

The directors present their annual report and the audited financial statements for the year ended 31st December 2004.

## **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 25 to the financial statements.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31st December 2004 are set out in the consolidated income statement on page 17.

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

## **FINANCIAL SUMMARY**

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 48.

## **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$16 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 10 to the financial statements.

## **SHARE CAPITAL**

Details of the Company's share capital are set out in note 19 to the financial statements.

## **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 12% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 42% of the Group's total purchases and the Group's largest supplier accounted for approximately 11% of the Group's total purchases.

### MAJOR CUSTOMERS AND SUPPLIERS (Cont'd)

At no time during the year did a director, an associates of a director or any shareholder, which to the knowledge of the directors owns more than 5% of the Company's issued share capital, have an interest in any of the Group's five largest suppliers.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

#### Executive directors:

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

Mr. CHAITEERATH Boonchai

Mr. SHIH Chian Fang

#### Independent non-executive directors:

Mr. FU Heng Yang ("Mr. Fu")

Mr. YU Chi Jui

Ms. LI Xiao Wei

(with effect from 18th September 2004)

In accordance with Articles 99 and 116 of the Company's Articles of Association, Mr. Yu Chi Jui and Ms. Li Xiao Wei 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.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2004, 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			Approximate % of the issued share capital
	Beneficial Owner	Held by controlled corporation (Note)	Total	
Mr. Liaw	–	363,500,039	363,500,039	52.96%
Mr. Fu	216,000	–	216,000	0.03%

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 2004, 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 25 to the financial statements.

Save as disclosed above and other than one nominee ordinary share in Hua Lien (Hong Kong) Company Limited held by Mr. Liaw in trust for Hua Lien Group (Holding) Company, Limited, the Company's subsidiary, none of the directors or their associates had any interests or short positions in any securities of the Company or any of its associated corporation as at 31st December, 2004.

## SHARE OPTIONS

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.

## SHARE OPTIONS (Cont'd)

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 share 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 2004, the interest or short positions of the persons, other than the interests disclosed under the heading "Directors' interests in securities", in the shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO was as follows:

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of ordinary shares held</b>	<b>% of the issued share capital</b>
Wong Pi Chao	Beneficial Owner	48,826,000	7.1%

### **SUBSTANTIAL SHAREHOLDERS (Cont'd)**

The interest disclosed above represents long position in the shares of the Company.

Save as disclosed above, the Company has not been notified of any other person, other than the directors of the Company, who has an interest or a short position in the shares of the Company representing 5% or more of the Company's issued share capital.

### **CONNECTED TRANSACTIONS**

Details of a discloseable connected transaction in respect of a lease agreement entered into between Xian Hua Lien Tannery Co., Ltd. (the "Xian Hua Lien"), a subsidiary of the Company, and a minority shareholder of Xian Hua Lien are set out on note 24(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.

### **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.

### **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained a sufficient public float throughout the year ended 31st December 2004.

### 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.

### COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st December 2004 with the Code of Best Practice as set out in Appendix 14 to the rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company has adopted the Model Code (Appendix 10 to the Listing Rules) as its own code of the conduct regarding securities transaction by directors. Having made specific enquiry of all directors, all directors declared that they complied with the model code throughout the year, except Mr. Fu who fail to meet the margin call of TIS securities (HK) Limited (the "TIS"), TIS sold, at its discretion his shares in the Company, amounting to 2,484,000 shares on 14 April 2004 (the Disposal) during the blackout period. Mr. Fu has not notified the Company's Managing Director and obtain a dated written acknowledgement prior to the Disposal but had faxed a copy of his letter dated 16 April 2004 to the Managing Director afterwards. The Listing Committee of the Stock Exchange of Hong Kong Limited had imposed a public statement which involved criticism on Mr. Fu for the said breaches on 18th January 2005.

### INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive directors, Mr. Fu, Mr. Yu Chi Jui and Ms Li Xiao Wei, an annual confirmation of his independence pursuant to the Rule 3.13 of the Listing Rules. The Company has assessed the independence of the independent non-executive directors and consider all of the independent non-executive directors are independent.

### AUDIT COMMITTEE

The audit committee comprises three members, Mr. Fu, Mr. Yu Chi Jui and Ms Li Xiao Wei, all of them 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**

During the year, Messrs. Deloitte Touche Tohmatsu, who acted as auditors of the Company for the past three years, resigned and Messrs. HLM & Co. were appointed as auditors of the Company. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. HLM & Co. as auditors of the Company.

On behalf of the Board

**Liaw Yuan Chian**

Hong Kong, 22nd April 2005