



# 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 2006

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 2006, together with the comparative figures for the corresponding period in 2005, as follows:

### CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2006

|  | Notes | 2006<br>HK\$'000        | 2005<br>HK\$'000    |
|--|-------|-------------------------|---------------------|
| Turnover   | (2)   | 718,909                 | 874,629             |
| Cost of sales  |       | <u>(694,855)</u>        | <u>(832,005)</u>    |
| Gross profit   |       | 24,054                  | 42,624              |
| Other operating income   |       | 14,565                  | 5,562               |
| Distribution costs   |       | (408)                   | (720)               |
| Administrative expenses  |       | (31,786)                | (25,555)            |
| Impairment losses on property, plant and<br>equipment, inventories and trade receivables | (3)   | <u>(112,242)</u>        | <u>–</u>            |
| (Loss) profit from operations  |       | (105,817)               | 21,911              |
| Interest on bank borrowings wholly repayable<br>within five years                        |       | <u>(8,619)</u>          | <u>(10,271)</u>     |
| (Loss) profit before tax   | (4)   | (114,436)               | 11,640              |
| Income tax income (expenses)   | (5)   | <u>1,597</u>            | <u>(3,414)</u>      |
| (Loss) profit for the year   |       | <u><u>(112,839)</u></u> | <u><u>8,226</u></u> |
| Attributable to:   |       |                         |                     |
| Equity holders of the Company  |       | (73,362)                | 3,585               |
| Minority interests   |       | <u>(39,477)</u>         | <u>4,641</u>        |
|  |       | <u><u>(112,839)</u></u> | <u><u>8,226</u></u> |
| Dividend   | (6)   | <u><u>–</u></u>         | <u><u>–</u></u>     |
| (Loss) earnings per share (cents)  | (7)   | <u><u>(10.68)</u></u>   | <u><u>0.52</u></u>  |

**CONSOLIDATED BALANCE SHEET**

at 31st December 2006

|   | <i>Notes</i> | <b>2006</b><br><b>HK\$'000</b> | 2005<br><i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| Non-current assets                                      |              |                                |                         |
| Property, plant and equipment                           |              | <b>221,065</b>                 | 270,562                 |
| Prepaid lease payments on land use rights               |              | <b>43,441</b>                  | 41,948                  |
| Deferred tax assets                                     |              | <b>27,560</b>                  | 22,653                  |
|   |              | <b>292,066</b>                 | 335,163                 |
| Current assets  |              |                                |                         |
| Inventories   |              | <b>186,173</b>                 | 245,628                 |
| Trade and other receivables                             | (8)          | <b>444,483</b>                 | 436,166                 |
| Prepaid lease payments on land use rights               |              | <b>1,024</b>                   | 966                     |
| Pledged bank deposits                                   |              | <b>1,500</b>                   | 10,100                  |
| Bank balances and cash                                  |              | <b>13,107</b>                  | 35,816                  |
|   |              | <b>646,287</b>                 | 728,676                 |
| Current liabilities                                     |              |                                |                         |
| Trade and other payables                                | (9)          | <b>78,825</b>                  | 80,998                  |
| Loan from a director                                    |              | <b>16,832</b>                  | 16,848                  |
| Tax liabilities   |              | <b>11,799</b>                  | 12,850                  |
| Amounts due to minority shareholders<br>of subsidiaries |              | <b>1,786</b>                   | 1,165                   |
| Bank borrowings – due within one year                   |              | <b>182,564</b>                 | 204,614                 |
|   |              | <b>291,806</b>                 | 316,475                 |
| Net current assets                                      |              | <b>354,481</b>                 | 412,201                 |
| Total assets less current liabilities                   |              | <b>646,547</b>                 | 747,364                 |
| Non-current liabilities                                 |              |                                |                         |
| Bank borrowings – due after one year                    |              | <b>–</b>                       | 358                     |
| Net assets  |              | <b>646,547</b>                 | 747,006                 |
| Capital and reserves                                    |              |                                |                         |
| Share capital   |              | <b>68,640</b>                  | 68,640                  |
| Reserves  |              | <b>575,811</b>                 | 631,183                 |
| Equity attributable to shareholders                     |              | <b>644,451</b>                 | 699,823                 |
| Minority interests                                      |              | <b>2,096</b>                   | 47,183                  |
| Total equity  |              | <b>646,547</b>                 | 747,006                 |

## NOTES

### 1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (the “new HKFRSs”) by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has no material effect on how the results for the current or prior accounting periods have been prepared and presented.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

|                    |   |
|--------------------|---|
| HKAS 1 (Amendment) | Capital Disclosures <sup>1</sup>  |
| HKFRS 7            | Financial Instruments: Disclosures <sup>1</sup>   |
| HK(IFRIC)-Int 7    | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics <sup>2</sup> |
| HK(IFRIC)-Int 8    | Scope of HKFRS 2 <sup>3</sup>   |
| HK(IFRIC)-Int 9    | Reassessment of Embedded Derivatives <sup>4</sup>   |
| HK(IFRIC)-Int 10   | Interim Financial Reporting and Impairment <sup>5</sup>   |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006

### 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:

**2006**

|                   | USA<br><i>HK\$'000</i> | PRC<br><i>HK\$'000</i> | Others<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|-------------------|------------------------|------------------------|---------------------------|---------------------------------|
| TURNOVER          | <u>570,103</u>         | <u>148,806</u>         | <u>–</u>                  | <u>718,909</u>                  |
| RESULTS           |                        |                        |                           |                                 |
| Segment results   | <u>1,833</u>           | <u>(111,666)</u>       | <u>4,016</u>              | (105,817)                       |
| Finance charges   |                        |                        |                           | <u>(8,619)</u>                  |
| Loss before tax   |                        |                        |                           | (114,436)                       |
| Income tax income |                        |                        |                           | <u>1,597</u>                    |
| Loss for the year |                        |                        |                           | <u>(112,839)</u>                |

**2005**

|                        | USA<br><i>HK\$'000</i> | PRC<br><i>HK\$'000</i> | Others<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|------------------------|------------------------|------------------------|---------------------------|---------------------------------|
| TURNOVER               | <u>768,903</u>         | <u>105,726</u>         | <u>–</u>                  | <u>874,629</u>                  |
| RESULTS                |                        |                        |                           |                                 |
| Segment results        | <u>19,755</u>          | <u>2,004</u>           | <u>152</u>                | 21,911                          |
| Finance charges        |                        |                        |                           | <u>(10,271)</u>                 |
| Profit before taxation |                        |                        |                           | 11,640                          |
| Income tax expenses    |                        |                        |                           | <u>(3,414)</u>                  |
| Profit for the year    |                        |                        |                           | <u>8,226</u>                    |

**3. IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT, INVENTORIES AND TRADE RECEIVABLES**

On 10 August 2006, the Board announced that the Xian production plant (“Xian Hua Lien”) would suspended operation pursuant to a notice issued by 西安市人民政府 (Xian People’s Government) which encouraged enterprises in the region where the Xian production plant was located to relocate to other new industrial and logistics zone in Xian to conform with the government’s plan of town restructuring. At the balance sheet date, the Group was still negotiating with the relevant government authorities for the amount of compensation with respect to the relocation and is looking for another area in Xian for the construction of a new production plant. In consideration of the progress of negotiation is in a stalemate, it is difficult to foresee the time that will be taken from relocation to full production run of new production plant. The Board expects that it may take 2 to 3 years or more.

In view of future demolition of the buildings of Xian Hua Lien, the uncertainty of the time expected to be required for the negotiation and construction of the new production plant, the possible reduction in the scale of operation of Xian Hua Lien and the rapid change in market demand that creates uncertainty in the suitability and usability of inventories and plant and machinery in future production, the recoverable amount of the existing property, plant and equipment and the net realisable value of inventories are expected to be drastically reduced, therefore impairment losses on property, plant and equipment and write-down of inventories has been made. Furthermore, the suspension of the trade relationships of Xian Hua Lien with their customers had also affected the recoverability of the trade receivables, an appropriate impairment loss was, therefore, made for the possible non-recoverable amount.

The following impairment losses have been provided:

|  | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Impairment loss on property, plant and equipment | <b>32,375</b>                  | –                       |
| Impairment loss on trade receivables             | <b>30,435</b>                  | –                       |
| Write-down of inventories                        | <b>49,432</b>                  | –                       |
|  | <hr/> <b>112,242</b> <hr/>     | <hr/> – <hr/>           |

#### **4. DEPRECIATION AND AMORTIZATION**

During the year, the operating loss has been arrived at after charging depreciation and amortization of approximately HK\$35,422,000 (2005: HK\$41,660,000).

#### **5. INCOME TAX (INCOME) EXPENSES**

|   | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Current tax:  |                                |                         |
| Hong Kong profits tax calculated at 17.5% (2005: 17.5%)<br>of the estimated assessable profit | <b>21</b>                      | 26                      |
| PRC enterprise income tax   | <b>2,112</b>                   | 3,140                   |
|   | <hr/> <b>2,133</b> <hr/>       | <hr/> 3,166 <hr/>       |
| Over provision of Hong Kong profits tax in prior years  | <b>(1)</b>                     | –                       |
| Deferred tax  | <b>(3,729)</b>                 | 248                     |
|   | <hr/> <b>(1,597)</b> <hr/>     | <hr/> 3,414 <hr/>       |

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.

#### **6. DIVIDEND**

The Directors do not recommend the payment of a dividend for the years ended 31st December 2006 and 2005.

#### **7. (LOSS) EARNINGS PER SHARE**

The calculation of the loss per share for the year is based on net loss for the year HK\$73,362,000 (2005: net profit of HK\$3,585,000) and on 686,400,000 shares (2005: 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 2006 and 2005.

## 8. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 90 days to its trade customers. Included in trade and other receivables are trade receivables of approximately HK\$185,133,000 (2005: HK\$231,336,000), the aged analysis of which at the balance sheet date is as follows:

|                    | 2006<br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|--------------------|-------------------------|-------------------------|
| Up to 30 days      | 27,255                  | 62,166                  |
| 31 – 60 days       | 38,938                  | 77,000                  |
| 61 – 90 days       | 48,888                  | 46,906                  |
| 91 – 180 days      | 70,052                  | 45,264                  |
| 181 days to 1 year | –                       | –                       |
|                    | <u>185,133</u>          | <u>231,336</u>          |

## 9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$61,438,000 (2005: HK\$61,353,000), the aged analysis of which at the balance sheet date is as follows:

|                    | 2006<br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|--------------------|-------------------------|-------------------------|
| Up to 30 days      | 4,218                   | 14,651                  |
| 31 – 60 days       | 1,015                   | 14,677                  |
| 61 – 90 days       | 2,959                   | 13,430                  |
| 91 – 180 days      | 16,323                  | 12,676                  |
| 181 days to 1 year | 28,192                  | 4,026                   |
| Over 1 year        | 8,731                   | 1,893                   |
|                    | <u>61,438</u>           | <u>61,353</u>           |

## BUSINESS REVIEW

For the year ended 31st December 2006, the Group had a turnover of HK\$718,909,000, a 17.8 percent decrease compared to HK\$874,629,000 in 2005. The decrease in turnover was mainly brought by the suspension of operation of production plant in Xian in September 2006.

The Group's net loss attributable to the equity holders of the Company for the year ended 31st December 2006 was HK\$73,362,000 compared to net profit attributable to equity holders of HK\$3,585,000 in 2005. Basic loss per share was HK10.68 cents (2005: Basic earning per share of HK0.52 cents). The loss for the year was mainly resulted from the 112 million impairment losses on property, plant and equipment, inventories and trade receivables in relation to the suspended production plant in Xian.

With regard to geographical market segments, USA remained to be the main contributor to the Group's turnover. For the year ended 31st December 2006, turnover from USA represents 79.3 percent of total sales turnover as compared to 87.9 percent in 2005 and the business from the PRC market showed an increase of 8.6 percent as compared the same period in 2005. As mentioned in the Interim Report, the change was due to a shift in the market focus of the Company in response to the decrease of order from USA and the Group increased the sales to the PRC customers. The increase in segment result in other countries was the income derived from the processing of raw cowhides for other tanneries in the South East Asia.

## **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 2006, the Group's total borrowings is HK\$182,564,000 as compared to HK\$204,972,000 at 31st December 2005. Of the total borrowings, HK\$182,564,000 (2005: HK\$204,614,000) is repayable within one year and HK\$Nil (2005: HK\$358,000) is repayable after one year.

Shareholders' funds of the Group as at 31st December 2006 amounts to HK\$644,451,000 (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 31st December 2006 is 28.3% (2005: 29.3%).

The sales and purchases of the Group are mainly denominated in Renminbi and United States dollar. Hence, the Group's exposure to foreign exchange risk is expected to be minimal. Bank borrowings are also mainly denominated in Renminbi and United States 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\$10 million (2005: HK\$47 million).

The Group reached settlement of legal claim with Bank of East Asia, Shenzhen Branch against Jiangmen Hua Lien Tannery Co. Ltd. for principal of Rmb11,241,000 (approximately equivalent of HK\$11,241,000) and interest thereon through a mutually agreed repayment schedule dated on 23rd March, 2007.

### **Pledge of Assets**

At 31st December 2006, certain of the Group's prepaid lease payment on land use right, property, plant and machinery with an aggregate carrying value of approximately HK\$137 million (2005: HK\$120 million), inventories of approximately HK\$52 million (2005: HK\$80 million) and bank deposits of approximately HK\$1.5 million (2005: HK\$10 million) were pledged to banks to secure general banking facilities granted to the Group.

On 12 September 2006, Bank of China, Xian Branch which lent USD9.8 million to 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 the Xian Hua Lien including property, plant and equipment, inventories, accounts receivables and bank balances. At 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 made, the sequestered assets have no carrying value at the balance sheet date.

### **Employee Remuneration Policy**

At 31st December 2006, the Group employed 771 (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 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**

On the supply side, the upward trend in cost of raw hides and labour in China will continuously drive up the operating cost in 2007. On the demand side, the sales for the first quarter of 2007 is satisfactory. A new leather processing arrangement have signed with one of the world-leading tannery, it is expected that additional revenue will generate in third quarter of 2007.

## **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 2006 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.

## **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 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.

## **PUBLICATION OF ANNUAL REPORT**

The 2006 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, 25th April 2007



*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*

Please also refer to the published version of this announcement in The Standard.