

Report of directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2002.

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 13 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

Segment information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2002 is set out in note 4 to the financial statements.

Results and dividends

The Group's loss for the year ended 31 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 29 to 52.

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

Fixed assets and investments properties

Details of movements in the Group's fixed assets and investment properties during the year are set out in note 12 to the financial statements. Further details of the Group's investment properties are set out on page 43 to this annual report.

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 21 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 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 22 to the financial statements.

Distributable reserves

At 31 March 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$27,164,000, as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account in the amount of HK\$26,121,000, 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 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.

Directors

The directors of the Company during the year were:

Executive directors:

Cheung Sing Chi
Cheung Yin Sheung, Subraina
Tong Kwong Fat

Non-executive director:

Ip Yu Chak

Independent non-executive directors:

Chan Ka Ling, Edmond
Tsang Wai Kit

Subsequent to the balance sheet date, on 8 July 2002, Cheung Sing Chi resigned as a director of the Company. On 12 July 2002, Yung Wing Sze, Vivian was appointed as an executive director of the Company.

In accordance with the Company's bye-laws 111A, Chan Ka Ling, Edmond will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws 115, Yung Wing Sze, Vivian will retire and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

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 12 of this annual report.

Directors' service contracts

Except for Yung Wing Sze, Vivian, 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 of compensation, other than statutory compensation.

Directors' interests in contracts

Save as disclosed in note 29 to the financial statements and in the section "Connected transactions" below, no director had a material 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' interests in share capital

At 31 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:

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

Directors' interests in share capital (continued)

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' rights to acquire shares

Apart from as disclosed under the heading "Share option scheme" below, 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 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 and fellow subsidiaries a party to any arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of recognising the significant contributions of the directors and employees to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give incentive to these persons to continue to contribute to the Group's long term success and prosperity.

Eligible participants of the Scheme are full-time employees and executive directors of the Group. The Scheme became effective since the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 April 2000 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 March 2002, the number of shares issuable under share options granted under the Scheme was 18,580,000, which represented approximately 9% of the Company's shares in issue as at that date. No option may be granted to any eligible participants which, if exercised in full, will result in the total number of shares already issued and which may fall to be issued to them under all the options previously granted, exceeding 25% of the maximum aggregate number of shares issued and issuable under the Scheme.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of 80% of the average closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the share options or the nominal value of the Company's shares.

Pursuant to the amendments (the "New Rules") to Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, any options granted after 1 September 2001 must comply with the provisions of the New Rules. If the Company wishes to grant options to its directors or other eligible participants in future, a new share option scheme in compliance with the New Rules is required to be approved and adopted by the shareholders of the Company in a general meeting.

Share option scheme (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	At 1 April 2001	Number of share options		Lapsed during the year	Cancelled during the year	At 31 March 2002
		Granted during the year	Exercised during the year			
Directors						
Cheung Sing Chi	3,000,000	-	-	-	-	3,000,000
Cheung Yin Sheung, Subraina	1,800,000	-	-	-	-	1,800,000
Tong Kwong Fat	1,800,000	-	-	-	-	1,800,000
	6,600,000	-	-	-	-	6,600,000
Other employees						
In aggregate	3,010,000	-	-	(70,000)#	-	2,940,000
	9,400,000	-	(30,000)	(330,000)#	-	9,040,000
	12,410,000	-	(30,000)	(400,000)	-	11,980,000
	19,010,000	-	(30,000)	(400,000)	-	18,580,000

Share options were lapsed upon the termination of employees' employment during the year.

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

Summary details of the Company's share option scheme are also set out in note 21 to the financial statements.

Share option scheme (continued)

Date of grant of share options *	Exercise period of share options	Exercise price of share options **	Price of Company's shares***	
			At grant date of options	At exercise date of options
HK\$		HK\$	HK\$	
5 February 2001	5 February 2001 to 4 February 2011	0.2528	0.39	-
5 February 2001	5 February 2001 to 4 February 2011	0.2528	0.39	-
5 February 2001	5 February 2001 to 4 February 2011	0.2528	0.39	-
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1 June 2000	1 June 2000 to 31 December 2002	1.5792	2.15	-
5 February 2001	5 February 2001 to 4 February 2011	0.2528	0.39	0.34
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Substantial shareholders

At 31 March 2002, 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:

Name	Number of shares held	Percentage of the Company's share capital
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 International Limited ("Boldsmore"), a fellow subsidiary of the Company. Pursuant to the agreement, Boldsmore leased an office and a warehouse to the Group for a term of one year from 1 November 2001 to 31 October 2002 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 2001 to 31 October 2002 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 2001 to 31 October 2002 at a monthly rent of HK\$24,000.
- (iv) During the year ended 31 March 2001, Gay Giano International Limited 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.
- (v) During the year ended 31 March 2001, Maxrola 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.
- (vi) During the year ended 31 March 2001, Sarchio 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.

FPDSavills (Hong Kong) Limited, an independent firm of professional valuers, has reviewed the terms of the lease agreements as set out in (i) to (iii) above and has confirmed to the directors that the rentals 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.

Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 28 to the financial statements.

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 Listing Rules 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 by-laws of the Company.

Audit committee

The Company has an audit committee (the "Committee") which was established in accordance with the requirements of the Code of Best Practice, 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 financial statements of the Group for the year ended 31 March 2002 have been reviewed by the Committee. The Committee is of the opinion that such statements comply with the applicable accounting standards, and the 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 Yin Sheung, Subraina

Chairman

Hong Kong
29 July 2002