



Chairman's Statement

The Group has taken various initiatives to consolidate its foundation since the second half of 2002. Focus has been placed on a number of areas, such as rationalizing the management structure, strengthening the internal controls and group decision-making process, and optimizing the coordination between production, supply and distribution. In addition, non-cored operations of the Group have been streamlined, while resources were focused on strengthening the core leather business.

The Group has embarked on a series of programs since June 2002. First, the management of Nanhai Tannery was reshuffled. Second, the administrative structure was rationalized. The four workshops at Nanhai Tannery were merged into three and more than 200 employees were laid off following the merger and the reorganisation of positions and duties. Third, efforts were made to closely monitor staff costs, sourcing, production safety, and distribution; to strengthen further the internal coordination and communication; to enhance the corporate transparency; and to rationalize the internal control system. Fourth, the management by objectives program was implemented to bring into full play the initiative and creativity of staff. A management-by-objective letter was entered into between the Company and all major divisions, stipulating the objectives set by the Company. Salary increase and rewards are made with reference to the level of accomplishment of such objectives.

Fifth, competition was introduced into the sourcing process under the "Yang Guang" program, as sourcing of various materials such as leather, chemicals, metals, and office equipment was carried out by way of public tender. The whole sourcing process was therefore regulated, including the procedures of screening the suppliers' qualifications, distributing and collecting the tenders, verifying and assessing the tenders, and supervising the whole tender process. Nanhai Tannery is a pioneer in the non-standardised industries to adopt public tender for sourcing. This was topic of a commentary in the "Chinese Leather" (vol. 2, 2003), an authoritative journal in the leather industry, and positive feedback from the industry was aroused. Sourcing through public tender not only helps reduce the production costs, but also helps rectify some of the existing problems in supply and distribution. The "Yang Guang" program has been implemented in other tanneries of the Group.

Sixth, corporate restructuring was implemented. The Group has closed down loss-ridden businesses, disposed of under-performing assets, and optimized the asset structure. Nanhai Tongyuan Tannery Company Limited (南海市通遠皮革有限公司), a Nanhai-based company wholly owned by foreign investors, was established to acquire certain assets of Nanhai Tannery and take over control of part of its production procedures. Inventories and trade receivables of the leather ware and packaging materials businesses have been sold since July 2002. In addition, the Group is actively resolving the issue surrounding the closure of Qingdao Nanhai Tannery by legal means. To minimise the annual fixed return costs, all Sino-foreign joint ventures in China under the Group have been reorganised into companies wholly owned by foreign investors.



Chairman's Statement *(Cont'd)*

Looking ahead into 2003, the Group will continue to enhance further its competitiveness. Measures will be taken to underpin its core business, strengthen its research and development efforts, and enhance the quality of all products. In addition, emphasis will be placed on improving the product mix, expanding the distribution network, and achieving higher operational efficiency.

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

Xiong Guangyang
Chairman

Hong Kong, 11 April 2003