HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED

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

Annual Report 2007

Contents

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, Xinhui District
Jiangmen City
Guangdong
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

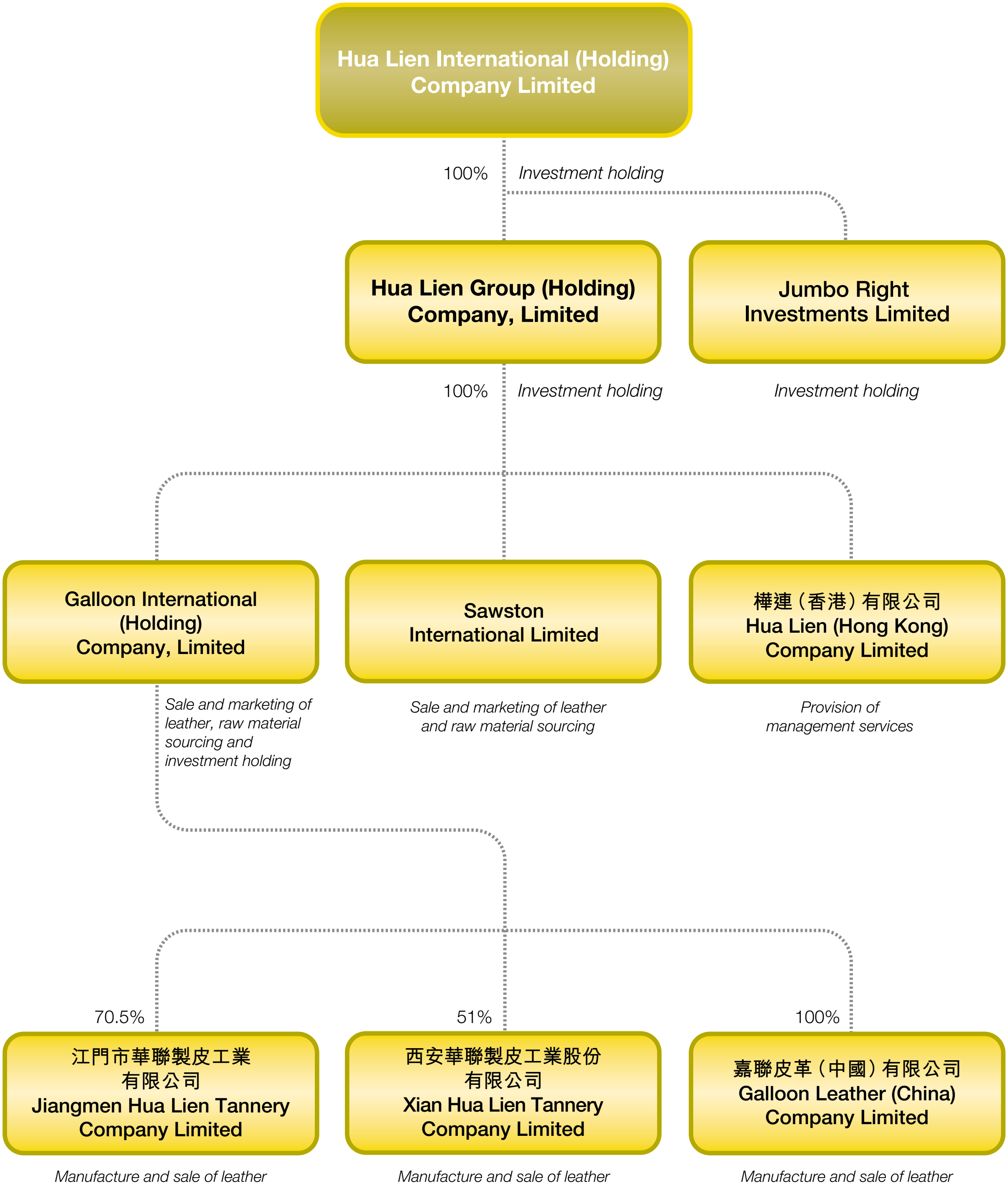
The Harbour Trust Co. Ltd.
One Capital Place
P.O. Box 1787
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

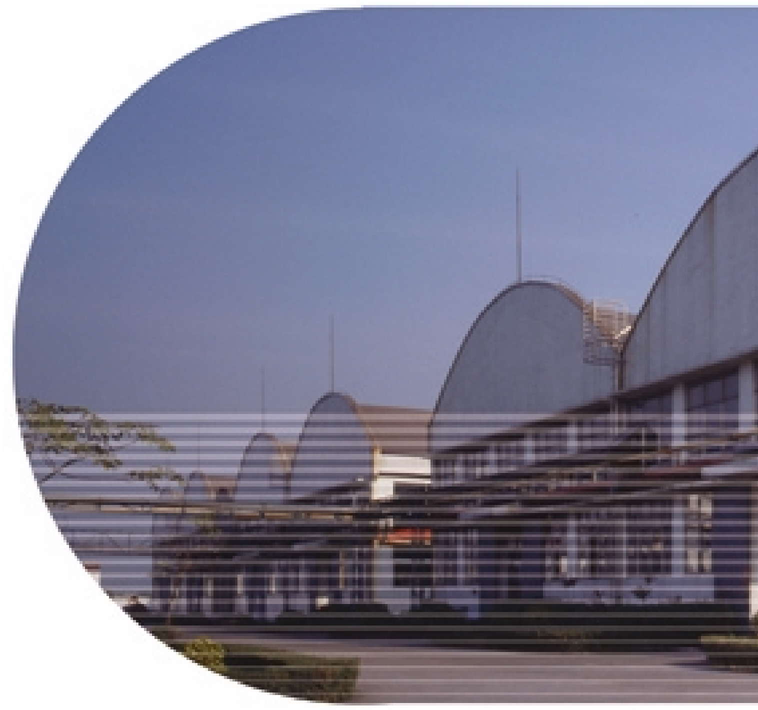
Union Registrars Limited
Room 1901-02
Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai
Hong Kong

WEBSITE

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


Hua Lien International (Holding) Company Limited
100%
Investment holding
Hua Lien Group (Holding) Company, Limited
Jumbo Right Investments Limited
100%
Investment holding
Investment holding
Galloon International (Holding) Company, Limited
Sawston International Limited
樺達（香港）有限公司
Hua Lien (Hong Kong) Company Limited
Sale and marketing of leather, raw material sourcing and investment holding
Sale and marketing of leather and raw material sourcing
Provision of management services
70.5%
51%
100%
江門市華聯製皮工業有限公司
Jiangmen Hua Lien Tannery Company Limited
西安華聯製皮工業股份有限公司
Xian Hua Lien Tannery Company Limited
嘉聯皮革（中國）有限公司
Galloon Leather (China) Company Limited
Manufacture and sale of leather
Manufacture and sale of leather
Manufacture and sale of leather

Chairman's Statement



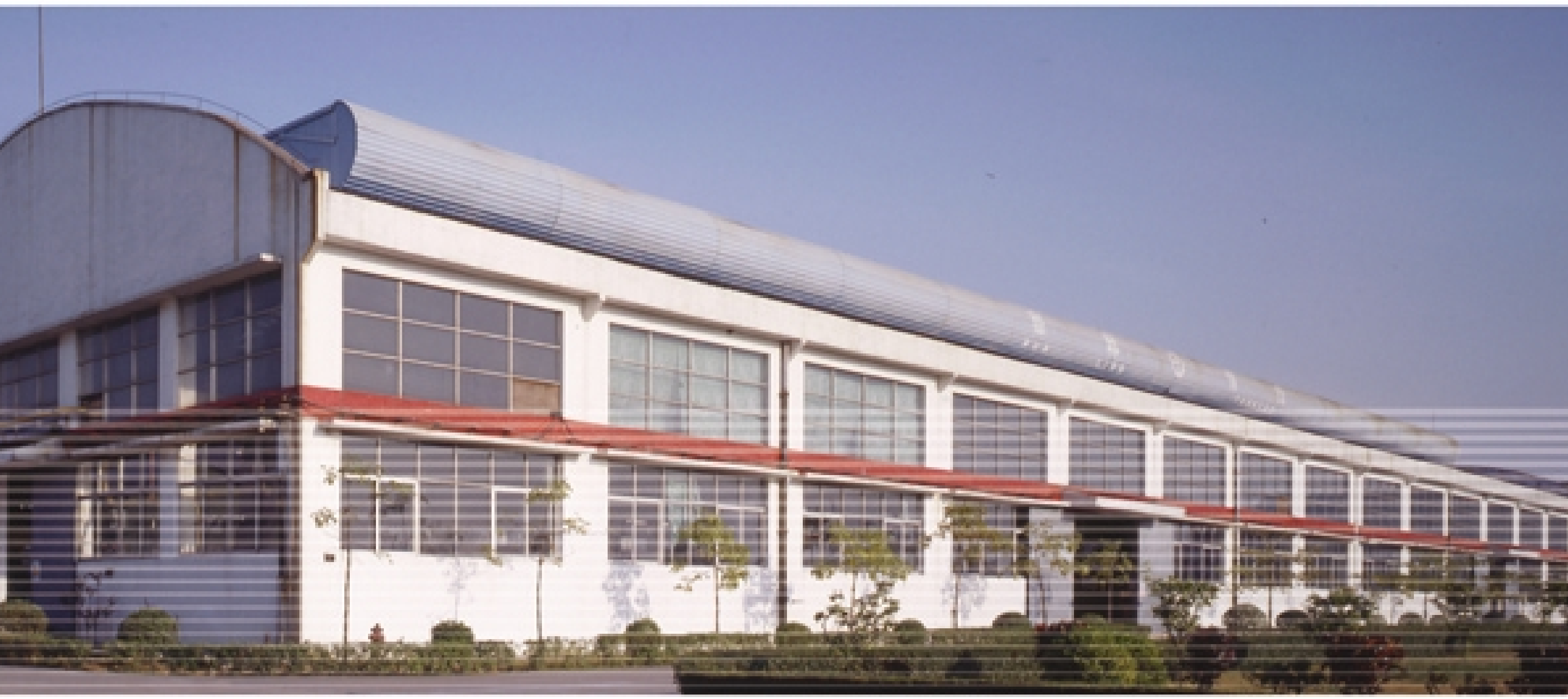
"The Group will continue to dedicate itself to manufacture the best quality leather that fulfill the needs and exceed the expectation of our customers."

Mr. SHIH Chian Fang *Chairman*

BUSINESS REVIEW

For the year ended 31st December 2007, the Group had a turnover of HK$615,203,000, a 14.4 percent decrease compared to HK$718,909,000 in 2006. The decrease in turnover was mainly brought about by the suspension of operation of production plant in Xian in September 2006.

The Group's net loss attributable to the equity holders of the Company for the year ended 31st December 2007 was HK$293,968,000 compared to net loss attributable to equity holders of HK$73,362,000 in 2006. Basic loss per share was HK39.61 cents (2006: HK10.68 cents). The net loss was mainly due to the following factors: (1) the 25.7% decrease in gross margin created a trading loss of HK$137.9 million, which was resulting from the approximately 11% decrease in average selling price due to the shifting in demand of customers to the relatively lower price in-fashion products during the year and the approximately 14% increase in cost of goods sold resulting from the approximately 8% increase in average cost of raw materials resulting from surging price of agricultural products which also pushed up the price of raw hides and coupled with the rising in crude oil which also pushed up the price of chemical materials and the price of basic energy cost and the HK$34.0 million increase in allowance for inventories as the net realisable value of leather was reduced resulting from the loss in gross margin; (2) an additional impairment provision in administrative expenses of HK$46.2 million for bad and doubtful debts has been made during the year for the increase in overdue trade receivables for reason of deterioration of their business environment due to the high anti-dumping tax imposed by the European Union on footwear products originating from China and lowering and abolishing the export tax refund rate for export tax refund rate on leather products as well as their rising production costs; and (3) an additional impairment provision of HK$65.7 million of its trade and other receivables of the suspended production plant in Xian, that are past due beyond one year resulting from difficulty in recovering for reason of suspension of their trade relationship with production plant in Xian.



BUSINESS REVIEW (Cont'd)

With regard to geographical market segments, USA remained to be the main contributor to the Group's turnover. For the year ended 31st December 2007, turnover from USA represented 71.2% of total sales turnover as compared to 79.3% in 2006 and the business from the PRC represented 25.5% as compared 20.6% during the same period in 2006. There is no material change in market segments during the year under review.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the year, the Group has relied primarily upon funds generated internally from the Group's operating activities and revolving credit facilities provided by the Group's principal bankers. As at 31st December 2007, the Group's total borrowings is HK$160,358,000 as compared to HK$182,564,000 at 31st December 2006. Of the total borrowings, HK$160,358,000 (2006: HK$182,564,000) is repayable within one year and HK$Nil (2006: HK$Nil) is repayable after one year.

Shareholders' funds of the Group as at 31st December 2007 amounts to HK$400,845,000 (2006: HK$644,451,000). The Group's gearing ratio which is measured on the basis of the Group's total borrowings over the shareholders' funds as at 31st December 2007 is 40.0% (2006: 28.3%).

The sales and purchases of the Group are mainly denominated in Renminbi and United States dollar. Hence, the Group's exposure to foreign exchange risk is expected to be minimal. Bank borrowings are also mainly denominated in Renminbi and United States dollar and the interests are charged on a floating rate basis. The Group's management oversees the movement of interest rates very closely and takes appropriate measures to minimise the Group's interest rate risks whenever necessary.

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 31st December 2007, certain of the Group's prepaid lease payment on land use right, property, plant and machinery with an aggregate carrying value of approximately HK$151 million (2006: HK$137 million), inventories of approximately HK$51 million (2006: HK$52 million) and bank deposits of approximately HK$1.5 million (2006: HK$1.5 million) were pledged to banks to secure general banking facilities granted to the Group.

On 12th September 2006, Bank of China, Xian Branch 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 the Xian Hua Lien including property, plant and equipment, inventories, accounts receivables and bank balances. During the year, the discussion with Xian Government about the compensation and Bank of China, Xian Branch for the repayment arrangements is still in stalemate. At balance sheet date, Bank of China, Xian Branch 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. As the slow progress in compensation negotiation with government authorities will inevitably lengthen the timing for repayment of the loan, the Bank of China, Xian Branch further increase the loan security by extending their scope of sequestration during the year to the pledged prepaid lease premium and certain of pledged buildings of Jiangmen Hua Lien Tannery Co Ltd. ("Jiangmen Hua Lien") (the guarantor of the loan) with carrying value of approximately HK$40.6 million at the balance sheet date. As the sequestration do not affect the lawful right to use and is a subordinatory right on those pledged assets, the Directors believe that this encumbrance on pledged assets will not significantly influence the operation of Jiangmen Hua Lien.

Employee Remuneration Policy

At 31st December 2007, the Group employed 743 (2006: 771) full time management, administrative and production staff in Hong Kong, Taiwan and the PRC.

The Group's emolument policies are formulated on the bases of individual performance and the salary trend in the various regions, and are reviewed every year. The Company has set up share options plan and provides staff quarters to staff in the PRC.

PROSPECTS

The performance in manufacture and sale of leather may still be unsatisfactory for the first half of 2008 because the sales demand still concentrates on the lower price in-fashion products and the cost of raw materials is continually rising. In order to mitigate the negative impact, the Board will further examine the possibility of selling price adjustment to lessen the pressure of eroding gross margin and closer monitor the outstanding trade receivables to reduce credit risk. In addition, the Board is investigating the possibility of diversifying into new line of business to create additional source of revenue.

DIVIDEND

The Directors do not recommend the payment of a dividend for the years ended 31st December 2007 and 2006.

By order of the Board
Shih Chian Fang
Chairman
Hong Kong, 24th April 2008

Profile of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. SHIH Chian Fang, aged 47, 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 the executive vice general manager of Jiangmen Hua Lien. Mr. Shih has over 23 years of experience in the tannery business. He joined the Group in October 1992.

Mr. LIAW Yuan Chian, aged 52, 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 28 years of experience in the tannery business. He joined the Group in October 1992.

Ms. ZHOU Yan Xia, aged 31, was appointed as Executive Director in May 2007. She is also the marketing manager of the Group. Ms. Zhou has over 11 years solid experience in marketing. She joined the Group in April 1997.

Mr. KUANG Yong, aged 44, 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 20 years of experience in finance and business management.

Independent non-executive Directors

Mr. ZHENG Liu, aged 33, 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 53, has been an independent non-executive director since May 2001. He has over 18 years experience in sales and marketing in Taiwan and the PRC.

Ms. LI Xiao Wei, aged 36, was appointed as independent non-executive director in September 2004. She has over 7 years experience in sales and marketing in the PRC.

SENIOR MANAGEMENT

Mr. WAN Hok Shing, aged 41, 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 15 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.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December 2007.

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 32 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2007 are set out in the consolidated income statement on page 24.

The directors do not recommend the payment of any dividend in respect of the year ended 31st December 2007.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 68.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$2.6 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 25 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st December 2007, the company's reserves available for distribution consisted of contributed surplus of HK$468,576,000 (2006: HK$468,576,000) and accumulated losses of HK$176,270,000 (2006: accumulated profits of HK$7,328,000)

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers during the year accounted for approximately 56% of the Group's total sales and the Group's largest customer accounted for approximately 28% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 56% of the Group's total purchases and the Group's largest supplier accounted for approximately 23% 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	(appointed on 2nd May 2007)
Mr. Kuang Yong	(appointed on 4th July 2007)
Ms. Chen Ling	(resigned on 2nd May 2007)

Independent non-executive directors:

Dr. Zheng Liu	(appointed on 4th July 2007)
Mr. Yu Chi Jui	
Ms. Li Xiao Wei	
Mr. Fu Heng Yang	(resigned on 4th July 2007)

In accordance with Articles 99 and 116 of the Company's Articles of Association, Mr. Shih Chian Fang, Mr. Kuang Yong and Dr. Zheng Liu and Mr. Yu Chi Jui retire by rotation and, being eligible, offer themselves 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 pages 8 to 9 of this annual report.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2007, 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 2007, 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 32 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 2007.

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.

During the year ended 31st December 2007, there are no option was granted since adoption 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 28 to the consolidated financial statements,

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

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 2007.

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.

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.

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
Hong Kong, 24th APRIL 2008

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 2007, 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 2007, 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 (appointed on 2nd May 2007)	2/4
Ms. Chen Ling (resigned on 2nd May 2007)	2/4
Mr. Kuang Yong (appointed on 4th July 2007)	3/4
Dr. Zheng Liu (appointed on 4th July 2007)	3/4
Mr. Fu Heng Yang (resigned on 4th July 2007)	1/4
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 pages 8 to 9, demonstrate a balance of skills and experience of the Board.

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. During the year, the Board considered and approved the appointment of an additional Executive Director.

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 judgement 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. DIRECTORS (Cont'd)

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. Mr. Fu Heng Yeng is the Ex-Chairman of the Remuneration Committee till 4th July 2007 and Dr. Zheng Liu succeed as Chairman since then.

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**
Mr. Fu Heng Yeng (Ex-chairman of the remuneration committee)	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 2007, 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 possess 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 2007

1. review the financial statements for the year ended 31st December 2006 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 2007 and the interim results announcement with a recommendation to the Board for approval.

At the Audit Committee meeting on 23rd April 2008, the Audit Committee reviewed the Company's financial statements for the year ended 31st December 2007 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 2008 and that the relevant resolution shall put forth for the consideration of the shareholders of the Company and their approval at the 2008 annual general meeting of the Company.

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

For the financial year ended 31st December 2007, 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 mangers and departments 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 finding 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

Shareholders are encouraged to attend the annual general meeting of the Company for which at least 21 days' notice is given. 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 will dispatched in May for 2008 Annual General Meeting held in June 2008.

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 24 to 67, which comprise the consolidated and Company balance sheets as at 31st December 2007, 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 Company and of the Group as at 31st December 2007 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, 24th April 2008

Consolidated Income Statement

For the year ended 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover		**615,203**	718,909
Cost of sales		**(753,113)**	(694,855)
Gross (loss) profit		**(137,910)**	24,054
Other operating income		**14,638**	14,565
Distribution costs		**(220)**	(408)
Administrative expenses		**(68,943)**	(31,786)
Impairment losses on property, plant and equipment, inventories and trade and other receivables	8	**(65,675)**	(112,242)
Loss from operations	9	**(258,110)**	(105,817)
Interest on bank borrowings wholly repayable within five years		**(11,292)**	(8,619)
Loss before tax		**(269,402)**	(114,436)
Income tax (expenses) income for the year	12	**(18,660)**	1,597
Loss for the year		**(288,062)**	(112,839)
Attributable to:			
Equity holders of the Company		**(293,968)**	(73,362)
Minority interests		**5,906**	(39,477)
		(288,062)	(112,839)
Dividend	13	**–**	–
Loss per share (cents)	14		
– Basic		**(39.61)**	(10.68)
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	**203,430**	221,065
Prepaid lease payments on land use rights	16	**44,649**	43,441
Deferred tax assets	18	**10,254**	27,560
		258,333	292,066
Current assets			
Inventories	19	**155,206**	186,173
Trade and other receivables	20	**142,712**	444,483
Prepaid lease payments on land use rights	16	**1,078**	1,024
Pledged bank deposits	24(iii)	**1,500**	1,500
Bank balances and cash	21	**52,389**	13,107
		352,885	646,287
Current liabilities			
Trade and other payables	22	**17,589**	78,825
Loan from a director	23	**16,534**	16,832
Tax liabilities		**11,916**	11,799
Amounts due to minority shareholders of subsidiaries		**1,880**	1,786
Bank borrowings	24	**160,358**	182,564
		208,277	291,806
Net current assets		**144,608**	354,481
Net assets		**402,941**	646,547
Capital and reserves			
Share capital	25	**82,368**	68,640
Reserves		**318,477**	575,811
Equity attributable to shareholders		**400,845**	644,451
Minority interests		**2,096**	2,096
Total equity		**402,941**	646,547

The financial statements on pages 24 to 67 were approved and authorised for issue by the Board of Directors on 24th April 2008 and are signed on its behalf by:

Shih Chian Fang
DIRECTOR

Liaw Yuan Chian
DIRECTOR

Balance Sheet

As at 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current asset			
Interests in subsidiaries	17	**364,026**	547,331
Current asset			
Bank balances and cash		**40,234**	22
Current liabilities			
Other payables		**1,033**	813
Loan from a director		**408**	317
Amount due to a subsidiary		**1,974**	1,679
		3,415	2,809
Net current assets (liabilities)		**36,819**	(2,787)
Net assets		**400,845**	544,544
Capital and reserves			
Share capital	25	**82,368**	68,640
Reserves	26	**318,477**	475,904
Shareholders' funds		**400,845**	544,544

Shih Chian Fang
DIRECTOR

Liaw Yuan Chian
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December 2007

	Share capital	Share premium	Warrant reserve	Translation reserve	Goodwill reserve	Special reserve (note i)	PRC statutory reserves (note ii)	Accumulated profits	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2006	68,640	–	–	6,497	(24,509)	238,966	21,296	388,933	699,823	47,183	747,006
Transfer	–	–	–	–	–	–	614	(614)	–	–	–
Exchange difference arising on translation of foreign operations	–	–	–	17,990	–	–	–	–	17,990	–	17,990
Net loss for the year	–	–	–	–	–	–	–	(73,362)	(73,362)	(39,477)	(112,839)
Pre-determined distribution	–	–	–	–	–	–	–	–	–	(5,610)	(5,610)
At 31st December 2006 and 1st January 2007	68,640	–	–	24,487	(24,509)	238,966	21,910	314,957	644,451	2,096	646,547
Shares 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	**82,368**	**21,229**	**4,942**	**34,950**	**(24,509)**	**238,966**	**21,910**	**20,989**	**400,845**	**2,096**	**402,941**

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) 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 is set out in note 27(c).

Consolidated Cash Flow Statement

For the year ended 31st December 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Loss from operating activities before tax	**(269,403)**	(114,436)
Adjustments for:		
Impairment losses on property, plant and equipment, inventories and trade and other receivables	**65,675**	112,242
Allowance for bad and doubtful receivables, net	**46,235**	11,912
Allowance (write-back) on allowance for obsolete and slowing moving inventories	**34,033**	(847)
Depreciation and amortisation of property, plant and equipment	**31,949**	34,398
Amortisation of prepaid lease payment	**1,078**	1,024
(Gain) loss on disposal of property, plant and equipment	**(68)**	147
Interest income	**(698)**	(639)
Interest expense	**11,292**	8,619
Operating cash flows before movements in working capital	**(79,907)**	52,420
(Increase) decrease in inventories	**(3,066)**	10,870
Decrease (increase) in trade and other receivables	**189,863**	(59,772)
Decrease in amounts due from minority shareholders of subsidiaries	**–**	621
Decrease in trade and other payables	**(61,236)**	(2,173)
Increase in amounts due to minority shareholders of subsidiaries	**94**	–
Cash generated from operations	**45,748**	1,966
Hong Kong Profits Tax paid	**(10)**	(25)
PRC enterprise income tax paid	**–**	(3,158)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**45,738**	(1,217)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(2,616)**	(626)
Interest received	**698**	639
Decrease in pledged bank deposits	**–**	8,600
Proceeds from disposal of property, plant and equipment	**500**	12
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	**(1,418)**	8,625

	2007	2006
	HK$'000	HK$'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	**(92,973)**	(104,415)
Dividends paid to minority shareholders of subsidiaries	**(5,906)**	(5,610)
Interest paid	**(11,292)**	(8,619)
Bank borrowings raised	**61,158**	75,500
Repayment of loan from a director	**(298)**	(16)
NET CASH USED IN FINANCING ACTIVITIES	**(9,412)**	(43,160)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**34,908**	(35,752)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**13,107**	30,869
Effect of foreign exchange rate changes	**4,374**	17,990
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**52,389**	13,107
CASH AND CASH EQUIVALENTS REPRESENT:		
Bank balances and cash	**52,389**	13,107

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 32.

The consolidated financial statements are presented in Hong Kong dollars, which is the same 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, for the first time, a number of new HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning 1st January 2007. The adoption 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 or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions [2]
HK(IFRIC) – Int 12	Service Concession Arrangements [3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum/Funding Requirements and their Interaction [3]

[1] Effective for annual periods beginning on or after 1st January 2009
[2] Effective for annual periods beginning on or after 1st March 2007
[3] Effective for annual periods beginning on or after 1st January 2008
[4] Effective for annual periods beginning on or after 1st July 2008

The directors of the Company anticipate that the application of these standards 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Impairment

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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, 2007, the carrying amount of trade receivables is approximately HK$97,171,000.

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 and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and make allowance for obsolete items. As at 31st December, 2007, the carrying amount of inventories is approximately HK$155,206,000.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The Group monitors its capital structure on the basis of a net debt-to-adjusted-capital ratio. For this purpose, net debt is defined as the borrowings as disclosed in note 24 net of cash and cash equivalents, and adjusted-capital is defined as equity attributable to equity holders of the Company, comprising issued share capital, share premium, accumulated profits and other reserves.

The directors of the Company review the capital structure on a regular basis by considering the cost of capital and the risks associates with each class of capital. Based on recommendation of directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

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

	2007	2006
	HK$'000	HK$'000
Financial assets		
Trade and other receivables	**142,712**	444,483
Pledged bank deposit	**1,500**	1,500
Bank balance and cash	**52,389**	13,107
	196,601	459,090
Financial liabilities		
Trade and other payables	**17,589**	78,825
Bank borrowings	**160,358**	182,564
	177,947	261,389

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 2007 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 regards, 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.

6. FINANCIAL INSTRUMENTS (Cont'd)

Liquidity risk

With regard to 2007 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 utilization of borrowings and ensures compliance with loan covenants.

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 31.12.2007 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**

	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 31.12.2006 HK$'000
2006						
Trade and other payables	N/A	78,825	–	–	–	78,825
Bank borrowings	4.5%	182,564	–	–	–	182,564
		261,389	–	–	–	261,389

6. FINANCIAL INSTRUMENTS (Cont'd)

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.

The Group's exposure to cash flow interest rate risk is mainly attributable to the variable-rate bank borrowings. As at 31st December 2007 and 2006, if interest rate on borrowing has been 5% higher/lower with all other variable held constant, loss for the current year/prior year would have been would decrease/increase by approximately HK$580,000 (2006: decrease/increase by approximately HK$528,000).

Other price risk

The Group is not exposed to any equity securities 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.

	2007	2006
	HK$'000	HK$'000
Financial assets denominated in foreign currencies	**151,495**	483,567
Financial liabilities denominated in foreign currencies	**176,401**	260,037
The financial assets were denominated in the following foreign currencies:		
RMB	**151,495**	483,567
The financial liabilities were denominated in the following foreign currencies:		
RMB	**89,693**	177,665
USD	**86,708**	82,372
	176,401	260,037

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).

6. FINANCIAL INSTRUMENTS (Cont'd)

Currency risk (Cont'd)

	Increase/ decrease in foreign currency rate	Effect on loss before taxation	
		2007	2006
		HK$'000	HK$'000
RMB	5%	**3,090**	15,295
	-5%	**(3,090)**	(15,295)
USD	5%	**(4,335)**	(4,118)
	-5%	**4,335**	4,118

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:

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 expenses				**(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				
Allowance for bad and doubtful receivables, net	**30,424**	**15,812**	**–**	**46,236**

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Geographical segments (Cont'd)

2006

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

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

2006

	USA HK$'000	PRC HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	172,723	12,410	–	185,133
Unallocated assets				753,220
Consolidated total assets				938,353
LIABILITIES				
Unallocated liabilities				291,806
OTHER INFORMATION				
Allowance for bad and doubtful receivables, net	6,859	5,053	–	11,912

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

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	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**45,113**	5,384	**5**	–
Elsewhere in the PRC	**555,851**	905,409	**2,611**	626
	600,964	910,793	**2,616**	626

8. IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT, INVENTORIES AND TRADE AND OTHER RECEIVABLES

On 10th August 2006, the Board announced that the Xian production plant ("Xian Hua Lien") suspended operation pursuant to a notice issued by 西安市人民政府 (Xian People's Government) which encouraged enterprises in the region, where the Xian production plant was located, to relocate to other new industrial and logistics zone in Xian to conform with the government's plan of town restructuring. Due to several government authorities of different hierarchical level involved in the matters of compensation for different aspects of losses associated with the suspension of operation and relation for construction of a new production plant and the compensation relating to different laws and regulations which some of them are lacking implementation rules, this complicated and tough negotiation do not have much progress in 2007. In view that the progress of negotiation is in a stalemate, it is difficult to foresee the time that will be taken from relocation to full production run of new production plant. The Directors expects that it may take 2 to 3 years or more.

8. IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT, INVENTORIES AND TRADE AND OTHER RECEIVABLES (Cont'd)

In view of future demolition of the buildings of Xian Hua Lien, the uncertainty of the time expected to be required for the negotiation and construction of the new production plant, the suspension of operation of Xian Hua Lien and the rapid change in market demand that creates uncertainty in the suitability and usability of inventories and plant and machinery in future production, the recoverable amount of the existing property, plant and equipment and the net realizable value of inventories are expected to be drastically reduced, therefore impairment losses on property, plant and equipment, part of the trade and other receivables and write down of inventories has already been made in last year. In current year, due to uncertain length of time in resumption of operation of Xian Hua Lien and difficulty in recovering the trade and other receivables after suspension of their trade relationships, after careful consideration by the Directors, further additional provision impairment losses on trade and other receivables that are past due beyond one year are made in this year.

The following impairment losses have been provided:

	2007	2006
	HK$'000	HK$'000
Impairment loss on property, plant and equipment	**–**	32,375
Impairment loss on trade and other receivables	**65,675**	30,435
Write-down of inventories	**–**	49,432
	65,675	112,242

9. LOSS FROM OPERATIONS

	2007	2006
	HK$'000	HK$'000
Loss from operations has been arrived at after charging:		
Directors' remunerations (note 10)	**750**	1,913
Retirement benefits scheme contributions	**457**	562
Other staff costs	**11,666**	13,657
Total staff costs	**12,873**	16,132
Depreciation for property, plant and equipment	**31,949**	34,398
Amortisation of prepaid lease payment on land use rights	**1,078**	1,024
Total depreciation and amortisation	**33,027**	35,422
Auditors' remuneration	**454**	465
Allowance for bad and doubtful receivables, net	**46,236**	11,912
Provision (write-back) on allowance for obsolete and slow moving inventories	**34,033**	(847)
Loss on disposal of property, plant and equipment	**–**	136
and after crediting:		
Net foreign exchange gains	**3,063**	3,865
Interest income	**698**	639
Gain on disposal of property, plant and equipment	**68**	–

10. DIRECTORS' REMUNERATIONS

Details of remuneration paid by the Group to directors during the year are as follows:

	2007	2006
	HK$'000	HK$'000
Directors' fees	**140**	90
Salaries and allowances of directors	**610**	1,823
Total directors' remunerations	**750**	1,913

Their aggregate emoluments of the directors were within the following bands:

	2007	2006
	HK$'000	HK$'000
HK$ nil to HK$1,000,000	**9**	7

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.

10. DIRECTORS' REMUNERATIONS (Cont'd)

The emoluments paid or payable to each of the nine (2006: seven) directors were as follows:

The Group	Fees	Salaries, allowances and other remuneration	Employer's contributions to retirement benefits schemes	2007 Total emoluments	2006 Total emoluments
	HK$'000	HK$'000	HK$'000	**HK$'000**	HK$'000
Executive Directors					
Liaw Yuan Chian	–	100	–	**100**	840
Shih Chian Fang	–	100	–	**100**	533
Zhou Yan Xia	–	240	–	**240**	–
Kuang Yong	–	50	–	**50**	–
Chaiteerath Boonchai	–	–	–	**–**	180
Chen Ling	–	120	–	**120**	270
Independent Non-executive Directors					
Zheng Liu	50	–	–	**50**	–
Yu Chi Jui	30	–	–	**30**	30
Li Xiao Wei	30	–	–	**30**	30
Fu Heng Yang	30	–	–	**30**	30
	140	610	–	**750**	1,913

11. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one (2006: three) executive directors of the Company, whose emoluments are included in note 10 above. The emoluments of the remaining four (2006: two) highest paid individuals are as follows:

	2007 HK$'000	2006 HK$'000
Salaries and allowances	**896**	745
Retirement benefits scheme contributions	**12**	12
	908	757

The emoluments of each of the remaining four (2006: two) highest paid individuals did not exceed HK$1,000,000 in both years.

12. INCOME TAX EXPENSE (INCOME)

	2007 HK$'000	2006 HK$'000
Current tax:		
Hong Kong profits tax calculated at 17.5% (2006: 17.5%) of the estimated assessable profit	**16**	21
PRC enterprise income tax	**–**	2,112
	16	2,133
Over provision of Hong Kong profits tax in prior years	**–**	(1)
Deferred tax (note 18)	**18,644**	(3,729)
	18,660	(1,597)

PRC enterprise income tax is calculated at the prevailing rates.

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 law. The enactment of New Tax Law is not expected to have any significant financial effect on the amounts accrued in the consolidated balance sheet in respect of taxation payable and deferred taxation.

12. INCOME TAX EXPENSE (INCOME) (Cont'd)

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

	2007		2006	
	HK$'000	**%**	HK$'000	%
Loss before tax	**(269,402)**		(114,436)	
Tax at the income tax rate of 23% (2006: 23%) (Note)	**(61,962)**	**(23.0)**	(26,320)	(23.0)
Tax effect of expenses that are not deductible in determining taxable profit	**64,141**	**23.8**	26,887	23.5
Tax effect of income that is not taxable in determining taxable profit	**(2,877)**	**(1.1)**	(1,807)	(1.6)
Tax effect of tax losses not recognised	**20,283**	**7.5**	–	–
Effect of different tax rates of subsidiaries operating in different province of the PRC	**(925)**	**(0.3)**	(357)	(0.3)
Income tax expense (income) and effective tax rate for the year	**18,660**	**6.9**	(1,597)	(1.4)

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 year ended 31st December 2007 and 2006.

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:

	2007	2006
	HK$'000	HK$'000
Loss		
Loss for purpose of basic loss per share	**(293,968)**	(73,362)

	2007	2006
	'000	'000
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**742,064**	686,400

Diluted loss per share for the year ended 31st December 2007 has not been disclosed, as the warrants outstanding during the year had an anti-dilutive effect on the basic loss per share for the year ended 31st December 2007. No diluted loss per share was presented in 2006 as there was no potential dilutive shares during that year.

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
THE GROUP						
COST						
At 1st January 2006	220,972	354,578	31,157	7,585	3,226	617,518
Exchange adjustments	13,258	21,842	1,816	443	194	37,553
Additions	–	42	14	–	570	626
Disposals	–	(97)	(217)	(855)	–	(1,169)
At 31st December 2006	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**
DEPRECIATION AND AMORTISATION						
At 1st January 2006	65,240	243,494	31,146	7,076	–	346,956
Exchange adjustments	3,914	14,702	1,713	415	–	20,744
Provided for the year	10,614	23,363	–	421	–	34,398
Impairment loss recognised	26,037	6,338	–	–	–	32,375
Eliminated on disposals	–	(59)	(182)	(769)	–	(1,010)
At 31st December 2006	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**
NET BOOK VALUES						
At 31st December 2007	**125,504**	**72,647**	**136**	**143**	**5,000**	**203,430**
At 31st December 2006	128,425	88,527	93	30	3,990	221,065

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

	2007	2006
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Non-current asset	**44,649**	43,441
Current asset	**1,078**	1,024
	45,727	44,465

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

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**476,175**	476,175
Impairment loss recognised	**(183,227)**	–
	292,948	476,175
Amounts due from subsidiaries	**71,078**	71,156
	364,026	547,331

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 2007 are set out in note 32.

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.

18. DEFERRED TAX ASSETS

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

	Accelerated accounting depreciation HK$'000	Inventories HK$'000	Trade receivables HK$'000	Total HK$'000
At 1st January 2006	9,252	1,824	11,577	22,653
Exchange Adjustments	555	(72)	695	1,178
(Charge) credit to income (note 12)	873	(834)	3,690	3,729
At 31st December 2006 and 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	**10,364**	**(110)**	**–**	**10,254**

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

19. INVENTORIES

	THE GROUP 2007 HK$'000	2006 HK$'000
Raw materials	**49,052**	56,822
Work in progress	**101,104**	117,647
Finished goods	**5,050**	11,704
	155,206	186,173

20. 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$97,171,000 (2006: HK$185,133,000), the ageing analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Up to 30 days	**53,954**	27,255
31 – 60 days	**34,584**	38,938
61 – 90 days	**7,213**	48,888
91 – 180 days	**1,420**	70,052
	97,171	185,133

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

21. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.5% to 4.5% (2006: 1.5 % to 3.5%).

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$17,339,000 (2006: HK$61,438,000), the ageing analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Up to 30 days	**10,459**	4,218
31 – 60 days	**92**	1,015
61 – 90 days	**501**	2,959
91 – 180 days	**3,027**	16,323
181 days to 1 year	**1,739**	28,192
Over 1 year	**1,521**	8,731
	17,339	61,438

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

23. LOAN FROM A DIRECTOR

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

24. BANK BORROWINGS

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Secured bank loans	**73,650**	100,192
Unsecured bank loans	**86,708**	82,372
	160,358	182,564
The bank borrowings are repayable as follows:		
Within one year or on demand	**160,358**	182,564
One to two years	**–**	–
Two to five years	**–**	–
	160,358	182,564
Less: Amount due within one year shown under current liabilities	**(160,358)**	(182,564)
Amount due after one year	**–**	–

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

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 2007	69,968	9,800
As at 31st December 2006	100,192	9,800

The effective borrowing rate of the Group ranged from 5.1% to 10.9% (2006: 5.18% to 7.02%).

During the year, the Group obtained new loans with aggregate amount of approximately HK$61 million. The proceeds were used for working capital purpose.

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

24. BANK BORROWINGS (Cont'd)

At 31st December 2007, 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:

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Prepaid lease payments on land use right and building	**93,320**	85,218
Plant and machinery	**57,984**	51,849
	151,304	137,067

(ii) Inventories of the Group of approximately HK$51 million (2006: HK$52 million);

(iii) Bank deposits of the Group of approximately HK$1.5 million (2006: HK$1.5 million);

(iv) Cross-guarantees between subsidiaries; and

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

On 12 September 2006, Bank of China, Xian Branch 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 the Xian Hua Lien including property, plant and equipment, inventories, accounts receivables and bank balances. During the year, the discussion with Xian Government about the compensation and Bank of China, Xian Branch for the repayment arrangements is still in stalemate. At balance sheet date, Bank of China, Xian Branch 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. As the slow progress in compensation negotiation with government authorities will inevitably lengthen the timing for repayment of the loan, the Bank of China, Xian Branch further increase the loan security by extending their scope of sequestration during the year to the pledged prepaid lease premium and certain of pledged buildings of Jiangmen Hua Lien Tannery Co. Ltd. ("Jiangmen Hua Lien") (the guarantor of the loan) with carrying value of approximately HK$40.6 million at the balance sheet date. As the sequestration do not affect the lawful right to use and is a subordinatory right on those pledged assets, the Directors believe that this encumbrance on pledged assets will not significantly influence the operation of Jiangmen Hua Lien.

25. SHARE CAPITAL

	Number of Shares			
	2007	2006	**2007**	2006
	'000	'000	**HK$'000**	HK$'000
Ordinary shares 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	**686,400**	686,400	**68,640**	68,640
Shares issued	**137,280**	–	**13,728**	–
At end of year	**823,680**	686,400	**82,368**	68,640

On 6th August 2007, the Company had issued and allotted a total of 137,280,000 shares of HK$0.1 each for consideration of HK$0.262 per share. These new shares rank pari passu with the existing shares in all respects.

26. RESERVES

	Contributed surplus (note i) HK$'000	Share premium (note ii) HK$'000	Warrant reserve (note iii) HK$'000	Accumulated profits (losses) (note iv) HK$'000	Total HK$'000
THE COMPANY					
At 1st January 2006	468,576	–	–	7,780	476,356
Loss for the year	–	–	–	(452)	(452)
At 31st December 2006 and 1st January 2007	468,576	–	–	7,328	475,904
Shares issued	–	22,239	–	–	22,239
Transaction costs attributable to issue of shares	–	(1,010)	–	–	(1,010)
Warrants issued	–	–	4,942	–	4,942
Loss for the year	–	–	–	(183,598)	(183,598)
At 31st December 2007	**468,576**	**21,229**	**4,942**	**(176,270)**	**318,477**

Notes:

(i) The contributed surplus of the Company represents the difference between the book value of the underlying net assets of the subsidiaries acquired by the Company under the group reorganisation in 2000 and the nominal value of the Company's shares issued for the acquisition.

(ii) On 6th August 2007, the Company issued and allotted a total of 13,728,000 shares of HK$0.1 each for consideration of HK$0.262 per share at a share premium of HK$0.162 per share.

(iii) On 4th October 2007, the Company issued 164,736,000 warrants of HK$0.1 each to be exercised at any time on or before 4th October 2011, which entitled the holders to HK$0.6 in cash for new share for each warrant. Exercise in full of the warrants would result in the issue of 164,736,000 additional ordinary shares of HK$0.1 each. During the period to the end of year, no new shares were subscribed under the warrants.

(iv) At 31st December 2007, the Company's reserves available for distribution to shareholders of approximately HK$292,306,000 (2006: HK$475,904,000) comprised the contributed surplus of approximately HK$468,576,000 (2006: HK$468,576,000) and the accumulated losses of approximately HK$176,270,000 (2006: accumulated profits of approximately HK$7,328,000).

27. COMMITMENTS

a. Operating lease commitments:

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Minimum lease payments paid during the year under operating leases in respect of land and buildings and office premises	**245**	757

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

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Within one year	**156**	245
In the second to fifth year inclusive	**–**	125
Over five years	**–**	–
	156	370

Operating lease payments principally represent rentals payable by the Group for certain of its office premises for 2007 and factory properties and office premises for 2006. Leases are negotiated for terms from 1 to 20 years and rentals are fixed throughout the lease terms.

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

27. COMMITMENTS (Cont'd)

b. Capital commitments:

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	**–**	–

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

c. 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 2007, the pre-determined distributions payable to the Joint Venture Partner over the entire cooperative joint venture period are as follows:

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Amount payable:		
Within one year	**5,906**	5,610
One to two years	**5,906**	5,610
Two to five years	**15,500**	14,725
Over five years	**47,772**	50,994
	75,084	76,939

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

28. 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 has terminated by a resolution passed by shareholders on 20th September 2007.

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.

During the year ended 31st December 2007, there are no option was granted since adoption under the terminated 2000 share option scheme.

2007 Share Option Scheme

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 directors 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 objects may be any of (a) to (g).

28. SHARE OPTIONS SCHEME (Cont'd)

2007 Share Option Scheme (Cont'd)

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 may 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 be 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 the 2007 Share Option Scheme and 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.

The total number of shares in 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.

28. SHARE OPTIONS SCHEME (Cont'd)

2007 Share Option Scheme (Cont'd)

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.

30. 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 employees in the Group's PRC subsidiaries are members of the state-managed retirement benefit scheme operated by the PRC government. The PRC subsidiaries are required to contribute a specified percentage 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 (2006: HK$0.6 million) represents contributions payable to these schemes by the Group in respect of the current accounting period.

30. 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 2007 with related parties are as follows:

(a) Balances

Details of balances with the related parties at the balance sheet date is set out in the consolidated balance sheet and note 23.

(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 27(c).

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

	2007 **HK$'000**	2006 HK$'000
Directors' fee	**140**	90
Salaries, allowances and benefits in kind	**610**	1,823
Mandatory Provident Fund Contribution	**–**	–
	750	1,913

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

31. POST BALANCE SHEET EVENT

On 26th February 2008, the Company and its wholly-owned subsidiary, Jumbo Right Investments Limited ("Jumbo Right") entered into a letter of intent with an independent third party, pursuant to which Jumbo Right may acquire from the independent third party the entire interests in its three wholly owned subsidiaries in Africa, which are engaged in sugar cane plantation and production of sugar and ethanol in Africa and sale of such products in the African and European markets.

The total consideration for the above proposed acquisition is approximately HK$1.28 billion, for which, the Company will issue new shares, at an issue price of HK$0.60 per new share and issues convertible notes of the Company, which are exercisable by the convertible noteholder(s) at a conversion price of HK$0.60 per new share. For further details, please refer to the Company's announcement dated on 27th February 2008. The proposed acquisition is under due diligence review and is not yet completed at the date of this report.

32. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December 2007 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 shares US$1	100%	Investment holding
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	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 shares 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

32. SUBSIDIARIES (Cont'd)

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

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

*** Company as joint stocks limited liability 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 dividends or to receive notice of or to attend or vote at any of its general meetings or to participate in any distribution on its winding up.

(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 27(c).

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 (2006: US$14,000,000).

(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 RMB 865,600,000.

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 2007 (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 2007.

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

Financial Summary

	Year ended 31st December				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	819,057	861,163	874,629	718,909	**615,203**
Cost of sales	(764,398)	(801,641)	(832,005)	(694,855)	**(753,113)**
Gross (loss) profit	54,659	59,522	42,624	24,054	**(137,910)**
Other operating income	9,196	9,744	5,562	14,565	**14,638**
Distribution cost	(1,931)	(935)	(720)	(408)	**(220)**
Administrative expenses	(36,874)	(27,128)	(25,555)	(31,786)	**(68,943)**
Factory relocation cost	–	–	–	(112,242)	**(65,675)**
(Loss) profit from operations	25,050	41,203	21,911	(105,817)	**(258,110)**
Finance charges	(11,372)	(10,743)	(10,271)	(8,619)	**(11,292)**
(Loss) profit from ordinary activities before tax	13,678	30,460	11,640	(114,436)	**(269,402)**
Income tax (expense) income	(2,300)	(6,126)	(3,414)	1,597	**(18,660)**
(Loss) profit before minority interests	11,378	24,334	8,226	(112,839)	**(288,062)**
Minority interests	(4,237)	(4,566)	(4,641)	39,477	**(5,906)**
Net (loss) profit for the year	7,141	19,768	3,585	(73,362)	**(293,968)**

	As at 31st December				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	1,070,327	1,004,981	1,063,839	938,353	**611,218**
Total liabilities	(345,314)	(260,926)	(316,833)	(291,806)	**(208,277)**
Minority interests	(48,560)	(47,834)	(47,183)	(2,096)	**(2,096)**
	676,453	696,221	699,823	644,451	**400,845**

Notes:

1. The Company was incorporated on 27th April 1998 and became the holding company of the Group on 5th January 2000 as a result of the group reorganisation in 2000.