



Chairman's Statement

General

I am pleased to report that 2001 was a year of solid achievements for the Group's active efforts in corporate and debt restructuring. It placed the Group on a stronger foundation to focus on its leather business, to consolidate and strengthen its leading position in China's leather industry, and to grow further in the years to come.

Results

The Group's net loss attributable to shareholders for the year ended 31 December 2001 was HK\$72,283,000 (2000: HK\$84,550,000), as a result of the provisions and impairment of HK\$91,916,000 made during the year primarily attributable to the Group's corporate restructuring. No final dividend is recommended for year 2001 by the Board of Directors.

Turnover for 2001 was HK\$764,929,000, an increase of 6% from last year of HK\$721,141,000.

Loss per share for 2001 was 13.79 HK cents, a drop of 14.5% against the previous year's loss per share of 16.13 HK cents.

Net assets value as at 31 December 2001 was HK\$356,376,000, reduced by HK\$54,074,000 as compared to last year.

Debt Restructuring

Pursuant to the Tannery Override Agreement ("TOA") entered into in 2000, the Group was required to repay the aggregate amount of loans amounting to HK\$197,000,000 to its bank creditors in Hong Kong by 31 December 2003. This obligation has been fulfilled as the Group successfully raised sufficient fund to repay the loan amount to its bank creditors in Hong Kong during the year in accordance with the repayment schedule of the TOA and the outstanding loan amount as at 31 December 2001 was also repaid in January 2002. The fund included an amount of approximately HK\$147,000,000 generated by the Group in 2001 following our concerted efforts in closing down loss-ridden businesses, disposing of assets, settling trade receivables, reducing inventories, improving the operational efficiency and maximising the operating profits of the leather business. It also derived from a facility of HK\$50,000,000 from a PRC bank.



Chairman's Statement *(Cont'd)*

Corporate Restructuring

The Group has embarked on a programme of corporate restructuring since early 2000. It continued to close down loss-ridden businesses, dispose of under-performing assets and optimize the asset structure in a move to enhance the overall and long-term operational efficiency. Plans to disengage the Group's interests in businesses suffering from continuing losses such as the packaging operations and to expand the production capacity of Xuzhou Nanhai Tannery were also in the pipeline.

Qingdao Nanhai Tannery

Qingdao Nanhai Tannery, a Sino-foreign cooperative joint venture set up in 1998 by the Group, has accumulated losses of Rmb10,943,000 since its establishment three years ago as a result of the high production costs. Negotiations are underway between the Group and the joint venture partner on effective ways to resolve related issues of Qingdao Nanhai Tannery, which has ceased production in August 2001.

Xuzhou Nanhai Tannery

A bankruptcy petition was filed by the PRC joint venture partner of Xuzhou Nanhai Tannery in May 2001, and its assets are being administered by the liquidation committee. In order to maintain the normal production of Xuzhou Nanhai Tannery, the Group has agreed to acquire the assets of the PRC joint venture partner including the plant and machinery at a total consideration of Rmb8,500,000. Following the formal completion of this acquisition, the Group will consider to reorganise Xuzhou Nanhai Tannery and expand further its production scale, as part of our commitment to explore the leather markets in central and eastern China.

Xuzhou Gangwei Colour Packaging ("Xuzhou Gangwei")

A bankruptcy petition was also filed by the PRC joint venture partner of Xuzhou Gangwei in August 2001, and its assets are being administered by the liquidation committee. The Group has agreed to acquire the assets of the PRC joint venture partner at a total consideration of Rmb4,500,000. In line with its strategies to strengthen the leather business and expand the production scale of Xuzhou Nanhai Tannery, the packaging plant acquired will be partly converted as a downstream processing plant for Xuzhou Nanhai Tannery to enlarge its capacity. Meanwhile, discussion is also underway on the sub-contracting of the Group's packaging business to a third party.

The acquisition of assets and the sub-contracting of business are now in progress, and are expected to complete in the first half of 2002.



Chairman's Statement *(Cont'd)*

The Leather Ware Business

The Group shifted from direct sales to franchise for its leather ware products in China in 2001. The proposed sale of a 25% interest in the trademark to an agent was called off, as the agent has unilaterally terminated the agreement given the worsening external economy after it paid to the Group a deposit of HK\$500,000.

Performance of the leather ware business was less satisfactory as it was adversely affected by the continuing slowdown of the local economy. A loss of HK\$26,745,000 was recorded for the year of 2001, lower than that of HK\$78,047,000 in 2000. Provisions and impairment of its inventories and properties were made for the year and they, together with other provisions, amounted to HK\$23,008,000 (2000: HK\$75,914,000). We expect the business environment will continue to be difficult in the next few years.

Long-term Strategies and Prospects

The Group has over ten-year experience in the leather industry. It achieved a leading position in the highly competitive leather market in China, given its acute market responsiveness and specialised efforts in technological improvement. The Group always strives to stay ahead of market competition and continue its leadership with higher operational efficiency. It will focus its resources on the leather processing business, expand its existing market, introduce more innovative products, and extend further its overall market share.

In 2001, Nanhai Tannery and Xuzhou Nanhai Tannery had an annual production volume of 33,546,000 sq.ft. in cowhides, 8,250,000 sq.ft. in cow split and 12,092,000 sq.ft. in coated cow split. As there is room for expansion in China's leather market, the Group will progressively expand the production scale of Xuzhou Nanhai Tannery after completing the acquisition of the plants and machinery of the PRC joint venture partners in Xuzhou.

The shoe leather market in China has been a core market for the Group's leather products. While continuing its efforts to strengthen the existing market of black nappa cow leather, the Group is devising plans to facilitate its ventures in new market segments and enhance the popularity of new products in 2002. A multitude of new trendy products are planned to be launched, and a region-based distribution network will be adopted to provide more effective market feedback, allowing the Group to ride on changing market trends and extend its reach further. With these strategies in place, the Group is well poised to expand steadily the leather business and to improve its overall performance.



Chairman's Statement *(Cont'd)*

Conclusion

I take this opportunity to thank our customers, suppliers and shareholders for their continued support, and our staff for their hard work and dedication.

Yu Ziquan
Chairman

Hong Kong, 12 April 2002