



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I hereby present the 2002 annual report of Peking Apparel International Group Limited and its subsidiaries (together the "Group").

Results

Turnover for the year ended 31 March 2002 amounted to approximately HK\$75,737,000, representing a decrease of approximately 35% as compared to that of last year. Net profit attributable to shareholders for the year amounted to approximately HK\$83,000, representing a significant improvement from the net loss of HK\$6,158,000 reported last year. The Group was able to improve its gross profit margin, as compared to last year, of approximately 36% with stringent efforts on cost control.

Business Review

The United States of America ("US") economy continued to slow down in this financial year has triggered off the global economic downturn. Coupled with the tragic 911 incidence that further aggravated the declining demand for consumer goods, every industry was affected and the US import market was impeded. During the year, turnover from the US market experienced a significant decline of approximately 80% as compared to the previous year and accounted for approximately 4% of the Group's total turnover. Sale to the US market was predominantly the manufacture and sales of leather garments. Such decline in turnover was due to the slowing down of the US market that resulted in customers' cautiousness and hesitation when placing orders. This global economic recession also has an impact on the People's Republic of China ("PRC") consumer spending power and affected the Group's business over there. Sale to the PRC market was predominantly the trading of tanned leather and fur pelts. As a result, the Group's overall sales of leather garments and trading of tanned leather and fur pelts was decreased significantly. In Financial Year 2002, a tremendous growth from the Japanese market was encouraging. Total turnover from the Japanese market increased by an overwhelming 7 times as compared to last year. Although Japan has been suffering from the economic downturn in recent years, it did not affect the Group's order from Japanese customers. The Group was able to achieve a speedy development in the Japanese market due to its quality control, which can meet and satisfy customers' expectation. During the year, the Group has consistently carried out its sales strategy that incorporated a strict product quality control and a commitment to provide excellent customer services. Moreover, the Group was able to control its production and operating costs effectively, the Group was thus able to improve its profit margin over the year despite of unfavourable worldwide economic situation and severe competition.

Future Plan

Looking ahead, we are optimistic on the Group's future business developments and adopt cautious approach towards enhancing its existing business and will continue to seek for more opportunities.

In respect to its existing businesses, the Group maintains a consistent high level of product quality, satisfying if not beyond the needs of its customers in every aspect, whether product design, quality or after-sales services, and continues to gain continuous support and trust from its customers. Orders from various regions around the globe, of which US and Japan in particular, are expected to continue to improve.

US and South America economic situation seems to be steadier and recovering, the Group will continue to focus on the sales of leather garment over these areas as its core business. The Group will continue to seek for trading partners from these markets so as to further expand its business there, including fur garments.



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With the PRC's vast population and its plan to develop the northwest of it and the infrastructure work for the 2008 Olympic Game to be held in Beijing, 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 improve the sales over there.

With the improvement of sales to Japanese market over the year, the Group will continue to seek for trading partners from the market so as to further expand its business there.

In April 2002, the Group's major production unit located in the PRC, successfully obtained the registration of "BS EN ISO 9001:2000 Manufacture and Sales of Leather and Fashion of Woven" for a period of three years. The Group believes that with such achievement in obtaining the "ISO 9001", the Group will be able to market its manufacturing operation to renowned customers so as to improve its overall results.

With the implementation of consistent strategies such as maintaining a solid financial base and prudent yet aggressive strategies, we target to improve our competitiveness and returns for the shareholders.

Due to the impacts of a weak global economy and a generally dull business environment, we will adopt a more prudent approach in line with our usual practices so as to reduce risks. Nonetheless, we will continue to seek for opportunities and enhance the Group's core business by way of investments in high return or high margin industries should suitable opportunities arise.

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.

Dividends

The Directors do not recommend the payment of any dividend in respect of the year ended 31 March 2002.

Acknowledgement

On behalf of the Board of Directors, we would like to extend our appreciation to the management and staff for their commitment and contribution throughout the year. We also take this opportunity to express our sincere thanks to our shareholders, investors and customers for their continued encouragement and strong support to the Group.

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Chairman

Hong Kong
22 July 2002