

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, 2003.

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, 2003 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31st March, 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 18 to 54.

An interim dividend of HK1.1 cents per ordinary share was paid on 7th January, 2003. The directors recommend the payment of a final dividend of HK1.2 cents per ordinary share in respect of the year to shareholders on the register of members on 12th August, 2003. 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

| | Year ended 31st March, | | | | |
|--|------------------------|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 1999 HK\$'000 |
| TURNOVER | <u>73,447</u> | <u>145,428</u> | <u>155,570</u> | <u>145,754</u> | <u>190,511</u> |
| PROFIT FROM OPERATING ACTIVITIES | <u>18,799</u> | <u>16,676</u> | <u>16,537</u> | <u>26,168</u> | <u>14,862</u> |
| Finance costs | <u>(573)</u> | <u>(657)</u> | <u>(229)</u> | <u>(817)</u> | <u>(1,563)</u> |
| PROFIT BEFORE TAX | <u>18,226</u> | <u>16,019</u> | <u>16,308</u> | <u>25,351</u> | <u>13,299</u> |
| Tax | <u>(1,400)</u> | <u>4,077</u> | <u>(857)</u> | <u>(2,103)</u> | <u>(419)</u> |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | <u>16,826</u> | <u>20,096</u> | <u>15,451</u> | <u>23,248</u> | <u>12,880</u> |

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION *(continued)*

ASSETS AND LIABILITIES

| | 2003 HK\$'000 | As at 31st March, | | | |
|-----------------------------|------------------|-------------------|------------------|------------------|------------------|
| | | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 1999 HK\$'000 |
| FIXED ASSETS | 17,704 | 20,554 | 23,392 | 21,113 | 9,066 |
| INVESTMENT PROPERTIES | 6,035 | 8,210 | 9,150 | 10,350 | 4,480 |
| OTHER INVESTMENTS | 33,466 | 62,976 | 60,259 | – | 5,339 |
| HELD-TO-MATURITY SECURITIES | 40,856 | – | – | – | – |
| CURRENT ASSETS | 140,039 | 139,801 | 165,633 | 200,124 | 204,022 |
| TOTAL ASSETS | 238,100 | 231,541 | 258,434 | 231,587 | 222,907 |
| CURRENT LIABILITIES | 10,735 | 5,357 | 43,750 | 24,730 | 34,809 |
| NON-CURRENT LIABILITIES | 487 | 502 | 48 | 51 | 59 |
| TOTAL LIABILITIES | 11,222 | 5,859 | 43,798 | 24,781 | 34,868 |
| NET ASSETS | 226,878 | 225,682 | 214,636 | 206,806 | 188,039 |

FIXED ASSETS AND INVESTMENT PROPERTIES

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

SHARE CAPITAL AND SHARE OPTIONS

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

REPORT OF THE DIRECTORS

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, 2003, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$190,232,000 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, 2003, 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 45% of the total sales for the year and sales to the largest customer included therein amounted to 13%.

Purchases from the Group's five largest suppliers accounted for 87% of the total purchases for the year and purchases from the largest supplier included therein amounted to 37%.

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.

REPORT OF THE DIRECTORS

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. Up to 30th September, 2001, part of the proceeds were applied in the following areas.

| | Original planned HK\$'000 | Actual application HK\$'000 | Unused proceeds at 30/09/2001 HK\$'000 |
|---|---------------------------------|-----------------------------------|---|
| 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 were approximately HK\$59.1 million.

Reference is made to the Group's announcement made on 10th December, 2001. The Board changed the use of proceeds and allocated and applied the unused proceeds of HK\$59.1 million as at 30th September, 2001 in the following manner:

| | Proposed application at 10/12/2001 HK\$'000 | Actual application HK\$'000 | Unused proceeds at 31/03/2003 HK\$'000 |
|---|--|-----------------------------------|---|
| Increasing the general working capital of the Group | 20,000 | 20,000 | – |
| Development of the Group's own brand names and promotion of the Group's products | 5,100 | 3,948 | 1,152 |
| Acquiring new machinery, factory and office equipment, and fixtures and furniture | 6,000 | 2,053 | 3,947 |
| Developing and financing the establishment of trading business in the PRC, including but not limited to garments, handbags and other related products | 28,000 | – | 28,000 |
| | <u>59,100</u> | <u>26,001</u> | <u>33,099</u> |

The total unused proceeds as at 31st March, 2003 were approximately HK\$33.1 million.

With a view to improving the turnover and profitability of our existing business, the Group considered necessary to rethink its business strategy in relation to these areas of business and investment. More working capital was required for fur garment business and setting up different channels of distribution, which were considered to be more profitable.

REPORT OF THE DIRECTORS

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

Since the above announcement made on 10th December, 2001, the Group had carefully studied the trading business in the PRC for more than one year and found that the value added tax and tariff were not lowered as expected and distribution cost was higher than anticipated before. It might not be in the best interest of the Group and therefore no material amount was spent in this business. As a result, fund for the trading business in the PRC with fewer profit margins would then be reduced.

In view of the above, the Board announced on 15th July, 2003 and considered that it was in the best interest of the Group and its shareholders to further change the use of proceeds and to allocate the above unused proceeds of HK\$33.1 million in the following manner:

| | Proposed application 15/07/2003 HK\$'000 |
|--|---|
| Increasing the general working capital of the Group | 25,100 |
| Development of the Group's own brand name and promotion of the Group's products | 4,500 |
| Developing and financing the establishment of trading business in the PRC, including but not limited to garments, handbags and other related products | 2,000 |
| Acquiring new machinery, factory and office equipment, and fixtures and furniture | 1,500 |
| | <hr/> |
| | 33,100 |
| | <hr/> <hr/> |

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Ng Ngan Lung, Freddy

Mr. William Carl Frick

Mr. Kiu Wai Ming, Kenneth (appointed on 1st October, 2002)

Mr. Chong Hong Sang, Kenneth

Mr. Mui Chi Hung, Clarence

Independent non-executive directors

Mr. Chan Wing Yuen, Hubert

Ms. Ho Man Kay, Angela

In accordance with clauses 111(A) and 115 of the Company's bye-laws, Mr. Kiu Wai Ming, Kenneth, Mr. Chong Hong Sang, Kenneth and Mr. Mui Chi Hung, Clarence 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

EMPLOYEE BENEFITS

Details of the employee benefits of the Group and the employer's costs on employee benefits 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, 2003, the Group had cash and cash equivalents of HK\$71,901,000. As at 31st March, 2003, the Group did not have any bank borrowings and the shareholders' funds amounted to HK\$226,878,000.

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, 2003, the Group employed around 300 employees in both Hong Kong and the Mainland. The Group's remuneration policies are primarily based on prevailing market wages and the performance of respective companies and individual employees concerned. Fringe benefits, including provident fund, Mandatory Provident Fund, medical benefits and training, are provided. The Group has also adopted a discretionary bonus programme for management and staff with awards determined annually based upon the performance of the Group and individual employees. 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, 12 and 27 to the financial statements respectively.

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, 2003, 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:

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:

- 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.
- 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.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR 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

Details of the share option scheme of the company are set out in note 27 to the financial statements.

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, Freddy, aged 41, is the Chairman and the Managing Director of the Company. He is one of the founders of the Group and has more than 21 and 17 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 52 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 24 years of experience in the fur and leather industry.

Mr. Kiu Wai Ming, Kenneth, aged 54, is the Chief Executive Officer of the Company and joined the Group in 1st October, 2002. He graduated from Louisiana State University in 1973 with a Bachelor's Degree in Finance and Marketing. He has 28 years of experience in the banking and finance sectors. During 1989 to 1997, he served as an Executive Director and Alternate Chief Executive for Dah Sing Bank and Jian Sing Bank. From July 1999 to September 2002, he was a Director and Deputy Chief Executive of Industrial and Commercial Bank of China (Asia) Limited.

Mr. Chong Hong Sang, Kenneth, aged 43, 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 18 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.

REPORT OF THE DIRECTORS

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

Executive directors *(continued)*

Mr. Mui Chi Hung, Clarence, aged 36, 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 and an Master's degree of Professional Accounting from The Hong Kong Polytechnic University. 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 11 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 and corporate management.

Independent non-executive directors

Mr. Chan Wing Yuen, Hubert, aged 45, 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 was a Director and Deputy General Manager of a publicly listed company. In addition, he was the Director of Compliance and Company Secretary of a publicly listed GEM company. Currently, he is an Executive Director of a Hong Kong listed company. He is a member of The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Company Secretaries, The Hong Kong Securities Institute and The Hong Kong Institute of Directors Limited.

Ms. Ho Man Kay, Angela, aged 40, 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.

Senior management

Mr. Matsuno Ryoji, aged 57, 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 15 years of experience in the fur and leather industry and joined the Group in March, 1996.

Mr. Chu Po Kan, aged 53, has more than 27 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 16 years of experience in the fur industry.

Mr. Wong Ming, aged 51, 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 29 years of working experience in the fur industry.

Ms. Chui May Ling, aged 46, 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 18 years of experience in the garment and fashion industry.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

At 31st March, 2003, 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.

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 period 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

Li, Tang, Chen & Co. were appointed as auditors of the company on 21st March, 2001 upon 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, 15th July, 2003