



Chairman's Statement

I am pleased to report that the Group's audited consolidated profit attributable to shareholders for the year ended 31 December 2004 was HK\$4,668,000. It was a reflection of our success in achieving profitability and ending the protracted loss since 1998.

We have adjusted our operations and management strategies in quick response to the freezing of bank accounts of Tongyuan Tannery in early 2004. In tandem with the strategic move to shift the operations from Nanhai to Xuzhou, we have put in place various measures to establish Xuzhou as a primary production base of the Group. These measures include expanding the production capacity, adding new product series with good competitiveness, and extending the supply and distribution network. With all these strategies and new measures, the Group is currently provided with a stronger platform for future growth.

Xuzhou Gangwei Colour Package Co., Ltd. has changed its name to Xuzhou Gangwei Leather Co. Ltd., and has commenced mass production in March 2005 after the production plant was restructured. Gangwei Tannery, primarily a downstream production line for imported cowhides, was established to fill the production vacuum of imported cowhides due to the suspended operations of Tongyuan Tannery. Following our moves to expand and restructure the two tanneries in Xuzhou, Xuzhou Nanhai Tannery is currently focusing on the processing of domestic cowhides, and the combined production capacity of the two tanneries will reach 36,000,000 sq.ft. per year.

To completely resolve the development bottleneck associated with environmental protection, we have outsourced the upstream processing to remote areas, and have increased the proportion of outsourcing and franchising. Currently part of our upstream processing is outsourced to a tannery in Shandong. We plan to seek one or two additional outsourcing partners, and are considering possible investments in upstream processing plants in the adjacent coastal areas where suitable conditions arise. These initiatives well illustrate our intact commitment to removing any environmental related barriers arising from the Group's expansion.

We have continued to follow up with the Guangzhou Customs to resolve the matter in relation to the freezing of Tongyuan Tannery's bank accounts and will, if necessary, take such measures as may be required to safeguard the rights and position of Tongyuan Tannery. Given that Tongyuan Tannery has suspended all of its operations in March 2004, we are taking steps to liquidate its assets such as production plant and equipment, and will utilize the fund for future development of the two tanneries in Xuzhou.



Chairman's Statement

The Group has more than ten years of experience in the leather industry. Leveraging on this extensive experience, coupled with our efforts to strengthen the market research, work with new suppliers with good reliability and integrity, and introduce competition into the sourcing process, we have been placed in a favourable position to acquire raw materials at reasonable prices. On the front of distribution, our active efforts initiated since last year to open up the direct sales market have delivered solid results. Looking ahead, direct sales to shoes manufacturers will be a major focus of the Group in distribution, and this approach will enable the Group to thrive on a leading position in China's highly competitive leather market.

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

Zhang Chunting

Chairman

Hong Kong, 8 April 2005