

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

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 25.

2. 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.

Potential impact arising from the recently issued accounting standards

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

The principal accounting policies adopted by the Group currently are as follows:

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.

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

2. 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 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%

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.

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

3. 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.

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:

2004

	USA HK\$'000	PRC HK\$'000	Other HK\$'000	Consolidated HK\$'000
TURNOVER	673,668	187,495	–	861,163
RESULT				
Segment result	32,684	8,062	457	41,203
Finance charges				(10,743)
Profit before tax				30,460
Income tax expense				(6,126)
Profit before minority interests				24,334

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Geographical segments (Cont'd)

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	192,968	28,659	–	221,627
Unallocated assets				783,354
Consolidated total assets				1,004,981
LIABILITIES				
Unallocated liabilities				260,926
OTHER INFORMATION				
Allowance for bad and doubtful receivables, net	8,927	(2,993)	–	5,934
2003				
	USA HK\$'000	PRC HK\$'000	Other HK\$'000	Consolidated 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

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Geographical segments (Cont'd)

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

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	17,965	30,055	–	15
Elsewhere in the PRC	964,115	1,015,739	16,114	41,497
	<u>982,080</u>	<u>1,045,794</u>	<u>16,114</u>	<u>41,512</u>

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

4. PROFIT FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remunerations (note 5)	2,892	2,854
Retirement benefits scheme contributions	630	892
Other staff costs	14,951	18,012
Total staff costs	18,473	21,758
Auditors' remuneration:		
Current year	429	604
Under provision in prior years	–	80
Allowance for bad and doubtful receivables, net	5,934	5,156
Allowance for obsolete and slow moving inventories	–	2,122
Depreciation and amortization	43,254	43,634
Impairment loss on investment securities (included in administrative expenses)	108	113
and after crediting:		
Gain on disposal of property, plant and equipment	1	16
Write-back on allowance for obsolete and slow moving inventories	2,514	–
Interest income	418	427

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

5. DIRECTORS' REMUNERATIONS

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

	2004	2003
	HK\$'000	HK\$'000
Directors' fees	–	–
Salaries and allowances of executive directors	2,892	2,854
Total directors' remunerations	2,892	2,854

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

	2004	2003
	HK\$'000	HK\$'000
HK\$nil to HK\$1,000,000	5	4
HK\$1,000,001 to HK\$1,500,000	1	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.

6. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three (2003: three) executive directors of the Company, whose emoluments are included in note 5 above. The emoluments of the remaining two (2003: two) highest paid individuals are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and allowances	1,199	1,208
Retirement benefits scheme contributions	12	12
	1,211	1,220

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 STATEMENT

For the year ended 31 December 2004

7. INCOME TAX EXPENSE

	2004	2003
	HK\$'000	HK\$'000
Current tax:		
Hong Kong profits tax calculated at 17.5% (2003: 17.5%) of the estimated assessable profit	9	32
PRC enterprise income tax	4,485	3,854
	4,494	3,886
Deferred tax (note 13):		
Current year	2,434	(3,189)
Attributable to a change in PRC enterprise income tax rate	(802)	1,603
	1,632	(1,586)
	6,126	2,300

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 STATEMENT

For the year ended 31 December 2004

7. 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:

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before tax	30,460		13,678	
Tax at the income tax rate of 23% (2003: 22%) (Note)	7,006	23.0	3,009	22.0
Tax effect of expenses that are not deductible in determining taxable profit	230	0.8	1,268	9.3
Tax effect of income that is not taxable in determining taxable profit	(1,322)	(4.3)	(2,542)	(18.6)
Tax effect of income under tax reduction period	(581)	(1.9)	(1,161)	(8.5)
(Increase) decrease in opening deferred tax balances from a (increase) decrease in PRC enterprise income tax rate	(325)	(1.1)	1,603	11.7
Effect of different tax rates of subsidiaries operating in different provinces of the PRC	1,077	3.5	54	0.4
Others	41	0.1	69	0.5
Income tax expense and effective tax rate for the year	6,126	20.1	2,300	16.8

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

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

8. DIVIDEND

The directors do not recommend the payment of a dividend for the years ended 31st December, 2004 and 2003 and propose that the accumulated profits be retained.

9. EARNINGS PER SHARE

The calculation of the earnings per share for the year is based on net profit for the year of approximately HK\$19,768,000 (2003: HK\$7,141,000) and on 686,400,000 shares (2003: 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 2004 and 2003.

10. 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 2004	204,409	353,822	31,147	7,115	52,991	649,484
Additions	368	159	5	705	14,877	16,114
Transfers	58,565	597	-	-	(59,162)	-
Disposals	-	-	-	(54)	-	(54)
At 31st December 2004	263,342	354,578	31,152	7,766	8,706	665,544
DEPRECIATION AND AMORTISATION						
At 1st January 2004	48,385	182,756	30,615	6,161	-	267,917
Provided for the year	10,485	31,447	531	791	-	43,254
Eliminated on disposals	-	-	-	(49)	-	(49)
At 31st December 2004	58,870	214,203	31,146	6,903	-	311,122
NET BOOK VALUES						
At 31st December 2004	204,472	140,375	6	863	8,706	354,422
At 31st December 2003	156,024	171,066	532	954	52,991	381,567

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

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	476,175	476,175
Amounts due from subsidiaries	70,148	67,964
	546,323	544,139

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 2004 are set out in note 25.

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.

12. INVESTMENT SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital contribution, at cost	926	926
Impairment loss	(693)	(585)
	233	341

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\$108,000 (2003: HK\$113,000) was identified and charged to the income statement.

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

13. 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 2003	6,609	7,138	9,200	22,947
Effect of change in tax rate				
– charge to income	(633)	(558)	(412)	(1,603)
Credit to income	1,023	1,013	1,153	3,189
At 31st December 2003 and 1st January 2004	6,999	7,593	9,941	24,533
Effect of change in tax rate				
– charge to income (note 7)	289	310	203	802
(Charge) credit to income (note 7)	930	(4,256)	892	(2,434)
At 31st December 2004	8,218	3,647	11,036	22,901

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

14. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	28,490	44,082
Work in progress	211,028	258,163
Finished goods	17,009	26,373
	256,527	328,618

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

15. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 90 days to its trade customers. Included in trade and other receivables are trade receivables of approximately HK\$221,627,000 (2003: HK\$242,699,000), the ageing analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Up to 30 days	55,292	74,393
31 – 60 days	34,842	54,135
61 – 90 days	43,204	32,467
91 – 180 days	84,284	71,045
181 days to 1 year	4,005	10,659
	221,627	242,699

16. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$20,162,000 (2003: HK\$41,276,000), the ageing analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Up to 30 days	16,306	15,594
31 – 60 days	1,157	10,582
61 – 90 days	316	2,216
91 – 180 days	577	4,339
181 days to 1 year	423	1,698
Over 1 year	1,383	6,847
	20,162	41,276

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

17. LOAN FROM A DIRECTOR

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

18. BANK BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Secured bank loans	97,748	167,892
Unsecured bank loans	79,348	81,010
Secured bank overdraft	1,470	–
	178,566	248,902
The bank borrowings are repayable as follows:		
Within one year or on demand	149,022	216,478
One to two years	20,151	12,141
Two to five years	9,393	20,283
	178,566	248,902
Less: Amount due within one year shown under current liabilities	(149,022)	(216,478)
Amount due after one year	29,544	32,424

At 31st December 2004, 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	
	2004 HK\$'000	2003 HK\$'000
Land and building	92,216	55,767
Plant and machinery	33,824	35,458
Construction in progress	–	24,730
	126,040	115,955

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

18. BANK BORROWINGS (Cont'd)

- (ii) Inventories of the Group of approximately HK\$42 million (2003: Nil);
- (iii) bank deposits of the Group of approximately HK\$13 million (2003: HK\$21 million);
- (iv) cross-guarantees between subsidiaries; and
- (v) 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\$75 million (2003: HK\$103 million)).

19. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each	1,500,000,000	150,000	686,400,000	68,640

20. RESERVES

	Contributed surplus (note i) HK\$'000	Accumulated profits (note ii) HK\$'000	Total HK\$'000
THE COMPANY			
At 1st January 2003	468,576	9,729	478,305
Loss for the year	–	(710)	(710)
At 31st December 2003 and 1st January 2004	468,576	9,019	477,595
Loss for the year	–	(390)	(390)
At 31st December 2004	468,576	8,629	477,205

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

20. RESERVES (Cont'd)

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 2004, the Company's reserves available for distribution to shareholders of approximately HK\$477,205,000 (2003: HK\$477,595,000) comprised the contributed surplus of approximately HK\$468,576,000 (2003: HK\$468,576,000) and the accumulated profits of approximately HK\$8,629,000 (2003: HK\$9,019,000).

21. COMMITMENTS

- (a) Operating lease commitments:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Minimum lease payments paid during the year under operating leases in respect of land and buildings and office premises	1,380	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	
	2004 HK\$'000	2003 HK\$'000
Within one year	1,386	1,346
In the second to fifth year inclusive	4,764	4,621
Over five years	3,465	4,621
	9,615	10,588

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.

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

21. COMMITMENTS (Cont'd)

(b) Capital commitments:

	THE GROUP	
	2004	2003
	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	1,486	2,089

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 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 2004, the pre-determined distributions payable to the Joint Venture Partner over the entire cooperative joint venture period are as follows:

	THE GROUP	
	2004	2003
	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	13,751	13,751
Over five years	58,100	63,339
	82,329	87,568

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

22. 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.

23. RETIREMENT BENEFITS SCHEMES

The Group operates the MPF Scheme established under the Mandatory Provident Fund Ordinance for its 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 government to fund the retirement 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 statement of approximately HK\$0.6 million (2003: HK\$0.9 million) represents contributions payable to these schemes by the Group in respect of the current accounting period.

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

24. 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 2004 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 (2003: 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 17.

(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 21(c).

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

25. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December 2004 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 (Holding) Company, Limited	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 share US\$1	100%	Sale and marketing of leather and raw material sourcing

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

25. 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
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

* 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 incorporated as joint stocks limited liability 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) 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 21(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 (2003: 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.

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2004

25. SUBSIDIARIES (Cont'd)

Notes: (Cont'd)

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 2004 (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 2004.

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