

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December 2003.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 26 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2003 are set out in the consolidated income statement on page 17 of the annual report.

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

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 20 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$42 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 11 to the financial statements.

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## 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. LIAW Yuan Chian ("Mr. Liaw")

Mr. Chaiteerath Boonchai

Mr. SHIH Chian Fang

### Independent non-executive directors:

Mr. FU Heng Yang

Mr. YU Chi Jui

In accordance with Articles 99 and 116 of the Company's Articles of Association, Mr. Liaw, being the managing director of the Company, is not required to retire by rotation and Mr. Shih Chian Fang 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.

Mr. Liaw and Mr. Chaiteerath Boonchai have each 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.

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## DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2003, the interests of the directors 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 contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Name of director	Number of ordinary shares held		Total	Approximate % of the issued share capital
	Beneficial owner	Held by controlled corporation <i>(Note)</i>		
Mr. Liaw	–	363,500,039	–	52.96%
Mr. Fu Heng Yang	2,700,000	–	–	0.39%

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 62.59% beneficial interest.

As at 31st December 2003, 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 26 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 any of their associates had any interests or short positions in any securities of the Company or any of its associated corporations as at 31st December 2003.

## SHARE OPTION 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.

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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 grant. 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.

## 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 shares in, or debts securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouses or children under the age of 18, had any rights to subscribe for securities in the Company, or had exercised any such rights.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December 2003, the interest or short positions of the persons, other than the interests disclosed under the heading "Directors' interest in securities", in the shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO was as follows:

### Long position in the shares of the Company

<u>Name</u>	<u>Number of ordinary shares held</u>	<u>% of the issued share capital</u>
Wong Pi Chao	48,826,000	7.1%

Save as disclosed above, as at 31st December 2003, the Company had not been notified of any other person, other than the directors of the Company, who has interest or short positions in the shares of the Company representing 5% or more of the Company's issued share capital.

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## CONNECTED TRANSACTIONS

Details of a discloseable connected transaction in respect of a lease agreement entered into between Xian Hua Lien Tannery Co., Ltd. ("Xian Hua Lien"), a subsidiary of the Company, and a minority shareholder of Xian Hua Lien are set out on note 25(a) to the financial statements. In the opinion of the independent non-executive directors, the transaction entered into by the Group was in the ordinary course of business and in accordance with the terms of the lease agreement.

Save as disclosed above, there were no other transactions which is required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company, its holding company or any of its 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.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers during the year accounted for approximately 32% of the Group's total sales and the Group's largest customer accounted for approximately 14% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 37% of the Group's total purchases and the Group's largest supplier accounted for approximately 9% of the Group's total purchases.

None of the directors, their associates or any shareholder which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest suppliers of the Group.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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## 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.

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## AUDIT COMMITTEE

The audit committee comprises two members, Mr. Fu Heng Yang and Mr. Yu Chi Jui, both are independent non-executive directors.

During the year, the audit committee held two meetings and reviewed and commented on the Company's draft annual and interim financial reports.

## AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Liaw Yuan Chian**

Hong Kong, 23rd April 2004