HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00969)

Annual Report 2008

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. SHIH Chian Fang *(Chairman)*
Mr. LIAW Yuan Chian *(Managing Director)*
Ms. ZHOU Yan Xia
Mr. KUANG Yong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. ZHENG Liu
Mr. YU Chi Jui
Ms. LI Xiao Wei

AUDITORS

HLM & Co.
Certified Public Accountants

COMPANY SECRETARY

Mr. WAN Hok Shing, *ACS, ACIS*

REGISTERED OFFICE

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE

Yaxi Industrial Development Zone,
Yamen Town, Xinhui District
Jiangmen City
Guangdong Province
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2513A, 25th Floor
113 Argyle Street
Mongkok
Kowloon
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Harbour Trust Co. Ltd.
One Capital Place
P.O. Box 1787
Grand Cayman
Cayman Islands
British West Indies

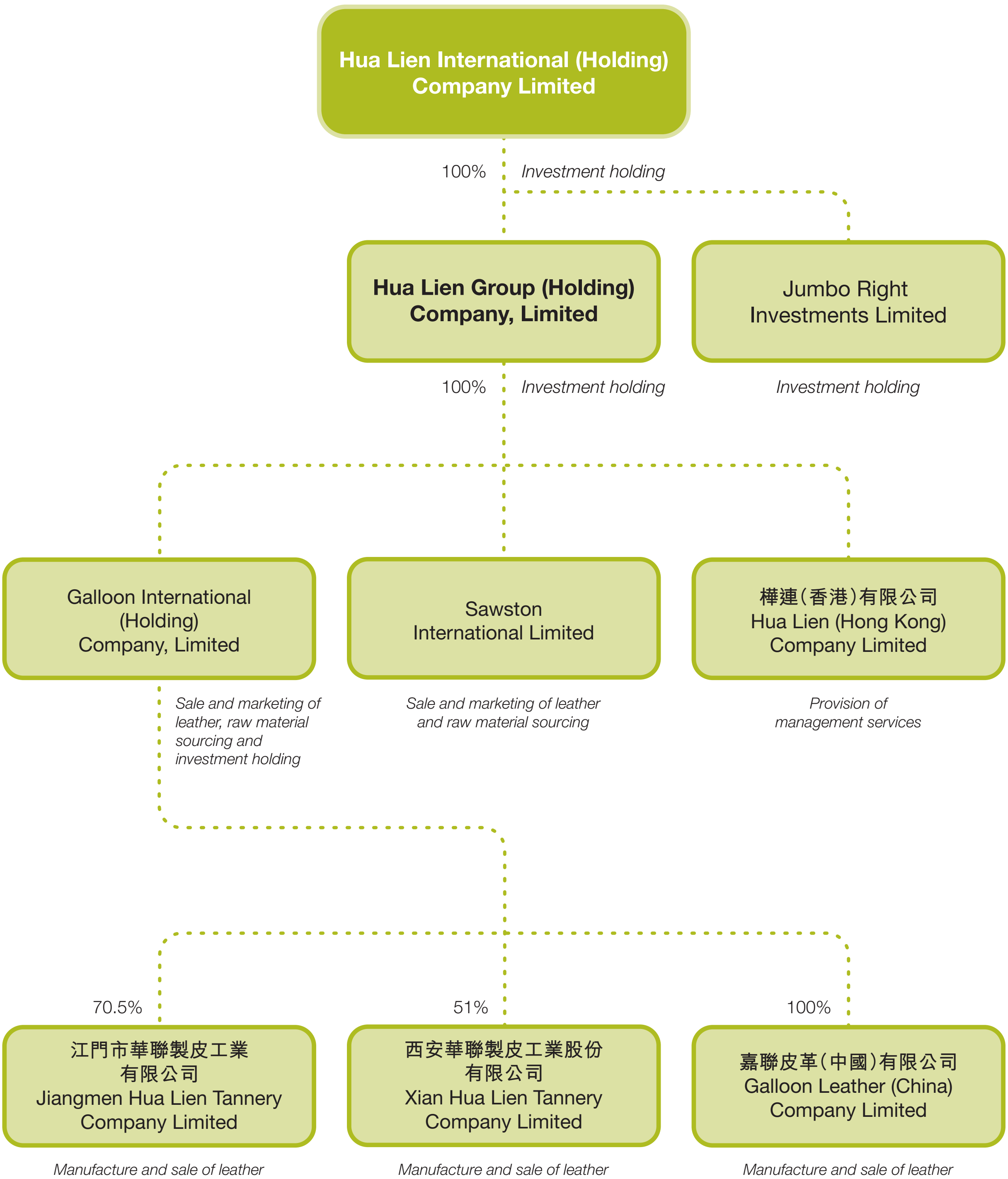
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Room 1901-02
Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai
Hong Kong

WEBSITE

http://finance.thestandard.com.hk/en/0969hualien

GROUP STRUCTURE



CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANAYLSIS

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

Mr. SHIH Chian Fang *Chairman*

BUSINESS REVIEW

For the year ended 31st December 2008, the Group had a turnover of approximately HK$537,003,000, a 12.7 percent decrease compared to approximately HK$615,203,000 in 2007. The decrease in turnover was mainly brought about by the reduction in demand in leather as a result of the global financial turmoil and economic crisis.

The Group's net loss attributable to the equity holders of the Company for the year ended 31st December 2008 was approximately HK$217,814,000 compared to net loss attributable to equity holders of approximately HK$293,968,000 in 2007. Basic loss per share for the year ended 2008 was HK26.44 cents (2007: HK39.61 cents). The net loss was mainly due to the following factors: (1) the gross trading loss of approximately HK$66.4 million, which caused mainly by the high manufacturing cost resulting from a consequent lack of absorption of overhead costs when manufacturing volume declined and the persistent high in raw materials, utility and labour costs; (2) the other expenses of approximately HK$103.9 million, which consisted of additional HK$70.0 million impairment provision of property plant and equipment caused by the reduction in recoverable amounts of those assets under the deteriorated business environments and additional of approximately HK$33.9 million for bad and doubtful debts had been made for the overdue trade receivables as those were hard to gain the loans from their banks under credit crunch and the customers of those lengthened their repayments.

With regard to geographical market segments, USA remained to be the main contributor to the Group's turnover. For the year ended 31st December 2008, turnover from USA represented 91.5% of total sales turnover as compared to 71.2% in 2007 and the business from the PRC represented 8.5% as compared 25.5% during the same period in 2007. The decline in orders from PRC was due to the fact that PRC as a big country doing leather goods manufacturing and processing was heavily impacted in the global financial crisis and also large numbers of leather goods orders were moved to the emerging leather industrial regions such as India and Vietnam since the competitiveness in price in PRC gradually became weak, importers quitted the import from PRC and lots of leather goods orders moved to India, Vietnam and other emerging leather industrial regions as well as many international brands tended to move their manufacturing place from China to this countries. To cope with decline in orders from PRC, the Group put effort on boosting the orders from the weakening USA markets, as most of international buyers held a watch-and-see attitude and many international buyers intending to quit the importing from China, our Group lowered the export prices to retain those customers and secure additional orders from USA and it resulted in 3% slightly fall in average export price.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st December 2008 and 2007.

PROSPECTS

Influenced by the global financial crisis, unemployed people increases dramatically in developed countries and regions in Europe and America, the consuming capacity keeps declining, so the leather demand remains its shrinking trend. The price reduction of leather manufacturers made the international buyers mostly held the watch-and-see attitude. The foreign trade market on leather keep a weak and soft trend and the sales demand in USA and PRC market are very weak for the first quarter of 2009. We forecast the demand will continue to fall down for remaining 2009. The shrinking consumer markets, the protective measures taken by countries to cope with the crisis and international competition in industries will made the selling price hard to recover and tend to go down in 2009. Though the recent uptrend of raw materials and labour costs were restricted slightly, the overall production cost remains high in 2009. Therefore, trading loss on leather manufacturing and trading may still persist in 2009.

In order to mitigate the negative impact, the Group has diversified into new line of business by acquisition of Sino-Africa Technology & Trading Limited (the "SATT") on 27th February 2009 to bring in additional source of revenue. SATT engage in principally in the provision of supporting services to the African Companies in respect of sweetener business including, but not limited to, (i) facilities, raw materials and good supply services; (ii) management and technical staff; (iii) related consulting services on construction and contract manufacturing services.

FINANCIAL REVIEW

Liquidity and Financial Resources

Bank deposits and cash balances as at 31st December 2008 amounted to approximately HK$46,887,000 (31st December 2007: approximately HK$52,389,000), mainly denominated in Hong Kong Dollars, Renminbi and US dollars.

The Group financed its operation with cash flow generated internally and banking facilities. As at 31st December 2008, the Group's total bank borrowings was approximately HK$124,869,000 (31st December 2007: approximately HK$160,358,000). All the Group's bank borrowings are mainly denominated in Renminbi and US dollars with floating interest rates.

Total equity of the Group as at 31st December 2008 amounts to approximately HK$181,479,000 (31st December 2007: approximately HK$402,941,000). The Group's gearing ratio which is measured on the basis of the Group's total bank borrowings over the total equity as at 31st December 2008 was 68.81% (31st December 2007: 39.80%). The increase in the gearing ratio during 2008 resulted primarily from the decrease in total equity, which was mainly due to the increase in cash used in financing activities and impairment loss recognized in respect of property, plant and equipment, and trade and other receivables.

FINANCIAL REVIEW (Cont'd)

Capital Structure

There was no change in the capital structure of the Group as at 31st December 2008 as compared with that as at 31st December 2007.

On 20th February 2009, the authorised capital of the Company was increased from HK$150,000,000 divided into 1,500,000,000 share of HK$0.1 each to HK$600,000,000 divided into 6,000,000,000 shares of HK$0.1 each by creation of 4,500,000,000 new shares of HK$0.1 each in the capital of the Company.

On 27th February 2009, 300,000,000 new shares allotted and issued by the Company at an issue price of HK$0.6 per share as part of the consideration for the acquisition of the entire interest in SATT.

Treasury Policies

The Group continues to adhere to prudent treasury policies. The Group's overall financial and funding policies were aimed to control credit risk to lower the risk of credit sales, the liquidity risk to ensure that funds would be recovered on a timely basis to fulfill the requirement of debt repayment and to closely monitor the overall currency and interest rate exposures to minimize risks in their fluctuation. When considered appropriate the Group will hedge against currency exposure as well as interest rate exposure.

The Group did not use any derivative financial instruments to hedge for its risk exposure during the year ended 31st December 2008 and 2007.

Foreign Exchange exposure

The sales and purchases of the Group are mainly denominated in Renminbi and United States dollar and Hong Kong dollar. Hence, the Group's exposure to foreign exchange risk arising from sales and purchases is expected to be minimal. The use of financial instruments for hedging purposes is not considered necessary.

Currency exposure arising from net assets of the foreign operations of the Group in the PRC is managed primarily through borrowings denominated in the relevant foreign currencies. The Group did not use any derivative financial instruments to hedge for its foreign exchange risk exposure on net assets during the year ended 31st December 2008 and 2007.

FINANCIAL REVIEW (Cont'd)

Contingent Liabilities

At the balance sheet date, the Company had not provided any guarantees in favour of any third party nor were there any significant contingent liabilities.

Pledge of Assets

At the balance sheet date, certain of the Group's prepaid lease payments on land use rights, property, plant and machinery of approximately HK$112,842,000 (31st December 2007: prepaid lease payment of land use rights, property, plant and machinery, bank deposits and inventories of approximately HK$204,090,000) were pledged to banks to secure general banking facilities granted to the Group.

On 12th September 2006, Bank of China, Xian Branch (the "Bank of China") which lent USD9.8 million to the Xian Hua Lien Tannery Co. Ltd. ("Xian Hua Lien") obtained a writ from 陝西省高級人民法院 (Shaanxi Province Highest People's Court) that granted the bank the legal rights to freeze and sequestrate 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 continued to sequestrate the bank accounts, the property, plant and machinery and inventories of Xian Hua Lien as additional security which have no carrying value at the balance sheet date.

Besides, the pledged prepaid lease premium and certain of pledged buildings of Jiangmen Hua Lien Tannery Co. Ltd. ("Jiangmen Hua Lien") with carrying value of approximately HK$38.2 million at the balance sheet date continued to sequestrate by Bank of China. The same assets was also sequestrated by Bank of Construction, Jiangmen Branch (the pledgee of those assets) at the balance sheet date.

As the sequestration does not affect the lawful right to use, the encumbrances on pledged assets do not have material influence on present trading operation of Jiangmen Hua Lien.

Capital Commitment

As at 31st December 2008, the Group did not have any significant capital commitments.

Significant Investment Held

The Group had not made any significant investment during the year ended 2008 and 2007.

FINANCIAL REVIEW (Cont'd)

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

The Group had not made material acquisitions and disposal of subsidiaries and affiliated companies during the year ended 31st December 2008 and 2007.

Future plans for material investments and capital assets

On 27th February 2009, Jumbo Right Investments Limited, a 100% subsidiary of the Company, has completed the acquisition of the entire interest in SATT. The total consideration is HK$853.2 million which has been satisfied on 27th February 2009 by the issue of 300,000,000 new shares allotted and issued by the Company at an issue price of HK$0.6 per share and the issue of Tranche 1 Redeemable Convertible Note of HK$366,600,000 and Tranche 2 Redeemable Convertible Note of HK$306,600,000.

Employees and Remuneration Policy

At 31st December 2008, the Group employed 455 (2007: 743) 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.

Shih Chian Fang
Chairman
Hong Kong, 23rd April 2009

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. SHIH Chian Fang, aged 48, was appointed Chairman of the Company in March 2006 and as Executive Director in May 2001. He is also the general manager of the Group and executive vice general manager of Jiangmen Hua Lien. Mr. Shih has over 24 years of experience in the tannery business. He joined the Group in October 1992.

Mr. LIAW Yuan Chian, aged 53, is the managing director of the Company and founder of the Group. He is responsible for the overall planning and development, corporate policy making and management of the Group. Mr. Liaw has over 29 years of experience in the tannery business. He joined the Group in October 1992.

Ms. ZHOU Yan Xia, aged 32, was appointed as Executive Director in May 2007. She is also the marketing manager of the Group. Ms. Zhou has over 12 years solid experience in marketing. She joined the Group in April 1997.

Mr. KUANG Yong, aged 45, was appointed as Executive Director in July 2007. He graduated from the Southwestern University of Finance and Economics of Sichuan in China with a bachelor degree in industrial management. He was formerly a director of the finance and investment department of Zhuhai Gree Group Corporation, a director of Dynamic Global Holdings Limited and a vice-general manager of Zhuhai Justong Technology Co., Ltd. Mr. Kuang has about 21 years of experience in finance and business management.

Independent non-executive Directors

Dr. ZHENG Liu, aged 34, was appointed as independent non-executive director in July 2007. She received her Ph.D. degree in accounting from University of Southern California in 2003 and her bachelor degree in accounting from Shanghai University of Finance and Economics in 1996. Dr. Zheng is an assistant professor in the School of Business at the University of Hong Kong and a member of American Accounting Association.

Mr. YU Chi Jui, aged 54, has been an independent non-executive director since May 2001. He has over 19 years experience in sales and marketing in Taiwan and the PRC.

Ms. LI Xiao Wei, aged 37, was appointed as independent non-executive director in September 2004. She has over 8 years experience in sales and marketing in the PRC.

SENIOR MANAGEMENT

Mr. WAN Hok Shing, aged 42, is the financial controller and company secretary of the Group. He is responsible for the overall accounting and financial matters of the Group. Mr. Wan holds a bachelor's degree with honours in hospitality management from the Hong Kong Polytechnic University, a diploma of legal studies with distinction from the University of Hong Kong and a diploma of logistics management from the Institute of Supply Chain Management. He has over 16 years of experience in auditing and accounting. Prior to joining the Group in August 1999, he worked for a listed company in Hong Kong and has over four years of working experience in an international accounting firm. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries and a member of the Institute of Supply Chain Management.

The directors present their annual report and the audited financial statements for the year ended 31st December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries are set out in note 29 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2008 are set out in the consolidated income statement on page 26.

The directors do not recommend the payment of any dividend in respect of the year ended 31st December 2008.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 72.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$0.6 million for the purpose of expanding its business. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 24 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st December 2008, the company's reserves available for distribution consisted of contributed surplus of approximately HK$468,576,000 (31st December 2007: approximately HK$468,576,000) and accumulated losses of approximately HK$357,674,000 (31st December 2007: approximately HK$176,270,000).

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers during the year accounted for approximately 74% of the Group's total sales and the Group's largest customer accounted for approximately 32% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 80% of the Group's total purchases and the Group's largest supplier accounted for approximately 42% of the Group's total purchases.

At no time during the year did a director, an associate of a director or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest suppliers.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Shih Chian Fang
Mr. Liaw Yuan Chian ("Mr. Liaw")
Ms. Zhou Yan Xia
Mr. Kuang Yong

Independent non-executive directors:

Dr. Zheng Liu
Mr. Yu Chi Jui
Ms. Li Xiao Wei

In accordance with Articles 116 of the Company's Articles of Association, Mr. Liaw Yuan Chian, Ms. Zhou Yan Xia and Ms. Li Xiao Wei will retire by rotation and shall be eligible for re-election at the forthcoming annual general meeting.

The terms of office of each of the independent non-executive directors is the period up to his retirement by rotation as required by the Company's Articles of Association.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

Mr. Liaw have entered into a service contract with the Company for an initial term of three years commencing from 5th January 2000, which will continue thereafter unless and until terminated by either party by giving to the other party not less than six months' prior written notice.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Profiles of Directors and Senior Management" on page 10 of this annual report.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2008, the interests of the directors and their associates 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, were as follows:

	Number of ordinary shares held			
Name of director	**Beneficial Owner**	**Held by controlled corporation** (Note)	**Total**	**Approximate % of the issued share capital**
Mr. Liaw	–	363,500,039	363,500,039	44.13%

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

As at 31st December 2008, Mr. Liaw held 126,000 non-voting deferred shares in Hua Lien (Hong Kong) Company Limited, the Company's subsidiary. The rights and restrictions of such non-voting deferred shares are set out in note 29 to the financial statements.

Save as disclosed above and other than one nominee ordinary share in Hua Lien (Hong Kong) Company Limited held by Mr. Liaw in trust for Hua Lien Group (Holding) Company, Limited, the Company's subsidiary, none of the directors or their associates had any interests or short positions in any securities of the Company or any of its associated corporation as at 31st December 2008.

SHARE OPTIONS

2000 Share Option Scheme

The Company's 2000 Share Option Scheme was adopted pursuant to a resolution passed on 4th January 2000 and has terminated by a resolution passed by shareholders on 20th September 2007. No share option has ever been granted under the terminated 2000 Share Option Scheme.

2007 Share Option Scheme

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2007 Share Option Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 20th September 2007. The purpose of the 2007 Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to the employees, directors, consultants and advisers of the Group and to promote the success of the Group. The details of the 2007 Share Option Scheme as pursuant to the Listing Rules, are set out in the Company's circular dated 3rd September 2007.

As at the balance sheet date, no share option has been granted under the 2007 Share Option Scheme since its adoption.

Particulars of the Company's share option schemes are set out in note 26 to the consolidated financial statements.

UNLISTED WARRANTS

On 4th October 2007, the Company issued 164,736,000 unlisted warrants for consideration of HK$0.03 each, the gross proceeds of approximately HK$4,942,000 was raised and included in the warrant reserves. Each of the warrant has subscription right to subscribe for one subscription share of the Company at a subscription price of HK$0.6, subject to adjustment, for a exercise period of four years from 4th October 2007 to 3rd October 2011.

None of such warrants were exercised since the date of issue. At the balance sheet date, the Company had outstanding 164,736,000 unlisted warrants to be exercised before 3rd October 2011. Such warrants, if exercised in full, would result in the issue of 164,736,000 additional ordinary shares.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of share in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2008, 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 share of the Company as record in the register requirement to be kept by the Company pursuant to Section 336 of the SFO.

On 27th February 2009, 300,000,000 new shares allotted and issued by the Company at an issue price of HK$0.6 per share to COMPLANT International Sugar Industry Co., Ltd. ("COMPLANT") as part of consideration for the acquisition of the entire interest in SATT. COMPLANT then become a substantial shareholders holding 26.70% of the total issued share capital of the Company immediately after the issue of consideration shares.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

At no time during the year, did the Company nor any of its subsidiaries purchase, sell or redeem any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December 2008.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws in the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS' REPORT

EMOLUMENT POLICY

The Remuneration Committee reviews the Group emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating result, individual performance and comparable market statistics.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out as "Share Options" above.

CORPORATE GOVERNANCE

Details of corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

AUDIT COMMITTEE

The Audit Committee comprises all three independent non-executive Directors. Dr. Zheng Liu is the Chairman of the Committee. Summary of duties and works of the Committee is set out in the "Corporate Governance Report" in this annual report.

REMUNERATION COMMITTEE

Pursuant to the requirement of the CG code, the Board has established the Remuneration Committee on 1st January 2005. The Remuneration Committee comprises all three independent non-executive Directors. Dr. Zheng Liu is the Chairman of the Committee. Summary of duties and works of the Committee is set out in the "Corporate Governance Report" in this annual report.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 31 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. HLM & Co. as auditors of the Company.

On behalf of the Board

Liaw Yuan Chian
Managing Director

Hong Kong, 23rd April 2009

CORPORATE GOVERNANCE REPORT

The Company acknowledges the importance of good corporate governance practices and believes that maintaining high standard of corporate governance practices is crucial to the development of the Company.

During the financial year ended 31st December 2008, the Company complied with the Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules'), except for certain areas of non-compliance that are discussed later in this report.

A. DIRECTORS

A.1 The Board

The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Group by directing and supervising the Company's affairs. The Board sets strategies for the Group and monitors the performance of the management.

During the financial year ended 31st December 2008, the board held four regular meetings at approximately quarterly intervals according to the Code. The attendance of each director is set out as follows:

Name of Director	Number of attendance
Mr. Shih Chian Fang	4/4
Mr. Liaw Yuan Chian	4/4
Ms. Zhou Yan Xia	4/4
Mr. Kuang Yong	4/4
Dr. Zheng Liu	4/4
Mr. Yu Chi Jui	4/4
Ms. Li Xiao Wei	4/4

A.2 Chairman and Managing Director

The Company segregates the role of Chairman from the Managing Director. Mr. Shih Chian Fang is the Chairman of the Company and Mr. Liaw Yuan Chian is the Managing Director of Company. The Chairman provides leadership to the Board and is responsible for overall strategic planning and corporate development, whereas the Managing Director is responsible for policy making and corporate management in order to implement the strategies approved by the Board.

A. DIRECTORS (Cont'd)

A.3 Board composition

The Board comprises four Executive Directors, being Mr. Shih Chian Fang (Chairman of the Board), Mr. Liaw Yuan Chian (Managing Director), Ms. Zhou Yan Xia and Mr. Kuang Yong, and three Independent Non-Executive Directors, being Dr. Zheng Liu, Mr. Yu Chi Jui and Ms. Li Xiao Wei. The profiles of the Directors, which are set out on page 10, demonstrate a balance of skills and experience of the Board.

One independent non-executive directors possesses recognized professional qualifications in accounting. The independent non-executive directors bring independent judgement, knowledge and experience to the Board.

The Company has received from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company consider all of the independent non-executive directors are independent within the definition of the Listing Rules.

A.4 Appointment, re-election and removal

The code provision A.4.1 provides that non-executive director should be appointed for a specific term, subject to re-election. 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.

The Company currently does not have a nomination committee. To maintain high quality of the Board with a balance of skills and experience, the Board will identify individuals suitably qualified to become Directors when necessary. The Board will consider the experience, qualification and other relevant factors, including the standards set out in rules 3.08 and 3.09 of the listing Rules and rule 3.13 of the Listing Rules in case of Independent Non-executive Directors, of the eligible candidates.

A. DIRECTORS (Cont'd)

A.5 Responsibilities of directors

The newly appointed director have received a comprehensive formal induction on the first occasion of his appointment and the directors are continually updated with the regulatory requirements, business activities and development of the Group to facilitate the discharge of their responsibilities.

The independent non-executive directors participate actively in the Board Meetings. They bring an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. They will lead where potential conflicts of interest arise in connected transaction. They are also members of Audit Committee and Remuneration Committee.

The company has adopted the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, all directors declared that they have complied with the Model Code throughout the year.

A.6 Supply of and access of information

In respect regular board meetings, an agenda and accompanying board papers of the meeting are sent in full to all directors at least 3 days before the intended date of a meeting.

The management has the obligation to supply the Board and the various committees with adequate information in a timely manner to enable the members to make informed decisions. Each director has separate and independent access to the Group's senior management to acquire more information than is volunteered by management and to make further enquiries if necessary.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The level and make-up of remuneration and disclosure

The Remuneration Committee of the Company was established in January 2005. The Remuneration Committee comprised the three Independent Non-executive Directors. Dr. Zheng Liu is the Chairman of the Remuneration Committee.

The primary function is to make recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management. The Remuneration Committee adopted the Code Provision B.1.3. to be the terms of reference.

During the year, the Remuneration Committee has held one committee meeting. The attendance of the Remuneration Committee members at the Remuneration Committee meeting was as follows:

Name of Member	**Number of attendance**
Dr. Zheng Liu	1/1
Mr. Yu Chi Jui	1/1
Ms. Li Xiao Wei	1/1

The chairman of the Remuneration Committee will report the findings and recommendations of the Remuneration Committee to the Board after the meeting. For the financial year ended 31st December 2008, the Remuneration Committee has considered and approved the Group's policy for the remuneration of directors and senior management. The Remuneration Committee has assessed the performance of the executive directors and considered the remuneration package executive directors by reference to the prevailing packages with companies listed on the main board of the Stock Exchange. Details of the remuneration of directors are disclosed on an individual basis and are set out in note 10 to the financial statements.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, the Board has prepared the financial statement on a going concern basis.

The responsibility of the external auditors, Messrs. HLM & Co., is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion solely to the shareholders of the Company and for no other purpose.

C.2 Internal Control

The Board is responsible for the Group's internal control system and for reviewing its effectiveness. Through the Audit Committee, the Board has reviewed the effectiveness of the system. No material deficiencies have been identified so far. The Board considered the Group's internal control system effective and that there were no significant areas of concern, which might affect the shareholders of the Company.

C.3 Audit Committee

The Audit Committee comprised the three Independent Non-Executive Directors of the Company. The chairman of the Audit Committee is Dr. Zheng Liu who possesses extensive knowledge in accounting and financial matters.

The Audit Committee is mainly responsible for providing an independent review and supervision of the financial reporting process and the Group's internal control system. The terms of reference are reviewed to include the provisions referred in Code Provision C.3.3.

C. ACCOUNTABILITY AND AUDIT (Cont'd)

C.3 Audit Committee (Cont'd)

During the year, the Audit Committee held two meetings. The attendance of the Audit Committee members at the Audit Committee meetings was as follows:

Name of Member	Number of attendance
Dr. Zheng Liu *(Chairman of the Audit Committee)*	2/2
Mr. Yu Chi Jui	2/2
Ms. Li Xiao Wei	2/2

The following was a summary of the work performed by the Audit Committee in 2008:

1. review the financial statements for the year ended 31st December 2007 and the annual results announcement with a recommendation to the board for approval; and

2. review the financial statements for the six months period ended 30th June 2008 and the interim results announcement with a recommendation to the Board for approval.

At the Audit Committee meeting on 22nd April 2009, the Audit Committee reviewed the Company's financial statements for the year ended 31st December 2008 and the annual results announcement with a recommendation to the Board for approval.

The Audit Committee recommend the re-appointment of Messrs. HLM & Co. as external auditors of the Group for 2009 and that the relevant resolution shall put forth for the consideration of the shareholders of the Company and their approval at the 2009 annual general meeting of the Company.

C.4 Fee paid/payable to Group's auditors

For the financial year ended 31st December 2008, the fee paid/payable to the Group's auditors, HLM & Co. is set out as follows:

	HK$'000
Services rendered	
– audit services	380
– non-audit services	–
	380

D. DELEGATION BY THE BOARD

D.1 Management functions

The board is responsible for determining the overall strategy and corporate development and ensuring the business operations are properly monitored. The Board reserves the right to decide all policy matters of the Group and material transactions.

The Board delegates the day-to-day operations to general managers and department heads who are responsible for the different aspects of the operations of the Group.

D.2 Board committees

The Company has maintained the Audit Committee and the Remuneration Committee throughout the year to oversee particular aspects of the Group's affairs. Each of these committees has terms of reference, which deal clearly with their authority and duties. The chairman of the committees will report the findings and recommendations of the committees to the Board after each meeting. The minutes of all meetings of the committees are circulated to the Board for information.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

The annual general meeting enables the shareholders of the Company to exchange views with the Board. The chairman of the Board has attended at the annual general meeting to be available to answer the questions of the shareholders of the Company.

Separate resolutions are proposed at the annual general meeting on each substantially separate issue, including the election of individual director.

E.2 Voting by poll

The right to demand a poll was set out in the circular to shareholders of the Company to be dispatched in May for 2009 Annual General Meeting to be held in June 2009.

INDEPENDENT AUDITORS' REPORT

恒健會計師行
HLM & Co.
Certified Public Accountants

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TO THE MEMBERS OF HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hua Lien International (Holding) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 71, which comprise the consolidated balance sheet as at 31st December 2008, and the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

AUDITORS' RESPONSIBILITY (Cont'd)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.
Certified Public Accountants
Hong Kong,
23rd April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	7	**537,003**	615,203
Cost of sales		**(603,421)**	(753,113)
Gross loss		**(66,418)**	(137,910)
Other operating income		**3,213**	14,638
Distribution costs		**(174)**	(220)
Administrative expenses		**(27,331)**	(22,707)
Other expenses	8	**(103,869)**	(111,911)
Loss from operations	9	**(194,579)**	(258,110)
Interest on bank borrowings wholly repayable within five years		**(9,093)**	(11,292)
Loss before tax		**(203,672)**	(269,402)
Income tax expense	12	**(10,003)**	(18,660)
Loss for the year		**(213,675)**	(288,062)
Attributable to:			
Equity holders of the Company		**(217,814)**	(293,968)
Minority interests		**4,139**	5,906
		(213,675)	(288,062)
Dividend	13	**–**	–
Loss per share (cents)	14		
– Basic		**(26.44)**	(39.61)
– Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

At 31st December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	15	**114,574**	203,430
Prepaid lease payments on land use rights	16	**45,992**	44,649
Deferred tax assets	17	**758**	10,254
		161,324	258,333
Current assets			
Inventories	18	**101,877**	155,206
Trade and other receivables	19	**80,666**	142,712
Prepaid lease payments on land use rights	16	**1,138**	1,078
Pledged bank deposits	23(iii)	**–**	1,500
Bank balances and cash	20	**46,887**	52,389
		230,568	352,885
Current liabilities			
Trade and other payables	21	**59,662**	17,589
Loan from a director	22	**14,438**	16,534
Tax liabilities		**11,444**	11,916
Amounts due to minority shareholders of subsidiaries		**–**	1,880
Bank borrowings	23	**124,869**	160,358
		210,413	208,277
Net current assets		**20,155**	144,608
Net assets		**181,479**	402,941
Capital and reserves			
Share capital	24	**82,368**	82,368
Reserves		**99,111**	318,477
Equity attributable to shareholders		**181,479**	400,845
Minority interests		**–**	2,096
Total equity		**181,479**	402,941

The financial statements on pages 26 to 71 were approved and authorised for issue by the Board of Directors on 23rd April 2009 and are signed on its behalf by:

Shih Chian Fang
DIRECTOR

Liaw Yuan Chian
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2008

	Share capital HK$'000	Share premium HK$'000	Warrant reserve (note iii) HK$'000	Translation reserve HK$'000	Goodwill reserve HK$'000	Special reserve (note i) HK$'000	PRC statutory reserves (note ii) HK$'000	Accumulated (losses) profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
1st January 2007	68,640	–	–	24,487	(24,509)	238,966	21,910	314,957	644,451	2,096	646,547
Share issued	13,728	22,239	–	–	–	–	–	–	35,967	–	35,967
Transaction costs attributable to issue of shares	–	(1,010)	–	–	–	–	–	–	(1,010)	–	(1,010)
Warrants issued	–	–	4,942	–	–	–	–	–	4,942	–	4,942
Exchange difference arising on translation of foreign operations	–	–	–	10,463	–	–	–	–	10,463	–	10,463
Net loss for the year	–	–	–	–	–	–	–	(293,968)	(293,968)	5,906	(288,062)
Pre-determined distribution	–	–	–	–	–	–	–	–	–	(5,906)	(5,906)
At 31st December 2007 and 1st January 2008	82,368	21,229	4,942	34,950	(24,509)	238,966	21,910	20,989	400,845	2,096	402,941
Exchange difference arising on translation of foreign operations	–	–	–	(1,552)	–	–	–	–	(1,552)	–	(1,552)
Net loss for the year	–	–	–	–	–	–	–	(217,814)	(217,814)	4,139	(213,675)
Pre-determined distribution	–	–	–	–	–	–	–	–	–	(6,235)	(6,235)
At 31st December 2008	**82,368**	**21,229**	**4,942**	**33,398**	**(24,509)**	**238,966**	**21,910**	**(196,825)**	**181,479**	**–**	**181,479**

Notes:

(i) The special reserve of the Group represents the difference between the nominal amount of the ordinary share capital issued by the Company in exchange for the nominal amount of the share capital of Hua Lien Group (Holding) Company, Limited acquired pursuant to the group reorganisation in 2000.

(ii) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the PRC subsidiaries of the Group are required to provide for three reserve funds, being a statutory surplus reserve fund, an enterprise expansion fund, and a staff welfare and incentive bonus fund. Appropriations to such reserve funds are made out of net profit after tax of the statutory financial statements of the PRC subsidiaries and the amount and allocation basis are decided by their respective board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiaries, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation. The staff welfare and incentive bonus fund is reserve for future expenditure on staff welfare and incentive bonus.

The appropriations to the statutory surplus reserve fund and enterprise expansion fund are reflected in the consolidated balance sheet under shareholders' funds as PRC statutory reserves; however, the appropriation to staff welfare and incentive bonus fund is charged to consolidated income statement and the unused portion is recorded as a current liability.

(iii) On 4th October 2007, the Company issued 164,736,000 unlisted warrants for consideration of HK$0.03 each. The gross proceeds of approximately HK$4,942,000 was raised and included in the warrant reserve. Each of the warrant has subscription right to subscribe for one subscription share of the Company at a subscription price of HK$0.6, subject to adjustment, for a exercise period of four years from 4th October 2007 to 3rd October 2011. None of such warrants were exercised since the date of issue. At the balance sheet date, the Company had outstanding 164,736,000 unlisted warrants to be exercised before 3rd October 2011. Exercise in full of such warrants would result in the issue of 164,736,000 additional ordinary shares.

(iv) The joint venture partner of Jiangmen Hua Lien Tannery Co, Ltd. is entitled to a pre-determined distribution throughout the entire cooperative joint venture period. Details of those pre-determined distribution are set out in note 25(b).

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Loss from operating activities before tax	**(203,672)**	(269,403)
Adjustments for:		
Impairment loss recognised in respect of property, plant and equipment	**70,000**	–
Impairment loss recognised in respect of trade and other receivables	**33,869**	46,235
Impairment losses on property, plant and equipment, inventories and trade and other receivables for suspended Xian Hua Lien Tannery Co. Ltd.	**–**	65,675
Allowance for inventories	**13,833**	34,033
Depreciation and amortisation of property, plant and equipment	**31,220**	31,949
Amortisation of prepaid lease payment	**1,138**	1,078
Gain on disposal of property, plant and equipment	**(56)**	(68)
Interest income	**(401)**	(698)
Interest expense	**9,093**	11,292
Operating cash flows before movements in working capital	**(44,976)**	(79,907)
Decrease (increase) in inventories	**39,496**	(3,066)
Decrease in trade and other receivables	**28,177**	189,863
Increase (decrease) in trade and other payables	**42,073**	(61,236)
(Decrease) increase in amounts due to minority shareholders of subsidiaries	**(1,880)**	94
Cash generated from operations	**62,890**	45,748
Hong Kong profits tax paid	**(5)**	(10)
PRC enterprise income tax paid	**(591)**	–
NET CASH GENERATED FROM OPERATING ACTIVITIES	**62,294**	45,738
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(584)**	(2,616)
Interest received	**401**	698
Decrease in pledged bank deposits	**1,500**	–
Proceeds from disposal of property, plant and equipment	**102**	500
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	**1,419**	(1,418)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2008

	2008 HK$'000	2007 HK$'000
FINANCING ACTIVITIES		
Proceeds from issue of shares	–	35,967
Expenses on issue of shares	–	(1,010)
Proceeds from issue of warrants	–	4,942
Repayment of borrowings	(81,064)	(92,973)
Dividends paid to minority shareholders of subsidiaries	(6,235)	(5,906)
Interest paid	(9,093)	(11,292)
Bank borrowings raised	36,667	61,158
Net borrowing from a director	(2,096)	(298)
NET CASH USED IN FINANCING ACTIVITIES	(61,821)	(9,412)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,892	34,908
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	52,389	13,107
Effect of foreign exchange rate changes	(7,394)	4,374
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	46,887	52,389
CASH AND CASH EQUIVALENTS REPRESENT		
Bank balances and cash	46,887	52,389

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its registered office is at P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies and principal place of business in Hong Kong is at Unit 2513A, 25th Floor, 113 Argyle Street, Mongkok, Kowloon, Hong Kong. Its ultimate holding company is Joyce Services Limited ("Joyce"), a company which is incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 29.

The consolidated financial statements are presented in Hong Kong dollars, which is considered as the functional currency of the Company

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective for the Group's financial year and beginning on 1st January 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

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

HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[1]
HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 (Amendment)	Eligible Hedged Items[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[2]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[6]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5, and HK(IFRIC) – Int 9, which are effective for annual periods beginning on or after 1st July 2009, other amendments are effective for annual periods beginning on or after 1st January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1st January 2009
2 Effective for annual periods beginning on or after 1st July 2009
3 Effective for annual periods ending on or after 30th June 2009
4 Effective for annual periods beginning on or after 1st July 2008
5 Effective for annual periods beginning on or after 1st October 2008
6 Effective for transfers on or after 1st July 2009

* Improvements to HKFRSs contain amendments to HKFRS 1, HKFRS 4, HKFRS 5, HKFRS 6, HKFRS 7, HKFRS 8, HKAS 2, HKAS 7, HKAS 8, HKAS 10, HKAS 12, HKAS 14, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 21, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 33, HKAS 34, HKAS 36, HKAS 37, HKAS 38, HKAS 39, HKAS 40 and HKAS 41, HK(IFRIC) – Int 2.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after the beginning of the Group's annual reporting period beginning on or after 1st January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKICPA.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gain or loss on the disposal of an entity included the carrying amount of goodwill relating to the entity sold.

In previous years, the goodwill arising on acquisitions prior to 1st January 2001 was held in reserves. The Group has applied the relevant transitional provisions in the HKFRS 3 for non-restatement of such goodwill and the non-recognition of such goodwill in the profit or loss upon disposal or impairment.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Turnover

Turnover represents the net amounts received and receivable for goods supplied to outside customers, less returns and discounts during the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Construction in progress is stated at cost less any identified impairment loss which includes all construction costs and other direct costs attributable to such projects. Construction in progress is not depreciated until completion of construction and the asset is being put into use. Costs of completed construction works are transferred to the appropriate categories of property, plant and equipment.

The cost of land use rights is amortised over the period of the rights using the straight line method. Depreciation is charged so as to write off the cost of other items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	2%-5%
Plant and machinery	10%
Furniture and equipment	20%-25%
Motor vehicles	20%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance accounts. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance accounts. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including trade and other payables, secured bank borrowings and obligations under finance leases) are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statements items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations in the People's Republic of China (the "PRC") are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Leases where substantially all the risks and rewards of ownership of asset remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Retirement benefit costs

Payments to state managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF Scheme") are charged as expenses when they fall due.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of those financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

Provisions

Provisions are recognised when the Company has a present obligation as a result of past events; and it is probable that the Company will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December 2008, the carrying amount of trade receivables is approximately HK$69,242,000.

Allowance for inventories

The management of the Group reviews its inventories at each balance sheet date and make allowance for obsolete and slow-moving inventory items identified that is no longer suitable for use in production. Management estimates the net realisable value for such items based primarily on the latest invoice prices at each balance sheet date and make allowance for obsolete items. As at 31st December 2008, the carrying amount of inventories is approximately HK$101,877,000.

5. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt.

During 2008, the Group's strategy remained unchanged. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as bank borrowings divided by total equities.

5. CAPITAL RISK MANAGEMENT (Cont'd)

The Management considers the gearing ratio at the year end was as follows:

	2008 HK$'000	2007 HK$'000
Bank borrowings (note 23)	**124,869**	160,358
Total equity	**181,479**	402,941
Total debt to total equity ratio	**68.81%**	39.80%

The increase in the gearing ratio during 2008 resulted primarily from the decrease in total equity, which was mainly due to the increase in cash used in financing activities and impairment loss recognised in respect of property, plant and equipment, and trade and other receivables.

6. FINANCIAL INSTRUMENTS

6a. The carrying amounts of each of the categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Trade and other receivables	**80,666**	142,712
Pledged bank deposits	**–**	1,500
Bank balances and cash	**46,887**	52,389
	127,553	196,601
Financial liabilities		
Trade and other payables	**59,662**	17,589
Bank borrowings	**124,869**	160,358
	184,531	177,947

6. FINANCIAL INSTRUMENTS (Cont'd)

6b. Financial Risk Management Objectives and Policies

The Group's major financial instruments include trade and other receivables, bank balances, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in event of the counterparties failure to perform their obligations as at 31st December 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits and balances is limited because the counterparties are major banks. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

With regard to 2008 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash flow from operations to meet its debt obligations as they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

6. FINANCIAL INSTRUMENTS (Cont'd)

6b. Financial Risk Management Objectives and Policies (Cont'd)

Liquidity risk (Cont'd)

The maturity profile of the Group's financial liabilities as at the balance sheet date are as follows:

	Weighted average effective interest rate %	**Less than 1 year HK$'000**	**1-2 years HK$'000**	**2-5 years HK$'000**	**More than 5 years HK$'000**	**Carrying amount at 31.12.2008 HK$'000**
2008						
Trade and other payables	**N/A**	**59,662**	**–**	**–**	**–**	**59,662**
Bank borrowings	**6.4%**	**124,869**	**–**	**–**	**–**	**124,869**
		184,531	**–**	**–**	**–**	**184,531**

	Weighted average effective interest rate %	Less than 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	More than 5 years HK$'000	Carrying amount at 31.12.2007 HK$'000
2007						
Trade and other payables	N/A	17,589	–	–	–	17,589
Bank borrowings	6.6%	160,358	–	–	–	160,358
		177,947	–	–	–	177,947

6. FINANCIAL INSTRUMENTS (Cont'd)

6b. Financial Risk Management Objectives and Policies (Cont'd)

Liquidity risk (Cont'd)

Subsequent to the year end date, the Company successfully completed the acquisition of the entire share capital of Sino-Africa Technology & Trading Limited ("SATT"). Please refer to note 31 on Post Balance Sheet Events for more details. Part of the consideration is to issue of Tranche 1 Redeemable Convertible Note of HK$366,600,000 and Tranche 2 Redeemable Convertible Note of HK$306,600,000. Both Convertible Notes maturity date is on the fifth anniversary of the issue date. The holders of the Convertible Notes may at any time on or after the date of issue of the Convertible Notes and on or prior to the maturity date, require the Company to convert, the whole or any parts of the principal amount outstanding under the Convertible Notes into conversion Shares at the conversion Price.

The holders of the Convertible Notes also have the right at anytime before the maturity date to request the Company to redeem the whole or part of the outstanding principal amount of the Convertible Notes at a price equal to 100% of the amount to be redeemed, on fulfillment of certain conditions.

Due to the nature of the notes and the uncertainty that they will be redeemed, these notes are not included in the maturity profile.

Interest rate risk

The Group's bank balances carry floating-rate of interests and have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates. The Group currently does not have any interest rate hedging policy in relation to interest rate risks. However, the directors monitor the Group's exposure on an ongoing basis and will consider hedging interest rate risks should the needs arise.

Sensitivity analysis

The Group's exposure to cash flow interest rate risk is mainly attributable to the variable-rate bank borrowings. As at 31st December 2008 and 2007, if interest rate on borrowing has been 5% higher/lower with all other variable held constant, loss for the current year/prior year would decrease/increase by approximately HK$455,000 (2007: decrease/increase by approximately HK$580,000).

6. FINANCIAL INSTRUMENTS (Cont'd)

6b. Financial Risk Management Objectives and Policies (Cont'd)

Other price risk

The Group is not exposed to any equity securities risk or commodity price risk.

Currency risk

Certain of the financial assets and liabilities of the Group are denominated in foreign currencies. The Group will consider forward contracts to hedge its foreign currency exposure if it considers the risk to be significant.

	2008	2007
	HK$'000	HK$'000
Financial assets denominated in foreign currencies	**81,198**	151,495
Financial liabilities denominated in foreign currencies	**180,834**	176,401
The financial assets were denominated in the following foreign currencies:		
RMB	**81,198**	151,495
The financial liabilities were denominated in the following foreign currencies:		
RMB	**89,309**	89,693
USD	**91,525**	86,708
	180,834	176,401

6. FINANCIAL INSTRUMENTS (Cont'd)

6b. Financial Risk Management Objectives and Policies (Cont'd)

Currency risk (Cont'd)

Sensitivity analysis

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the HKD exchange rate, with other variable held constant, of the Group net loss (due to the change in fair value of the monetary assets and liability).

	Increase/ decrease in foreign currency rate	**Effect on loss before taxation**	
		2008	2007
		HK$'000	HK$'000
RMB	5%	**(406)**	3,090
	-5%	**406**	(3,090)
USD	5%	**4,576**	(4,335)
	-5%	**(4,576)**	4,335

7. 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.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

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:

2008

	USA HK$'000	PRC HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER	**491,393**	**45,610**	**–**	**537,003**
RESULTS				
Segment results	**(165,820)**	**(29,131)**	**372**	**(194,579)**
Finance charges				**(9,093)**
Loss before tax				**(203,672)**
Income tax expense				**(10,003)**
Loss for the year				**(213,675)**

The following is an analysis of the carrying amount of segment assets and segment liabilities analysed by the geographical location of its customers:

2008

	USA HK$'000	PRC HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	**66,208**	**3,034**	**–**	**69,242**
Unallocated assets				**322,650**
Consolidated total assets				**391,892**
LIABILITIES				
Unallocated liabilities				**210,413**
OTHER INFORMATION				
Impairment loss on trade and other receivables, net	**29,006**	**4,863**	**–**	**33,869**

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Geographical segments (Cont'd)

2007

	USA HK$'000	PRC HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER	438,292	156,860	20,051	615,203
RESULTS				
Segment results	(126,458)	(100,957)	(30,695)	(258,110)
Finance charges				(11,292)
Loss before tax				(269,402)
Income tax expense				(18,660)
Loss for the year				(288,062)

The following is an analysis of the carrying amount of segment assets and segment liabilities analysed by the geographical location of its customers:

2007

	USA HK$'000	PRC HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	87,007	10,164	–	97,171
Unallocated assets				514,047
Consolidated total assets				611,218
LIABILITIES				
Unallocated liabilities				208,277
OTHER INFORMATION				
Impairment loss on trade and other receivables, net	30,424	15,812	–	46,236

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

In addition to the analysis by geographical location of its customers, the following is an analysis of the carrying amount of consolidated segment assets and capital expenditure, analysed by the geographical area in which the assets and liabilities are located:

	Carrying amount of segment assets		Capital expenditure	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**46,360**	45,113	**–**	5
Elsewhere in the PRC	**344,774**	555,851	**584**	2,611
	391,134	600,964	**584**	2,616

8. OTHER EXPENSES

	2008	2007
	HK$'000	HK$'000
Impairment loss recognised in respect of property, plant & equipment	**70,000**	–
Impairment loss recognised in respect of trade and other receivables	**33,869**	46,236
Impairment losses on property, plant and equipment, inventories and trade and other receivables for suspended Xian Hua Lien Tannery Co. Ltd.	**–**	65,675
	103,869	111,911

9. LOSS FROM OPERATIONS

	2008	2007
	HK$'000	HK$'000
Loss from operations has been arrived at after charging:		
Directors' remunerations (note 10)	**820**	750
Retirement benefits scheme contributions	**479**	457
Other staff costs	**14,254**	11,666
Total staff costs	**15,553**	12,873
Depreciation for property, plant and equipment	**31,220**	31,949
Amortisation of prepaid lease payment on land use rights	**1,138**	1,078
Total depreciation and amortisation	**32,358**	33,027
Auditors' remuneration	**458**	454
Allowance for inventories	**13,833**	34,033
Net foreign exchange losses	**2,258**	–
and after crediting:		
Net foreign exchange gains	**–**	3,063
Interest income	**401**	698
Gain on disposal of property, plant and equipment	**56**	68

10. DIRECTORS' REMUNERATIONS

The emoluments paid or payable to each of the seven (2007: nine) directors were as follows:

	Fees	**Salaries, allowances, and other remuneration**	**Employer's contributions to retirement benefits schemes**	**2008 Total emoluments**	2007 Total emoluments
	HK$'000	HK$'000	HK$'000	**HK$'000**	HK$'000
Executive Directors					
Shih Chian Fang	–	100	–	**100**	100
Liaw Yuan Chian	–	100	–	**100**	100
Zhou Yan Xia	–	360	–	**360**	240
Kuang Yong	–	100	–	**100**	50
Chen Ling	–	–	–	**–**	120
Independent Non-executive Directors					
Zheng Lui	100	–	–	**100**	50
Yu Chi Jui	30	–	–	**30**	30
Li Xiao Wei	30	–	–	**30**	30
Fu Heng Yang	–	–	–	**–**	30
	160	660	–	**820**	750

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

11. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one (2007: one) executive director of the Company, whose emoluments are included in note 10 above. The emoluments of the remaining four (2007: four) highest paid individuals are as follows:

	2008	2007
	HK$'000	HK$'000
Salaries and allowances	**925**	896
Retirement benefits scheme contributions	**12**	12
	937	908

The emoluments of each of the remaining four (2007: four) highest paid individuals did not exceed HK$1,000,000 in both years.

12. INCOME TAX EXPENSE

	2008	2007
	HK$'000	HK$'000
The charge comprises:		
Hong Kong profits tax calculated at 16.5% (2007: 17.5%) of the estimated assessable profit		
– current year	**11**	16
– overprovision in prior years	**(12)**	–
	(1)	16
PRC enterprise income tax		
– current year	**–**	–
Deferred tax (note 17):		
– current year	**9,383**	18,644
– attributable to a change in tax rate	**621**	–
	10,004	18,644
	10,003	18,660

PRC enterprise income tax is calculated at the prevailing rates.

12. INCOME TAX EXPENSE (Cont'd)

On 16th March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Tax Law") by Order No. 63 of the President of the PRC. On 6th December 2007, the State Council of the PRC issued Implementation Regulations of the New Tax Law. Under the New Tax Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was increased from 24% to 25% from 1st January 2008 onwards.

The income tax expense for the year can be reconciled to the loss per the consolidated income statement as follows:

	2008		2007	
	HK$'000	%	HK$'000	%
Loss before tax	(203,672)		(269,402)	
Tax at the income tax rate of 25% (2007: 23%) (Note)	(50,918)	(25.0)	(61,962)	(23.0)
Tax effect of expenses that are not deductible in determining taxable profit	40,679	20.0	64,141	23.8
Tax effect of income that is not taxable in determining taxable profit	(2,827)	(1.4)	(2,877)	(1.1)
Tax effect of tax losses not recognised	22,465	11.0	20,283	7.5
Effect of different tax rates of subsidiaries operating in different province of the PRC	616	0.3	(925)	(0.3)
Overprovision in prior year	(12)	0.0	–	–
Income tax expense and effective tax rate for the year	10,003	4.9	18,660	6.9

Note: The income tax rate represents the average of the tax rate in the province in which the PRC subsidiaries are operated.

13. DIVIDEND

The Directors do not recommend the payment of a dividend for the years ended 31st December 2008 and 2007.

14. LOSS PER SHARE

The calculation of basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008	2007
	HK$'000	HK$'000
Loss		
Loss for purpose of basic loss per share	**(217,814)**	(293,968)

	2008	2007
	'000	'000
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**823,680**	742,064

Diluted loss per share for the year ended 31st December 2008 and 2007 had not been disclosed, as the warrants outstanding in both years had an anti-dilutive effect on the basic loss per share for the year ended 31st December 2008 and 2007.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1st January 2007	234,230	376,365	32,770	7,173	3,990	654,528
Exchange adjustments	12,327	20,306	1,678	367	209	34,887
Additions	198	840	19	488	1,071	2,616
Transfers	270	–	–	–	(270)	–
Disposals	–	(3,164)	–	(561)	–	(3,725)
At 31st December 2007	247,025	394,347	34,467	7,467	5,000	688,306
Exchange adjustments	13,724	22,433	1,866	402	278	38,703
Additions	–	100	–	–	484	584
Transfers	173	–	–	–	(173)	–
Disposals	–	–	–	(444)	–	(444)
At 31st December 2008	**260,922**	**416,880**	**36,333**	**7,425**	**5,589**	**727,149**
DEPRECIATION AND AMORTISATION						
At 1st January 2007	105,805	287,838	32,677	7,143	–	433,463
Exchange adjustments	5,569	15,169	1,654	365	–	22,757
Provided for the year	10,147	21,481	–	321	–	31,949
Eliminated on disposals	–	(2,788)	–	(505)	–	(3,293)
At 31st December 2007	121,521	321,700	34,331	7,324	–	484,876
Exchange adjustments	6,752	17,891	1,838	396	–	26,877
Provided for the year	10,734	20,383	–	103	–	31,220
Impairment loss recognised	60,000	10,000	–	–	–	70,000
Eliminated on disposals	–	–	–	(398)	–	(398)
At 31st December 2008	**199,007**	**369,974**	**36,169**	**7,425**	**–**	**612,575**
NET BOOK VALUES						
At 31st December 2008	**61,915**	**46,906**	**164**	**–**	**5,589**	**114,574**
At 31st December 2007	125,504	72,647	136	143	5,000	203,430

The land and buildings of the Group are situated in the PRC and held under medium-term land use rights.

16. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2008	2007
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Non-current asset	**45,992**	44,649
Current asset	**1,138**	1,078
	47,130	45,727

The leasehold land is held under medium-term lease and situated in PRC.

17. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the Group:

	Accelerated accounting depreciation	**Inventories**	**Trade receivables**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2007	10,680	918	15,962	27,560
Exchange Adjustments	562	(64)	840	1,338
Charge to income (note 12)	(878)	(964)	(16,802)	(18,644)
At 31st December 2007 and 1st January 2008	10,364	(110)	–	10,254
Exchange Adjustments	576	(68)	–	508
(Charge) credit to income (note 12)	(10,130)	747	–	(9,383)
Effect of change in tax rate (note 12)	(810)	189	–	(621)
At 31st December 2008	**–**	**758**	**–**	**758**

There was no significant unprovided deferred tax for the Group for the year or at the balance sheet date.

18. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**12,464**	49,052
Work in progress	**86,159**	101,104
Finished goods	**3,254**	5,050
	101,877	155,206

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK$603,421,000 (2007: approximately HK$753,113,000).

19. 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$69,242,000 (2007: approximately HK$97,171,000), the ageing analysis of which at the balance sheet date is as follows:

	2008 HK$'000	2007 HK$'000
Up to 30 days	**15,527**	53,954
31 – 60 days	**34,405**	34,584
61 – 90 days	**19,310**	7,213
91 – 180 days	**–**	1,420
	69,242	97,171

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

20. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.01% to 2.70% (2007: 0.50% to 4.50%).

21. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$40,971,000 (2007: approximately HK$17,339,000), the ageing analysis of which at the balance sheet date is as follows:

	2008 HK$'000	2007 HK$'000
Up to 30 days	**18,987**	10,459
31 – 60 days	**5,073**	92
61 – 90 days	**4,636**	501
91 – 180 days	**6,811**	3,027
181 days to 1 year	**3,609**	1,739
Over 1 year	**1,855**	1,521
	40,971	17,339

The directors consider that the carrying amount of trade and other payables approximates their fair value.

22. LOAN FROM A DIRECTOR

The loan from Mr. Shih Chian Fang is unsecured, interest-free and is repayable on demand.

23. BANK BORROWINGS

	2008 HK$'000	2007 HK$'000
Secured bank loans	**33,344**	73,650
Unsecured bank loans	**91,525**	86,708
	124,869	160,358

The bank borrowings are repayable as follows:

	2008 HK$'000	2007 HK$'000
Within one year or on demand	**124,869**	160,358
One to two years	**–**	–
Two to five years	**–**	–
	124,869	160,358
Less: Amount due within one year shown under current liabilities	**(124,869)**	(160,358)
Amount due after one year	**–**	–

The carrying amounts of the Group's borrowings approximate their fair value.

23. BANK BORROWINGS (Cont'd)

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group companies are set out below:

	Denominated in RMB'000	**Denominated in US$'000**
As at 31st December 2008	30,010	9,800
As at 31st December 2007	69,968	9,800

The effective borrowing rate of the Group ranged from 4.3% to 8.1% (2007: 5.1% to 10.9%).

During the year, the Group obtained new loans with aggregate amounts of approximately HK$37 million. The proceeds were used for working capital purpose.

The carrying amount of bank borrowings approximates their fair value as the weighted average interest rates approximate the respective market rates.

At 31st December 2008, the Group's banking facilities were secured by the following:

(i.) Certain of the Group's prepaid lease payment on land use rights, property, plant and equipment with a carrying value as follows:

	2008 HK$'000	2007 HK$'000
Prepaid lease payments on land use rights and buildings	**83,842**	93,320
Plant and machinery	**29,000**	57,984
	112,842	151,304

(ii.) No inventories of the Group pledged for the year ended 31st December 2008 (2007: HK$51 million);

(iii.) No bank deposits of the Group pledged for the year ended 31st December 2008 (2007: HK$1.5 million);

(iv.) Cross-guarantees between subsidiaries; and

At the balance sheet date, the Company had not given guarantees to banks in respect of general banking facilities granted to subsidiaries.

23. BANK BORROWINGS (Cont'd)

On 12th September 2006, Bank of China, Xian Branch (the "Bank of China") which lent USD9.8 million to the Xian Hua Lien obtained a writ from 陝西省高級人民法院 (Shaanxi Province Highest People's Court) that granted the bank the legal rights to freeze and sequestrate 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 continued to sequestrate the bank accounts, the property, plant and machinery and inventories of Xian Hua Lien as additional security which have no carrying value at the balance sheet date.

Besides, the pledged prepared lease premium and certain of pledged buildings of Jiangmen Hua Lien with carrying value of approximately HK$38.2 million at the balance sheet date continued to sequestrate by Bank of China. The same assets was also sequestrated by Bank of Construction, Jiangmen Branch (the "Bank of Construction") (the pledgee of those assets) at the balance sheet date.

As the sequestration does not affect the lawful right to use, the encumbrances on pledged assets do not have material influence on present trading operation of Jiangmen Hua Lien.

24. SHARE CAPITAL

	Number of Shares			
	2008	2007	**2008**	2007
	'000	'000	**HK$'000**	HK$'000
Ordinary share of HK$0.1 each				
Authorised				
At beginning and end of year	**1,500,000**	1,500,000	**150,000**	150,000
Issued and fully paid				
At beginning of year	**823,680**	686,400	**82,368**	68,640
Shares issued	**–**	137,280	**–**	13,728
At end of year	**823,680**	823,680	**82,368**	82,368

On 20th February 2009, the authorised capital of the Company was increased from HK$150,000,000 divided into 1,500,000,000 shares of HK$0.1 each to HK$600,000,000 divided into 6,000,000,000 shares of HK$0.1 each by creation of 4,500,000,000 new shares of HK$0.1 each in the capital of the Company.

On 27th February 2009, the Company issued and allotted a total of 300,000,000 shares of HK$0.1 each for consideration of HK$0.60 per share. These new shares rank pari passu with the existing shares in all respects.

25. COMMITMENTS

a. Operating lease commitments:

	2008	2007
	HK$'000	HK$'000
Minimum lease payments paid during the year under operating leases in respect of land and buildings and office premises	**192**	245

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

	2008	2007
	HK$'000	HK$'000
Within one year	**216**	156
In the second to fifth year inclusive	**180**	–
Over five years	**–**	–
	396	156

Operating lease payments principally represent rentals payable by the Group for certain of its office premises for both years.

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

25. COMMITMENTS (Cont'd)

b. Other commitments:

Under the terms of a cooperative joint venture agreement in respect of 江門華聯製皮工業有限公司 Jiangmen Hua Lien Tannery Co. Ltd. ("Jiangmen Hua Lien", formerly known as 新會華聯製皮工業有限公司 Xin Hui Hua Lien Tannery Co., Ltd.), a subsidiary of the Company, Galloon International (Holding) Company, Limited ("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 joint venture partner of Galloon International (the "Joint Venture Partner"). In the event that Jiangmen Hua Lien does not have sufficient distributable profit to make the required payments to the Joint Venture Partner, Galloon International is responsible for making such payments to the Joint Venture Partner as compensation. At 31st December 2008, the pre-determined distributions payable to the Joint Venture Partner over the entire cooperative joint venture period are as follows:

	2008	2007
	HK$'000	HK$'000
Amount payable:		
Within one year	**6,234**	5,906
One to two years	**6,234**	5,906
Two to five years	**16,361**	15,500
Over five years	**44,192**	47,772
	73,021	75,084

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

26. SHARE OPTIONS SCHEME

2000 Share Option Scheme

The Company's 2000 Share Option Scheme was adopted pursuant to a resolution passed on 4th January 2000 and was terminated by a resolution passed by shareholders on 20th September 2007. No share option has ever been granted under the terminated 2000 Share Option Scheme.

26. SHARE OPTIONS SCHEME (Cont'd)

2007 Share Option Scheme

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2007 Share Option Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 20th September 2007. The details of the 2007 Share Option Scheme as pursuant to the Listing Rules, are set out in the Company's circular dated 3rd September 2007.

The purpose of the 2007 Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to the employees, directors, consultants and advisers of the Group and to promote the success of the Group. Qualifying participant of the 2007 Share Option Scheme means (a) any executive director, employee or proposed employee including full time or part time of any member of the Group (b) any non-executive director including independent non-executive director of any member of the Group (c) any supplier of goods or services to any member of the Group (d) any customer of any member of the Group (e) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group (f) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group (g) any joint venture partner, business or strategic alliance partner of any member of the Group (h) any discretionary trust whose discretionary object may be any of (a) to (g).

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2007 Share Option Scheme (and under any other scheme of the Company) shall not in aggregate exceed 10 per cent. of the shares in issue as at the date of the adoption of the 2007 Share Option Scheme (the "Scheme Mandate Limit") provided that the Company may at any time as the Board of Directors of the Company think fit, seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of shares which may be issued upon exercise of all options to be granted under the 2007 Share Option Scheme (and under any other scheme of the Company) shall not exceed 10 per cent. of the shares in issue as at the date of approval by the shareholders of the Company in general meeting where such limit is refreshed. Options previously granted under any other scheme of the Company (including those outstanding, cancelled, and lapsed in accordance with the terms of the 2007 Share Option Scheme or any other scheme of the Company or exercised options under the said scheme) shall not be counted for the purpose of calculating the limit as refreshed. Notwithstanding aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2007 Share Option Scheme (and under any other scheme of the Company) shall not exceed 30 per cent. of the shares in issue from time to time. As at the date of the annual report, a total of 82,368,000 shares (representing approximately 10 per cent. of the existing issued share capital of the Company) are available for issue under the 2007 Share Option Scheme.

26. SHARE OPTIONS SCHEME (Cont'd)

2007 Share Option Scheme (Cont'd)

The total number of shares issued and to be issued upon exercise of the options granted to each individual under the 2007 Share Option Scheme and any other option scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the total number of shares in issue.

The period within which an option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised later than 10 years from the date on which the option is granted. Subject to the provisions of the 2007 Share Option Scheme, the Board may in its absolute discretion when offering the grant of an option impose any conditions in relation thereto in addition to those set forth in the 2007 Share Option Scheme as it may think fit (to be stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing) continuing eligibility criteria conditions and the satisfactory performance. However, the 2007 Share Option Scheme itself does not specify any minimum holding period for which an option must be held before it can be exercised.

The offer of a grant of share options may be accepted within 7 days from the date of the offer, upon payment of a nominal value of HK$1.00 in total by the grantee. The exercise period of the share options granted is determined by the Board of Directors, and shall not exceed a period of ten years after the date of grant.

The subscription price in respect of any particular option under the 2007 Share Option Scheme shall be such price as the Board may at its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a share; (b) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the Board resolution approving the grant of options; and (c) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the Board resolution approving the grant of options. The 2007 Share Option Scheme will expire on 19th September 2017. As at the balance sheet date, no share option has been granted under the 2007 Share Option Scheme since its adoption.

27. RETIREMENT BENEFITS SCHEMES

The Group operates the MPF Scheme established under the Mandatory Provident Fund Ordinance for its qualifying employees. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees.

The PRC subsidiaries are required to contribute a certain percentage, ranging from 18% to 20%, of the payroll of their employees to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the respective schemes.

At the balance sheet date, there were no significant forfeited contributions available to reduce the contribution payable in the future years.

The total cost charged to the consolidated income statement of approximately HK$0.5 million (2007: HK$0.5 million) represents contributions payable to these schemes by the Group in respect of the current accounting period.

28. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had certain transactions with related parties. Details of these transactions for the year and balances at 31st December 2008 with related parties are as follows:

a. Balances

Details of balances with the related parties at the balance sheet date are set out in the consolidated balance sheet and note 22.

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 25(b).

28. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

c. The remuneration of directors and other members of key management during the year was as follows:

	2008 HK$'000	2007 HK$'000
Directors' fee	**160**	140
Salaries, allowances and benefits in kind	**660**	610
Mandatory Provident Fund Contribution	**–**	–
	820	750

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

29. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December 2008 are as follows:

Name of company	Place of Incorporation/ operations	Nominal value of issued and fully paid share capital/ registered capital	Effective proportion of issued registered capital held by the Company	Principal activities
Galloon International (Holding) Company Limited	British Virgin Islands/ Taiwan	Ordinary share US$ 1	100%	Sale and marketing of leather, raw materials sourcing and investment holding
嘉聯皮革(中國)有限公司 Galloon Leather (China) Co. Ltd. ("Galloon Leather") (formerly known as 新會嘉聯皮革(中國)有限公司 Xin Hui Galloon Tannery Co. Ltd.)	The PRC **	Registered capital US$21,700,000 Note (iv)	100%	Manufacture and sale of leather
Hua Lien Group (Holding) Company, Limited ("Hua Lien Group (Holding)")	British Virgin Islands/ Hong Kong	Ordinary shares US$19,193,996 Note (i)	100%	Investment holding
Jumbo Right Investments Limited	British Virgin Islands/ Hong Kong	Ordinary share US$1	100%	Investment holding

29. SUBSIDIARIES (Cont'd)

Name of company	Place of Incorporation/ operations	Nominal value of issued and fully paid share capital/ registered capital	Effective proportion of issued registered capital held by the Company	Principal activities
Hua Lien (Hong Kong) Company Limited ("Hua Lien Hong Kong")	Hong Kong	Ordinary shares HK$10,000 Non-voting deferred shares HK$15,000,000 Note (ii)	100%	Provision of management services
江門華聯製皮工業有限公司 Jiangmen Hua Lien Tannery Co. Ltd.	The PRC *	Registered capital US$14,522,000	70.5% Note (iii)	Manufacture and sale of leather
Sawston International Limited	British Virgin Islands/ Taiwan	Ordinary share US$1	100%	Sale and marketing of leather and raw material sourcing
西安華聯製皮工業股份有限公司 Xian Hua Lien Tannery Co. Ltd. ("Xian Hua Lien")	The PRC ***	Registered capital RMB65,600,000	51% Note (v)	Manufacture and sale of leather

* Company incorporated as limited liability cooperative joint venture enterprise in the PRC

** Company incorporated as limited liability equity joint venture enterprise in the PRC

*** Joint stocks limited liability company in the PRC

Notes:

(i) Hua Lien Group (Holding) is held by the Company directly. All other subsidiaries are held by the Company indirectly.

(ii) The deferred shares of Hua Lien Hong Kong, which are not held by the Group, practically carry no rights to receive dividends or to receive notice of or to attend or to vote at any of its general meetings or to participate in any distribution on its winding up.

29. SUBSIDIARIES (Cont'd)

Notes: (Cont'd)

(iii) Jiangmen Hua Lien is a limited liability cooperative joint venture enterprise with a term of operation to 26th August 2022. Under the terms of the cooperative joint venture agreement, Galloon International holds 70.5% of the registered capital of Jiangmen Hua Lien, but it 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 Joint Venture Partner, details of which are set out in note 25(b).

At the end of the cooperative joint venture period, Galloon International is entitled to the distribution of all the remaining assets of Jiangmen Hua Lien according to its capital contribution ratio in Jiangmen Hua Lien.

(iv) As at the date of this report, the registered capital of Galloon Leather was paid up to the extent of US$21,700,000 (2007: US$21,700,000).

(v) In January 2003, Xian Hua Lien was approved to change from a limited liability sino-foreign equity joint venture enterprise for a term of operation of 20 years to a joint stock limited liability company with a registered capital of RMB65,600,000.

Since the establishment of Xian Hua Lien, the minority shareholders received 40% of the profit distribution made by Xian Hua Lien in respect of the period from the date of its establishment to 31st December 2008 (rather than in proportion to the 49% equity interest that it holds in Xian Hua Lien) and, pursuant to an agreement made with Galloon International, Hua Lien Hong Kong, Xian Hua Lien, the minority shareholders waived its remaining entitlement to such profit distribution in favour of the Group, the Group therefore effectively had a 60% attributable economic interest in Xian Hua Lien for the period from the date of establishment of Xian Hua Lien to 31st December 2008.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

30. INTERESTS IN SUBSIDIARIES

	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**476,175**	476,175
Impairment loss recognised	**(398,184)**	(183,227)
	77,991	292,948
Amounts due from subsidiaries	**71,549**	71,078
	149,540	364,026

30. INTERESTS IN SUBSIDIARIES (Cont'd)

The carrying value of the unlisted shares is based on the fair values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the Group reorganisation in 2000.

Details of the Company's subsidiaries at 31st December 2008 are set out in note 29.

In the opinion of the directors, the amounts due from subsidiaries are unsecured, non-interest bearing and are unlikely to be repayable within one year from the balance sheet date and are therefore shown in the balance sheet as non-current.

31. POST BALANCE SHEET EVENTS

Pursuant to a conditional sale and purchase agreement dated 12th November 2008, Jumbo Right Investments Limited ("Jumbo Right"), a wholly owned subsidiary of the Company, entered into a conditional sale and purchase agreement ("S&P") with COMPLANT International Sugar Industry Co., Ltd. ("COMPLANT"), Jumbo Right would conditionally acquire 100% of the entire issued share capital of Sino-Africa Technology & Trading Limited ("SATT"), an indirect wholly-owned subsidiary of COMPLANT, at an aggregate consideration of HK$853.2 million. The consideration was satisfied by (i) HK$180 million was settled by the issue of 300,000,000 new shares of the Company at an issue price of HK$0.60 per new share; and (ii) HK$673.2 million was settled by the issue of 2 tranches of Convertible Notes which are exercisable by the convertible note holder(s) at a Conversion Price of HK$0.60 per share. Further details of this transaction were set out in the Company's circular to shareholders dated 23rd January 2009.

On 27th February 2009, all conditions precedent under the S&P have been completed, and Jumbo Right has completed the acquisition of the entire interest in SATT. The total consideration of HK$853.2 million was satisfied on 27th February 2009 by 300,000,000 new shares allotted and issued by the Company to COMPLANT at an issue price of HK$0.6 per share and the issue of Tranche 1 Redeemable Convertible Note of HK$366,600,000 and Tranche 2 Redeemable Convertible Note of HK$306,600,000, both of which carry no interest and will mature on the fifth anniversary of the issue date, namely, 27th February 2014. Holders of the convertible notes may at any time on or after the date of issue of the convertible notes and on or prior to the maturity date, require the Company to convert the whole or any part(s) of the principal amount outstanding under the convertible notes into shares of the Company at the conversion price. Holders of the convertible notes shall also have the right at anytime before the maturity date to request the Company to redeem the whole or part of the outstanding principal amount of the convertible notes at a price equal to 100% of the amount to be redeemed.

31. POST BALANCE SHEET EVENTS (Cont'd)

SATT became a wholly owned subsidiary of the Company since 27th February 2009. As the purchase price allocation under the purchase method of accounting for this acquisition is still in progress at the report date. Fair values of the acquiree's identifiable assets, liabilities or contingent liabilities can only be determined preliminarily by reference to the carrying value of net assets of SATT based on its audited financial statements as at 30 September 2008, which was approximately HK$75.2 million. The amount of goodwill arising as result this acquisition is tentatively assessed to be approximately of HK$778 million.

32. BALANCE SHEET INFORMATION OF THE COMPANY

Balance sheet information of the Company at the balance sheet date includes:

	Notes	**2008** **HK$'000**	2007 HK$'000
Non-current asset			
Interests in subsidiaries	30	**149,540**	364,026
Current assets			
Trade and other receivables		**24**	–
Bank balances and cash		**36,681**	40,234
		36,705	40,234
Current liabilities			
Other payables		**3,182**	1,033
Loan from a director		**468**	408
Amount due to a subsidiary		**1,116**	1,974
		4,766	3,415
Net current assets		**31,939**	36,819
Net assets		**181,479**	400,845
Capital and reserves			
Share capital	24	**82,368**	82,368
Reserves		**99,111**	318,477
Shareholders' funds		**181,479**	400,845

FINANCIAL SUMMARY

	Year ended 31st December				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	861,163	874,629	718,909	615,203	**537,003**
Cost of sales	(801,641)	(832,005)	(694,855)	(753,113)	**(603,421)**
Gross (loss) profit	59,522	42,624	24,054	(137,910)	**(66,418)**
Other operating income	9,744	5,562	14,565	14,638	**3,213**
Distribution cost	(935)	(720)	(408)	(220)	**(174)**
Administrative expenses	(21,194)	(23,338)	(19,874)	(22,707)	**(27,331)**
Other expenses	(5,934)	(2,217)	(124,154)	(111,911)	**(103,869)**
(Loss) profit from operations	41,203	21,911	(105,817)	(258,110)	**(194,579)**
Finance charges	(10,743)	(10,271)	(8,619)	(11,292)	**(9,093)**
(Loss) profit from ordinary activities before tax	30,460	11,640	(114,436)	(269,402)	**(203,672)**
Income tax (expense) income	(6,126)	(3,414)	1,597	(18,660)	**(10,003)**
(Loss) profit before minority interests	24,334	8,226	(112,839)	(288,062)	**(213,675)**
Minority interests	(4,566)	(4,641)	39,477	(5,906)	**(4,139)**
Net (loss) profit for the year	19,768	3,585	(73,362)	(293,968)	**(217,814)**

	At 31st December				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	1,004,981	1,063,839	938,353	611,218	**391,892**
Total liabilities	(260,926)	(316,833)	(291,806)	(208,277)	**(210,413)**
Minority interests	(47,834)	(47,183)	(2,096)	(2,096)	**–**
	696,221	699,823	644,451	400,845	**181,479**