



Mr. Chaiteerath Boonchai
Chairman

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

BUSINESS REVIEW

Despite the challenging market conditions, the Group's turnover for the year ended 31st December 2002 reached HK\$851,428,000, representing a 5.9% increase over HK\$803,674,000 in 2001. The Group's consolidated profit for the year is HK\$30,052,000, a decrease of 28.9% over last year. Earnings per share is HK cents 4.38 (2001: HK cents 6.16).

The increase in turnover was brought by the growth in business of the third production unit, Xin Hui Galloon Tannery Company Limited, which had successfully launched a range of new products that are well received by our customers. The decrease in the Group's profit was mainly caused by an 23.7% increase in depreciation expenditures and an 14.3% increase in administrative expenses.

Geographically speaking, the increase in sales to US from HK\$505,572,000 to HK\$640,895,000 was attributed to the successful launching of a new line of fashion leather products that was well received by US customers. On the other hand, sales to PRC and other regions decreased from HK\$194,780,000 and HK\$103,322,000 to HK\$166,312,000 and HK\$44,221,000 was due to the keen competition and shift of market focus to high-yield markets.



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

FINANCIAL REVIEW

Liquidity and Financial Resources

During the year, the Group has relied primarily upon funds generated internally from the Group's operating activities and revolving credit facilities provided by the Group's principal bankers. As at 31st December 2002, the Group's total borrowings is HK\$242,665,000 as compared to HK\$166,039,000 at 31st December 2001. Of the total borrowings, HK\$210,351,000 (2001: HK\$165,938,000) is repayable within one year and HK\$32,314,000 (2000: HK\$101,000) is repayable after one year.

Shareholders' funds of the Group as at 31st December 2002 amounts to HK\$648,400,000 (31st December 2001: HK\$626,585,000). 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 37.4% (31st December 2001: 26.5%).

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.



Mr. Liaw Yuan Chian

Managing Director

Contingent Liabilities

	2002	2001
	HK\$'000	HK\$'000
Bills discounted with recourse	—	1,339

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\$246 million (2001: HK\$173 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\$144.5 million (2001: HK\$79 million) and bank deposits of HK\$21 million (2000: HK\$15.5 million) was pledged to banks to secure general banking facilities granted to the Group.

Employee Remuneration Policy

As at 31st December 2002, the Group employed 1,066 (2001: 1,176) full time management, administrative and production staff in Hong Kong, Taiwan and 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 PRC.

PROSPECTS

Looking ahead, the delay in economic recovery around the world has caused deflation and unemployment rate to continue into 2003. It is estimated that business conditions will continue to be tough in 2003. The outbreak of atypical pneumonia especially in Asia will have serious impact on leather goods consumption and in turn demand for leather goods and leather. As a result, the demand of leather from US and Asia, especially the PRC, are expected to be slack in 2003.

Faced with this tough and competitive market environment in 2003, the Group will focus on maintaining her market share and competitiveness by improving existing products and developing new products to differentiate herself from competitors.

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 being raised. At 31st December 2002, the Group has utilised approximately HK\$36,787,000 to finance the construction and purchase of new plant and equipment for a new workshop, HK\$10,915,000 for the purchase of plant and machinery for the new production facilities in Aixi Town, approximately HK\$4,000,000 for the improvement of the waste water treatment facilities and HK\$9,340,000 as general working capital.

The net proceeds had been used in full in accordance with the plan for use of proceeds as disclosed in the Prospectus.

DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31st December 2002 (2001: HK cents 1.2).

By order of the Board

Chaiteerath Boonchai

Chairman

Hong Kong, 29th April 2003