

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. SHIH Chian Fang Chairman

BUSINESS REVIEW

For the year ended 31st December 2006, the Group had a turnover of HK\$718,909,000, a 17.8 percent decrease compared to HK\$874,629,000 in 2005. The decrease in turnover was mainly brought by the suspension of operation of production plant in Xian in September 2006.

The Group's net loss attributable to the equity holders of the Company for the year ended 31st December 2006 was HK\$73,362,000 compared to net profit attributable to equity holders of HK\$3,585,000 in 2005. Basic loss per share was HK10.68 cents (2005: Basic earning per share of HK0.52 cents). The loss for the year was mainly resulted from the 112 million impairment losses on property, plant and equipment, inventories and trade receivables in relation to the suspended production plant in Xian.

With regard to geographical market segments, USA remained to be the main contributor to the Group's turnover. For the year ended 31st December 2006, turnover from USA represents 79.3 percent of total sales turnover as compared to 87.9 percent in 2005 and the business from the PRC market showed an increase of 8.6 percent as compared the same period in 2005. As mentioned in the Interim Report, the change was due to a shift in the market focus of the Company in response to the decrease of order from USA and the Group increased the sales to the PRC customers. The increase in segment result in other countries was the income derived from the processing of raw cowhides for other tanneries in the South East Asia.

Chairman's Statement



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 2006, the Group's total borrowings is HK\$182,564,000 as compared to HK\$204,972,000 at 31st December 2005. Of the total borrowings, HK\$182,564,000 (2005: HK\$204,614,000) is repayable within one year and HK\$Nil (2005: HK\$358,000) is repayable after one year.

Shareholders' funds of the Group as at 31st December 2006 amounts to HK\$644,451,000 (2005: HK\$699,823,000). 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 2006 is 28.3% (2005: 29.3%).

The sales and purchases of the Group are mainly denominated in Renminbi and United States dollar. Hence, the Group's exposure to foreign exchange risk is expected to be minimal. Bank borrowings are also mainly denominated in Renminbi and United States 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 amounted to approximately HK\$10 million (2005: HK\$47 million).

The Group reached settlement of legal claim with Bank of East Asia, Shenzhen Branch against Jiangmen Hua Lien Tannery Co Ltd ("Jiangmen Hua Lien") for principal of Rmb11,241,000 (approximately equivalent of HK\$11,241,000) and interest thereon through a mutually agreed repayment schedule dated on 23rd March, 2007.

Chairman's Statement

FINANCIAL REVIEW (Cont'd)

Pledge of Assets

At 31st December 2006, certain of the Group's prepaid lease payment on land use right, property, plant and equipment with an aggregate carrying value of approximately HK\$137 million (2005: HK\$120 million), inventories of approximately HK\$52 million (2005: HK\$80 million) and bank deposits of approximately HK\$1.5 million (2005: HK\$10 million) were pledged to banks to secure general banking facilities granted to the Group.

On 12th September 2006, Bank of China, Xian Branch which lent USD9.8 million to the Xian Hua Lien Tannery Co. Ltd. ("Xian Hua Lien") obtained a writ from 陝西省高級人民法院 (Shannxi Province Highest People's Court) that granted the bank the legal rights to freeze and sequester all the assets of the Xian Hua Lien including property, plant and equipment, inventories, accounts receivables and bank balances. At balance sheet date, Bank of China, Xian Branch sequestered the bank account, the property, plant and equipment and inventories of Xian Hua Lien as additional security. Due to the suspension of operation of Xian Hua Lien and full provision against the assets had made, the sequestered assets have no carrying value at the balance sheet date.

Employee Remuneration Policy

At 31st December 2006, the Group employed 771 (2005: 1,106) 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 plan and provides staff quarters to staff in the PRC.

PROSPECTS

On the supply side, the upward trend in cost of raw hides and labour in China will continuously drive up the operating cost in 2007. On the demand side, the sales for the first quarter of 2007 is satisfactory. A new leather processing arrangement have signed with one of the world-leading tannery, it is expected that additional revenue will generate in third quarter of 2007.

DIVIDEND

The Board of Directors does not recommend the payment of a dividend for the year ended 31st December 2006 (2005: Nil)

By order of the Board

Shih Chian Fang

Chairman

Hong Kong, 25th April 2007