

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, 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 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, 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31st March, 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 54.

An interim dividend of HK1 cent per ordinary share was paid on 15th January, 2002. The directors recommend the payment of a final dividend of HK1.8 cents per ordinary share in respect of the year to shareholders on the register of members on 15th August, 2002. This recommendation has been incorporated in the financial statements.

SUMMARY FINANCIAL INFORMATION

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

RESULTS

	2002 HK\$'000	Year ended 31st March			
		2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TURNOVER	<u>145,428</u>	<u>155,570</u>	<u>145,754</u>	<u>190,511</u>	<u>248,148</u>
PROFIT FROM OPERATING ACTIVITIES	16,676	16,537	26,168	14,862	56,918
Finance costs	<u>(657)</u>	<u>(229)</u>	<u>(817)</u>	<u>(1,563)</u>	<u>(1,106)</u>
PROFIT BEFORE TAX	16,019	16,308	25,351	13,299	55,812
Tax	<u>4,077</u>	<u>(857)</u>	<u>(2,103)</u>	<u>(419)</u>	<u>(6,084)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>20,096</u>	<u>15,451</u>	<u>23,248</u>	<u>12,880</u>	<u>49,728</u>

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SUMMARY FINANCIAL INFORMATION (continued)

ASSETS AND LIABILITIES

	2002 HK\$'000	As at 31st March			
		2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
FIXED ASSETS	20,554	23,392	21,113	9,066	14,195
INVESTMENT PROPERTIES	8,210	9,150	10,350	4,480	6,300
OTHER INVESTMENTS	62,976	60,259	–	5,339	–
CURRENT ASSETS	139,801	165,633	200,124	204,022	221,225
TOTAL ASSETS	231,541	258,434	231,587	222,907	241,720
CURRENT LIABILITIES	5,357	43,750	24,730	34,809	46,287
NON-CURRENT LIABILITIES	502	48	51	59	48
TOTAL LIABILITIES	5,859	43,798	24,781	34,868	46,335
NET ASSETS	225,682	214,636	206,806	188,039	195,385

Note:

- Liabilities and net assets of the Group as at 31st March, 1998, 31st March, 1999, 31st March, 2000 and 31st March, 2001 have been restated resulting from the adoption of Statement of Standard Accounting Practice No. 9 (Revised).

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 14 and 15 to the financial statements, respectively.

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SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital during the year the Company's share options are set out in note 27 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 28 to the financial statements.

DISTRIBUTABLE RESERVES

At 31st March, 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$93,535,000 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, 2002, 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.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 55% of the total sales for the year and sales to the largest customer included therein amounted to 14%.

Purchases from the Group's five largest suppliers accounted for 88% of the total purchases for the year and purchases from the largest supplier included therein amounted to 26%.

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.

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USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING OF SHARES IN OCTOBER 1997

The proceeds from the company's issue of new shares at the time of its listing on the Hong Kong Stock Exchange in October 1997, after deduction of related expenses, amounted to approximately HK\$88,000,000. As at 30th September, 2001, part of the proceeds has been applied in the following areas.

	Original planned	Amount utilized up to 30/9/2001	Unused proceeds
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Development of the Group's own brand names	30,000	3,400	26,600
Extension of the existing processing agreement in Dongguan in the People's Republic of China (PRC) for manufacturing of cashmere garments	15,000	–	15,000
Developing and financing the establishment of retail outlets in the PRC	10,000	1,200	8,800
Setting up of fur and leather dry cleaning facilities	5,000	–	5,000
Acquiring new equipment, fixtures and machinery	10,000	6,300	3,700
Additional working capital	18,000	18,000	–
	<u>88,000</u>	<u>28,900</u>	<u>59,100</u>

The total unused proceeds as at 30th September, 2001 are approximately HK\$59.1 million.

Since the listing of the Group, there has been a tremendous change in the business environment of the fur business in both the PRC and oversea. In line with its new business development and objectives, the Group considers necessary to rethink its business strategy in relation to these areas of business and investment.

In view of the above, the Board considers that it is in the best interest of the Group and its shareholders to allocate the above unused proceeds in the following manner:

	Proposed application	Actual application	Unused proceeds
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Increasing the general working capital of the Group	20,000	11,480	8,520
Development of the Group's own brand names and promotion of the Group's products	5,100	2,345	2,755
Acquiring new machinery, factory and office equipment, and fixtures and furniture	6,000	532	5,468
Developing and financing the establishment of trading business in the PRC	28,000	–	28,000
	<u>59,100</u>	<u>14,357</u>	<u>44,743</u>

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DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Ng Ngan Lung

Mr. Ng Kam Lung, Volais (resigned on 20th July, 2001)

Mr. William Carl Frick

Mr. Chong Hong Sang

Mr. Mui Chi Hung, Clarence (appointed on 28th August, 2001)

Independent non-executive directors

Ms. Ho Man Kay

Mr. Chan Wing Yuen, Hubert

Mr. Tang Yu Lap (resigned on 20th July, 2001)

In accordance with clauses 111(A) and 114 of the Company's bye-laws, Ms. Ho Man Kay and Mr. Chan Wing Yuen, Hubert 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.

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 3 and 6 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. As at 31st March, 2002, the Group had cash and cash equivalents of HK\$73,331,000. As at 31st March, 2002, the Group did not have any bank borrowings and the shareholders' funds amounted to HK\$225,682,000.

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, 2002, the Group employed around 400 employees in both Hong Kong and the Mainland. The Group continues to provide remuneration packages, including share options, 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 notes 6, 11 and 12 to the financial statements respectively.

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DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

At 31st March, 2002, 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. 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. Its entire issued share capital is owned by Mr. Ng Ngan Lung.
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.

(b) Interests in an associated corporation

As mentioned above, Mr. Ng Ngan Lung beneficially owned 3,200 shares in the share capital of Fung Kong Worldwide Limited, the Company's holding company.

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

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

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.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Apart from as disclosed under the heading "Directors' interests in shares" above and "Share option scheme" below, at no time during the year 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.

SHARE OPTION SCHEME

On 9th October, 1997, the company adopted a Share Option Scheme (the "Scheme") which would lapse on 8th October, 2007, pursuant to which the directors may, at their discretion to grant to selective employees of the Group including the directors to subscribe for shares of the Company up to a maximum aggregate number of shares equal to 10 per cent of the total issued shares of the company. The purpose of the Scheme is to allow grantee the opportunity to obtain equity interest in the company. No grantee would be granted option which would exceed 25 per cent of the total option available. The grant is subject to acceptance within 21 days of the offer. The consideration payable for the option is HK\$1.00. The exercisable price of the option is determined by the directors which shall be not less than the higher of the nominal value of the share or 80 per cent of the average five business days' closing price of the shares on The Stock Exchange of Hong Kong Limited immediate preceding the date of the grant.

The following table discloses movements in the Company's share options during the year and options outstanding at the beginning and end of the year.

Directors	Number of share options outstanding at 1st April, 2001	Lapsed during the year	Number of share options outstanding at 31st March, 2002	Initial exercise price HK\$	Exercisable period
Mr. Ng Ngan Lung	5,000,000	–	5,000,000	0.29	7/1/1998 – 31/12/2007
Mr. William Carl Frick	1,000,000	–	1,000,000	0.29	23/2/1998 – 31/12/2007
Mr. Chong Hong Sang	1,000,000	–	1,000,000	0.38	8/8/2001 – 31/12/2007
Mr. Ng Kam Lung, Volais (resigned on 20.7.2001)	5,000,000	5,000,000	–	–	–
Employee	1,260,000	510,000	750,000	0.29	7/1/1998 – 31/12/2007
Total	<u>13,260,000</u>	<u>5,510,000</u>	<u>7,750,000</u>		

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SHARE OPTION SCHEME (continued)

No share options were exercised by the Directors to subscribe for a share in the Company during the year.

The directors are of the view that the value of the theoretical value of the share options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained on a number of theoretical basis and speculative assumptions. Accordingly, the directors believed that any calculation of the value of options will not be meaningful and may be misleading to shareholders in the circumstances.

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 40, is the Chairman and the Managing Director of the Company. He is one of the founders of the Group and has more than 20 and 16 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.

Mr. William Carl Frick, aged 51, is the Deputy Chairman of the Company and joined the Group in 1995. He is responsible for the trading function and management of overseas operations and has more than 23 years of experience in the fur and leather industry.

Mr. Chong Hong Sang, aged 42, holds a Master's degree of Business Administration from the Chinese University of Hong Kong. Prior to joining the Group, Mr. Chong has more than 17 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.

Mr. Mui Chi Hung, Clarence, aged 35, is also the Financial Controller and Company Secretary of the Company. He holds a degree of Management with a major in Accounting from The University of Lethbridge, Canada. He is a certified public accountant in the United States and an associate member of The Hong Kong Society of Accountants. He has more than 10 years of experience in auditing, financing and accounting. Prior to joining the Group, Mr. Mui served as the Chief Accountant of a publicly listed company in Hong Kong. Mr. Mui is responsible for the Group's financial & corporate management.

Independent non-executive directors

Ms. Ho Man Kay, aged 39, 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 President of the Hong Kong Federation of Women Lawyers and an adjudicator of the Registration of Persons Tribunal.

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

Independent non-executive directors (continued)

Mr. Chan Wing Yuen, Hubert, aged 44, is an independent non-executive director of the Company. Mr. Chan holds a Higher Diploma from the Hong Kong Polytechnic. Mr. Chan had spent ten years with The Stock Exchange of Hong Kong Limited 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 company. In addition, he was the Director of Compliance and Company Secretary of SUNeVision Holdings Limited, a publicly listed company. Currently, he is an Executive Director of a Hong Kong listed company, InterChina Holdings Company 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.

Senior management

Mr. Matsuno Ryoji, aged 56, 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 14 years of experience in the fur and leather industry and joined the Group in March, 1996.

Mr. Chu Po Kan, aged 52, has more than 26 years of experience in the garment industry and is responsible for the production of the group. He has been with the Group since its incorporation and has more than 15 years of experience in the fur industry.

Mr. Wong Ming, aged 50, 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 28 years of working experience in the fur industry.

Mr. Fung Kwong Wing, aged 44, is a director of Freesia International Limited and has been with the Group since 1987. He is responsible for factory management and production planning. He has more than 20 years of working experience in the fur industry.

Ms. Chui May Ling, aged 45, 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 17 years of experience in the garment and fashion industry.

SUBSTANTIAL SHAREHOLDERS

At 31st March, 2002, 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.

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PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

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, 16th July, 2002