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 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 27.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the inclusion of a statement of changes in equity but has had no material effect on the results for the current or prior accounting years.

Foreign currencies

The revisions to SSAP 11 *Foreign Currency Translation* have eliminated the choice of translating the income statements of the Group's operations in the PRC at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting years.

Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) *Cash Flow Statements*. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest income, which was previously presented under a separate heading, is classified as investing cash flows. Interest expense and dividend paid, which were previously presented under a separate heading, are classified as financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short-term loans that are financing in nature. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE/ CHANGES IN ACCOUNTING POLICIES (Cont'd)

Employee Benefits

In the current year, the Group has adopted SSAP 34 *Employee Benefits*, with introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investment in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

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 subsidiary 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.

All significant intercompany transactions, balances and cash flows within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition of subsidiaries prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill (Cont'd)

Goodwill arising on acquisition of subsidiaries after 1st January, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Turnover

Turnover represents the net amounts received and receivable from third parties for goods sold 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.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

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 impairment losses 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 provided 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 income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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. Impairment losses are recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment (Cont'd)

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.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling prices less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement for the period.

On consolidation, the assets and liabilities of the Group's operations in the PRC are translated at exchange rates ruling 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 are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and mandatory provident fund scheme are charged as an expense as they fall due.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments are its primary reporting format.

Business segment

The Group is solely engaged in the manufacture and sale of leather. All of the Group's turnover, contribution to operating profit and assets were attributable to this business segment.

4. 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 ("USA") and the PRC.

Segment information about these geographical markets is presented below:

2002

	USA HK$'000	PRC HK$'000	Other HK$'000	Consolidated HK$'000
TURNOVER	640,895	166,312	44,221	851,428
RESULT				
Segment result	47,171	6,624	5,468	59,263
Finance charges				11,630
Profit before taxation				47,633
Taxation				7,029
Profit before minority interests				40,604

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

	USA HK$'000	PRC HK$'000	Other HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	175,103	68,912	11,483	255,498
Unallocated assets				766,882
Consolidated total assets				1,022,380
LIABILITIES				
Unallocated liabilities				321,210

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Geographical segments (Cont'd)

2001

	USA	PRC	Other	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	505,572	194,780	103,322	803,674
RESULT				
Segment result	36,845	31,147	3,523	71,515
Finance charges				11,336
Profit before taxation				60,179
Taxation				5,334
Profit before minority interests				54,845

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

	USA	PRC	Other	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS				
Segment assets	132,535	46,337	22,779	201,651
Unallocated assets				768,292
Consolidated total assets				969,943
LIABILITIES				
Unallocated liabilities				280,293

4. 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 total assets and capital expenditure, analysed by the geographical area in which the assets and liabilities are located:

	Carrying amount of segment assets		Capital expenditure	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**38,149**	32,750	**215**	13
Elsewhere in the PRC	**984,231**	937,193	**26,705**	46,087
	1,022,380	969,943	**26,920**	46,100

5. OPERATING PROFIT

	2002	2001
	HK$'000	HK$'000
Operating profit has been arrived at after charging:		
Directors' remunerations (note 7)	**3,030**	2,854
Retirement benefits scheme contributions	**1,260**	1,085
Other staff costs	**19,287**	18,754
Total staff costs	**23,577**	22,693
Auditors' remuneration:		
Current year	**591**	616
Overprovision in prior years	**(30)**	–
Allowance for bad and doubtful debts	**15,634**	5,286
Depreciation and amortisation	**45,899**	37,090
Impairment loss on investment securities	**472**	–
Loss on disposal of property, plant and equipment	**26**	–
and after crediting:		
Gain on disposal of property, plant and equipment	**–**	533
Interest income	**686**	1,391

6. FINANCE CHARGES

	2002 HK$'000	2001 HK$'000
Interest on bank borrowings wholly repayable within five years	**11,630**	11,336

7. DIRECTORS' REMUNERATIONS

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

	2002 HK$'000	2001 HK$'000
Directors' fees	**–**	–
Salaries and allowances of executive directors	**3,030**	2,854
Total directors' remunerations	**3,030**	2,854

The emoluments of each of the executive directors of the Company did not exceed HK$1,000,000 in both years.

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.

8. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three (2001: three) executive directors of the Company, whose emoluments are included in note 7 above. The emoluments of the remaining two (2001: two) highest paid individuals are as follows:

	2002	2001
	HK$'000	HK$'000
Salaries and allowances	**1,122**	1,082
Retirement benefits scheme contributions	**12**	12
	1,134	1,094

The emoluments of each of the highest paid individuals did not exceed HK$1,000,000 in both years.

9. TAXATION

	2002	2001
	HK$'000	HK$'000
Hong Kong Profits Tax	**47**	–
PRC enterprise income tax	**6,982**	5,334
	7,029	5,334

Hong Kong Profits Tax has been provided in the financial statements at the rate of 16% on estimated assessable income for the year.

PRC enterprise income tax is calculated at the prevailing rates. Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and, thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The tax exemption and tax reduction period can be extended by the relevant tax authorities. The charge of PRC enterprise income tax for the year has been provided for after taking these tax incentives into account.

9. TAXATION (Cont'd)

A portion of the Group's profit is not subject to taxation in the jurisdiction in which it operates.

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

10. DIVIDEND

	2002	2001
	HK$'000	HK$'000
Final dividend of 1.2 Hong Kong cent per share for the year ended 31st December, 2001 (2000: 1 Hong Kong cent per share)	**8,237**	6,864

The directors do not recommend the payment of a dividend for the year and propose that the retained earnings be retained.

11. EARNINGS PER SHARE

The calculation of the earnings per share for the year is based on profit for the year of HK$30,052,000 (2001: HK$42,260,000) and on 686,400,000 shares (2001: 686,400,000 shares) in issue during the year.

The Company has no dilutive potential ordinary shares in issue during years ended 31st December 2001 and 2002.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and 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, 2002	184,170	345,648	30,702	6,509	14,309	581,338
Additions	11,749	1,760	78	571	12,762	26,920
Disposals	–	(26)	(1)	–	–	(27)
At 31st December, 2002	195,919	347,382	30,779	7,080	27,071	608,231
DEPRECIATION AND AMORTISATION						
At 1st January, 2002	29,616	114,830	28,656	5,542	–	178,644
Provided for the year	9,393	34,871	1,239	396	–	45,899
Eliminated on disposals	–	–	(1)	–	–	(1)
At 31st December, 2002	39,009	149,701	29,894	5,938	–	224,542
NET BOOK VALUES						
At 31st December, 2002	156,910	197,681	885	1,142	27,071	383,689
At 31st December, 2001	154,554	230,818	2,046	967	14,309	402,694

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

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost	**476,175**	476,175
Amounts due from subsidiaries	**68,180**	74,818
	544,355	550,993

The carrying value of the unlisted shares is based on the book 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, 2002 are set out in note 27.

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

14. INVESTMENT SECURITIES

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Capital contribution, at cost	**926**	926
Impairment loss	**(472)**	–
	454	926

The investment represents the Group's 5% equity interest in 山東高泰鞋業集團股份有限公司 which was established in the PRC as a limited liability company and is engaged in the manufacture and sale of shoes and other leather products.

During the year, the directors reviewed the carrying value of the investment securities with reference to the estimated net realisable value of the identifiable net assets of the investee company and an impairment loss of approximately HK$472,000 was identified and charged to the income statement.

15. INVENTORIES

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Raw materials	**43,300**	92,695
Work in progress	**237,531**	186,820
Finished goods	**37,758**	17,797
	318,589	297,312

In 2001, finished goods of HK$1,986,000 were carried at net realisable value (2002: Nil).

16. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 60 days to its trade customers. Included in trade and other receivables are trade receivables of HK$255,498,000 (2001: HK$201,651,000), the aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Up to 30 days	**67,661**	80,847
31 – 60 days	**61,301**	59,991
61 – 90 days	**80,333**	27,535
More than 90 days	**46,203**	33,278
	255,498	201,651

17. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$23,972,000 (2001: HK$58,150,000), the aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Up to 30 days	**9,211**	51,525
31 – 60 days	**2,824**	2,902
61 – 90 days	**3,986**	765
More than 90 days	**7,951**	2,958
	23,972	58,150

18. LOAN FROM A DIRECTOR

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

19. BANK BORROWINGS

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Secured bank loans	**154,369**	75,679
Unsecured bank loans	**88,284**	90,209
Secured bank overdraft	**12**	151
	242,665	166,039
The bank borrowings are repayable as follows:		
Within one year or on demand	**210,351**	165,938
One to two years	**32,314**	75
Two to five years	**–**	26
	242,665	166,039
Less: Amount due within one year shown under current liabilities	**(210,351)**	(165,938)
Amount due after one year	**32,314**	101

19. BANK BORROWINGS (Cont'd)

At 31st December, 2002, the Group's banking facilities were secured by the following:

(i) certain of the Group's land and buildings, plant and machinery, and construction in progress with a carrying value as follows:

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Land and building	**57,548**	46,226
Plant and machinery	**62,472**	32,795
Construction in progress	**24,528**	–
	144,548	79,021

(ii) bank deposits of the Group and of the Company of approximately HK$21 million (2001: HK$15 million) and HK$Nil respectively (2001: HK$0.5 million);

(iii) cross-guarantees between subsidiaries;

(iv) the Company's corporate guarantees (at the balance sheet date, the aggregate amounts of facilities utilised by subsidiaries, including bills payable, amounted to approximately HK$246 million (2001: HK$173 million)); and

(v) corporate guarantee given by Xian People's Tannery, a minority shareholder of a subsidiary.

20. SHARE CAPITAL

	Authorised	**Issued and fully paid**
	HK$'000	HK$'000
Ordinary shares of HK$0.10 each	150,000	68,640

There was no movement in the Company's share capital for both years.

21. RESERVES

	Contributed surplus	Retained profits	Total
	HK$'000	HK$'000	HK$'000
THE COMPANY			
At 1st January, 2001	468,576	26,573	495,149
Loss for the year	–	(1,014)	(1,014)
Dividend	–	(6,864)	(6,864)
At 31st December, 2001 and 1st January, 2002	468,576	18,695	487,271
Loss for the year	–	(729)	(729)
Dividend	–	(8,237)	(8,237)
At 31st December, 2002	468,576	9,729	478,305

(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) PRC statutory reserves refer to the statutory surplus reserve fund and enterprise expansion fund. As stipulated by the relevant laws and regulations for foreign investment enterprises in 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 taxation 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.

(iii) 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.

21. RESERVES (Cont'd)

(iv) At 31st December, 2002, the Company's reserves available for distribution to shareholders of approximately HK$478,305,000 (2001: HK$487,271,000) comprised the contributed surplus and the retained profits of approximately HK$468,576,000 (2001: HK$468,576,000) and approximately HK$9,729,000 (2001: HK$18,695,000), respectively.

22. COMMITMENTS

(a) Operating lease commitments:

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Minimum lease payments paid during the year under operating leases in respect of land and buildings	**1,378**	1,334

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	
	2002	2001
	HK$'000	HK$'000
Within one year	**1,373**	1,206
In the second to fifth year inclusive	**4,761**	5,097
Over five years	**5,776**	6,931
	11,910	13,234

Operating lease payments principally represent rentals payable by the Group for certain of its factory properties. Leases are negotiated for an average term of 10 years and rentals are fixed throughout the lease terms.

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

22. COMMITMENTS (Cont'd)

(b) Capital commitments:

	THE GROUP	
	2002	2001
	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	**3,712**	8,737

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 Xin Hui Hua Lien Tannery Co., Ltd. ("Xin Hui Hua Lien"), a subsidiary of the Company, Galloon International (Holding) Company, Limited ("Galloon International") is entitled to all of the net profit or loss of Xin Hui Hua Lien throughout the entire cooperative joint venture period after the payment of a pre-determined distribution by Xin Hui Hua Lien each year to the joint venture partner of Galloon International (the "Joint Venture Partner"). In the event that Xin Hui 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, 2002, the pre-determined distributions payable to the Joint Venture Partner over the entire cooperative joint venture period are as follows:

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Amount payable:		
Within one year	**5,239**	5,239
One to two years	**5,239**	5,239
Two to five years	**14,465**	15,180
Over five years	**67,864**	72,388
	92,807	98,046

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

23. CONTINGENT LIABILITIES

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Bills discounted with recourse	**–**	1,339

The Company did not have any significant contingent liabilities at the balance sheet date.

24. SHARE OPTIONS SCHEME

The Company's share option scheme (the "Scheme") which was adopted pursuant to a resolution passed by shareholders on 4th January, 2000 for the primary purpose of providing incentives to directors and eligible employees, will expire on 3rd January, 2010. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 30 days of the date of offer, upon payment of HK$1 per option. Options may be exercised at any time from the period commencing on the date falling 6 months after the date of grant of the share option to the 5th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares.

No options have been granted or agreed to be granted under the Scheme since its adoption.

25. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees.

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

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

The total cost charged to income of HK$1.3 million (2001: HK$1.1 million) represents contributions payable to these schemes by the Group in respect of the current accounting period.

26. 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, 2002 with related parties are as follows:

(a) Transactions

A subsidiary entered into a lease agreement (the "Lease Agreement") with Xian People's Tannery, the majority shareholder, to lease the land use rights related to the site on which the factory building of the subsidiary is located at a monthly rental of RMB102,000 (approximately HK$96,000). During the year, the Group paid rental expense of approximately HK$1,155,000 (2001: HK$1,155,000) to Xian People's Tannery and the amount paid was in the ordinary course of business and in accordance with terms of the Lease Agreement.

(b) Balances

Details of balances with the related parties at the balance sheet date is set out in the consolidated balance sheet and note 18.

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

(c) Others

(1) Details of an arrangement with a joint venture partner of Galloon International in respect of the distribution of profits in Xin Hui Hua Lien are set out in note 22(c).

(2) The Group's banking facilities were secured by guarantee given by a related party, details of which are set out in note 19.

27. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 2002 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
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
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
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
新會華聯製皮工業有限公司 Xin Hui Hua Lien Tannery Co., Ltd.	PRC *	Registered capital US$14,522,000	70.5% Note (iii)	Manufacture and sale of leather

27. SUBSIDIARIES (Cont'd)

Name of company	Place of incorporation/ operations	Nominal value of issued and fully paid share capital/ registered capital	Effective proportion of issued/registered capital held by the Company	Principal activities
新會嘉聯皮革工業有限公司 Xin Hui Galloon Tannery Co., Ltd. ("Xin Hui Galloon")	PRC **	Registered capital US$21,700,000 Note (iv)	100%	Manufacture and sale of leather
西安華聯製皮工業有限公司 Xian Hua Lien Tannery Co., Ltd. ("Xian Hua Lien")	PRC **	Registered capital US$7,530,000	51% Note (v)	Manufacture and sale of leather

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

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

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) Xin Hui 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 Xin Hui Hua Lien, but it is entitled to all of the net profit or loss of Xin Hui Hua Lien throughout the entire cooperative joint venture period, after the payment of a pre-determined distribution by Xin Hui Hua Lien each year to the Joint Venture Partner, details of which are set out in note 22(c).

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

(iv) As at the date of this report, the registered capital of Xin Hui Galloon was paid up to the extent of US$14,000,000 (2001: US$14,000,000).

27. SUBSIDIARIES (Cont'd)

Notes: (Cont'd)

(v) The Group holds a 51% equity interest in Xian Hua Lien with the remaining 49% held by Xian People's Tannery. Xian Hua Lien was established on 18th December, 1992 as a limited liability sino-foreign equity joint venture enterprise ("EJV") for a term of operation of 20 years. Since the establishment of Xian Hua Lien, Xian People's Tannery 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, 2002 (rather than in proportion to the 49% equity interest that it holds in Xian Hua Lien) and, pursuant to an agreement dated 31st December, 2001 made with Galloon International, Hua Lien Hong Kong, Xian Hua Lien, Xian People's Tannery 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, 2002.

At the end of the equity joint venture period, the Group is entitled to the distribution of all the remaining assets in Xian Hua Lien according to its capital contribution ratio in Xian Hua Lien.

In May 2000, Xian Hua Lien was converted into a limited liability sino-foreign cooperative joint venture enterprise ("CJV"). According to the conversion document, the conversion would be effective on issuance of the renewed business licence. As the business license has not been issued as at the balance sheet date, Xian Hua Lien continues to be treated as an EJV. Under the terms of the joint venture agreement of the CJV, Xian People's Tannery would entitle to receive 39% of the profit distribution each year from Xian Hua Lien, rather than in proportion to the 49% equity interest that it holds in Xian Hua Lien as an EJV.

While applying the renewed business license of the CJV, the management decided to convert Xian Hua Lien into a joint stock limited liability company. In January 2003, Xian Hua Lien was approved to become a joint stock limited liability company with a registered capital of Rmb65,600,000. Galloon International and Xian People's Tannery hold 51% and 44% respectively of its registered capital and the remaining 5% shares were issued to three other unrelated shareholders.

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