



INTERIM REPORT

SIX MONTHS ENDED 30 SEPTEMBER 2001

GAY GIANO INTERNATIONAL GROUP LIMITED

(Incorporated in Bermuda with limited liability)

GAY GIANO
INTERNATIONAL

INTERIM RESULTS

The board of directors (the "Board" and the "Directors") of Gay Giano International Group Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended September 30, 2001 together with comparative figures for the corresponding period in the previous year as follows:

**UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the six months ended September 30, 2001**

		Six months ended	
		September 30,	
		2001	2000
	<i>Notes</i>	HK\$'000	HK\$'000
TURNOVER	2	94,099	91,698
Cost of inventories sold		<u>(37,381)</u>	<u>(30,358)</u>
GROSS PROFIT		56,718	61,340
Other revenue		1,009	1,442
Selling and distribution expenses		(42,652)	(38,132)
Administrative expenses		<u>(26,454)</u>	<u>(23,122)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		(11,379)	1,528
Finance costs		<u>(1,923)</u>	<u>(2,514)</u>
LOSS BEFORE TAX	3	(13,302)	(986)
Tax	4	<u>(6)</u>	<u>(361)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(13,308)</u>	<u>(1,347)</u>
DIVIDEND	5	<u>Nil</u>	<u>Nil</u>
LOSS PER SHARE	6		
— Basic		<u>(6.65) cents</u>	<u>(0.68) cents</u>
— Diluted		<u>(6.10) cents</u>	<u>(0.68) cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET
As at September 30, 2001

	<i>Notes</i>	UNAUDITED September 30, 2001 HK\$'000	AUDITED March 31, 2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	7	52,538	50,833
Rental deposits		11,650	9,117
		64,188	59,950
CURRENT ASSETS			
Inventories		83,481	59,619
Accounts receivable	8	3,142	3,737
Prepayments, deposits and other receivables		6,015	13,057
Tax recoverable		920	360
Pledged bank deposits		2,000	2,000
Cash and bank balances		1,133	1,879
Time deposit		—	8,754
		96,691	89,406
CURRENT LIABILITIES			
Accounts payable	9	22,702	10,509
Accrued liabilities and other payables		19,034	13,271
Finance lease payables		804	764
Bank loans, secured		1,673	1,604
Other loans		32	220
Trust receipt loans		36,475	26,834
Bank overdrafts, secured		10,147	11,899
		90,867	65,101

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*
As at September 30, 2001

		UNAUDITED September 30, 2001 HK\$'000	AUDITED March 31, 2001 HK\$'000
	<i>Notes</i>		
NET CURRENT ASSETS		5,824	24,305
TOTAL ASSETS LESS CURRENT LIABILITIES		70,012	84,255
NON-CURRENT LIABILITIES			
Bank loans, secured		6,667	7,546
Finance lease payables		493	555
Deferred tax		520	514
		<u>7,680</u>	<u>8,615</u>
		<u>62,332</u>	<u>75,640</u>
CAPITAL AND RESERVES			
Issued capital	10	20,000	20,000
Reserves	11	42,332	55,640
		<u>62,332</u>	<u>75,640</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended September 30, 2001

	Six months ended	
	September 30,	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash outflow from operating activities	(306)	(11,761)
Net cash outflow from returns on investments and servicing of finance	(1,827)	(1,802)
Net tax paid	(560)	(600)
Net cash outflow from investing activities	<u>(3,555)</u>	<u>(1,537)</u>
Net cash outflow before financing	(6,248)	(15,700)
Net cash inflow/(outflow) from financing	<u>(1,500)</u>	<u>30,014</u>
Increase/(decrease) in cash and cash equivalents	(7,748)	14,314
Cash and cash equivalents at beginning of period	<u>(1,266)</u>	<u>(7,372)</u>
Cash and cash equivalents at end of period	<u><u>(9,014)</u></u>	<u><u>6,942</u></u>

UNAUDITED CONSOLIDATED STATEMENT OF RECOGNISED
GAINS AND LOSSES

Other than the unaudited net loss for the six months ended September 30, 2001 and unaudited net profit for the six months ended September 30, 2000, the Group had no recognised gains or losses. Accordingly, a Consolidated Statement of Recognised Gains and Losses is not presented.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
For the six months ended September 30, 2001

1. Basis of preparation

The unaudited interim results of the Group have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") 2.125 "Interim Financial Reporting", and on a basis consistent with the accounting policies adopted in preparing the annual report of the Group for the year ended March 31, 2001.

2. Segmental information

The Group's unaudited turnover and contribution to profit from operating activities for the six months ended September 30, 2001 were derived entirely from the retailing and wholesale of fashion apparels and complementary accessories under the brandnames of Gay Giano, Cour Carré and Due G. An analysis of the Group's unaudited turnover and contribution to profit from operating activities by principal activities and geographical area of operations for the six months ended September 30, 2001 is as follows:

	UNAUDITED		UNAUDITED	
	Turnover		Contribution to	
	Six months ended		profit/(loss) from	
	September 30,		operating activities	
	2001		Six months ended	
	2000		September 30,	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Retail of fashion apparel and complementary accessories	88,674	87,740	(11,301)	1,492
Wholesale of fashion apparel and complementary accessories	5,425	3,958	(78)	36
	94,099	91,698	(11,379)	1,528
By geographic area:				
People's Republic of China:				
Hong Kong, SAR	88,674	87,740	(11,278)	1,492
Elsewhere	5,097	3,958	(90)	36
Others	328	—	(11)	—
	94,099	91,698	(11,379)	1,528

3. Loss before tax

	UNAUDITED	
	Six months ended	
	September 30,	
	2001	2000
	HK\$'000	HK\$'000
The Group's loss before tax is arrived at after charging/ (crediting):		
Directors' emoluments		
Fees		
— Executive directors	—	—
— Independent non-executive directors	—	—
Other emoluments of executive directors		
— Basic salaries, housing benefits, other allowances and benefits in kind	747	1,107
Cost of inventories sold	37,381	30,358
Depreciation:		
Owned assets	1,912	2,147
Leased assets	392	110
Operating lease rentals on land and buildings	26,433	24,727
Interest expense on:		
Bank loans and overdrafts	1,653	1,301
Finance leases	75	54
Other loans wholly repayable within five years	195	1,159
Staff costs	25,089	23,159
Pension Scheme contributions	981	—
Auditors' remuneration	382	373
Loss on disposal/write off of fixed assets	26	—
Exchange gains/(loss), net	86	(105)
Net rental income	(420)	(543)
Interest income	(96)	(712)
	—————	—————

Cost of inventories sold includes HK\$6,295,000 (six months ended September 30, 2000: HK\$5,575,000) relating to direct staff costs, operating lease rentals on land and buildings and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

4. Tax

	UNAUDITED	
	Six months ended	
	September 30,	
	2001	2000
	HK\$'000	HK\$'000
Current:		
Hong Kong tax	—	—
Elsewhere	—	112
Deferred tax charge	6	249
	—————	—————
	6	361
	—————	—————

No provision for Hong Kong profits tax has been made since the Group did not generate any assessable profit in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates applicable in the respective jurisdictions, based on the existing legislation, interpretations and practices, in respect thereof.

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

5. Dividend

The Directors have resolved that no interim dividend be declared in respect of the six months ended September 30, 2001 (six months ended September 30, 2000: Nil).

6. Loss per share

The calculation of basic loss per share is based on the unaudited net loss attributable to shareholders for the six months ended September 30, 2001 of HK\$13,308,000 (six months ended September 30, 2000: HK\$1,347,000) and the weighted average of 200,000,000 (September 30, 2000: 196,721,000) ordinary shares in issue during the period.

The calculation of diluted loss per share for the six months ended September 30, 2001 is based on the net loss from ordinary activities attributable to shareholders for the six months ended September 30, 2001 of HK\$13,308,000 (six months ended September 30, 2000: HK\$1,347,000) and 218,195,000 (September 30, 2000: 198,078,000) ordinary shares, being the weighted average number of ordinary shares outstanding during the period, adjusted for the effects of dilutive potential ordinary shares outstanding during the year.

The weighted average number of shares used to calculate the earnings per share for the six months ended September 30, 2001 included the pro forma issued share capital of the Company, comprising 1,000,000 shares issued nil paid on incorporation of the Company, 1,000,000 shares issued for the acquisition of Gay Giano Holdings Limited, a wholly-owned subsidiary of the Company, and the capitalisation issue of 148,000,000 shares.

7. Fixed assets

During the period, the Group spent approximately HK\$1,726,000 (September 30, 2000: HK\$1,873,000) principally for the renovations of retail outlets.

8. Accounts receivable

The Group allows its franchise customers with credit period normally within 30 days and in special circumstances the credit period will extend to 90 days. The aged analysis of the Group's accounts receivable is as follows:

	Unaudited	Audited
	At	At
	September 30,	March 31,
	2001	2001
	HK\$'000	HK\$'000
0 - 30 days	1,039	2,063
31 - 60 days	453	1,187
over 60 days	1,650	487
	<u>3,142</u>	<u>3,737</u>

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9. Accounts payable

The aged analysis of the Group's accounts payable is as follows:

	Unaudited At September 30, 2001 HK\$'000	Audited At March 31, 2001 HK\$'000
0 - 30 days	13,703	5,129
31 - 60 days	2,885	1,639
over 60 days	<u>6,114</u>	<u>3,741</u>
	<u>22,702</u>	<u>10,509</u>

10. Issued capital

	UNAUDITED At September 30, 2001 HK\$'000	AUDITED At March 31, 2001 HK\$'000
Authorised: 1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid: 200,000,000 ordinary shares of HK\$0.10 each	<u>20,000</u>	<u>20,000</u>

11. Reserves — UNAUDITED

	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At April 1, 2001	26,117	116	1,502	27,905	55,640
Net loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>(13,308)</u>	<u>(13,308)</u>
At September 30, 2001	<u>26,117</u>	<u>116</u>	<u>1,502</u>	<u>14,597</u>	<u>42,332</u>

12. Commitments

Commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:

	UNAUDITED At September 30, 2001 HK\$'000	AUDITED At March 31, 2001 HK\$'000
Within one year	9,042	10,793
In the second to fifth years, inclusive	38,170	31,269
Beyond five years	—	408
	47,212	42,470

13. Connected transactions

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

- (ii) During the year ended March 31, 2001, 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 November 1, 2000 to October 31, 2001 at a monthly rent of HK\$17,000.

- (iii) During the year ended March 31, 2001, 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 November 1, 2000 to October 31, 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 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.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at September 30, 2001, the interests of the directors, chief executives or their associates in the issued 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:

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

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.

SUBSTANTIAL SHAREHOLDERS

As at September 30, 2001, the following interests of 10% or more of the share capital of the Company were 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 certain 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.

BUSINESS REVIEW

For the first half of the financial year, the Group achieved a turnover of approximately HK\$94.1 million, representing a slight increase of approximately 2.6% as compared with approximately HK\$91.7 million for the corresponding period last year. This result was mainly attributable to the opening of two more retail outlets in this period and the aggressive promotional and marketing strategies such as advertising campaign and price reduction to boost up sales. Due to the overall price reduction, the gross profit margin dropped by approximately 6.6%. This resulted into the unaudited consolidated loss from ordinary activities attributable to shareholders of approximately HK\$13.3 million as compared to approximately HK\$1.3 million for the corresponding period last year.

The retailing business of the Group picked up steadily from April to August and the Group's turnover in the first five months for the period ended September 30, 2001 increased gradually over the corresponding period last year. The increase in the Group's turnover was mainly attributable to the retail sales made in Hong Kong and The People's Republic of China (the "PRC") with increment of approximately HK\$0.93 million and HK\$1.1 million respectively. However, the global economy suffered a significant downturn in the retailing business after the 911 tragedy in the United States (the "U.S."). This resulted in the Group's turnover in September this year decreased sharply as compared with the same period last year.

BUSINESS REVIEW *(continued)*

The increase in overheads also imposed pressure on the Group's profitability. In order to boost up sales and strengthen the Group's brand image, the Group incurred more advertising expenses in the current period. In addition, the commercial rent expenses increased considerably in the current period owing to the progressive increase in rates of some existing tenancies and the opening of two new retail outlets at New World Centre and New Town Plaza. The expansion of Due G also led to an increase in salaries and commission expenses. As such, the overall operating expenses of the Group increased from HK\$63.8 million in the last period to HK\$71 million in the current period. All these together with the 911 tragedy in the U.S. translated to a more difficult operating environment for the Group when compared with the same period last year.

For the preparation of the promotional campaign made jointly with our banker, The Hongkong and Shanghai Banking Corporation Limited (the "HSBC"), in October 2001, the Group increased its inventories amounted to approximately HK\$23.8 million. This promotional campaign has proved to be an important marketing event for the Group since its inception in the year 2000. A satisfactory response has been received during the promotional campaign this year.

Being a fashion retailer for more than 20 years, our experience tells us that the turnover of the Group is subject to the seasonal business cycle of the fashion retailing market, which turnover is usually much better in Autumn/Winter than that in Spring/Summer. So far the sales recorded since October 2001 has been steady. With this seasonal effect, together with the sales from the joint promotional campaign with the HSBC, the Directors are confident that the loss will be recovered in the forthcoming results announcement.

PROSPECTS

PRC retail market

With the PRC's successful bid of hosting the 2008 Olympics and the entry into the World Trade Organization, the PRC market will be more liberate and roomy. Foreseeing that there will be rapid economic development in the PRC and in order to capture this opportunity, the Group will continue to expand the existing franchise network in the PRC. To do this, the Group will strengthen its presence in the PRC fashion market; in particular, we will participate into a large-scale fashion exhibition in the PRC with a view to meet more potential franchisee, as the Management considers that franchising is the most cost-effective and low-risk method to develop our market in the region. In view of the continued growth of the economy in the PRC, the Management believes that further expansion to the PRC market will hold good promise for the Group's future growth.

Hong Kong retail market

During the current period, though interest rates were lowered repeatedly and various measures were taken to improve the economy, the internal spending sentiment of the Hong Kong people was continued to be low. As it is expected that the economy of Hong Kong will not have noticeable improvement in the near future, the Group will maintain the existing scale and the development for the business in Hong Kong will be limited correspondingly.

Improving the Group's efficiency

We are trying to keep a shorter production cycle and improve the flexibility of the operation so as to enhance our competitive edge and optimize the Group's manufacturing efficiency. Moreover, the Group intends to settle some bank borrowing in order to improve the gearing ratio. The Group will also consider to lower its operating cost by imposing some cost control plans.

PROSPECTS *(continued)*

Managing information system

The Hong Kong portion of the upgrading of the Group's managing information system was completed in September this year, while the upgrading of the PRC side is in progress and the estimated completion date will be early next year. After completing the entire upgrade, the information of retail sales and inventory movements in Hong Kong and the PRC will be running on a real-time basis. Therefore, the Group's overall inventory control will be improved.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2001, the Group had total assets of HK\$160.9 million which were financed by current liabilities of HK\$90.9 million, non-current liabilities of HK\$7.7 million and shareholders' equity of HK\$62.3 million. The Group has a working capital ratio of approximately 1.1. The Directors believe that the Group has a healthy working capital ratio.

The Group generally finances its operations with internally generated cash flows and banking facilities. As at September 30, 2001, the Group had aggregate composite banking facilities from banks of approximately HK\$89.8 million of which approximately HK\$55 million had been utilised. All the properties held by the Group are pledged to banks for general banking facilities granted to the Group. The Group's cash deposits and bank balances at September 30, 2001 amounted to HK\$3.1 million. The Directors believes that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

The Group has sustained capital structure with overall gearing ratio of 90.3%, long term gearing ratio of 11.5%, representing the total borrowings of HK\$56.3 million, long term borrowings of HK\$7.1 million and net worth of HK\$62.3 million as at September 30, 2001. Overall gearing ratio is defined as the total borrowings over the net worth while long term gearing is defined as the long term borrowings over the net worth as at September 30, 2001.

EMPLOYEES

At September 30, 2001, the Group has a total of 846 employees (September 30, 2000: 775 employees) of which 275 (September 30, 2000: 240) are based in Hong Kong and 571 (September 30, 2000: 535) based in the PRC. Remuneration packages are reviewed on a periodic basis. Employees are rewarded with bonuses and share options according to the assessment of individual performance.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim financial statements, for the six month ended September 30, 2001.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Company's directors are aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In compliance with the Code of Best Practice, the Board has established an audit committee on March 14, 2000 to review and has adopted the terms of reference governing the authority and duties of the Audit Committee. The present members of the Audit Committee consist of two of the Company's independent non-executive directors.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, customers, suppliers, bankers and professional advisors for their continued support. May I also thank my fellow directors and our staff for their dedication and contribution in the first half of the year.

By order of the Board
Cheung Sing Chi
Chairman and Managing Director

Hong Kong, December 27, 2001