

Notes to the Financial Statements

For the year ended 31st December 2003

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 26.

2. CHANGE IN ACCOUNTING POLICY

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA.

Income taxes

In the current year, the Group has adopted SSAP No. 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP No. 12 (Revised) is in relation to deferred tax. SSAP No. 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary 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, with limited exceptions. In the absence of any specific transitional requirements in SSAP No. 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. As a result of this change in policy, the opening accumulated profits at 1st January 2002 has been increased by approximately HK\$15,666,000, which is the cumulative effect of the change in policy on the results for periods prior to 2002. The effect of the change is an increased credit to income tax in the current year of approximately HK\$1,586,000 (2002: HK\$5,837,000) and a decreased minority interests of approximately HK\$517,000 (2002: an increased of HK\$591,000).

Notes to the Financial Statements

For the year ended 31st December 2003

2. CHANGE IN ACCOUNTING POLICY (Cont'd)

The effect of this change in policy resulted in a significant change in an estimate of the amount reported in the unaudited consolidated condensed interim financial statements of the Company for the six months ended 30th June 2003. Accordingly, the interim financial statements should be restated to correct this change in estimate, resulting in an increased charge to income tax for the six months ended 30th June 2003 of approximately HK\$153,000 (2002: an increased credit of HK\$2,983,000) and a decreased minority interests of approximately HK\$657,000 (2002: an increased of HK\$255,000).

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies 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.

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.

Goodwill arising on acquisition of subsidiaries after 1st January 2001 is capitalised and amortised on a straight line basis over its useful economic life.

Notes to the Financial Statements

For the year ended 31st December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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%

Notes to the Financial Statements

For the year ended 31st December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

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 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.

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 is calculated using the weighted average method.

Notes to the Financial Statements

For the year ended 31st December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Notes to the Financial Statements

For the year ended 31st December 2003

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

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.

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.

Notes to the Financial Statements

For the year ended 31st December 2003

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:

2003

	USA	PRC	Other	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	624,698	181,314	13,045	819,057
RESULT				
Segment result	17,626	7,162	262	25,050
Finance charges				(11,372)
Profit before tax				13,678
Income tax expense				(2,300)
Profit before minority interests				11,378

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	195,145	38,818	8,736	242,699
Unallocated assets				827,628
Consolidated total assets				1,070,327
LIABILITIES				
Unallocated liabilities				345,314
OTHER INFORMATION				
Allowance for bad and doubtful receivables, net	17,493	(11,805)	(532)	5,156

Notes to the Financial Statements

For the year ended 31st December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Geographical segments (Cont'd)

2002

	USA HK\$'000	PRC HK\$'000	Other HK\$'000	Consolidated HK\$'000 (Restated)
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 tax				47,633
Income tax expense				(1,192)
Profit before minority interests				46,441

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 (Restated)
ASSETS				
Segment assets	175,103	68,912	11,483	255,498
Unallocated assets				789,829
Consolidated total assets				1,045,327
LIABILITIES				
Unallocated liabilities				321,210
OTHER INFORMATION				
Allowance for bad and doubtful receivables, net	8,075	9,460	(1,901)	15,634

Notes to the Financial Statements

For the year ended 31st December 2003

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 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	30,055	38,149	15	215
Elsewhere in the PRC	1,015,739	984,231	41,497	26,705
	1,045,794	1,022,380	41,512	26,920

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2003 HK\$'000	2002 HK\$'000
Directors' remunerations (<i>note 6</i>)	2,854	3,030
Retirement benefits scheme contributions	892	1,260
Other staff costs	18,012	19,287
Total staff costs	21,758	23,577
Auditors' remuneration:		
Current year	604	591
Under(over) provision in prior years	80	(30)
Allowance for bad and doubtful receivables, net	5,156	15,634
Allowance for obsolete and slow moving inventories	2,122	767
Depreciation and amortisation	43,634	45,899
Impairment loss on investment securities (included in administrative expenses)	113	472
Loss on disposal of property, plant and equipment	–	26
and after crediting:		
Gain on disposal of property, plant and equipment	16	–
Interest income	427	686

Notes to the Financial Statements

For the year ended 31st December 2003

6. DIRECTORS' REMUNERATIONS

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

	2003 HK\$'000	2002 HK\$'000
Directors' fees	–	–
Salaries and allowances of executive directors	2,854	3,030
Total directors' remunerations	2,854	3,030

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

	2003 No. of directors	2002 No. of directors
HK\$nil to HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	1	–

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.

7. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three (2002: three) executive directors of the Company, whose emoluments are included in note 6 above. The emoluments of the remaining two (2002: two) highest paid individuals are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	1,208	1,122
Retirement benefits scheme contributions	12	12
	1,220	1,134

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

Notes to the Financial Statements

For the year ended 31st December 2003

8. INCOME TAX EXPENSE

	2003 HK\$'000	2002 HK\$'000 (Restated)
Current tax:		
Hong Kong Profits Tax calculated at 17.5% (2002: 16.0%) of the estimated assessable profit	32	47
PRC enterprise income tax	3,854	6,982
	3,886	7,029
Deferred tax (<i>note 14</i>):		
Current year	(3,189)	(5,837)
Attributable to a change in PRC enterprise income tax rate	1,603	–
	(1,586)	(5,837)
	2,300	1,192

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 PRC enterprise income tax expense for both years has been provided for after taking these tax incentives into account.

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

Notes to the Financial Statements

For the year ended 31st December 2003

8. INCOME TAX EXPENSE (Cont'd)

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

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before tax	13,678		47,633	
Tax at the income tax rate of 22% (2002: 24%) (Note)	3,009	22.0	11,432	24.0
Tax effect of expenses that are not deductible in determining taxable profit	1,268	9.3	1,014	2.1
Tax effect of income that is not taxable in determining taxable profit	(2,542)	(18.6)	(5,197)	(10.9)
Tax effect of income under tax reduction period	(1,161)	(8.5)	(6,095)	(12.8)
Decrease in opening deferred tax balances from a decrease in PRC enterprise income tax rate	1,603	11.7	–	–
Effect of different tax rates of subsidiaries operating in different province of the PRC	54	0.4	(20)	–
Others	69	0.5	58	0.1
Income tax expense and effective tax rate for the year	2,300	16.8	1,192	2.5

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

Notes to the Financial Statements

For the year ended 31st December 2003

9. DIVIDEND

The directors do not recommend the payment of a dividend for the years ended 31st December, 2003 and 2002 and propose that the accumulated profits be retained. The amount for 2002 represented final dividend of 1.2 Hong Kong cent per share for the year ended 31st December, 2001 amounted to approximately HK\$8,237,000.

10. EARNINGS PER SHARE

The calculation of the earnings per share for the year is based on net profit for the year of approximately HK\$7,141,000 (2002: HK\$35,298,000) and on 686,400,000 shares (2002: 686,400,000 shares) in issue during the year.

The Company has no dilutive potential ordinary shares in issue during the years ended 31st December 2003 and 2002.

Notes to the Financial Statements

For the year ended 31st December 2003

11. 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 2003	195,919	347,382	30,779	7,080	27,071	608,231
Additions	563	5,554	369	293	34,733	41,512
Transfers	7,927	886	–	–	(8,813)	–
Disposals	–	–	(1)	(258)	–	(259)
At 31st December 2003	204,409	353,822	31,147	7,115	52,991	649,484
DEPRECIATION AND AMORTISATION						
At 1st January 2003	39,009	149,701	29,894	5,938	–	224,542
Provided for the year	9,376	33,055	722	481	–	43,634
Eliminated on disposals	–	–	(1)	(258)	–	(259)
At 31st December 2003	48,385	182,756	30,615	6,161	–	267,917
NET BOOK VALUES						
At 31st December 2003	156,024	171,066	532	954	52,991	381,567
At 31st December 2002	156,910	197,681	885	1,142	27,071	383,689

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

Notes to the Financial Statements

For the year ended 31st December 2003

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	476,175	476,175
Amounts due from subsidiaries	67,964	68,180
	544,139	544,355

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 2003 are set out in note 26.

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.

13. INVESTMENT SECURITIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Capital contribution, at cost	926	926
Impairment loss	(585)	(472)
	341	454

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\$113,000 (2002: HK\$472,000) was identified and charged to the income statement.

Notes to the Financial Statements

For the year ended 31st December 2003

14. DEFERRED TAX ASSETS

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

	Accelerated accounting depreciation	Inventories	Trade receivables	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2002				
– as previously reported	–	–	–	–
– adjustment on adoption of SSAP No. 12 (Revised)	4,824	6,838	5,448	17,110
– as restated	4,824	6,838	5,448	17,110
Credit to income	1,785	300	3,752	5,837
At 31st December 2002 and 1st January 2003	6,609	7,138	9,200	22,947
Effect of change in tax rate				
– charge to income (<i>note 8</i>)	(633)	(558)	(412)	(1,603)
Credit to income (<i>note 8</i>)	1,023	1,013	1,153	3,189
At 31st December 2003	6,999	7,593	9,941	24,533

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

15. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	44,082	43,300
Work in progress	258,163	237,531
Finished goods	26,373	37,758
	328,618	318,589

Notes to the Financial Statements

For the year ended 31st December 2003

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 approximately HK\$242,699,000 (2002: HK\$255,498,000), the aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Up to 30 days	74,393	67,661
31 – 60 days	54,135	61,301
61 – 90 days	32,467	80,333
More than 90 days	81,704	46,203
	242,699	255,498

17. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$41,276,000 (2002: HK\$23,972,000), the aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Up to 30 days	15,594	9,211
31 – 60 days	10,582	2,824
61 – 90 days	2,216	3,986
More than 90 days	12,884	7,951
	41,276	23,972

18. LOAN FROM A DIRECTOR

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

Notes to the Financial Statements

For the year ended 31st December 2003

19. BANK BORROWINGS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Secured bank loans	167,892	154,369
Unsecured bank loans	81,010	88,284
Secured bank overdraft	–	12
	248,902	242,665
The bank borrowings are repayable as follows:		
Within one year or on demand	216,478	210,351
One to two years	12,141	8,204
Two to five years	20,283	24,110
	248,902	242,665
Less: Amount due within one year shown under current liabilities	(216,478)	(210,351)
Amount due after one year	32,424	32,314

At 31st December 2003, 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	
	2003 HK\$'000	2002 HK\$'000
Land and building	55,767	57,548
Plant and machinery	35,458	62,472
Construction in progress	24,730	24,528
	115,955	144,548

- (ii) bank deposits of the Group of approximately HK\$21 million (2002: HK\$21 million);

Notes to the Financial Statements

For the year ended 31st December 2003

19. BANK BORROWINGS (Cont'd)

- (iii) cross-guarantees between subsidiaries; and
- (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\$103 million (2002: HK\$246 million)).

20. SHARE CAPITAL

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

21. RESERVES

	Contributed surplus (note i) HK\$'000	Accumulated profits (note ii) HK\$'000	Total HK\$'000
THE COMPANY			
At 1st January 2002	468,576	18,695	487,271
Loss for the year	–	(729)	(729)
Dividend	–	(8,237)	(8,237)
At 31st December 2002 and 1st January 2003	468,576	9,729	478,305
Loss for the year	–	(710)	(710)
At 31st December 2003	468,576	9,019	477,595

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) At 31st December 2003, the Company's reserves available for distribution to shareholders of approximately HK\$477,595,000 (2002: HK\$478,305,000) comprised the contributed surplus of approximately HK\$468,576,000 (2002: HK\$468,576,000) and the accumulated profits of approximately HK\$9,019,000 (2002: HK\$9,729,000).

Notes to the Financial Statements

For the year ended 31st December 2003

22. COMMITMENTS

(a) Operating lease commitments:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Minimum lease payments paid during the year under operating leases in respect of land and buildings and office premises	1,378	1,378

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	
	2003 HK\$'000	2002 HK\$'000
Within one year	1,346	1,373
In the second to fifth year inclusive	4,621	4,761
Over five years	4,621	5,776
	10,588	11,910

Operating lease payments principally represent rentals payable by the Group for certain of its factory properties and office premises. 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.

(b) Capital commitments:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	2,089	3,712

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

Notes to the Financial Statements

For the year ended 31st December 2003

22. COMMITMENTS (Cont'd)

(c) Other commitments:

Under the terms of a cooperative joint venture agreement in respect of 江門市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 2003, the pre-determined distributions payable to the Joint Venture Partner over the entire cooperative joint venture period are as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Amount payable:		
Within one year	5,239	5,239
One to two years	5,239	5,239
Two to five years	13,751	14,465
Over five years	63,339	67,864
	87,568	92,807

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

Notes to the Financial Statements

For the year ended 31st December 2003

23. 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 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.

24. RETIREMENT BENEFITS SCHEMES

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

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

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

The total cost charged to income of approximately HK\$0.9 million (2002: HK\$1.3 million) represents contributions payable to these schemes by the Group in respect of the current accounting period.

Notes to the Financial Statements

For the year ended 31st December 2003

25. 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 2003 with related parties are as follows:

(a) Transactions

A subsidiary entered into a lease agreement (the "Lease Agreement") with Xian People's Tannery Factory ("Xian People's Tannery"), the minority shareholder of a subsidiary, 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 (2002: 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.

(c) 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 22(c).

Notes to the Financial Statements

For the year ended 31st December 2003

26. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December 2003 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	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 工業有限公司 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
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
江門市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

Notes to the Financial Statements

For the year ended 31st December 2003

26. 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 22(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\$14,000,000 (2002: 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 RMB65,600,000.

Since the establishment of Xian Hua Lien, the minority shareholders received 40% of the profit distribution made by Xian Hua Lien in respect of the period from the date of its establishment to 31st December 2003 (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 2003.

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