



REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2005.

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 significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 March 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 15 to 39.

An interim dividend of HK0.6 cents per ordinary share was paid to the shareholders whose names appear on the Company's register of members on 21 January 2005. The directors recommend the payment of a final dividend of HK1.0 cent per ordinary share in respect of the year to shareholders on the register of members on 31 August 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits or contributed surplus within the capital and reserves section of the balance sheet.

Five year financial summary

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 40. This summary does not form part of the audited financial statements.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

Share capital and share options

Details of the Company's share capital and share options are set out in notes 21 and 22 to the financial statements, respectively.

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 its existing shareholders.

Purchase, redemption or sale of listed securities of the Company

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 23(b) to the financial statements and in the consolidated statement of changes in equity, respectively.



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Distributable reserves

At 31 March 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of the Bermuda Companies Act 1981, amounted to HK\$44,219,000, of which HK\$3,170,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$49,586,000, may be distributed in the form of fully paid bonus shares.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 32% of the total sales for the year and sales to the largest customer included therein amounted to 11%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or 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 interest in the Group's five largest customers.

Directors

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

Executive directors:

Char On Man
So Choi Hing, Stella
Li Wing Tak

Independent non-executive directors:

Woo, Michael
Ho Wai Chi, Paul
Chen Yeh Ming, Steve

appointed on 16 September 2004

In accordance with the Company's bye-laws, Ho Wai Chi, Paul and Chen Yeh Ming, Steve will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors are not appointed for specific terms and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

The Company has received annual confirmation of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and, as at the date of this report, the Company still considers them to be independent.

Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting 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

As at 31 March 2005, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company 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 Issuers (the "Model Code"), were as follows:

(1) Long positions in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation		
Char On Man	54,783,000	167,832,000 (Note)	222,615,000	70.2%
So Choi Hing, Stella	<u>3,885,000</u>	<u>—</u>	<u>3,885,000</u>	<u>1.2%</u>

(2) Long positions in shares of associated corporations:

(a) *Peking Fur Factory (Hong Kong) Limited, the Company's subsidiary*

Name of director	Capacity and nature of interest	Type of shares held	Number of shares held	Percentage of shareholding in respective class of shares
Char On Man	Directly beneficially owned	Non-voting deferred	11,444	95.3%

(b) *Wellglow Investments Limited, the Company's holding company*

Name of director	Number of ordinary shares held, capacity and nature of interest		Total	Percentage of shareholding in respective class of shares
	Directly beneficially owned	Through spouse or minor children		
Char On Man	674	100	774	89.5%
So Choi Hing, Stella	<u>60</u>	<u>—</u>	<u>60</u>	<u>6.9%</u>

Note:

These shares are held through Wellglow Investments Limited, a company in which Char On Man has total interests of 89.5%.



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Directors' interests and short positions in shares (continued)

Save as disclosed above, as at 31 March 2005, none of the directors and chief executive and their associates had registered an interest or 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.

Directors' rights to acquire shares or debentures

At no time during the year were 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.

Substantial shareholders' interests and short positions in shares

As at 31 March 2005, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Wellglow Investments Limited	Directly beneficially owned	167,832,000	52.9%
Char On Man	Directly beneficially owned	54,783,000	17.3%

The above interest has also been disclosed as an interest of Char On Man under the section headed "Directors' interests and short positions in shares" above.

Save as disclosed above, as at 31 March 2005, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.



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Biographical details of directors and senior management

Executive directors

Mr. Char On Man, aged 52, is the Group's founder and has been the chairman and managing director of the Group since August 1978. He is responsible for the overall management of the Group's operations, in particular the procurement and trading of tanned leather and fur pelts, as well as overseeing the overall operations of the fur garment business. He is now a director of the Hong Kong Fur Federation as well as the Shenzhen Leather Trades Association. He has over 30 years' experience in the leather and fur industries.

Ms. So Choi Hing, Stella, aged 51, is the director of sales of the Group. She is responsible for the sales and marketing of leather garments and for the Group's overall administrative operations. She has been with the Group since September 1981.

Mr. Li Wing Tak, aged 47, is the director of finance of the Group. He has over 20 years' experience in finance and accounting. He holds a bachelor's degree in economics from Macquarie University in Australia and is a fellow member of the Hong Kong Institute of Certified Public Accountants and of the Australian Society of Certified Practising Accountants. He served as the regional financial controller for two multinational trading and manufacturing companies for five years prior to joining the Group in March 1994.

Independent non-executive directors

Mr. Woo, Michael, aged 60, is the managing director of Europe Fur Co., Ltd., Europe Fashions Ltd., Dongguan Mayfair Fashions Ltd. and Mayfur Canada Inc. He was the chairman of the Hong Kong Fur Federation and is currently its honorary advisor. He joined the Group as a director in August 1996.

Mr. Ho Wai Chi, Paul, aged 54, is the managing partner of Paul W.C. Ho & Company, Certified Public Accountants (Practising), and is an associate member of the Institute of Chartered Accountants in England and Wales, the United Kingdom and a fellow member of the Hong Kong Institute of Certified Public Accountants. He also holds directorships as independent non-executive director of companies listed on the Main Board of the Stock Exchange which included China Star Entertainment Limited, Ngai Hing Hong Company Limited and Riche Multi-Media Holdings Limited. He joined the Group as a director in February 1997.

Mr Chen Yeh Ming, Steve, aged 57, holds directorships in companies engaging in various businesses such as investment holding, trading and manufacturing. He is the managing director of Broadway Fur & Fashion Limited. He was the chairman of the Hong Kong Fur Federation. He joined the Group as a director on 16 September 2004.

Senior management

Mr. Au Hung, aged 50, is the general manager of the Group's factory in the People's Republic of China (the "PRC"). He has more than 30 years' experience in the leather and fur industries and has in-depth knowledge of the manufacturing, distribution and trading of leather and fur products in the PRC market. He joined the Group in October 1975.

Mr. Choi Hing Yee, aged 47, is the assistant general manager of the Group in the PRC. He joined the Group in August 1991. He has over 20 years' experience in the marketing of fur and leather products. He is responsible for the Group's manufacturing and trading of fur products.



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Biographical details of directors and senior management (continued)

Ms. Zhang Chun Wei, aged 46, the assistant general manager of the Group in the PRC, joined the Group's factory in March 1998 as the head of the fabric garment production. She was responsible for the factory's overall personnel and administration and production planning. Prior to joining the Group, she had been in the garment manufacturing industry for about 20 years. She left the Group in May 2005.

Mr. Chan Ching Kwan, aged 53, is the manager of the Group's factory in the PRC. He joined the Group in March 1988 and has more than 30 years' experience in the production of leather garments. He is responsible for the Group's manufacturing operations of leather garments.

Miss Char, Danielle, aged 24, is the marketing manager and is responsible for the overall marketing and design of the Group. She was promoted to become a director of Peking Fur Factory (Hong Kong) Limited ("Peking Fur"), a subsidiary of the Company, in June 2005. Miss Char graduated from the University of Michigan in the United States with a Bachelor of Science degree in Architecture. She joined the Group in July 2003 and is the daughter of Mr. Char On Man.

Mr. Wan Ting Shing, aged 48, is a sales manager and is responsible for the Group's garment sales operation in the PRC. He joined the Group in August 2002 and has more than 20 years' sales and management experience in the garment field. He was promoted to become a director of Peking Fur in June 2005. Mr Wan graduated from the Aston University of Birmingham, the United Kingdom with a Master degree in Business Administration.

Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules (in force prior to 1 January 2005) throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's by-laws.

On 1 January 2005, the Code was replaced by the Code of Corporate Governance Report as set out in Appendices 14 and 23 of the Listing Rules (the "New Code"). The Company's compliance of the New Code will come into effect in the year ending 31 March 2006.

Model Code for Securities Transactions

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors confirmed that they complied with the required standard set out in the Model Code throughout the accounting period covered by the annual report.

Public float

Based on information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that at least 25% of the Company's total issued share capital was held by the public as at the date of this report.



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Audit committee

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

Auditors

Ernst & Young 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

Char On Man

Chairman and Managing Director

Hong Kong
20 July 2005