

“The Group will continue to dedicate itself to manufacture the best quality leather that fulfill the needs and exceed the expectation of our customers.”



Mr. CHAITEERATH Boonchai
Chairman

BUSINESS REVIEW

The Group's turnover for the year ended 31st December 2001 is HK\$803,674,000, representing a 1.3% decrease as compared to HK\$814,387,000 in 2000. The consolidated profit for the year of the Group is HK\$42,260,000, representing a decrease of 19.5% over last year. Earnings per share is HK cents 6.16 (2000: HK cents 7.71).

Decrease in turnover has been caused by a decrease of sales to the United States (the "US") market and the US's economic downturn. However, the Group has managed to develop new products and markets to maintain its sales and market share and in return has curtailed the negative impact brought by the slowdown of the US economy. In the current year, many types of the Group's finished leather, which are manufactured with the advanced technology developed by the Group, have been well received by OEM leather product manufacturers in the People's Republic of China (the "PRC") and has brought new businesses to the Group. The achievement of new businesses is attributable to the diligent and persistent effort of the management to expand sales into new markets in the PRC and Japan. As a result, the Group's turnover has only marginally decreased by 1.3% despite severe market conditions. The gross profit margin has decreased by 1.2% in 2001, caused mainly by a constant high level of raw hide prices. Despite the imported raw hide price has remained relatively stable during the year, the price of the PRC raw hide has increased, resulting in an increase in the overall price of raw hide, leading to a corresponding decrease in gross profit. The reduction of revenue generated during the year and the decrease in gross profit have decreased the profit for the year by 19.5%.



Turnover and contribution to operating profit is derived from dedication to quality.

With regard to geographical market segments, US remains to be the main contributor to the Group's turnover but the market segment's turnover has decreased from HK\$632,758,000 in 2000 to HK\$505,572,000 in 2001. Turnover from the PRC has increased by HK\$71,213,000 to HK\$194,780,000. The increase has been brought by the PRC's rapid economic growth, which has in turn increased the PRC's leather demand. The increase of turnover from other countries has been mainly brought by an increase in sales to Japan by HK\$50,128,000. During the year, the Group has successfully penetrated into the Japanese OEM shoe manufacturers market in the PRC with the products manufactured with the advanced technology developed by the Group.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the year, the Group has relied primarily upon funds generated internally from the Group's operating activities. As at 31st December 2001, the Group's total borrowings is HK\$166,039,000 as compared to HK\$171,065,000 at 31st December 2000. Of the total borrowings, HK\$165,938,000 (2000: HK\$169,623,000) is repayable within one year and HK\$101,000 (2000: HK\$1,442,000) is repayable after one year.

Shareholders' funds of the Group as at 31st December 2001 amounts to HK\$626,585,000 (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 31st December 2001 is 26.5% (31st December 2000: 28.9%).

The sales and 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.

Contingent Liabilities

At the balance sheet date, the Group had contingent liabilities in relation to the bills discounted with recourse of HK\$1,339,000 (HK\$ Nil).

At the balance sheet date, the Company had given guarantees to banks in respect of general banking facilities granted to subsidiaries and the aggregate amount utilised by these subsidiaries amounted to HK\$54 million (2000: HK\$8.3 million).

Pledge of Assets

At the balance sheet date, certain of the Group's property, plant and equipment with an aggregate carrying value of HK\$79 million (2000: HK\$87 million) and bank deposits of HK\$15 million (2000: HK\$11 million) were pledged to banks to secure general banking facilities granted to the Group.



Mr. Liaw Yuan Chian
Managing Director

Employee Remuneration Policy

As at 31st December 2001, the Group employed 1,176 (2000: 1,264) full time management, administrative and production staff in Hong Kong, Taiwan and the PRC.

The Group's emolument policies are formulated on the bases of individual performance and the salary trend in the various regions, and will be reviewed every year. The Company has set up share options plan and provides staff quarters to the staff in the PRC.

PROSPECTS

Overshadowed by the weak world economy, the Group expects a slow first half year of 2002. However, with the expected gradual recovery of the global economy, the Group is optimistic about its business and expects a pick up in business during the second half of 2002.

While strengthening and expanding its existing businesses, the Group has planned to further develop new products with the Group's advanced technology to continue to expand the OEM leather product manufacturers market in the PRC. With the PRC's accession into the World Trade Organisation (WTO) at the end of last year, trade barriers to the PRC export will gradually be dismantled and increases in the export trade volume of leather footwear from the PRC are expected in the coming years, which will in return

generate sustainable growth in demand for finished leather in the PRC. The Group will further strengthen its sales and marketing teams and expand its market share by tapping into the potential markets in the Central and Western PRC. Marketing activities including launching trade shows and developing working relationship with prestigious shoe manufacturers in those regions will be conducted.

In light of the competitive leather market, 'new products new market' will be the key growth strategy. The management will remain diligent and will focus on developing appropriate new products for different market segments in the possible shortest time. Furthermore, the Group will pursue cost effectiveness by adjusting the product mix to concentrate on the output of high value-added products and effort will be spent on exploring new raw hide sources.

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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") and a net proceed of HK\$61,042,000 was raised. According to the plan for the use of proceeds as disclosed in the Prospectus, as at 31st December 2001, the Group has utilised approximately HK\$ 27,997,000 to finance the construction and purchase of machinery and equipment for a new workshop, HK\$10,915,000 for the purchase of machinery and equipment for the new production facilities in Aixi Town, Xin Hui City, the PRC, approximately HK\$4,000,000 for the improvement of the waste water treatment facilities and HK\$9,340,000 as general working capital. The balance of the net proceeds as at 31st December 2001 of approximately HK\$8,790,000 is placed as short-term deposits with financial institutions and will be applied towards the intended uses as stated in the Prospectus.

PROPOSED DIVIDEND

Subject to the approval by the forthcoming Annual General Meeting, the Directors recommend the payment of a final dividend of Hong Kong Cents 1.2 per share, totaling HK\$8,237,000 for the year ended 31st December 2001. In the event that such approval by shareholders of the Company is obtained, the final dividend will be paid on or before Friday, 28th June 2002 to shareholders of the Company whose names appear on the Register of Members on Thursday 30th May 2002.

By order of the Board

Chaiteerath Boonchai

Chairman

Hong Kong, 19th April 2002