BUSINESS REVIEW

The Group's turnover for the period ended 30th June 2001 totalled HK$351,929,000, representing a 13.4% decrease as compared to HK$406,311,000 in 2000. The decrease was caused by a reduction in orders as a result of the economic slowdown in some of the major markets early this year.

The consolidated profit for the period ended 30th June 2001 was HK$24,800,000, representing a decrease of approximately 41.6% over the corresponding period last year. Basic earnings per share was 3.61 cents (six months ended 30th June 2000: 6.27 cents). The decrease in profit was mainly due to the HK$54,382,000 decrease in turnover which was compounded by the increase in raw hide prices caused by the outbreak of the foot and mouth disease. Other factors causing the decrease in profit attributable to shareholders was the HK$1,338,000 decrease in other income due to a drop in by-product sales, the HK$3,285,000 increase in staff costs and other administrative expenses and the HK$3,693,000 increase in selling expenses for boosting sales during the period.

With regard to geographical market segments, USA remains to be the main contributor to the Group's turnover. For the period ended 30th June 2001, turnover from USA represented 65.3% of total sales turnover as compared to 75.5% in 2000. The reason for the decline in turnover from USA was mainly due to the continued slowdown of the US economy. Turnover from countries including the People's Republic of China and Japan increased by 6.9% and 6.0% respectively over the total turnover of the same period last year. The increase of turnover from the People's Republic of China was brought by an increased number of overseas companies moving their production base to China. The increase of sales to Japan was brought by the sale of new finished leather manufactured with advanced technology developed by the Group. Turnover from Taiwan did not show material change over the same period last year but profit margin was under downward pressure due to competitive trading environment. The turnover from other countries fell by 3.8% over the same period last year was due to the profit margin generated from these countries was comparatively low and the Group had reduced selling to these countries.

FINANCIAL REVIEW

Liquidity and financial resources

During the period, the Group relied primarily upon funds generated internally from the Group's operating activities. As at 30th June 2001, the Group's total borrowings was HK$151,523,000 as compared to HK$171,065,000 at 31st December 2000. Of the total borrowings, all of the HK$151,523,000 was repayable within one year. At 31st December 2000, an amount of HK$169,623,000 was repayable within one year and HK$1,442,000 was repayable after one year.

Shareholders' funds of the Group as at 30th June 2001 amounted to approximately HK$609,125,000 (31st December 2000: HK$591,189,000). The Group's gearing ratio which is measured on the basis of the Group's total borrowings over the shareholders' funds as at 30th June 2001 was 24.8% (31st December 2000: 28.9%)

The sales and the purchases of the Group are mainly denominated in Renminbi, US dollar and Hong Kong dollar. Hence, the Group's exposure to foreign exchange risk is expected to be minimal. Bank borrowings are also mainly denominated in Renminbi, US dollar and Hong Kong dollar and the interests are charged on a floating rate basis. The Group's management oversees the movement of interest rates very closely and takes appropriate measures to minimise the Group's interest rate risks whenever necessary.

Employee remuneration policy

As at 30th June 2001, the Group employed a total of 1,235 (31st December 2000: 1,264) full time management, administrative and production staff in Hong Kong, Taiwan and PRC.

The Group's emolument policies are formulated on the basis of performance of individual employees and the salary trend in various regions of operation and will be reviewed annually. The Company has set up stock options plan and provided staff quarters to employees in PRC.

PROSPECTS

The worsening conditions in overseas markets will continue to have negative impact on the business of the Company. The Board believes that the Company's major market United States will experience more serious economic downturn during the second half of 2001 due to the recent political happenings in the country. However, the Board expected that the economic downturn in United States may start to recover some time next year if the country's political environment returned to stable. The effort made by the Federal Reserve to reduce interest rate and the implementation of various economic stimuli such as tax rebate and tax reduction by the US government will help to rejuvenate the country's economy as the interest reductions will lower borrowing costs and encourage consumer spending. The Board maintains a conservative business outlook for the remaining of 2001.

Despite Japan's economy has been weak, the personal consumption power of Japanese remains strong. The Board believes that the economy growth of Japan will pick up following the painful economic reforms implemented by the Japanese Prime Minister Mr. Junichiro Koizumi. The Group's new leather products manufactured with the advanced technology developed by the Group have been well received by OEM leather product manufacturers in China who export their finished leather goods to Japan. As the Group's new production plant assigned for the production of the new leather was still under construction during the period, the output from the new production plant during the period was comparatively small. However, in view of the positive response from the Japanese market and the new production plant becoming operational next year, the Board believes that Japan, the world's second largest economy, will become one of our major markets in the future and offset the negative impact brought by the economic downturn in United States.

During the period, the imported raw hide price remained at a high level but a stabilising trend has started to show following the various measures undertaken by the EC member countries. China has banned raw hide originated from countries which have outbreak of foot and mouth diseases from entering the country. Such measure has reduced the raw hide supply in China and pushed up the prices of local raw hide. The high raw hide price is expected to continue into the second half of the year and impose pressure on the Company's profit margin. The Board believes that the price of raw hide will return to a lower level when the supply situation in Europe improved.

Despite the continued slackness of the global economy, official statistics show that China's GDP growth reached 7.9% during the first half of 2001. The Board believes that China's economy is likely to maintain a relatively steady growth and the demand for leather products is expected to grow. Such steady growth will help to lessen the negative impact which may be brought by the slowdown of the economy of United States.

The Group is facing development opportunities and challenges upon China's accession into World Trade Organisation ("WTO"). The Group will thoroughly utilise its competitive advantages in technology, innovation and quality. As competition will intensify after China's accession into WTO, it is the Group's plan to continue to develop new products and new markets in order to achieve growth in both business and market share.

USE OF PROCEEDS

The Company issued 68,640,000 new ordinary shares of HK$0.10 each for cash at HK$1 per share on 27th January, 2000 (the "New Issue") in accordance with terms as set out in the Company's prospectus (the "Prospectus") dated 18th January, 2000 in connection with the listing of the Company's shares on the Hong Kong Stock Exchange.

According to the plan for the use of the proceeds as disclosed in the Prospectus, at 30th June, 2001, HK$27,997,000 from the New Issue was applied to finance the Group's construction of new production plant in PRC, HK$5,444,000 was applied to the purchase of new machinery and equipment, HK$4,000,000 was applied to the improvement of waste water treatment facilities, and HK$9,340,000 was used as working capital for the Group's operating activities

The remaining balance of the proceeds will be applied to the intended uses as stated in the Prospectus.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2001, the interests of the directors in the ordinary shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

	Number of ordinary shares held			
Name of director	**Personal Interests**	**Family interests**	**Corporate interests**	**Other Interests**
Liaw Yuan Chian ("Mr Liaw")	–	–	363,500,039	–

The 363,500,039 ordinary shares in the Company were held by Joyce Services Limited, a company in which Mr. Liaw has a 62.59% beneficial interest.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

A share option scheme was adopted by the Company on 4th January 2000, under which the directors of the Company may be granted options to subscribe for shares in the Company. No share options had been granted under the share option scheme since its adoption.

Save as disclosed above, at no time during the period 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 acquisition of shares 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 of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2001, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed under the heading "Directors' interests in securities", the Company had not been notified of any interests representing 10% or more of the Company's issued share capital.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June 2001, in compliance with the Code of Best Practice as set our in Appendix 14 of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

The Company audit committee was formed on 2nd February 2000 comprising the independent non-executive directors, Messrs. Fu Heng Yang and Yu Chi Jui. The terms of reference of the audit committee have been established with regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

The unaudited interim financial statements for the six months ended 30th June 2001 has reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of Board
Chaiteerath Boonchai
Chairman

Hong Kong, 14th September 2001