

Results

I am pleased to report to the shareholders that we have recorded a satisfactory growth in the results of the Group for 2006. The Group's consolidated profit attributable to shareholders for 2006 was HK\$20,657,000 (2005: HK\$5,403,000), a significant increase of 282% over last year. The basic earnings per share was HK cents 3.94 (2005: HK cents 1.03), representing an increase of 282% compared with last year.

Dividend

The board of directors (the "Board") of the Company does not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil).

Review

Upon the completion of the disposal of idle assets in 2006, the Group centralised the resources on realizing the strategy of large-scale operation and expanding its tannery business, which resulted in stable growth.

After more than two years of adjustment in the management structure and operation restructuring, the Group has established a direct mode of operation to centralize the management of the core activities including production, procurement, distribution and finance. The Group has also become an influential enterprise in the production of cow leather vamp in China.

2006 was a very difficult year for the tannery industry in China. In the midst of the surging prices of raw materials, the stringent environmental protection policies, the changes in the industrial policies of the State and the continuous international trading conflicts, a large number of small- to medium-sized tanneries were closed as a result. The Group had the foresight to implement the strategy of large-scale operation in order to secure the survival and development through economies of scale. In the face of the problems arising from the aging of equipments, insufficient production premises and lack of synergy between the upstream and downstream processing, the Group took the initiative to mobilize the resources and to go along with an appropriate operation strategy, by which the Group succeeded in beating out a path to operate the business at low cost and high efficiency.

On the one hand the Group strives to expand the tannery business, while taking proactive steps to address the environmental issues which have long been a major concern in the leather industry. In view of this, the Group shifted the operation to the northern part of China years ago and speeded up the development of the production base in Xuzhou. In order to meet demand from increasing sales and to resolve the problems of the lack of synergy between the upstream and downstream processing and the serious productivity insufficiencies in the upstream production of chromed hides, the Group has increased the sourcing of chromed hides and also established a strategic cooperation relationship with peripheral tanneries to outsource the upstream processing of producing chromed hides. Following the outsourcing of certain parts of the upstream processing through subcontracting in 2005, the Group entered into agreements with two other subcontracting plants in 2006 to process and produce chromed hides for the Group in order to resolve the upstream productivity shortages of the production base in Xuzhou. This has reduced the pressure on sewage discharge, effectively broke through the bottleneck constraint in production, greatly released the potential productivity of the production base in Xuzhou, and also safeguarded our market share and minimized our commitment in production equipments.

Review (Continued)

The operating results of the production base in Xuzhou have been surging for three consecutive years. This has benefited from the large-scale operation and the strategy of outsourcing processing. Other factors include: (1) the enforcement of procurement through tendering and the introduction of a competitive mechanism for the supply of raw materials, which effectively reduced purchasing costs even during the period when the price of raw materials increased significantly, thus enhancing our price competitiveness; (2) the realization of the direct purchase of imported hides and the establishment of five direct purchasing points for domestically produced hides, which became the main purchasing channel in the second half of this year. These tactics can help to achieve better results by stabilizing the supply of hides for the Group and through the continuous implementation of the large-scale operation strategy. With an accurate judgment of the market, the Group carried out an extensive foresighted strategy in procurement of hides and imported chemicals on a large scale, which has secured the production and at the same time significantly reduced costs; and (3) the strengthened and improved regional distribution system which has allowed an expansion of the proportion of direct sales, stabilized the direct sales networks of the renowned footwear manufacturers, hence, greatly enhanced the competitiveness of the Group's products as well as the capacity of the Group to withstand risks.

Outlook

2006 was a year when the Group implemented the strategy of large-scale operation. In spite of the unfavourable factors such as the significant increase in the costs of raw materials and the stringent policies on environmental protection, the Group will continue to encounter the difficulties in its operation. In spite of these, the Group still adheres to its belief of making concerted efforts by the entire group and working hard to ride out the storm, as on one hand we will put efforts in construction, and on the other hand we will work on our production to achieve rapid growth in both production and turnover so as to capture a larger market share.

We anticipate that the Group will have to encounter a number of difficulties in 2007. Nevertheless, the Group will strive to implement fully the strategy of large-scale operation, to strengthen further the development on the technology and production management, to increase market share and to improve the regional market structure. In addition, the Group will actively seek investment opportunities in the tannery business with the aim of creating development opportunities and better returns in profit.

On behalf of the Board, I would like to take this opportunity to thank sincerely the customers, suppliers and shareholders of the Group for their support over the past years and express my earnest gratitude to each dedicated member of staff.

Zhang Chunting
Chairman

Hong Kong, 30 March 2007