

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, 2004.

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 28 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, 2004 is set out in note 5 to the financial statements.

Results and dividends

The Group's loss for the year ended March 31, 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 52. The directors do not recommend the payment of any dividend in respect of the year.

Property, plant and equipment

Details of movements in the Group's property, plant and equipment during the year are set out in note 12 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 22 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.

Financial Summary

A summary of the results of the Group for the past five financial years ended March 31, 2004 is set out on page 15 of the annual report.

Distributable reserves

At March 31, 2004, the Company has reserves of HK\$20,762,000 available for cash distribution and/or distribution in specie 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 17 and note 18 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. The Group's largest customer accounted for less than 1% of the Group's total sales during the year.

Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. The Group's largest supplier accounted for approximately 4% of the Group's total purchases during the year.

None of the directors, their associates or any shareholder (who, to the knowledge of the directors, owns more than 5% of the Company's share capital) had an interest in the customers and the suppliers noted above.

Directors

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

Executive directors:

Cheung Yin Sheung Subraina
Tong Kwong Fat
Yung Wing Sze Vivian

Non-executive director:

Ip Yu Chak (Resigned on May 21, 2004)

Independent non-executive directors:

Chan Ka Ling Edmond
Tsang Wai Kit
Lo Wa Kei Roy (Appointed on May 21, 2004)

Subsequent to the balance sheet date, on May 21, 2004, Ip Yu Chak resigned as a non-executive director and Lo Wa Kei Roy was appointed as an independent non-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, Lo Wa Kei Roy will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

The independent non-executive directors do not have specific terms of appointment but are subject to retirement on the same basis as the executive directors as required by the Company's bye-laws.

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 11 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 27 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 and short positions in shares, underlying shares and debentures

As at March 31, 2004, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept 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 (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Long positions in ordinary shares of the Company

As at March 31, 2004, none of directors and chief executives of the Company has any long positions in ordinary shares of the Company, which was required to be notified to the Stock Exchange pursuant to the SFO or which was recorded in the register required to be kept pursuant to the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

(ii) Interests in options to subscribe for the Company's shares

As at March 31, 2004, 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

Directors' interests and short positions in shares, underlying shares and debentures (continued)

(iii) Long positions in ordinary shares of an associated corporation of the Company

Name of Directors	Name of the associated corporation	Capacity	Type of interests	Number of shares held	% of the issued share capital
Cheung Yin Sheung Subraina ("Ms. Cheung")	Gay Giano (BVI) Group Limited (Note 1)	Beneficial owner	Personal	250	12.50
		Interest of spouse	Family	50 (Note 2)	2.50
Tong Kwong Fat ("Mr. Tong")	Gay Giano (BVI) Group Limited (Note 1)	Beneficial owner	Personal	50	2.50
		Interest of spouse	Family	250 (Note 2)	12.50

Notes:

- Gay Giano (BVI) Group Limited, which holds 120,000,000 shares, or 60% equity interest in the Company, is an associated corporation of the Company under the SFO.
- Mr. Tong is the spouse of Ms. Cheung. By virtue of the SFO, Mr. Tong and Ms. Cheung are taken to be interested in the shares held by each other.

Save as disclosed above, none of directors or chief executives or their associates held any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation as at March 31, 2004 which had to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' rights to acquire shares

Apart from as disclosed under the heading "Directors' interests and short positions in shares, underlying shares and debentures" 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 chief executive, 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, chief executives, 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 announced changes to 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, 2004, 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, 2004 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, 2003	Granted during the year
Directors				
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	1,170,000	—
			4,770,000	—
Other employees				
In aggregate	February 5, 2001	February 5, 2001 to February 4, 2011	10,720,000	—
			15,490,000	—

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. 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 Directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

Summary details of the Company's share option schemes are set out in note 22 to the financial statements.

Number of share options

Exercised during the year	Lapsed during the year	Cancelled during the year	At March 31, 2004	Exercise price of share options HK\$ (Note 2)
—	—	—	1,800,000	0.2528
—	—	—	1,800,000	0.2528
—	—	—	1,170,000	0.2528
—	—	—	4,770,000	
—	—	(110,000)	10,610,000	0.2528
—	—	(110,000)	15,380,000	

Substantial shareholders

As at March 31, 2004, other than the interests and short positions of the directors or chief executives of the Company as disclosed above, the following parties had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Capacity	Type of interests	Number of shares held	% of the issued share capital
Gay Giano (BVI) Group Limited ("Gay Giano BVI")	Beneficial owner	Corporate	120,000,000	60
K&E Industries Limited	Beneficial owner	Corporate	30,000,000	15
Cheung Sing Chi	Interest of Controlled Corporation (Note)	Corporate	120,000,000	60

Note:

Mr. Cheung Sing Chi holds 72.5% of the shares in issue of Gay Giano BVI and therefore has a controlling interest in it. By virtue of the SFO, Mr. Cheung Sing Chi is taken to be interested in the shares of the Company held by Gay Giano BVI.

Save as disclosed above, as at March 31, 2004, the Company was not notified by any person (other than the directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Connected transactions

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

During the year ended March 31, 2004, 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, 2003 to October 31, 2004 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 agreement as set out above and has confirmed to the directors that the rentals payable under the agreement 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 Listing Rules throughout the year 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

The Company has an audit committee (the "Committee") which was established on March 14, 2000 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 three independent non-executive directors. The financial statements of the Group for the year ended March 31, 2004 have been reviewed by the Committee. The Committee is of the opinion that such statements comply with the applicable accounting standards, and the Listing Rules and legal requirements, and that adequate disclosures have been made.

Auditors

Messrs. Ernst & Young had served as auditors of the Company for the year ended March 31, 2002. In June 2003, Messrs. Ernst & Young resigned and Messrs. KLL Associates CPA Limited was appointed to fill the vacancy.

Messrs. KLL Associates CPA Limited, who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of Messrs. KLL Associates CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD
Cheung Yin Sheung Subraina
Chairman

Hong Kong
July 23, 2004