KLCI **1354.38** ▲ **3.66** KLCI FUTURES **1351.50** ▲ **4.00** STI **3548.20** ▲ **9.97** RM/USD **3.450** CPO **RM2427.00** ▲ **44.00** OIL **US$70.**

Hualon sale due to RM4b debts

Textile players from the US, China and India have expressed interest

by **Gan Yen Kuan**
FD@bizedge.com

A whopping RM4 billion of debts and accumulated losses of RM1 billion haunting the country's largest textile manufacturer Hualon Corporation (M) Sdn Bhd have triggered the offer for sale of its operating business and assets.

The RM4 billion debts, which have been on Hualon's book since 2002 and made it one of the country's biggest debtors, involve more than 50 financial institutions and creditors of the company, locally and overseas.

Based on a search at the Companies Commission of Malaysia, Hualon's assets as at Nov 27, 2006, were charged to various lenders between 1992 and 2004, with the amounts secured ranging from RM15 million to RM260 million.

The data showed that the three biggest lenders were RHB Bank Bhd, CIMB Bank Bhd and Malayan Banking Bhd, which had collectively given out some RM2 billion of loans to Hualon.

The huge amount of bad debts in these banking groups was also a result of the consolidation of several banks into the respective groups via mergers and acquisitions over the past few years.

News on the sale of Hualon's assets came in last Monday, about seven months after it went into receivership on Nov 30, 2006. The receivers and managers from Ernst & Young have invited local and foreign interested parties to submit offers by Aug 3.

Already several textile companies from the United States, China and India have expressed interest in buying into the assets.

Speaking to *The Edge Financial Daily* in an interview, the head of the receivers from Ernst & Young, Adam Primus Abdullah, said his team was mandated to sell Hualon's assets to settle its huge debts.

"Hualon has always been running on a hand-to-mouth basis. The purpose of this receivership is to stabilise Hualon's business and keep its operations running. At this point in time, we think it's stable and it's the right timing (to sell Hualon's business and assets)," he said.

Hualon is controlled by Taiwan's Hualon Corp, which was delisted from the Taiwan Stock Exchange on Nov 10, 2003. Hualon Taiwan was also troubled by huge debts. The five directors of Hualon are Datuk Oung Yu-Ming, Andrew Oung Da-Ming, Hsiang Lien-Heng, Liu Fu, and Chen Ching-Sen.

Hualon was thrust into the limelight a few years ago with its legacy of huge unpaid borrowings, which accounted for a significantly large portion of the country's non-performing loans.

According to its receivers, "practically all" financial institutions in the country were exposed to Hualon's unpaid loans then.

Due to its inability to repay these borrowings, Hualon went into a scheme of arrangement with the lenders in 2002 to restructure the defaulted

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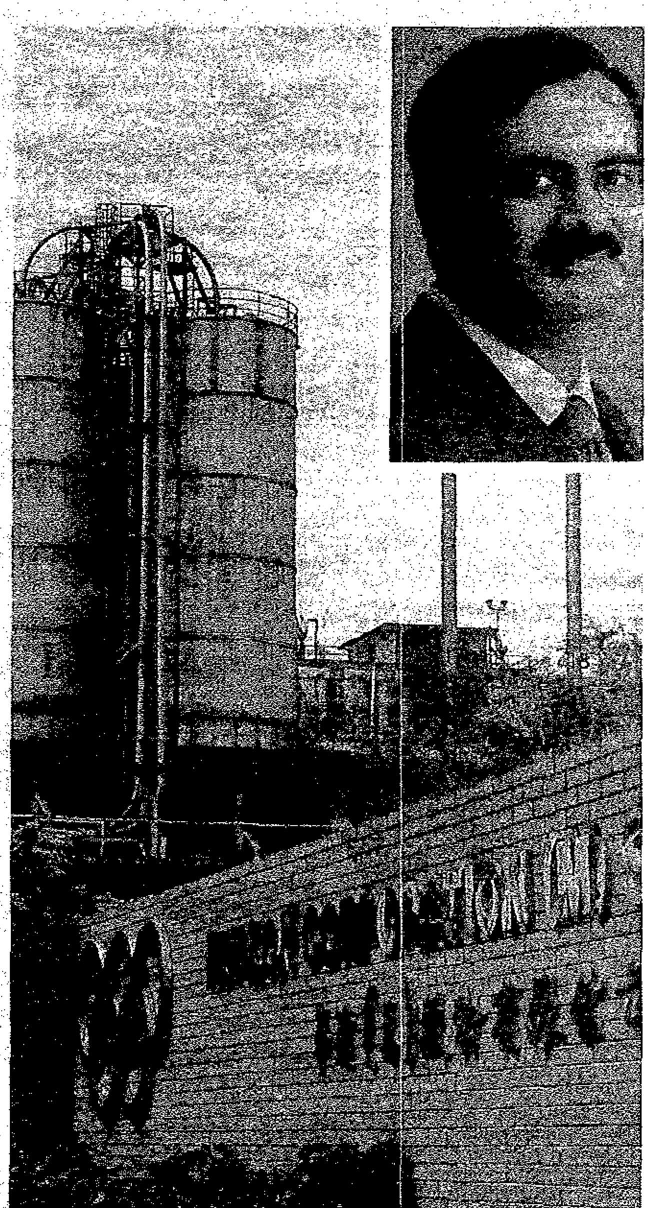

The Hualon factory in Nilai, Negri Sembilan. Inset: Hualon COO Nabhesh Khanna. Photos by Suhaimi Yusuf & Abdul Ghani Ismail

"We've seen the developments by Phu My Hung; we believe we can do better," said one executive discreetly.

To be constructed over 226ha within the 3,700ha My Phuoc (pronounced Mee Fook) Industrial Park, 40km north of Ho Chi Minh City (HCMC), EcoLakes will provide 10,000 units of homes in bungalows, villas and linked houses. A commercial hub within this controlled-access township will bring the neat package of community and urban terms of months," Teow said while noting the value of the Becamex partnerhip. "It's a very sweet deal that fits the needs of two parties... gaining approvals is not a problem."

As conservative as it may be, for SP Setia's maiden overseas investment, investors and analysts at home are receiving the news with apprehension since many more ambitious developers are eyeing the Vietnamese market.

"Everybody seems to be going there and telling the same story," explained A report by Deutsche Bank estimates an addition of 24 sen per share to the revised net asset value per share of SP Setia for FY08.

One frequent question from analysts is who will EcoLakes sell to? Are there enough wealthy people to go around?

A significant part of their target market will clearly come from the expatriate community, although they will be mostly tied in with long-term leases since foreigners are not yet allowed to buy property in Vietnam. million people with 60% aged 35 and below, over 8% GDP growth in 2006, annual FDI of over US$10 billion; Vietnam's ascension to the WTO and its hunger for more trade and investment will drive up incomes and the demand for housing.

"Initially a lot of people were very worried because the development is 40km away from Ho Chi Minh (City), but I think they got it right," said Yeonzon Yeow, head of Kenanga Investment Research. "Commerce will drive the need for dwelling Another 1,000ha of land facing the VSIP's Phase 2 is already earmarked for development.

"We have the intention to develop this with SP Setia," a VSIP official told Malaysian reporters.

Setia executives, however, said the company hasn't made a commitment to that plan. But EcoLakes won't be the last project either.

"We aim to take this partnership way beyond My Phuoc and that's a promise that will come true," Teow said.

Hualon's production facility one of the best in the world

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debts. It was this debenture that granted the rights to the lenders to put the company into a receivership should defaults of payments continue.

Subsequently, in last November, the receivers and managers from Ernst & Young — Adam Primus Abdullah, Lim Tian Huat and Stephen Duar — were appointed to take over the administration of Hualon.

According to its unaudited financial statements for the year ended Dec 31, 2006 (FY06), Hualon posted a net loss of RM314.28 million on the back of RM2.82 billion in revenue.

Its accumulated losses totalled RM1.05 billion as at FY06, while total receivables stood at RM630.4 million. It had total payables of RM654.9 million, about the same as its receivables.

Apart from the squeezed profit margin due to stiffer competition from Chinese and Vietnamese textile manufacturers, a company executive said Hualon also faced difficulty in collecting payments.

Furthermore, over half of Hualon's receivables were due from E-Hsin International Corporation, a company in which several Hualon directors have interests, according to the auditors report dated May 22, 2006 for FY05 audited financial statements.

The offer for sale of Hualon's assets did not surprise the textile industry. In fact, there were already enquiries to acquire Hualon's business from several textile players since three years ago, Hualon chief operating officer Nabhesh Khanna said.

Hualon Corporation (M) Sdn Bhd 6-year Financial Highlights

(RM '000)	FY01	FY02	FY03	FY04	FY05	FY06 (unaudited)
Revenue	2,695,382	2,348,899	2,373,501	2,921,664	3,387,960	2,817,270
Pre-tax loss	642,178	911,850	621,780	153,885	239,062	314,278
Net loss	445,117	593,882	479,315	153,885	242,991	314,278
Total borrowings	2,902,808	2,910,369	2,923,176	3,589,122	3,548,734	3,532,326
Total receivables	956,320	697,993	596,008	604,663	644,583	630,397
Total payables	1,452,802	1,673,436	1,892,779	1,155,939	1,271,841	654,934

Nabhesh was appointed to Hualon by the receivers in March. He was with Reliance Industries Ltd, India's largest private sector company and the world's largest polyester yarn and fibre producer, before being called to Hualon.

He said Hualon's production facility was one of the best in the world, based on his 17 years of experience in the textile industry. Yet, with an average annual turnover of RM2.76 billion from FY01 to FY06, Hualon incurred losses for six consecutive years.

On the sale offer, Adam said: "The people that we are looking for are large textile players who appreciate the full integration of Hualon, and the scale of its business."

The chief representative of the receivers, Quintin Tan, added that bidders who offered the highest price would not necessarily win the bid.

"Apart from the offer price, we also look at their background and credibility. We will evaluate from all angles," he said, adding that it would need six to nine months after the closing date of Aug 3 to announce the outcome of the bid.

The lenders will have the rights to choose the winning bidder with recommendations from the receivers. In the event that the lenders could not find the best suitor, the receivers may proceed with the liquidation of the company.

While liquidation of Hualon is unlikely to happen, judging from the positive response from textile players worldwide, there are concerns from local textile players over the future of the company.

Malaysian Textile Manufacturers Association executive director Andrew Hong told *The Edge Financial Daily* that it hoped there would be a new owner to continue running Hualon's plants in Nilai and Malacca.

Background of Hualon Corporation (M) Sdn Bhd

Year	Important Events
1989	Hualon Corporation (M) Sdn Bhd was established, with a paid-up capital of RM39 million
1990	Hualon's plant in Tanjung Kling, Malacca, covering about 8 ha, was set up
1992	Hualon's plant in Nilai, covering about 73 ha, believed to be the largest in Southeast Asia, was set up.
1998	Hualon's paid-up capital reached RM858 million, turnover breached RM2 billion
1999	Hualon faced RM3.3 billion debt, due to skyrocketing receivables.
2002	Hualon's debts reached RM4 billion. It went into a scheme of arrangement with the lenders to restructure the defaulted debts.
Nov, 2006	The lenders jointly appointed the receivers and managers from Ernst & Young to take over the administration of Hualon.
June, 2007	The receivers and managers put Hualon's business and assets up for sale

"It's sad for the industry if they close it down. As long as the business is ongoing, there will be no negative impact on the textile industry," he said.

Hualon has more than 90% of market share in the local textile industry, and is one of the biggest exporters in the country. Exports account for 95% of its annual turnover of RM2.7 billion.

It has a combined capacity to produce over 500,000 tonnes of polyester and blended yarns, 30,000 tonnes of nylon, 150,000 tonnes of polyethylene terephthalate (PET) bottle grade chips, and between 400 million and 500 million yards of fabric, annually.

A visit to Hualon's textile production facility, which has more than 20 plants spreading over 73ha in Nilai, showed that it was running at almost full capacity. Hualon has another facility in Malacca, with about 10 plants covering 8ha parcel of land.

Nabhesh said while competitors wanted Hualon to close down, local and foreign customers and suppliers had been supporting its operations with repeat orders.

"We run the plants 24 hours. Demand for the products is reasonably good. A lot of the customers have been long-term customers and they keep coming back almost every month.