenses		(19,438)	(10,129)
(Loss) profit from operations		(17,812)	10,190
Interest on bank borrowings wholly repayable within five years		(4,083)	(5,046)
(Loss) profit before taxation	(4)	(21,895)	5,144
Income tax income (expense)	(5)	1,692	(984)
(Loss) profit for the period		(20,203)	4,160
Attributable to:			
Equity holders of the Company		(21,185)	800
Minority interests		982	3,360
		(20,203)	4,160
Dividend	(6)	–	–
(Loss) earnings per share (cents)	(7)	(3.09)	0.12

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June 2007

	Notes	30th June 2007 HK\$'000 (unaudited)	31st December 2006 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	(8)	208,937	221,065
Prepaid lease payments on land use rights		42,929	43,441
Deferred tax assets		29,252	27,560
		281,118	292,066
Current assets			
Inventories		166,417	186,173
Trade and other receivables	(9)	460,689	444,483
Prepaid lease payments on land use rights		1,024	1,024
Pledged bank deposits		1,500	1,500
Bank balances and cash		8,954	13,107
		638,584	646,287
Current liabilities			
Trade and other payables	(10)	92,598	78,825
Loan from a director		17,633	16,832
Tax liabilities		11,267	11,799
Amounts due to minority shareholders of subsidiaries		1,786	1,786
Bank borrowings	(11)	172,879	182,564
		296,163	291,806
Net current assets		342,421	354,481
Net assets		623,539	646,547

		30th June 2007 HK\$'000 (unaudited)	31st December 2006 HK\$'000 (audited)
Capital and reserves			
Share capital	(12)	68,640	68,640
Reserves		554,626	575,811
		<hr/>	<hr/>
Equity attributable to equity shareholders of the Company		623,266	644,451
Minority interests		273	2,096
		<hr/>	<hr/>
Total equity		623,539	646,547
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2007

	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 2007	68,640	24,487	(24,509)	238,966	21,910	314,957	644,451	2,096	646,547
Loss for the period	-	-	-	-	-	(21,185)	(21,185)	982	(20,203)
Pre-determined distribution (Note 13 (c))	-	-	-	-	-	-	-	(2,805)	(2,805)
At 30th June 2007 (unaudited)	68,640	24,487	(24,509)	238,966	21,910	293,772	623,266	273	623,539
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	-	(46)	-	-	-	-	(46)	-	(46)
Profit for the period	-	-	-	-	-	800	800	3,360	4,160
Pre-determined distribution	-	-	-	-	-	-	-	(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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2007

	Six months ended 30th June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
NET CASH FROM OPERATING ACTIVITIES	12,183	5,489
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	(603)	8,601
NET CASH USED IN FINANCING ACTIVITIES	(15,733)	(25,782)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,153)	(11,692)
CASH AND CASH EQUIVALENTS AT 1st JANUARY	13,107	30,869
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	–	(46)
CASH AND CASH EQUIVALENTS AT 30th JUNE	8,954	19,131
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	8,954	19,131

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of Preparation

The 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 annual financial statements of the Group for the year ended 31st December 2006.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the "new HKFRSs"), which are effective for the Group's accounting period beginning 1st January 2007. The adoption of the new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

Standards or interpretations issued but not yet effective

The Group has not early applied the new standards, amendments or interpretations that have been issued but are not yet effective.

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

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 results 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 2007

	USA HK\$'000	PRC HK\$'000	Others HK\$'000	Consolidated HK\$'000
TURNOVER	<u>248,723</u>	<u>54,422</u>	<u>-</u>	<u>303,145</u>
RESULTS				
Segment results	<u>(13,353)</u>	<u>(9,722)</u>	<u>5,263</u>	<u>(17,812)</u>
Finance charges				<u>(4,083)</u>
Loss before taxation				<u>(21,895)</u>
Income tax income				<u>1,692</u>
Loss for the period				<u>(20,203)</u>

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>-</u>	<u>368,218</u>
RESULTS				
Segment results	<u>7,116</u>	<u>1,609</u>	<u>1,465</u>	10,190
Finance charges				<u>(5,046)</u>
Profit before taxation				5,144
Income tax expenses				<u>(984)</u>
Profit for the period				<u>4,160</u>

4. (Loss) Profit Before Taxation

(Loss) profit before taxation has been arrived at after charging

	Six months ended 30th June	
	2007	2006
	HK\$'000	HK\$'000
Amortization of prepaid lease payments	512	483
Depreciation of property, plant and equipment	12,841	18,401
	<hr/>	<hr/>
Total depreciation and amortization	13,353	18,884
Allowance for bad and doubtful receivables, net	10,003	387
	<hr/> 10,003	<hr/> 387

5. Income Tax Income (Expense)

	Six months ended 30th June	
	2007	2006
	HK\$'000	HK\$'000
The charge comprises:		
PRC enterprise income tax	–	(1,263)
Deferred tax	1,692	279
	<hr/>	<hr/>
	1,692	(984)
	<hr/> 1,692	<hr/> (984)

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 Board does not recommend the payment of an interim dividend for the period ended 30th June 2007 (six months ended 30th June 2006: Nil).

7. (Loss) Earnings per share

The calculation of the loss per share for the period is based on loss for the period of HK\$21,185,000 (six months ended 30th June 2006: net profit of HK\$800,000) and on 686,400,000 shares (six months ended 30th June 2006: 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 2007 and 2006.

8. Additions to Property, Plant and Equipment

During the period, there were additions of property, plant and equipment amounted to HK\$713,000 (six months ended 30th June 2006: HK\$261,000).

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\$184,973,000 (31st December 2006: HK\$185,133,000). The aged analysis of which at the balance sheet date is as follows:

	30th June 2007 HK\$'000	31st December 2006 HK\$'000
Up to 30 days	47,248	27,255
31 – 60 days	39,451	38,938
61 – 90 days	25,524	48,888
91 – 180 days	30,457	70,052
181 days – 1 year	42,293	–
	<u>184,973</u>	<u>185,133</u>

10. Trade and Other Payables

Included in trade and other payables are trade payables of HK\$77,967,000 (31st December 2006: HK\$61,438,000). The aged analysis of which at the balance sheet date is as follows:

	30th June 2007 HK\$'000	31st December 2006 HK\$'000
Up to 30 days	21,002	4,218
31 – 60 days	22,781	1,015
61 – 90 days	8,584	2,959
91 – 180 days	14,883	16,323
181 days to 1 year	3,813	28,192
Over 1 year	6,904	8,731
	<u>77,967</u>	<u>61,438</u>

11. Bank Borrowings

	30th June 2007 HK\$'000	31st December 2006 HK\$'000
Secured bank loans	90,507	100,192
Unsecured bank loans	82,372	82,372
	<u>172,879</u>	<u>182,564</u>

The bank borrowings are repayable as follows:

Within one year or on demand	172,879	182,564
One to two years	–	–
Two to five years	–	–
	<u>172,879</u>	<u>182,564</u>
Less: Amount due within one year shown under current liabilities	<u>(172,879)</u>	<u>(182,564)</u>
Amount due after one year	<u>–</u>	<u>–</u>

12. Share Capital

	Number of ordinary shares of HK\$0.1 each	Value HK\$'000
<i>Authorised:</i>		
At 30th June 2007 and 31st December 2006	<u>1,500,000,000</u>	<u>150,000</u>
<i>Issued and fully paid:</i>		
At 30th June 2007 and 31st December 2006	<u>686,400,000</u>	<u>68,640</u>

13. Commitments

(a) *Operating lease commitments*

	30th June 2007 HK\$'000	30th June 2006 HK\$'000
Minimum lease payments paid during the period under operating leases in respect of land and buildings and office premises	123	694

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 2007 HK\$'000	31st December 2006 HK\$'000
Within one year	216	245
In the second to fifth year inclusive	31	125
Over five years	—	—
	247	370

Operating lease payments principally represent rentals payable by the Group for certain of its land and buildings and office premises.

(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 Jiangmen Hua Lien Tannery Co., Ltd. (the "Jiangmen Hua Lien"), a subsidiary of the Company, Galloon International (Holding) Company, Limited (the "Galloon International"), a subsidiary of the Company, 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 2007, 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 2007 HK\$'000	31st December 2006 HK\$'000
Amount payable:		
Within one year	5,610	5,610
One to two years	5,610	5,610
Two to five years	14,725	14,725
Over five years	48,189	50,994
	74,134	76,939

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 2007 with these related parties are as follows:

(a) Balances

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

(b) 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	31st December
2007	2006
HK\$'000	HK\$'000

The following assets of the Group are pledged to secure banking facilities granted to the Group

Plant and machinery	–	51,849
Prepaid lease payments on land use right and buildings	99,983	85,218
Inventories	45,727	52,011
Bank deposits	1,500	1,500
	147,210	190,578

On 12th September 2006, Bank of China, Xian Branch which lent USD9.8 million to the Xian Hua Lien Tannery Co., Ltd. (the "Xian Hua Lien") obtained a writ from 陝西省高級人民法院 (Shannxi Province Highest People's Court) that granted the bank the legal rights to freeze and sequester all the assets of Xian Hua Lien including property, plant and equipment, inventories, trade receivables and bank balances. At the balance sheet date, Bank of China, Xian Branch sequestered the bank account, the property, plant and machinery and inventories of Xian Hua Lien as additional security. Due to the suspension of operation of Xian Hua Lien and full provision against the assets had been made, the sequestered assets have no carrying value at the balance sheet date.

16. 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 HK\$5,816,000 (31st December 2006: HK\$10,191,000)

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

17. POST BALANCE SHEET EVENT

On 6th August 2007, the Company has successfully placed a total of 137,280,000 new shares to independent places at the placing price of HK\$0.262 per placing share. The proceeds were used to provide additional working capital of the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting held on 21st June 2007 and rank pari passu with other shares in issue in all respects.

BUSINESS REVIEW

For the six months ended 30th June 2007, the Group had a turnover of HK\$303,145,000, with a decrease of 18% compared to HK\$368,218,000 for the same period in 2006. The decrease in turnover was mainly brought by the suspension of operation of production plant in Xian in September 2006.

The consolidated net loss attributable to the equity holders of the Company for the period ended 30th June 2007 was HK\$21,185,000 compared to net profit attributable to equity holders of HK\$800,000 over the corresponding period last year. Basic loss per share was HK3.09 cents (six months ended 30th June 2006: Basic earning per share of HK0.12 cents). The loss for the period was mainly due to the trading loss of HK\$4,177,000 as a result of the 5% increase of average cost of raw materials and the shifting in demand of customers to the relatively lower price products during the period which neutralize the positive impact of 4% increase in selling price in second quarter. On the other hand, an additional provision of HK\$10,003,000 for bad and doubtful debts has been made during the period under company policy for the increase in overdue trade receivables.

With regard to geographical market segments, USA remained to be the main contributor to the Group's turnover. For the period ended 30th June 2007, turnover from USA represented 82% of total sales turnover as compared to 80% in 2006 and the business from the PRC represented 18% as compared to 20% during the same period in 2006. No material change in market segments during the periods under review.

FINANCIAL REVIEW

Liquidity and financial resources

The Group financed its operation with cash flow generated internally and banking facilities. As at 30th June 2007, the Group's total borrowings was HK\$172,879,000 as compared to HK\$182,564,000 at 31st December 2006. All the total borrowings in both periods were repayable within one year.

Shareholders' equity of the Group as at 30th June 2007 amounted to approximately HK\$623,266,000 (31st December 2006: HK\$644,451,000). 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 2007 was 27.7% (31st December 2006: 28.3%)

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 prepaid lease payments on land use right and buildings of HK\$99,983,000 (31st December 2006: HK\$85,218,000), inventories of HK\$45,727,000 (31st December 2006: HK\$52,011,000) and bank deposits of HK\$1,500,000 (31st December 2006: HK\$1,500,000) were pledged to banks to secure general banking facilities granted to the Group.

EMPLOYEE REMUNERATION POLICY

As at 30th June 2007, the Group employed 629 (31st December 2006: 771) 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. In view of the poor performance of the Group, Mr. Shih Chian Fang and Mr. Liaw Yuan Chian voluntarily agreed to reduce their director remuneration to HK\$100,000 per annum since 2007 until the Group's performance improved. Mr. Shih Chian Fang will take up the position of General Manager from Mr. Liaw Yuan Chian since 1st October 2007 and will be responsible for implement all necessary change to improve the Group's performance.

PROSPECTS

Looking forward, the demand for the second half of the year remains strong.

Pressure from rising material cost is still expected in second half. In order to mitigate this negative impact, the Board will launch a series of trendy higher price full grain leather for the coming autumn-winter season and further examine the possibility of selling price adjustment to lessen the pressure from the rising cost.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2007, 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%

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 2007, 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 2007, saved as disclosed under the heading "Director's interest in securities", the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the shares of the Company as record in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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 30th June 2007 including 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 financial statements for the six months ended 30th June 2007.

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, 25th September 2007