

Report of directors

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

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 24 to the financial statements. There were no changes in the nature of the Group's activities during the year.

Segmental information

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity, brandname and geographical area of market for the year ended 31 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 principal activity:				
Retail of fashion apparel and complementary accessories	227,503	196,079	13,150	41,034
Wholesale of fashion apparel and complementary accessories	11,679	14,082	675	2,947
	239,182	210,161	13,825	43,981
By brandname:				
Gay Giano	66,119	67,277	3,822	14,079
Cour Carré	146,533	126,903	8,470	26,557
Due G	26,530	15,981	1,533	3,345
	239,182	210,161	13,825	43,981
By geographical area:				
People's Republic of China:				
Hong Kong, SAR	227,503	191,707	13,165	40,194
Elsewhere	11,411	18,097	660	3,787
Others	268	357	—	—
	239,182	210,161	13,825	43,981

Results and dividends

The Group's profit for the year ended 31 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 26 to 50.

The directors do not recommend the payment of any dividend in respect of the year.

Summary financial information

The summary of the consolidated/combined results, and assets and liabilities of the Group for each of the five years ended 31 March 2001 are set out on pages 16 of this annual report.

Fixed assets and investments properties

Details of movements in the Group's fixed assets and investment properties are set out in note 11 to the financial statements.

Subsidiaries

Particulars of the Company's principal subsidiaries are set out in notes 10 and 24 to the financial statements.

Borrowings

Details of the Group's borrowings as at 31 March 2001 are set out in notes 14, 16 and 17 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 19 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 20 to the financial statements.

Pre-emptive rights

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

Purchase, redemption or sale of listed securities

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

Distributable reserves

At 31 March 2001, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$59,387,000, as computed in accordance with the Companies Act 1981 of Bermuda.

In addition, the Company's share premium account with a balance of HK\$26,117,000 as at 31 March 2001 may be distributed in the form of fully paid bonus shares.

Pension scheme

Details of the pension scheme of the Group are set out in notes 1, 4 and 5 to the financial statements.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholder who owned more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers during the year.

Directors

The directors of the Company during the year were:

Executive directors:

Cheung Sing Chi
Cheung Yin Sheung, Subraina
Tong Kwong Fat
Ng Lai Man, Carmen
(resigned on 31 January 2001)

Non-executive director:

Ip Yu Chak
(appointed on 12 March 2001)

Independent non-executive directors:

Chan Ka Ling, Edmond
Tsang Wai Kit

In accordance with the Company's bye-laws 111A, Mr. Tong Kwong Fat will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Mr. Ip Yu Chat was appointed as a Non-executive director of the Company on 12 March 2001, he will retire at the forthcoming Annual General Meeting in accordance with bye laws 115 of the Company's Bye-laws and being eligible, offer himself for re-election.

Directors' remuneration and five highest paid employees

Details of the directors' remuneration and that of five highest paid employees during the year ended 31 March 2001 are set out in note 5 to the financial statements.

Directors' interests in share capital

At 31 March 2001, the interests of the directors, chief executive or their associates 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 ("SDI Ordinance") were as follows:

	Number of issued ordinary shares of HK\$0.10 in the Company			
	Corporate interest	Personal interest	Family interest	Other interest
Cheung Sing Chi	120,000,000 (note)	—	—	—
Cheung Yin Sheung, Subraina	—	—	—	(note)
Tong Kwong Fat	—	—	—	(note)

Note:

These shares represent a 60% equity interest in the Company and are beneficially owned by Gay Giano (BVI) Group Limited, a company incorporated in the British Virgin Islands. The issued share capital of Gay Giano (BVI) Group Limited is beneficially owned by Cheung Sing Chi as to 72.5%, Cheung Yin Sheung, Subraina as to 12.5%, Cheung Yin Fong as to 12.5% and Tong Kwong Fat as to 2.5%.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the ordinary shares of the Company or any of its associated corporations, as defined in the SDI Ordinance.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on page 10 of this annual report.

Directors' service contracts

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 1 April 2000, which will continue thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Save as disclosed above, 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 other than statutory compensation.

Directors' interests in contracts

Save as disclosed in note 2 to the financial statements and in the section "Connected transactions" below, no director had a significant beneficial interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year.

Directors' rights to acquire shares

Pursuant to the Company's share option scheme adopted by the Company on 14 March 2000, the board of directors may, at its discretion, invite full-time employees and executive directors of the Company to take up options to subscribe for shares in the Company. Further details of the share option scheme are set out in note 19 to the financial statements.

Details of movements in the share options granted to certain directors and which remained outstanding as at 31 March 2001 were as follows:

Directors	Date of share options granted	Number of share options outstanding as at 1 April 2000	Number of share options granted during the year	Number of share options outstanding as at 31 March 2001	Exercise period	Exercise price per share HK\$
Cheung Sing Chi	5/2/2001	—	3,000,000	3,000,000	5/2/2001-4/2/2011	0.2528
Cheung Yin Sheung, Subraina	5/2/2001	—	1,800,000	1,800,000	5/2/2001-4/2/2011	0.2528
Tong Kwong Fat	5/2/2001	—	1,800,000	1,800,000	5/2/2001-4/2/2011	0.2528

Save as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial shareholders

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

	Number of shares held	Shareholding
Gay Giano (BVI) Group Limited	120,000,000	60%
K&E Industries Limited	30,000,000	15%

Save as disclosed above, no person, other than directors of the Company, whose interests are set out in the section "Directors' interests in share capital" 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.

Connected transactions

(i) During the year, Gay Giano International Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Boldsmore. Pursuant to the agreement, Boldsmore leased an office and a warehouse to the Group for a term of one year from 1 November 2000 to 31 October 2001 at a monthly rent of HK\$182,000.

(ii) During the year, Maxrola Limited ("Maxrola"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Cheung For Sang, a brother of certain directors of the Company. Pursuant to the agreement, Maxrola leased a property to Cheung For Sang for a term of one year from 1 November 2000 to 31 October 2001 at a monthly rent of HK\$17,000.

(iii) During the year, Sarchio Limited ("Sarchio"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Ho Cheuk Man, a brother-in-law of certain directors of the Company. Pursuant to the agreement, Sarchio leased a property to Ho Cheuk Man for a term of one year from 1 November 2000 to 31 October 2001 at a monthly rent of HK\$24,000.

(iv) During the year ended 31 March 2000, Belarus entered into a tenancy agreement with Boldsmore. Pursuant to the agreement, Boldsmore leased an office and a warehouse to the Group for a term of one year from 1 November 1999 to 31 October 2000 at a monthly rent of HK\$182,000.

(v) During the year ended 31 March 2000, Maxrola entered into a tenancy agreement with Cheung Sing Chi, a director of the Company. Pursuant to the agreement, Maxrola leased a property to Mr. Cheung Sing Chi for a term of one year from 1 November 1999 to 31 October 2000 at a monthly rent of HK\$18,500.

- (vi) During the year ended 31 March 2000, Maxrola entered into a tenancy agreement with Cheung For Sang, an elder brother of certain directors of the Company. Pursuant to the agreement, Maxrola leased a property to Cheung For Sang for a term of one year from 1 November 1999 to 31 October 2000 at a monthly rent of HK\$18,000.
- (vii) During the year ended 31 March 2000, Sarchio entered into a tenancy agreement with Ho Cheuk Man. Pursuant to the agreement, Sarchio leased a property to Ho Cheuk Man for a term of one year from 1 November 1999 to 31 October 2000 at a monthly rent of HK\$24,000.

FPDSavills (Hong Kong) Limited, an independent firm of professional valuers, has reviewed the terms of the above lease agreements and has confirmed to the directors that the rental payable under each of these agreements is based on normal commercial terms and is fair and reasonable.

The independent non-executive directors are of the opinion that the terms of the above transactions are fair and reasonable so far as the shareholders of the Company are concerned; and that the transactions have been entered into by the Group in its ordinary course of business and on normal commercial terms and were carried out in accordance with the terms of the agreements governing such transactions.

Compliance with the Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing (the "Listing Rules") of Securities on The Stock Exchange of Hong Kong Limited, throughout the accounting period covered by the annual report except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

Audit committee

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company set up an Audit Committee (the "Committee") on 14 March 2000, with written terms of reference, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors. The Group's financial statements for the year ended 31 March 2001 have been reviewed by the Committee. The Committee is of the opinion that such statements comply with the applicable accounting standards, and stock exchange and legal requirements, and that adequate disclosures have been made.

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

Cheung Sing Chi
Chairman

Hong Kong
23 July 2001