

Chairman's Statement

“ 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

For the year ended 31st December 2003, the Group had a turnover of HK\$819,057,000, a 3.8% decrease as compared to HK\$851,428,000 in 2002. The decrease in the Group's turnover was mainly caused by the economic downturn brought by the outbreak of Severe Acute Respiratory Syndrome (SARS).

The Group's net profit for the year ended 31st December 2003 was HK\$7,141,000, represented a decrease of approximately 79.8% over last year. Basic earnings per share was HK cents 1.04 (2002: HK cents 5.14). The decrease in profit was due to the decline in turnover and gross profit. The 4.3% decrease in gross profit ratio was due to the shifting of demand to lower price range products, the selective reduction in selling price of some product lines to combat keen market competition and the increase in production cost caused by the increase in the prices of raw hides in The People's Republic of China (the "PRC").

Chairman's Statement



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

With regard to geographical market segments, USA remained to be the main contributor to the Group's turnover. For the year ended 31st December 2003, turnover from USA represented 76.3% of total turnover as compared to 75.3% in 2002. The turnover from the PRC represented 22.1% of total turnover as compared to 19.5% in 2002. The increase in orders in the PRC market was brought by the growth in the PRC economy and the Group's continual efforts in product development. The turnover from other countries declined to 1.6% from 5.2% as those markets remained to be sluggish in 2003.

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 2003, the Group's total borrowings is HK\$248,902,000 as compared to HK\$242,665,000 at 31st December 2002. Of the total borrowings, HK\$216,478,000 (2002: HK\$210,351,000) is repayable within one year and HK\$32,424,000 (2002: HK\$32,314,000) is repayable after one year.

Chairman's Statement



Mr. Liaw Yuan Chian

Managing Director

6

Shareholders' funds of the Group as at 31st December 2003 amounts to HK\$676,453,000 (2002: HK\$669,312,000). 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 2003 is 36.8% (2002: 36.3%).

The sales and purchases of the Group are mainly denominated in Renminbi, United States 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, United States 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 Company had given guarantees to banks in respect of general banking facilities granted to subsidiaries and the aggregate amount utilised by subsidiaries, including bills payable, amounted to HK\$103 million (2002: HK\$246 million).

Chairman's Statement

Pledge of Assets

At 31st December 2003, certain of the Group's land and buildings, plant and machinery, and construction in progress with an aggregate carrying value of HK\$116.0 million (2002: HK\$144.5 million) and bank deposits of HK\$21 million (2002: HK\$21 million) were pledged to banks to secure general banking facilities granted to the Group.

Employee Remuneration Policy

At 31st December 2003, the Group employed 957 (2002: 1,066) 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 are reviewed every year. The Company has set up share options scheme and provides staff quarters to staff in the PRC.

PROSPECTS

The demand in the first quarter of 2004 had shown satisfactory growth when compared to the same period in 2003 and it is anticipated that 2004 will be a year of recovery. However, the keen competition and the persistent high level of raw hides prices in the PRC continues to affect the Group's profit margin.

Faced with the challenging operating environment, the Group will take proactive measures to reduce the negative effect on the Group's profitability by developing more high value-added products targeted for the PRC market and will continue to adopt a prudent approach in its operating control and financial policy.

DIVIDEND

The Board of Directors does not recommend the payment of a dividend for the year ended 31st December 2003. (2002: Nil)

By order of the Board

Chaiteerath Boonchai

Chairman

Hong Kong, 23rd April 2004