

Chairman's Statement

I am pleased to report that the Group's audited consolidated profit attributable to shareholders for the year ended 31 December 2005 was HK\$5,403,000, an increase of 8% over the previous year.

We have successfully implemented the strategic shift of operations to the north, demonstrated by the opening of Xuzhou Gangwei Leather Co. Ltd. ("Xuzhou Gangwei") in March 2005, and the full operations of the production base in Xuzhou. This marked a new phase of growth for the Group as our production capacity will be steadily expanded, and the overall operations will start to grow on a normal track again following the issue of Tongyuan Tannery.

Significant strides were made by all of the Group's businesses in 2005. As operations have continued to improve on all fronts, the Group is developing on a healthy track of rapid growth with market share further expanded and profitability markedly enhanced. To further improve the quality of production management, the Group has continued to upgrade the production equipment and rationalize the flow of operations, establishing a stronger technology platform for innovative products. In the meantime, we have set up a professional team specialized in the development and marketing of new products, and established a responsibility system and incentive mechanism based on individual performance in the areas of product development, marketing, production and sales. These measures enabled the Group to achieve much stronger capability on product development, and delivered remarkable results in technology innovation.

To seek the most effective ways to offset the impact of rising costs has been at the core of the Group's strategic framework on raw materials sourcing. Our measures include creating new effective sourcing channels, strengthening market research and analysis, as well as stepping up efforts in direct sourcing and merchandising. On the front of distribution, we are focused on strengthening our marketing efforts, expanding the coverage of direct sales, and improving further the overall strategic planning in sales and marketing.

Bottle neck problems associated with environmental protection have been major hurdles in the path of the Group's development. To resolve the problem arising from the lack of synergy between the upstream and downstream processing, the Xuzhou Nanhai Tannery has applied the provincial government fund on anti-pollution awarded to it to upgrade its existing sewage facilities and enhance its water treatment capability. Another approach pursued by Xuzhou Nanhai Tannery is outsourcing part of the upstream processing. We are considering plans to set up upstream processing plants in adjacent areas of the Xuzhou production base, a move to create synergy with the downstream processing of Xuzhou Gangwei. This strategic move will help provide a solid platform for the Group's future development following a disciplined approach to operations. In addition, it is the Group's intention to operate the merchandise trading business as well as actively explore effective ways to deal with the idle assets of Tongyuan Tannery.

I am cautiously optimistic about the prospects of the Group. I believe the Group is poised for promising future growth if all the staff shares the same mission of shouldering greater responsibilities, and discharging their duties in the most pragmatic and effective way.

Zhang Chunting

Chairman

Hong Kong, 31 March 2006