

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st August, 2000.

Principal Activities

The Company is an investment holding company. The principal activities of its principal subsidiaries and jointly controlled entities are set out in notes 14 and 15 to the financial statements, respectively.

Results and Appropriations

The results of the Group and appropriations of the Company for the year ended 31st August, 2000 are set out in the consolidated income statement on page 25 and in the accompanying notes to the financial statements.

The directors recommend the payment of a final dividend of HK3.5 cents per share payable to shareholders whose names appear on the register of members on 12th February, 2001 which, together with the interim dividend of HK3.5 cents per share paid during the year, makes a total dividend for the year of HK7 cents per share.

Share Capital

Details of the Company share capital are set out in note 22 to the financial statements.

Reserves

Details of movements in the reserves of the Group and of the Company during the year are set out in note 24 to the financial statements.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on pages 6 and 7, respectively.

Investment Properties

The Group's investment properties were revalued at 31st August, 2000 and the resulting deficit of approximately HK\$12,529,000 has been charged to the consolidated income statement.

Details of this and other movements in the investment properties of the Group during the year are set out in note 12 to the financial statements. Particulars of the Group's investment properties are set out on page 16.

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Property, Plant and Equipment

During the year, the Group incurred expenditure of approximately HK\$56,527,000 and HK\$17,362,000 on additions to plant and machinery and construction in progress, respectively, to expand and upgrade the Group's manufacturing facilities.

Details of these and other movements in the property, plant and equipment of the Group and of the Company during the year are set out in note 13 to the financial statements.

Subsidiaries and Jointly Controlled Entities

Details of the Company's principal subsidiaries and jointly controlled entities at 31st August, 2000 are set out in notes 14 and 15 to the financial statements, respectively.

Borrowings and Interest Capitalised

Repayment analyses of bank borrowings and of obligations under finance leases and hire purchase contracts are set out in notes 19 and 20 to the financial statements, respectively.

No interest was capitalised by the Group during the year.

Directors and Directors' Service Contracts

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Ha Chung Fong (*Chairman*)

Mr. Lau Hong Yon

Ms. Liou Wen Hwa, Cecilia

Mr. Pow Man Kue

Non-executive directors:

Mr. Ha Hon Kuen

Mr. Allen Chu (appointed on 1st March, 2000)

Ms. Yeh Yi Hao, Yvette (appointed on 1st March, 2000)

Mr. Lam Din Kan (appointed on 1st March, 2000)

(alternate to Ms. Yeh Yi Hao, Yvette)

Mr. Henry Cornell (resigned on 1st March, 2000)

Mr. Yang Xiang-dong (resigned on 1st March, 2000)

(alternate to Mr. Henry Cornell)

Mr. Fung Yiu Fai, Peter (resigned on 16th September, 2000)

Independent non-executive directors:

Mr. Ng Kwok Tung

Mr. Wong Kwong Chi

FOUNTAIN SET (HOLDINGS) LIMITED

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In accordance with Articles 93 and 102 of the Company's Articles of Association, Ms. Liou Wen Hwa, Cecilia, Mr. Pow Man Kue, Mr. Allen Chu, Ms. Yeh Yi Hao, Yvette and Mr. Wong Kwong Chi retire and, being eligible, offer themselves for re-election.

Retiring directors, Ms. Liou Wen Hwa, Cecilia and Mr. Pow Man Kue, have entered into separate service contracts with the Company for a term of 5 years commencing 1st March, 1998. Mr. Wong Kwong Chi has entered into a service contract with the Company for a term of one year commencing 16th August, 1998. During the year, the term of his contract, which was previously extended to 31st August, 2000, was further extended to 31st August, 2001. Mr. Allen Chu and Ms. Yeh Yi Hao, Yvette have entered into separate service contracts with the Company for a term of eighteen months commencing 1st March, 2000.

For other non-executive directors, Messrs. Ha Hon Kuen and Ng Kwok Tung have entered into separate service contracts with the Company for a term of one year commencing 17th May, 1996 and 16th November, 1996, respectively. During the year, the terms of both contracts, which were previously extended to 31st August, 2000, were further extended to 31st August, 2001.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting and none of the non-executive directors has a service contract with any of the companies in the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Securities

At 31st August, 2000, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of the directors and their associates in the securities of the Company and a subsidiary were as follows:

(A) Interests in shares in the Company

Name of director	Number of shares held as			Number of share options held as personal interests (note 3)
	Personal interests	Corporate interests	Other interests	
Mr. Ha Chung Fong	–	2,672,000 (note 1)	308,276,044 (note 2)	–
Mr. Lau Hong Yon	–	–	–	280,000
Ms. Liou Wen Hwa, Cecilia	–	–	–	280,000
Mr. Pow Man Kue	–	–	–	280,000
Ms. Yeh Yi Hao, Yvette	70,000	–	–	–

Notes:

1. These shares were beneficially owned by Yee Chang Company Limited ("YCC") which is controlled by Mr. Ha Chung Fong.
2. These shares were beneficially owned by Super Brilliance Company Limited, a company wholly-owned by Centre Trustee (C.I.) Limited as trustee of the Ha Trust, a trust established by Mr. Ha Chung Fong for the benefit of his family.
3. The share options were granted during the year under the share option scheme of the Company adopted on 2nd March, 1999 and entitle the holders thereof to subscribe for the Company's shares of HK\$0.20 each at a subscription price of HK\$0.62 per share at any time during a period of not exceeding six months commencing on the expiry of one year after the date on which the option is accepted and expiring on the last day of such period.

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(B) Interests in shares in K.L.W. Limited ("KLW"), a subsidiary of the Company

Name of director	Number of shares held as corporate interests
Ms. Liou Wen Hwa, Cecilia	8,571,429 (note)

Note: These shares were beneficially owned by Belgrave Court Investment Limited and Kenpark Investment Limited, both of which are controlled by Ms. Liou Wen Hwa, Cecilia.

Save as disclosed above and other than certain nominee shares in certain subsidiaries held in trust for the Group by a director, as at 31st August, 2000, none of the directors of the Company, nor their associates, had any interests in any securities of the Company or any of the Company's associated corporations as defined in the SDI Ordinance.

Directors' Rights to Acquire Shares or Debt Securities

The Company adopted a share option scheme on 2nd March, 1999. No share options were granted under the scheme during the year ended 31st August, 1999. Options in respect of a total of 7,700,000 shares of the Company were granted during the year. Details of the share option scheme of the Company and movements in share options during the year are set out in note 23 to the financial statements.

Except for the share options as mentioned in the section headed "Directors' Interests in Securities" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debt securities, including debentures, of the Company or any other body corporate, and none of the directors nor any of their spouses or children under the age of 18 had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

Directors' Interests in Contracts of Significance and Connected Transactions

On 27th October, 1997, KLW entered into a tenancy agreement (the "YCC Agreement") with YCC for the grant of a tenancy by YCC to KLW for a term of two years commencing 15th October, 1997 at a monthly rent of HK\$105,000 exclusive of rates and management fee. On 2nd November, 1999, the YCC Agreement was renewed for a term of another two years commencing 15th October, 1999 at a monthly rent of HK\$83,000 exclusive of rates and management fee. Rentals totalling HK\$1,029,000 were paid by the Group to YCC pursuant to the YCC Agreement during the year.

During the year, KLW, of which Ms. Liou Wen Hwa, Cecilia is a director and in which she has a beneficial interest as described above, purchased dyed fabric totalling approximately HK\$78,443,000 from certain subsidiaries of the Company.

The terms of the above transactions were considered by the Board of Directors of the Company (including the independent non-executive directors) as fair and reasonable and the above transactions had been entered into on normal commercial terms.

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Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Disclosure Pursuant to Practice Note No.19 to the Listing Rules

At 31st August, 2000, the Company has entered into three loan agreements which require Mr. Ha Chung Fong to comply with certain specific performance. Details of the loan agreements are as follows:

Date of loan agreement	Total loan facility amount <i>HK\$</i>	Outstanding loan amount at 31.8.2000 <i>HK\$</i>	Month of final repayment	Specific performance required (<i>note</i>)
21st May, 1997	450,000,000	257,145,000	May 2002	(i), (ii) and (iii)
25th February, 2000	480,000,000	480,000,000	April 2005	(i), (ii), (iii) and (iv)
19th April, 2000	330,000,000	330,000,000	May 2003	(i) and (ii)
	<u>1,260,000,000</u>	<u>1,067,145,000</u>		

Notes:

- (i) to own beneficially or control at least 35% of the issued share capital of the Company.
- (ii) to own beneficially or control the largest single block of shares in the issued share capital of the Company.
- (iii) to remain as the Company's director and be actively involved in the management of the Company.
- (iv) save for existing encumbrances and subject to certain other exceptions, not to permit any encumbrances to subsist, arise or be credited or extended over 5% or more of the issued share capital of the Company.

Substantial Shareholders

Other than the interests disclosed above in respect of a director and his associates, the register required to be maintained under Section 16(1) of the SDI Ordinance shows that no other shareholders were interested in 10% or more of the issued share capital of the Company at 31st August, 2000.

Purchase, Sale and Redemption of the Company's Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

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Major Customers and Suppliers

The aggregate turnover attributable to the Group's five largest customers was less than 30% of the total turnover for the year. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the total purchases for the year.

Donations

During the year, the Group made charitable and other donations totalling approximately HK\$41,000.

Corporate Governance

The Company has complied throughout the year ended 31st August, 2000 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the Company's audit committee was formed on 6th January, 2000 comprising Messrs. Ng Kwok Tung and Wong Kwong Chi, independent non-executive directors of the Company, and Mr. Ha Hon Kuen, a non-executive director of the Company. In establishing the terms of reference for this committee, the directors have had regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

Auditors

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

HA Chung Fong

Director

Hong Kong
15th December, 2000