

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31st March, 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 12 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations for the year ended 31st March, 2001 is as follows:

	Turnover		Contribution to profit from operating activities	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By activity:				
Manufacture and sale of fur garments	108,442	93,120	5,106	17,049
Trading of fur skins	43,892	51,786	5,332	4,253
Others	3,236	848	647	113
	<u>155,570</u>	<u>145,754</u>	<u>11,085</u>	<u>21,415</u>
Bank interest income			3,484	3,978
Interest income from other investments			4,248	1,776
Rental income			846	499
Deficit on revaluation of investment properties			(1,200)	(1,500)
Unrealized loss on investments in listed equity securities			(1,926)	–
			<u>16,537</u>	<u>26,168</u>

Report of the Directors

SEGMENTAL INFORMATION (continued)

	Turnover		Contribution to profit from operating activities	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By geographical area:				
The People's Republic of China (the "PRC"):				
Hong Kong	1,989	4,721	163	320
Elsewhere	79,849	61,161	7,202	9,345
Japan	49,796	61,820	2,512	8,970
North America	20,340	16,451	1,026	2,388
Others	3,596	1,601	182	392
	<u>155,570</u>	<u>145,754</u>	<u>11,085</u>	<u>21,415</u>
Bank interest income			3,484	3,978
Interest income from other investments			4,248	1,776
Rental income			846	499
Deficit on revaluation of investment properties			(1,200)	(1,500)
Unrealized loss on investments in listed equity securities			(1,926)	–
			<u>16,537</u>	<u>26,168</u>

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31st March, 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 50.

An interim dividend of HK1.2 cents per ordinary share was paid on 16th January, 2001. The directors recommend the payment of a final dividend of HK1 cent per ordinary share in respect of the year to shareholders on the register of members on 21st August, 2001. This recommendation has been incorporated in the financial statements.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

A summary of the consolidated/combined results and of the assets and liabilities of the Group for prior years, as extracted from the audited financial statements, is set out below:

RESULTS

	Year ended 31st March				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
TURNOVER	<u>155,570</u>	<u>145,754</u>	<u>190,511</u>	<u>248,148</u>	<u>203,132</u>
PROFIT FROM OPERATING ACTIVITIES	16,537	26,168	14,862	56,918	42,610
Finance costs	<u>(229)</u>	<u>(817)</u>	<u>(1,563)</u>	<u>(1,106)</u>	<u>(1,749)</u>
PROFIT BEFORE TAX	16,308	25,351	13,299	55,812	40,861
Tax	<u>(857)</u>	<u>(2,103)</u>	<u>(419)</u>	<u>(6,084)</u>	<u>(5,079)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>15,451</u>	<u>23,248</u>	<u>12,880</u>	<u>49,728</u>	<u>35,782</u>

Report of the Directors

SUMMARY FINANCIAL INFORMATION (continued)

ASSETS AND LIABILITIES

	Year ended 31st March				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
FIXED ASSETS	23,392	21,113	9,066	14,195	12,431
INVESTMENT PROPERTIES	9,150	10,350	4,480	6,300	5,537
OTHER INVESTMENTS	60,259	–	5,339	–	–
CURRENT ASSETS	165,633	200,124	204,022	221,225	66,744
TOTAL ASSETS	258,434	231,587	222,907	241,720	84,712
CURRENT LIABILITIES	47,733	30,704	38,809	59,087	27,000
LONG TERM PORTION OF BANK LOANS, SECURED	–	–	–	–	3,425
LONG TERM PORTION OF HIRE PURCHASE CREDITORS	–	–	–	–	345
DEFERRED TAX	48	51	59	48	175
TOTAL LIABILITIES	47,781	30,755	38,868	59,135	30,945
NET ASSETS	210,653	200,832	184,039	182,585	53,767

Notes:

- The summaries of the combined results of the Group for the two years ended 31st March, 1998 have been extracted from the Company's prospectus dated 25th September, 1997 and the published financial statements for the year ended 31st March, 1998. These summaries were prepared from the audited financial statements of the companies now comprising the Group, after appropriate adjustments and reclassifications, as if the current structure of the Group had been in existence throughout these financial years. The results of the Group for the three years ended 31st March, 2001 are those set out on the audited financial statements.
- To date, the only audited consolidated balance sheets of the Group prepared are those as at 31st March, 1997, 1998, 1999, 2000 and 2001. The Group's consolidated balance sheet as at 31st March, 1997 has been extracted from the published financial statements for the year ended 31st March, 1998, prepared on the basis as if the Group had been in existence as at 31st March, 1997. The Group's consolidated balance sheets as at 31st March, 1999, 2000 and 2001 are those set out on the audited financial statements.

Report of the Directors

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 10 and 11 to the financial statements, respectively.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 12 to the financial statements.

BANK BORROWINGS

Details of the Group's borrowings at the balance sheet date are set out in notes 17 and 20 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with the reasons therefor, and details of the Company's share options are set out in note 21 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 22 to the financial statements.

DISTRIBUTABLE RESERVES

At 31st March, 2001, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$83,907,000 as computed in accordance with the Companies Act 1981 of Bermuda. In addition, under the laws of Bermuda, the Company's share premium account, with a balance of approximately HK\$48,252,000 as at 31st March, 2001, may be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 58% of the total sales for the year and sales to the largest customer included therein amounted to 20%.

Purchases from the Group's five largest suppliers accounted for 81% of the total purchases for the year and purchases from the largest supplier included therein amounted to 30%.

None of the directors of the Company, any of their associates or any shareholders (which, to the best knowledge of the directors own more than 5% of the Company's issued share capital), had any beneficial interests in the Group's five largest customers or five largest suppliers.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$25,000.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Ng Ngan Lung

Mr. Ng Kam Lung, Volais

Mr. William Carl Frick

Mr. Chong Hong Sang

(appointed on 15th June, 2000)

Ms. Chan Yim Lai

(resigned on 15th June, 2000)

Mr. Chu Po Kan

(resigned on 27th November, 2000)

Independent non-executive directors

Ms. Ho Man Kay

Mr. Chan Wing Yuen, Hubert

Mr. Tang Yu Lap

In accordance with clauses 111(A) and 114 of the Company's bye-laws, Mr. Ng Kam Lung, Volais and Mr. Tang Yu Lap will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Independent non-executive directors are not appointed for specific terms because all of the directors, without limitation to independent non-executive directors, are subject to retirement by rotation and re-election at annual general meetings, in accordance with the Company's bye-laws.

Report of the Directors

DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	318	308
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	3,345	3,118
Independent non-executive directors	–	–
Retirement benefits contributions:		
Executive directors	23	14
Independent non-executive directors	–	–
Discretionary bonuses and/or performance-related bonuses	–	–
Compensation for loss of office	–	–
Inducement for joining the Group	–	–
	<u>3,686</u>	<u>3,440</u>

The number of directors whose remuneration fell within the following band is as follows:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	<u>9</u>	<u>10</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Report of the Directors

FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2000: three) directors, details of whose remuneration are disclosed above. The details of the remuneration of one (2000: two) remaining non-director, highest paid employees are as follows:

	2001 HK\$'000	2000 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	603	1,411
Retirement benefits scheme contributions	13	29
	<hr/> 616 <hr/>	<hr/> 1,440 <hr/>

In the absence of a readily available market value for share options on the Company's shares, the directors were unable to arrive at an accurate assessment of the value of the options granted. Accordingly, no value was included in the remuneration paid to the employee in the current year in respect thereof.

PENSION SCHEME

Details of the pension scheme of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 2 and 4 to the financial statements, respectively.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally derives cash for operation from internal cash flow and facilities from Hong Kong banks. During the year ended 31st March 2001, the Group had net cash flow of HK\$36,057,000 (2000: HK\$38,255,000). As at 31st March 2001, the Group's bank loan amounted to HK\$29,302,000 (2000: HK\$3,106,000) and the shareholders' fund amounted to HK\$210,653,000 (2000: HK\$200,832,000). Accordingly, the gearing ratio is 14% (2000: 1.6%).

As far as financial position is concerned, the Group has always adopted a cautious policy. There are no long-term debts and the Group has sufficient funds for future business expansions.

EMPLOYEES

As at 31st March 2001, the Group employed around 400 employees in both Hong Kong and the Mainland. The Group continues to provide remuneration packages, including share options, to its employees based on prevailing market conditions. Information on the share option scheme and the Group's remuneration expenses are set out in the Report of the Directors and note 4 to the financial statements respectively.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

At 31st March, 2001, the interests of the directors in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

(a) Interest in the Company

Name of director	Notes	Personal interests	Corporate interests
Mr. Ng Ngan Lung	1	–	240,000,000
	2	–	33,720,000
Mr. Ng Kam Lung, Volais	1	–	240,000,000
	3	–	22,480,000
Mr. William Carl Frick		834,000	–

Notes:

1. 240,000,000 shares are owned by Fung Kong Worldwide Ltd., a company incorporated in the British Virgin Islands. Mr. Ng Ngan Lung and Mr. Ng Kam Lung, Volais are the beneficial owners of 60% and 40%, respectively, of the issued share capital of Fung Kong Worldwide Limited.
2. 33,720,000 shares are owned by Silver Sound Assets Limited, a company incorporated in the British Virgin Islands. Its entire issued share capital is owned by Mr. Ng Ngan Lung.
3. 22,480,000 shares are owned by Wallacery Holding Limited, a company incorporated in the British Virgin Islands. Its entire issued share capital is owned by Mr. Ng Kam Lung, Volais.

(b) Interests in an associated corporation

As mentioned above, Mr. Ng Ngan Lung and Mr. Ng Kam Lung, Volais beneficially owned 1,920 and 1,280 shares, respectively, in the share capital of Fung Kong Worldwide Limited, the Company's holding company.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES (continued)

(b) Interests in an associated corporation (continued)

The following non-voting deferred shares in the subsidiaries were held:

Subsidiary	Mr. Ng Ngan Lung (personal interests)	Mr. Ng Kam Lung, Volais (personal interests)
Rising Development Limited	3,000,000	2,000,000
Silverton Fur & Leather Trading Company Limited	3,000	2,000

Save as disclosed above, none of the directors, chief executives or their associates had any interest in the share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the following options were granted to the following directors to subscribe for ordinary shares of the Company at the dates provided below. Such options have the following exercise periods and remained outstanding at the date of this report.

On 9th October, 1997, at HK\$1 cash consideration, at a subscription price of HK\$0.29 per share:—

Director	Number of options	Exercise period
Mr. Ng Ngan Lung	5,000,000	7th January, 1998 to 31st December, 2007
Mr. Ng Kam Lung, Volais	5,000,000	23rd February, 1998 to 31st December, 2007
*Ms. Chan Yim Lai	2,000,000	7th January, 1998 to 31st December, 2007
Mr. William Carl Frick	1,000,000	23rd February, 1998 to 31st December, 2007
*Mr. Chu Po Kan	250,000	7th January, 1998 to 31st December, 2007

* Ms. Chan Yim Lai, spouse of Mr. Ng Kam Lung, Volais, and Mr. Chu Po Kan resigned as executive directors on 15th June, 2000 and 27th November, 2000 respectively. Under the share option scheme, Ms. Chan and Mr. Chu remain eligible for the rights to acquire shares of the Company and hold the above stated disclosable interest.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES *(continued)*

On 8th February, 2000, at HK\$1 cash consideration, at a subscription price of HK\$0.38 per share:–

Director	Number of options	Exercise period
Mr. Chong Hong Sang	1,000,000	8th August, 2001 to 31st December, 2007

Save as disclosed above, at no time during the period or up to the date of this report were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

Executive directors

Mr. Ng Ngan Lung, aged 39, is the Chairman and the Managing Director of the Company. He is one of the founders of the Group and has more than 19 and 15 years of experience in the fur industry and leather industry, respectively. He is responsible for the Group's corporate policy, planning and development, corporate management policy and sales and marketing. He is the elder brother of Mr. Ng Kam Lung, Volais, another director of the Company.

Mr. Ng Kam Lung, Volais, aged 38, is the Vice-Chairman of the Company. He is another founder of the Group. He has more than 19 and 15 years of experience in the fur industry and leather industry, respectively. He is responsible for the Group's corporate policy planning and development, corporate management, sales, purchasing and production.

Mr. William Carl Frick, aged 50, joined the Group in 1995. He is responsible for the trading function and management of overseas operations and has more than 22 years of experience in the fur and leather industry.

Report of the Directors

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP *(continued)*

Executive directors *(continued)*

Mr. Chong Hong Sang, aged 41, was appointed as executive director of the Company on 15th June, 2000. He holds an Master's degree of Business Administration from the Chinese University of Hong Kong. Prior to joining the Group, Mr. Chong has more than 16 years of experience in the PRC trade business. Mr. Chong is responsible for the corporate management and the Group's business development in the PRC.

Independent non-executive directors

Ms. Ho Man Kay, aged 38, is an executive director of the corporate finance arm of Kingsway Group, Kingsway Capital Limited. Prior to joining the Kingsway Group, Ms. Ho was a partner of Messrs. Siao, Wen and Leung, Solicitors & Notaries. She has been a practising lawyer in Hong Kong since 1989, specialising in corporate commercial law and is also admitted as a solicitor in England, the Australian Capital Territory, Queensland, New South Wales, Victoria of Australia and Singapore. Ms. Ho is currently serving as the Vice-President of the Hong Kong Federation of Women Lawyers.

Mr. Chan Wing Yuen, Hubert, aged 43, is an independent non-executive director of the Company. Mr. Chan holds a Higher Diploma from the Hong Kong Polytechnic University. Mr. Chan had spent ten years with The Stock Exchange of Hong Kong Limited (the "Stock Exchange") where he held the position of Director of Mainland Affairs Department of the Listing Division. He also spent two and a half years as a Director and Deputy General Manager of Guangdong Investment Limited, a publicly listed window company of the Guangdong Provincial Government. In addition, he was the Director of Compliance and Company Secretary of a publicly listed company. Currently, he is the Chairman & CEO of Sincere Finance Holding Limited. He is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. He is also a member of The Hong Kong Securities Institute and The Hong Kong Institute of Directors Limited. He is a member of the Corporate & Employee Contribution Programme Organisation Committee of the Community Chest of Hong Kong.

Mr. Tang Yu Lap, aged 50, is the Chairman of Hantec Group and is also one of the founders of Hantec Group. Recognised as an authoritative figure in the foreign currency trading arena in Hong Kong, Mr. Tang has accumulated more than 31 years of experience in the financial industry, holding key positions with various financial institutions such as The National Commercial Bank, Limited Hong Kong Branch, Bank of Communications Hong Kong Branch, Citibank N.A. Hong Kong Branch, The Bank of California N.A. Hong Kong Branch and Peregrine Finance Limited.

Report of the Directors

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (continued)

Senior management

Mr. Matsuno Ryoji, aged 55, is a director of Yakata Holdings Limited. He is responsible for the sales, marketing operations and strategic planning of the Group. He has more than 13 years of experience in the fur and leather industry and joined the Group in March, 1996.

Mr. Wong Ming, aged 49, is a director of Headway Fashion Limited and joined the Group in early 1994. He is responsible for factory management and production planning. He has more than 27 years of working experience in the fur industry.

Mr. Fung Kwong Wing, aged 43, is a director of Freesia International Limited and has been with the Group since the Company was founded in 1987. He is responsible for factory management and production planning. He has more than 19 years of working experience in the fur industry.

Ms. Sin Pui Yi, Carman, aged 37, is the general manageress of the production division and joined the Group in August, 1993. She is responsible for production planning and coordination of the Group. She has more than 17 years of experience in the fur industry.

Ms. Chui May Ling, aged 44, is the general manageress of the fur garment division and joined the Group in February, 1997. She is responsible for the sales and marketing functions. She graduated from Oda Design College, Japan, with a certificate of Fashion Styling. She has more than 16 years of experience in the garment and fashion industry.

Mr. Mui Chi Hung, Clarence, aged 34, is the Financial Controller and Company Secretary of the Company. He is a certified public accountant in the United States and an associate member of The Hong Kong Society of Accountants. Prior to joining the Group, Mr. Mui was the Chief Accountant of a publicly listed company in Hong Kong.

SUBSTANTIAL SHAREHOLDERS

At 31st March, 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of holding
Fung Kong Worldwide Limited	240,000,000	60.26%

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Report of the Directors

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased certain of its shares on the Stock Exchange and these shares were subsequently cancelled by the Company. Further details of these transactions are set out in note 21 to the financial statements. Except as disclosed above, neither the Company, its holding company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the accounting year covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms. The Company has established an audit committee on 3rd September, 1999 in accordance with paragraph 14 of the Code of Best Practice.

AUDITORS

Ernst & Young were appointed as auditors of the company in 1998 to replace Deloitte Touche Tohmatsu.

Pursuant to a resolution passed on 21st March, 2001, Li, Tang, Chen & Co. were appointed as auditors to fill the casual vacancy created by the resignation of Ernst & Young. There were no other changes in auditors during the past three years.

Li, Tang, Chen & Co. retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Ng Ngan Lung

Chairman

Hong Kong, 26th July, 2001