



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I hereby present the 2001 annual report of Peking Apparel International Group Limited and its subsidiaries (together the "Group").

Results

Turnover for the year ended 31 March 2001 amounted to approximately HK\$116,266,000, representing a slight increase of approximately 3 per cent as compared to that of last year. Net loss attributable to shareholders amounted to approximately HK\$6,158,000.

Business Review

Sales to the People's Republic of China ("PRC") and the United States of America ("USA") improved over the year. The increase in sales to these two countries was predominantly by the trading of fur pelts and sales of fur garments. Since the demand for these products were better than prior year, the Group was able to improve the profit contribution from these products. The Group's predominant market for the sales of leather garments has been the USA and South America since financial year 2000 and the current year's demand from the USA and South America was not as good as prior year's. Furthermore, the raw material cost for leather garments increased a lot during the year due to worldwide supply of tanned leather decreased. Therefore, the sales of leather garments and its profit contribution dropped during the year. Since the improvement of sales of fur pelts and fur garments has out-weighted the decrease in sales of other products including tanned leather and leather garments, the Group's current year's turnover improved slightly than last year.

Since the Group was able to control its production and operating costs, the Group was thus able to improve its operating results this year despite severe competitive pressures. During the year, the Group has reassessed its stock value on hand and has accelerated its provision for depreciation for slow moving stocks. As a results, the total stock provision made for the year was about HK\$8,298,000.

Despite of the loss reported for this year, the balance sheet remains strong.

Future Plan

The Group believes that the USA and South America economic situation will improve gradually, therefore, the Group will continue to focus on leather garment manufacturing as its core business. The Group will continue to seek for trading partners from these markets so as to further expand its business there.

As the worldwide demand for fur products was good during the year and should be better in coming year, the Group will allocate more resources on the sale and manufacturing of fur products hoping to improve the overall results.

Furthermore, the PRC planned to develop the northwest of it, the Group believes that the PRC economic conditions will be better this year than last year. The Group will continuously adopt careful but aggressive marketing strategies to enhance the relationship with existing customers as well as to seek for new trading partners, so as to maintain as well as increase the sales to the PRC market.

In order to remain competitive, the Group will continuously exercise appropriate measures to control its production and operating costs, improve its productivity so as to improve its profitability.

As mentioned previously, in order to broaden the Group's income stream, the Group will consider bringing in hi-tech business such as internet business when appropriate.

The Group believes that with the support of our shareholders, customers and dedication of our staff, the Group will be able to further improve the results in the coming year.



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Dividends

The Directors do not recommend the payment of any dividend in respect of the year ended 31 March 2001.

Acknowledgement

I hereby, on behalf of the Board of Directors, deeply extend my gratitude to all the shareholders, the public and the staff of the Group, who have offer their strong support, sincere effort and loyalty to the Group.

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Chairman

Hong Kong
24 July 2001