



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, 2004.

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, 2004 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31st March, 2004 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 HK1.2 cents per ordinary share was paid on 6th January, 2004. The directors recommend the payment of a final dividend and a special dividend of HK4.3 cents and HK4.5 cents per ordinary share respectively in respect of the year to shareholders whose names appear on the register of members on 30th July, 2004. 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,				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	<u>117,774</u>	<u>73,447</u>	<u>145,428</u>	<u>155,570</u>	<u>145,754</u>
PROFIT FROM OPERATING ACTIVITIES	<u>42,868</u>	18,799	16,676	16,537	26,168
Finance costs	<u>(544)</u>	<u>(573)</u>	<u>(657)</u>	<u>(229)</u>	<u>(817)</u>
PROFIT BEFORE TAX	<u>42,324</u>	18,226	16,019	16,308	25,351
Tax	<u>(2,224)</u>	<u>(1,400)</u>	4,077	<u>(857)</u>	<u>(2,103)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>40,100</u>	<u>16,826</u>	<u>20,096</u>	<u>15,451</u>	<u>23,248</u>



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SUMMARY FINANCIAL INFORMATION (continued)

ASSETS AND LIABILITIES

	As at 31st March,				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
FIXED ASSETS	16,600	17,704	20,554	23,392	21,113
INVESTMENT PROPERTIES	2,700	6,035	8,210	9,150	10,350
OTHER INVESTMENTS	143,457	33,466	62,976	60,259	–
HELD-TO-MATURITY SECURITIES	–	40,856	–	–	–
CURRENT ASSETS	170,086	140,039	139,801	165,633	200,124
TOTAL ASSETS	332,843	238,100	231,541	258,434	231,587
CURRENT LIABILITIES	62,991	10,735	5,357	43,750	24,730
NON-CURRENT LIABILITIES	73	487	502	48	51
TOTAL LIABILITIES	63,064	11,222	5,859	43,798	24,781
NET ASSETS	269,779	226,878	225,682	214,636	206,806

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

There were no movements in either the Company's authorised or issued share capital during the year.

Details of movements in the Company's share options during the year 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.



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DISTRIBUTABLE RESERVES

At 31st March, 2004, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$217,578,000 as computed in accordance with the Companies Act 1981 (as amended) 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, 2004, 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 15%.

Purchases from the Group's five largest suppliers accounted for 95% of the total purchases for the year and purchases from the largest supplier included therein amounted to 32%.

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.

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 <i>HK\$'000</i>	Actual application <i>HK\$'000</i>	Unused proceeds at 30/9/2001 <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>



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

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	Actual application	Unused proceeds at 31/3/2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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.

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.



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

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 allocated and applied the above unused proceeds of HK\$33.1 million in the following manner:

	Proposed application at 15/7/2003 <i>HK\$'000</i>	Actual application at 31/3/2004 <i>HK\$'000</i>	Unused proceeds at 31/3/2004 <i>HK\$'000</i>
Increasing the general working capital of the Group	25,100	8,751	16,349
Development of the Group's own brand name and promotion of the Group's products	4,500	1,675	2,825
Developing and financing the establishment of trading business in the PRC, including but not limited to garments, handbags and other related products	2,000	928	1,072
Acquiring new machinery, factory and office equipment, and fixtures and furniture	1,500	695	805
	<u>33,100</u>	<u>12,049</u>	<u>21,051</u>

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Ng Ngan Lung, Freddy

Mr. William Carl Frick

Mr. Chong Hong Sang, Kenneth

Mr. Mui Chi Hung, Clarence

Mr. Kiu Wai Ming, Kenneth

(resigned on 30th September, 2003)

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. Chan Wing Yuen, Hubert will retire and, being eligible, offer himself 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.



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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, 2004, the Group had cash and cash equivalents of HK\$47,947,000. As at 31st March, 2004, the Group had bank borrowings amounting to HK\$18,094,000 and the shareholders' funds amounting to HK\$269,779,000.

As far as financial position is concerned, the Group continues to adopt a cautious policy. There are no long-term debts and the Group has sufficient funds for future business expansions and diversification in investments.

EMPLOYEES

As at 31st March, 2004, 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.



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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31st March, 2004, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(a) Long positions in ordinary shares of HK\$0.1 each of the Company

Name of director	Note	Personal interests	Corporate interests
Mr. Ng Ngan Lung	1	Nil	240,000,000
	2	Nil	33,720,000
Mr. William Carl Frick		834,000	Nil
Mr. Chong Hong Sang		<u>3,218,000</u>	<u>Nil</u>

Notes:

- 240,000,000 shares are owned by Fung Kong Worldwide Limited, 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.

(b) Long positions in underlying shares – share options

Details of the interests of the directors in the share options of the Company are separately disclosed in note 27 to the financial statements.

Save as disclosed above, none of the directors had registered an interest and short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests and short positions in shares, underlying shares and debentures" above and in the share option scheme disclosures in note 27 to the financial statements, 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 minor children, 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.



Report of the Directors

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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31st March, 2004, according to the register of interest in shares and short positions required to be kept by the Company under Section 336 of the SFO, the Company has been notified that the following shareholders were interest in 5% or more of the share capital of the Company:

Name of shareholders	Note	Number of shares held	Percentage of holding
Fung Kong Worldwide Limited	1	240,000,000	60.26%
Silver Sound Assets Limited	2	33,720,000	8.47%

Notes:

1. The entire issued share capital of Fung Kong Worldwide Limited is held and beneficially owned by Mr. Ng Ngan Lung.
2. The entire issued share capital of Silver Sound Assets Limited is held and beneficially owned by Mr. Ng Ngan Lung.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest and short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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

Executive directors

Mr. Ng Ngan Lung, Freddy, aged 42, is the Chairman and the Managing Director of the Company. He is one of the founders of the Group and has more than 22 and 18 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.



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

Executive directors *(continued)*

Mr. William Carl Frick, aged 53 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 25 years of experience in the fur and leather industry.

Mr. Chong Hong Sang, Kenneth, aged 44, 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 19 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 37, 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 12 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 46, 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 Guangdong Investment Limited. In addition, he was the Director of Compliance and Company Secretary of Sunevision Holdings Limited. Currently, he is the Chief Executive Officer of Interchina Holdings Company Limited. 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 41, 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 practicing 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 has been appointed as a Hong Kong delegate to 9th All China Women Federation Congress and 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)

Senior management

Mr. Chu Po Kan, aged 54, has more than 28 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 17 years of experience in the fur industry.

Mr. Wong Ming, aged 52, 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 30 years of working experience in the fur industry.

Ms. Chui May Ling, aged 47, 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 19 years of experience in the garment and fashion industry.

CONNECTED TRANSACTIONS

During the year, the Group had no connected transactions as defined under the Rules Governing the Listing of Securities on the Stock exchange (the "Listing Rules").

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.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

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 but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-Laws of the Company.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited consolidated financial statements for the year ended 31st March 2004. The audit committee comprises the two independent non-executive directors of the Company.



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AUDITORS

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, 28th June, 2004