1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Joyce Services Limited ("Joyce"), a company which is incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 27.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has converged all Hong Kong Financial Reporting Standards ("HKFRSs") with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board at 1st January 2005. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects.

In 2005, the Group has adopted all HKFRSs pertinent to its operations. The applicable HKFRSs are set out below and the 2004 accounts have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combination

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

The accounting standards which have material effects on the Group are set out below:

Prepaid lease payments on land use rights

In previous years, the land use rights and buildings were classified under property, plant and equipment and stated at cost less accumulated depreciation and any impairment losses.

Upon adoption of HKAS 17, the Group's land use rights are reclassified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and are reclassified from fixed assets to prepaid lease payments on land use rights, while buildings continue to be classified as part of the property, plant and equipment. Prepaid lease payments on land use rights under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

This change in accounting policy has had no effect on the consolidated income statement and retained earnings. The comparatives on the consolidated balance sheet for the year ended 31st December 2005 have been restated to reflect the reclassification of land use rights.

Classification and measurement of financial assets and financial liabilities

In the current year, the Group has applied HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below.

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

Classification and measurement of financial assets and financial liabilities (Cont'd)

By 31st December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

Effect of changes in the accounting policies on consolidated balance sheet:

	31st December 2005		31st December 2004	
	HKAS 17	**HKAS 39**	HKAS 17	HKAS 39
	HK$'000	**HK$'000**	HK$'000	HK$'000
Increase/(decrease) in assets				
Property, plant and equipment	**(42,914)**	**-**	(43,880)	–
Prepaid lease payments on land use rights	**42,914**	**-**	43,880	–
Available-for-sale financial assets	**-**	**-**	–	233
Investment securities	**-**	**-**	–	(233)

The adoption of other new HKFRSs does not result in substantial changes to the Group's accounting policies except certain presentation and disclosure of the accounts would be affected.

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 and comply with accounting standards issued by the HKICPA.

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 represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gain or losses on the disposal of an entity included the carrying amount of goodwill relating to the entity sold.

In previous years, the goodwill arising on acquisitions prior to 1st January 2001 was held in reserves. The Group has applied the relevant transitional provisions in the HKFRS 3 for non-restatement of such goodwill and the non-recognition of such goodwill in the profit or loss upon disposal or impairment.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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%

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment (Cont'd)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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.

3. 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.

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.

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:

2005

	USA HK$'000	PRC HK$'000	Other HK$'000	Consolidated HK$'000
TURNOVER	**768,903**	**105,726**	**–**	**874,629**
RESULT				
Segment result	**19,755**	**2,004**	**152**	**21,911**
Finance charges				**(10,271)**
Profit before tax				**11,640**
Income tax expenses				**(3,414)**
Profit for the year				**8,226**

4. 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:

2005	**USA**	**PRC**	**Other**	**Consolidated**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
ASSETS				
Segment assets	**216,786**	**14,550**	**–**	**231,336**
Unallocated assets				**832,503**
Consolidated total assets				**1,063,839**
LIABILITIES				
Unallocated liabilities				**316,833**
OTHER INFORMATION				
Allowance for bad and doubtful receivables, net	**1,807**	**410**	**–**	**2,217**

2004	USA	PRC	Other	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'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 expenses				(6,126)
Profit for the year				24,334

4. 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:

2004	USA	PRC	Other	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'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

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	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**14,516**	17,965	**5**	–
Elsewhere in the PRC	**1,026,670**	964,115	**1,451**	16,114
	1,041,186	982,080	**1,456**	16,114

5. PROFIT FROM OPERATIONS

	2005 HK$'000	2004 HK$'000 (Restated)
Profit from operations has been arrived at after charging:		
Directors' remunerations (note 6)	**2,398**	2,892
Retirement benefits scheme contributions	**699**	630
Other staff costs	**14,329**	14,951
Total staff costs	**17,426**	18,473
Depreciation for property, plant and equipment	**40,694**	42,288
Amortisation of prepaid lease payment on land use rights	**966**	966
Total depreciation and amortisation	**41,660**	43,254
Auditors' remuneration:	**423**	429
Allowance for bad and doubtful receivables, net	**2,217**	5,934
Impairment loss on available-for-sale financial assets/ investment securities (included in administrative expenses)	**233**	108
Loss on disposal of property, plant and equipment	**740**	–
and after crediting:		
Gain on disposal of property, plant and equipment	**–**	1
Write-back on allowance for obsolete and slow moving inventories	**658**	2,514
Interest income	**466**	418

6. DIRECTORS' REMUNERATIONS

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

	2005	2004
	HK$'000	HK$'000
Directors' fees	**228**	23
Salaries and allowances of executive directors	**2,170**	2,869
Total directors' remunerations	**2,398**	2,892

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

	2005	2004
	HK$'000	HK$'000
HK$ nil to HK$1,000,000	**6**	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.

The emoluments paid or payable to each of the 6 (2004: 6) directors were as follows:

The Group	**Fees**	**Salaries, allowances, and other remuneration**	**2005 Total emoluments**	**2004 Total emoluments**
	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors				
Liaw Yuan Chian	–	923	923	923
Shih Chian Fang	–	527	527	1,226
Chaiteerath Boonchai	–	720	720	720
Independent Non-Executive Directors				
Fu Heng Yang	30	–	30	23
Yu Chi Jui	160	–	160	–
Li Xiao Wei	38	–	38	–
	228	2,170	2,398	2,892

7. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three (2004: three) executive directors of the Company, whose emoluments are included in note 6 above. The emoluments of the remaining two (2004: two) highest paid individuals are as follows:

	2005 **HK$'000**	2004 HK$'000
Salaries and allowances	**949**	1,199
Retirement benefits scheme contributions	**12**	12
	961	1,211

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

8. INCOME TAX EXPENSES

	2005 **HK$'000**	2004 HK$'000
Current tax:		
Hong Kong profits tax calculated at 17.5% (2004: 17.5%) of the estimated assessable profit	**26**	9
PRC enterprise income tax	**3,140**	4,485
	3,166	4,494
Deferred tax (note 15):		
Current year	**248**	2,434
Attributable to a change in PRC enterprise income tax rate	**–**	(802)
	248	1,632
	3,414	6,126

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.

8. INCOME TAX EXPENSES (Cont'd)

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

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

	2005		2004	
	HK$'000	**%**	HK$'000	%
Profit before tax	**11,640**		30,460	
Tax at the income tax rate of 23% (2004: 23%) (Note)	**2,677**	**23.0**	7,006	23.0
Tax effect of expenses that are not deductible in determining taxable profit	**1,966**	**16.9**	230	0.8
Tax effect of income that is not taxable in determining taxable profit	**(822)**	**(7.1)**	(1,322)	(4.3)
Tax effect of income under tax reduction period	**(493)**	**(4.2)**	(581)	(1.9)
Increase in opening deferred tax balances from a increase in PRC enterprise income tax rate	**–**	**–**	(325)	(1.1)
Effect of different tax rates of subsidiaries operating in different provinces of the PRC	**86**	**0.7**	1,077	3.5
Others	**–**	**–**	41	0.1
Income tax expense and effective tax rate for the year	**3,414**	**29.3**	6,126	20.1

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

9. DIVIDEND

The directors do not recommend the payment of a dividend for the years ended 31st December, 2005 and 2004 and propose that the accumulated profits be retained.

10. EARNINGS PER SHARE

The calculation of the earnings per share for the year is based on net profit for the year approximately HK$3,585,000 (2004: HK$19,768,000) and on 686,400,000 shares (2004: 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 2005 and 2004.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Land	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	HK$'000
THE GROUP							
COST							
At 1st January 2004							
– as originally stated	48,100	156,309	353,822	31,147	7,115	52,991	649,484
Adoption of HKAS 17	(48,100)	–	–	–	–	–	(48,100)
At 1st January 2004							
– as restated	–	156,309	353,822	31,147	7,115	52,991	601,384
Additions	–	368	159	5	705	14,877	16,114
Transfers	–	58,565	597	–	–	(59,162)	–
Disposals	–	–	–	–	(54)	–	(54)
At 31st December 2004	–	215,242	354,578	31,152	7,766	8,706	617,444
Additions	–	72	–	5	–	1,379	1,456
Transfers	–	6,859	–	–	–	(6,859)	–
Disposals	–	(1,201)	–	–	(181)	–	(1,382)
At 31st December 2005	–	220,972	354,578	31,157	7,585	3,226	617,518
DEPRECIATION AND AMORTISATION							
At 1st January 2004							
– as originally stated	3,254	45,131	182,756	30,615	6,161	–	267,917
Adoption of HKAS 17	(3,254)	–	–	–	–	–	(3,254)
At 1st January 2004							
– as restated	–	45,131	182,756	30,615	6,161	–	264,663
Provided for the year	–	9,519	31,447	531	791	–	42,288
Eliminated on disposals	–	–	–	–	(49)	–	(49)
At 31st December 2004	–	54,650	214,203	31,146	6,903	–	306,902
Provided for the year	–	11,067	29,291	–	336	–	40,694
Eliminated on disposals	–	(477)	–	–	(163)	–	(640)
At 31st December 2005	–	65,240	243,494	31,146	7,076	–	346,956
CARRYING VALUES							
At 31st December 2005	–	155,732	111,084	11	509	3,226	270,562
At 31st December 2004	–	160,592	140,375	6	863	8,706	310,542

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

12. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

The Group's prepaid lease payments comprise leasehold land in the PRC under medium-term lease.

	2005	2004
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Non-current asset	**41,948**	42,914
Current asset	**966**	966
	42,914	43,880

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**476,175**	476,175
Amounts due from subsidiaries	**71,087**	70,148
	547,262	546,323

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 2005 are set out in note 27.

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.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENT SECURITIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Capital contribution, at cost	**926**	926
Impairment loss	**(926)**	(693)
	–	233

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 available-for-sale financial assets/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$233,000 (2004: HK$108,000) was identified and charged to the income statement.

15. 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 2004	6,999	7,593	9,941	24,533
Effect of change in tax rate				
– charge to income	289	310	203	802
(Charge) credit to income	930	(4,256)	892	(2,434)
At 31st December 2004 and 1st January 2005	8,218	3,647	11,036	22,901
(Charge) credit to income (note 8)	1,034	(1,823)	541	(248)
At 31st December 2005	9,252	1,824	11,577	22,653

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

16. INVENTORIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Raw materials	**33,269**	28,490
Work in progress	**194,872**	211,028
Finished goods	**17,487**	17,009
	245,628	256,527

17. 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$231,336,000 (2004: HK$221,627,000), the aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Up to 30 days	**62,166**	55,292
31 - 60 days	**77,000**	34,842
61 - 90 days	**46,906**	43,204
91 - 180 days	**45,264**	84,284
181 days to 1 year	**–**	4,005
	231,336	221,627

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

18. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$61,353,000 (2004: HK$20,162,000), the aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Up to 30 days	**14,651**	16,306
31 - 60 days	**14,677**	1,157
61 - 90 days	**13,430**	316
91 - 180 days	**12,676**	577
181 days to 1 year	**4,026**	423
Over 1 year	**1,893**	1,383
	61,353	20,162

The directors consider that the carrying amount of trade and other payables approximates their fair value.

19. LOAN FROM A DIRECTOR

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

20. BANK BORROWINGS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Secured bank loans	**119,486**	97,748
Unsecured bank loans	**80,539**	79,348
Secured bank overdraft	**4,947**	1,470
	204,972	178,566
The bank borrowings are repayable as follows:		
Within one year or on demand	**204,614**	149,022
One to two years	**358**	20,151
Two to five years	**–**	9,393
	204,972	178,566
Less: Amount due within one year shown under current liabilities	**(204,614)**	(149,022)
Amount due after one year	**358**	29,544

The carrying amounts of the group's borrowings approximate their fair value.

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group companies are set out below:

	Denominated in HK$	**Denominated** in US$
As at 31st December 2005	14,074,000	9,800,000
As at 31st December 2004	28,610,000	11,722,000

The borrowings denominated in Hong Kong dollars granted by the banks to a group company are guaranteed by Company. The interest rates for the loans are Hong Kong Inter-bank Offered Rate or Singapore Inter-bank Offered Rate plus a spread, thus exposing the Group to cash flow interest rate risk.

20. BANK BORROWINGS (Cont'd)

The effective borrowing rate of the Group ranged from 3.49% to 7.18% (2004: 3.25% to 5.28%).

During the year, the Group obtained new loans with an aggregate amounts of approximately HK$123,059,000. The proceeds were used for working capital purpose.

The carrying amount of bank borrowings approximates their fair value as the weighted average interest rates approximate the respective market rates.

At 31st December 2005, the Group's banking facilities were secured by the following:

(i) certain of the Group's prepaid lease payment on land use rights, property, plant and equipment with a carrying value as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Prepaid Lease Payments on land use right and buildings	**85,979**	92,216
Plant and machinery	**34,427**	33,824
	120,406	126,040

(ii) Inventories of the Group of with a carrying amount of approximately HK$80 million (2004: HK$42 million);

(iii) bank deposits of the Group of approximately HK$10 million (2004: HK$13 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$47 million (2004: HK$75 million)).

21. SHARE CAPITAL

	2005 and 2004 Authorised		2005 and 2004 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

22. RESERVES

	Contributed surplus (note i) HK$'000	**Accumulated profits** (note ii) HK$'000	**Total** HK$'000
THE COMPANY			
At 1st January 2004	468,576	9,019	477,595
Loss for the year	–	(390)	(390)
At 31st December 2004 and 1st January 2005	468,576	8,629	477,205
Loss for the year	–	(849)	(849)
At 31st December 2005	468,576	7,780	476,356

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 2005, the Company's reserves available for distribution to shareholders of approximately HK$476,356,000 (2004: HK$477,205,000) comprised the contributed surplus of approximately HK$ 468,576,000 (2004: HK$468,576,000) and the accumulated profits of approximately HK$7,780,000 (2004: HK$8,629,000).

23. COMMITMENTS

(a) Operating lease commitments:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Minimum lease payments paid during the year under operating leases in respect of land and buildings and office premises	**1,386**	1,380

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	
	2005	2004
	HK$'000	HK$'000
Within one year	**1,357**	1,386
In the second to fifth year inclusive	**4,621**	4,764
Over five years	**2,310**	3,465
	8,288	9,615

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	
	2005	2004
	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

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

23. 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 2005, the pre-determined distributions payable to the Joint Venture Partner over the entire cooperative joint venture period are as follows:

	THE GROUP	
	2005	2004
	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	**52,861**	58,100
	77,090	82,329

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

24. SHARE OPTIONS SCHEME

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

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

Options granted must be taken up within 30 days of the date of offer, upon payment of HK$1 per 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.

25. 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 statement of approximately HK$0.7 million (2004: HK$0.6 million) represents contributions payable to these schemes by the Group in respect of the current accounting period.

26. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had certain transactions with related parties. Details of these transactions for the year and balances at 31st December 2005 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 (2004: 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 19.

(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 23(c).

27. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December 2005 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

27. SUBSIDIARIES (Cont'd)

Name of company	Place of incorporation/ operations	Nominal value of issued and fully paid share capital/ registered capital	Effective proportion of issued/registered capital held by the Company	Principal activities
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 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 23(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 (2004: US$14,000,000).

27. SUBSIDIARIES (Cont'd)

(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 2005 (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 2005.

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

28. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period's presentation.