

Report of directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended March 31, 2003.

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 33 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 March 31, 2003 is set out in note 5 to the financial statements.

Results and dividends

The Group's loss for the year ended March 31, 2003 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

Details of movements in the Group's fixed assets during the year are set out in note 13 to the financial statements. Further details of the Group's investment properties are set out on page 15 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 23 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 stated in the Statement of Changes in Equity in the financial statements.

Financial Summary

A summary of the results of the Group for the past five financial years ended March 31, 2003 is set out on page 17 of the annual report.

Distributable reserves

At March 31, 2003, the Company has no reserves available for cash distribution and/or distribution 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.

Bank Loans and Other Loans

Details of movements in the Group's bank loans and other loans during the year are set out in note 18 and note 19 respectively to the financial statements.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Retirement Scheme

The Group did not operate any retirement scheme for its Hong Kong employees up to November 30, 2000. With effect from December 1, 2000, a Mandatory Provident Fund Scheme has been set up which is available to all employees in Hong Kong including executive directors.

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 Yin Sheung, Subraina
Tong Kwong Fat
Yung Wing Sze, Vivian (Appointed on July 8, 2002)

Non-executive director:

Ip Yu Chak

Independent non-executive directors:

Chan Ka Ling, Edmond
Tsang Wai Kit

In accordance with the Company's bye-laws 111A, Tsang Wai Kit will retire by rotation and, being eligible, will offer himself 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 April 1, 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 30 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

As at March 31, 2003, the interests of the directors, chief executives and their associates in the issued share capital of the Company or its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Directors' interests in share capital (continued)

(a) Interests in shares of the Company

Directors	Number of issued ordinary shares of HK\$0.10 each and nature of interest			
	Corporate interest	Personal interest	Family interest	Other interest
Cheung Yin Sheung, Subraina	15,000,000 (note)	—	—	—
Tong Kwong Fat	3,000,000 (note)	—	—	—
Yung Wing Sze, Vivian	—	—	—	—

Note: The shares are held by Gay Giano (BVI) Group Limited ("Gay Giano BVI"), a company incorporated in the British Virgin Islands which holds 120,000,000 shares, or 60% equity interest in the Company. The total issued share capital of Gay Giano BVI 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 the remaining 2.5%.

(b) Interests in options to subscriber for the Company's shares

As at March 31, 2003, the directors had personal interests in share options to subscribe for shares in the Company under the Old Scheme (as defined in the Section "Share option scheme" below) as follows:

Name of directors	Exercise period of share options	Exercise price of share options HK\$	Outstanding at beginning of the year	Number of share options		Outstanding at end of the year
				Granted during the year	Exercised during the year	
Cheung Yin Sheung, Subraina	February 5, 2001 to February 4, 2011	0.2528	1,800,000	—	—	1,800,000
Tong Kwong Fat	February 5, 2001 to February 4, 2011	0.2528	1,800,000	—	—	1,800,000
Yung Wing Sze, Vivian	February 5, 2001 to February 4, 2011	0.2528	1,170,000	—	—	1,170,000

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, as at March 31, 2003, none of the directors had any interests in the share capital of the Company or any associated corporation as defined in the SDI Ordinance, and none of the directors, nor their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Directors' rights to acquire shares

Apart from as disclosed under the heading "Directors' interests in share capital" above and "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

In 2001, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") announced changes to the Rules Governing the Listing of Securities (the "Listing Rules") which set out the revised requirements for share option schemes operated by listed companies. In this respect, the operation of the share option scheme adopted by the Company on March 14, 2000 (the "Old Scheme") was terminated upon the adoption of the New Scheme (as defined below). In such event, no further option would be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised shall continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On September 10, 2002, at the annual general meeting, the Company adopted a new share option scheme (the "New Scheme") under which the board of directors may, at their discretion, invite any full time and part time employees, directors, suppliers, customers, consultants, advisors or shareholders of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time. Other details of the New Scheme were disclosed in the circular dated July 29, 2002. As at March 31, 2003, no options have been granted under the New Scheme.

Share option scheme (continued)

Details of the movements in the share options granted and exercised during the year ended March 31, 2003 under the Old Scheme are as follows:

Name or category of participant	Date of grant of share options (Note 1)	Exercisable period of share options	At April 1, 2002	Granted during the year
Directors				
Cheung Sing Chi	February 5, 2001	February 5, 2001 to February 4, 2011	3,000,000 (Note 3)	—
Cheung Yin Sheung, Subraina	February 5, 2001	February 5, 2001 to February 4, 2011	1,800,000	—
Tong Kwong Fat	February 5, 2001	February 5, 2001 to February 4, 2011	1,800,000	—
Yung Wing Sze, Vivian	February 5, 2001	February 5, 2001 to February 4, 2011	—	—
			6,600,000	—
Other employees				
In aggregate	June 1, 2000	June 1, 2000 to December 31, 2002	2,940,000	—
	February 5, 2001	February 5, 2001 to February 4, 2011	9,040,000	—
			11,980,000	—
			18,580,000	—

Notes:

- 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.
- Mr Cheung Sing Chi resigned as an executive director of the Company and was employed as an employee of the Company as from July 8, 2002. Therefore, his options are shown under the category of "Employees" as at March 31, 2003 in the above table.
- Ms. Yung Wing Sze, Vivian, who was previous appointed as an employee of the Company, was appointed as an executive director of the Company on July 12, 2002. Therefore, her options are shown under the category of "Directors" as at March 31, 2003 in the above table.

Number of share options

Exercised during the year	Lapsed during the year	Cancelled during the year	Category interchanged during the year	At 31 March 2003	Exercise price of share options HK\$ (Note 2)
—	—	—	(3,000,000) (Note 3)	—	0.2528
—	—	—	—	1,800,000	0.2528
—	—	—	—	1,800,000	0.2528
—	—	—	1,170,000 (Note 4)	1,170,000	0.2528
—	—	—	(1,830,000)	4,770,000	
—	—	(2,940,000)	—	—	1.5792
—	(150,000)	—	1,830,000 (Note 3 & 4)	10,720,000	0.2528
—	(150,000)	(2,940,000)	1,830,000	10,720,000	
—	(150,000)	(2,940,000)	—	15,490,000	

Share option scheme (continued)

Summary details of the Company's share option scheme are also set out in note 23 to the financial statements.

Substantial shareholders

At March 31, 2003, 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

During the year, the Group has entered into the following transactions with "connected persons" for the purpose of the Listing Rules on the Stock Exchange:

During the year ended March 31, 2003, 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 November 1, 2002 to October 31, 2003 at a monthly rent of HK\$182,000.

FPDSavills (Hong Kong) Limited, an independent firm of professional valuers, has reviewed the terms of the lease agreements as set out 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 31 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 March 31, 2003 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

Subsequent to the balance sheet date, Messrs. Ernst & Young, Certified Public Accountants, who acted as auditors of the Company for the past years, resigned on June 24, 2003 and Messrs. KLL Associates CPA Limited were appointed as auditors of the Company on even day. A resolution to reappoint Messrs. KLL Associates CPA Limited 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

July 25, 2003