

GAY GIANO
INTERNATIONAL
INTERIM REPORT
SIX MONTHS ENDED 30 SEPTEMBER 2003

GAY GIANO INTERNATIONAL GROUP LIMITED
(Incorporated in Bermuda with limited liability)

INTERIM RESULTS

The board of directors (the "Board" or the "Directors") of Gay Giano International Group Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended September 30, 2003 together with the 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, 2003

		Unaudited Six months ended September 30,	
	Note	2003 HK\$'000	2002 HK\$'000
TURNOVER	2	46,309	70,654
Cost of sales		<u>(18,705)</u>	<u>(28,991)</u>
GROSS PROFIT		27,604	41,663
Other revenue		48	33
Distribution costs		(24,291)	(35,526)
Administrative expenses		<u>(18,518)</u>	<u>(22,934)</u>
LOSS FROM OPERATION		(15,157)	(16,764)
Finance costs		<u>(351)</u>	<u>(620)</u>
LOSS BEFORE TAX	4	(15,508)	(17,384)
Tax	5	<u>(94)</u>	<u>(2)</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		<u>(15,602)</u>	<u>(17,386)</u>
DIVIDEND	6	<u>Nil</u>	<u>Nil</u>
LOSS PER SHARE	7		
— Basic		<u>HK(7.80) cents</u>	<u>HK(8.69) cents</u>

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CONDENSED CONSOLIDATED BALANCE SHEET
As at September 30, 2003

		UNAUDITED September 30, 2003 HK\$'000	AUDITED March 31, 2003 HK\$'000
	Note		
NON-CURRENT ASSETS			
Fixed assets	8	21,679	36,885
Rental deposits		4,226	7,652
		<u>25,905</u>	<u>44,537</u>
CURRENT ASSETS			
Investment properties	16	11,300	—
Inventories		20,201	23,943
Accounts receivable	9	1,773	2,990
Prepayments, deposits and other receivables		6,577	6,251
Tax recoverable		189	84
Cash and bank balances		1,558	3,568
		<u>41,598</u>	<u>36,836</u>
CURRENT LIABILITIES			
Accounts payable	10	3,744	3,390
Accrued liabilities and other payables		14,181	10,820
Finance lease payables		202	209
Bank loans, secured		512	818
Other loans	16	7,404	991
Due to directors	11	6,330	6,330
		<u>32,373</u>	<u>22,558</u>

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*
As at September 30, 2003

	<i>Note</i>	UNAUDITED September 30, 2003 <i>HK\$'000</i>	AUDITED March 31, 2003 <i>HK\$'000</i>
NET CURRENT ASSETS		9,225	14,278
TOTAL ASSETS LESS CURRENT LIABILITIES		35,130	58,815
NON-CURRENT LIABILITIES			
Bank loans, secured		3,808	5,473
Other loans		2,087	8,907
Finance lease payables		20	118
		<u>5,915</u>	<u>14,498</u>
		<u>29,215</u>	<u>44,317</u>
CAPITAL AND RESERVES			
Issued capital	12	20,003	20,003
Reserves		9,212	24,314
		<u>29,215</u>	<u>44,317</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
CHANGE IN EQUITY

For the six months ended September 30, 2003

	Share capital HK\$'000	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At April 1, 2002	20,003	26,121	116	32	27,016	73,288
Net loss for the period	—	—	—	—	(17,386)	(17,386)
At September 30, 2002	<u>20,003</u>	<u>26,121</u>	<u>116</u>	<u>32</u>	<u>9,630</u>	<u>55,902</u>
At April 1, 2003	20,003	26,121	116	—	(1,923)	44,317
Revaluation reserve for the period (Note 16)	—	—	—	500	—	500
Net loss for the period	—	—	—	—	(15,602)	(15,602)
At September 30, 2003	<u>20,003</u>	<u>26,121</u>	<u>116</u>	<u>500</u>	<u>(17,525)</u>	<u>29,215</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended September 30, 2003

	Six months ended September 30, 2003 2002 HK\$'000 HK\$'000	
Net cash outflow from operating activities	(1,541)	(8,140)
Net cash inflow from investing activities	2,014	1,352
Net cash inflow/(outflow) from financing	(2,483)	13,423
Increase/(decrease) in cash and cash equivalents	(2,010)	6,635
Cash and cash equivalents at beginning of period	<u>3,568</u>	<u>(6,028)</u>
Cash and cash equivalents at end of period	<u>1,558</u>	<u>607</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
For the six months ended September 30, 2003

1. **Basis of preparation**

These unaudited consolidated condensed interim financial statements are prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") 25, Interim financial reporting, issued by the Hong Kong Society of Accountants ("HKSA")

These condensed interim financial statements should be read in conjunction with the 2003 annual financial statements.

2. **Turnover**

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for goods returned and trade discounts, and after elimination of intra-group translations.

3. **Segmental information**

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(a) **Business Segments-Unaudited**

The following table presents revenue and results information for the business segments of the Group.

	UNAUDITED							
	Six months ended September 30,							
	Fashion apparel		Property investment		Corporate and other		Consolidated	
2003	2002	2003	2002	2003	2002	2003	2002	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment Revenue:								
Sales to external customers	46,309	70,654	—	—	—	—	46,309	70,654
Other revenue	53	22	—	—	(5)	—	48	22
Total	46,362	70,676	—	—	(5)	—	46,357	70,676
Segment results	(13,968)	(15,126)	(707)	—	(482)	(1,649)	(15,157)	(16,775)
Interest Income							—	11
Loss from operating activities							(15,157)	(16,764)
Finance costs							(351)	(620)
Loss before tax							(15,508)	(17,384)
Tax							(94)	(2)
Net loss attributable to shareholders							(15,602)	(17,386)

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3. Segmental information *(continued)*

(b) Geographical Segments-Unaudited

The following table presents revenue and results information for the geographical segments of the Group.

	UNAUDITED					
	Six months ended September 30,					
	Hong Kong		People's Republic of China		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Sales to external customers	<u>44,206</u>	<u>67,909</u>	<u>2,103</u>	<u>2,745</u>	<u>46,309</u>	<u>70,654</u>
Segment results	<u>(15,067)</u>	<u>(16,156)</u>	<u>(90)</u>	<u>(619)</u>	<u>(15,157)</u>	<u>(16,775)</u>

4. Loss before tax

	UNAUDITED	
	Six months ended September 30,	
	2003	2002
	HK\$'000	HK\$'000
Cost of inventories sold	18,705	28,991
Depreciation	1,337	1,957
Interest expense on:		
Bank loans and overdrafts	92	547
Finance leases	22	57
Other loans wholly repayable within five years	237	16
Interest income	—	(11)
	<u> </u>	<u> </u>

5. Tax

	UNAUDITED	
	Six months ended September 30,	
	2003	2002
	HK\$'000	HK\$'000
Current:		
Hong Kong	—	—
Elsewhere	94	—
Deferred tax charge	<u>—</u>	<u>2</u>
	<u>94</u>	<u>2</u>

No provision for Hong Kong profits tax has been made since the Group did not generate any assessable profits 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.

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6. Dividend

The Directors have resolved that no interim dividend be declared in respect of the six months ended September 30, 2003 (six months ended September 30, 2002: Nil).

7. 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, 2003 of HK\$15,602,000 (2002: HK\$17,386,000) and the weighted average of 200,030,000 (2002: 200,030,000) ordinary shares in issue during the period.

Diluted loss per share has not been disclosed as the potential ordinary shares outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

8. Fixed assets

During the period, the Group spent approximately HK\$384,000 (2002: HK\$746,000) principally for the renovations of retail outlets.

9. 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 At September 30, 2003 HK\$'000	AUDITED At March 31, 2003 HK\$'000
0 — 30 days	427	1,225
31 — 60 days	171	233
over 60 days	1,175	1,532
	1,773	2,990

10. Accounts payable

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

	UNAUDITED At September 30, 2003 HK\$'000	AUDITED At March 31, 2003 HK\$'000
0 — 30 days	1,205	1,535
31 — 60 days	775	239
over 60 days	1,764	1,616
	3,744	3,390

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11. Due to directors

The amount is unsecured, interest free and have no fixed repayment terms.

12. Issued capital

	UNAUDITED At September 30, 2003 <i>HK\$'000</i>	AUDITED At March 31, 2003 <i>HK\$'000</i>
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
200,030,000 ordinary shares of HK\$0.10 each	20,003	20,003

13. Operating lease arrangements

(a) As lessor

At September 30, 2003, the Group had not any operating lease receivable.

(b) As lessee

At September 30, 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	UNAUDITED At September 30, 2003 <i>HK\$'000</i>	AUDITED At March 31, 2003 <i>HK\$'000</i>
Within one year	23,979	32,350
In the second to fifth years, inclusive	16,130	25,523
	40,109	57,873

14. Contingent liabilities

At September 30, 2003, the Company had provided guarantees to banks for banking facilities utilised by certain of its subsidiaries to the extent of approximately HK\$15,650,000 (March 31, 2003: HK\$17,650,000).

At September 30, 2003, the Group had no significant contingent liabilities (March 31, 2003: Nil)

15. Connected transactions

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 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.

16. Post Balance Sheet Event

Subsequent to the balance sheet date, the Group entered into two sales and purchase agreements on October 24, 2003 with a third party to sell two of the investment properties at a consideration of HK\$5,500,000 and HK\$5,800,000 respectively. The agreements were completed on December 8, 2003 and December 15, 2003 respectively and part of the sale proceeds was applied to settle the outstanding loans pledged by these two investment properties. Accordingly, the above-mentioned two investment properties were reclassified to current assets using net realizable value at HK\$11,300,000 and the loans pledged by these investment properties were also reclassified current liabilities in order to reflect their current nature. As a result, these transactions generated a HK\$500,000 net increase in investment properties revaluation reserve in this interim report.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at September 30, 2003, 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 Future 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 Listing Rules were as follows:

(i) Interests in the Company

Name of Directors	Capacity	Type of interests	Long positions in underlying shares	% of the issued share capital
Cheung Yin	Beneficial owner	Personal	1,800,000 (Note 1)	0.90
Sheung, Subraina ("Ms. Cheung")	Interest of spouse	Family	1,800,000 (Note 2)	0.90
Tong Kwong Fat ("Mr. Tong")	Beneficial owner	Personal	1,800,000 (Note 1)	0.90
	Interest of spouse	Family	1,800,000 (Note 2)	0.90
Yung Wing Sze, Vivian	Beneficial owner	Personal	1,170,000 (Note 1)	0.58

Notes:

1. Representing the derivatives interests to the underlying shares of the Company.
2. Mr. Tong is the spouse of Ms. Cheung. By virtue of the SFO, Mr. Tong and Ms. Cheung are taken to be interested the underlying shares held by each other.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

(ii) Interests in 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	Beneficial owner	Personal	250	12.50
	Limited	Interest of spouse	Family	50 (Note 4)	2.50
Tong Kwong Fat ("Mr. Tong")	Gay Giano (BVI) Group Limited (Note 3)	Beneficial owner	Personal	50	2.50
		Interest of spouse	Family	250 (Note 4)	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, no other interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation as at September 30, 2003 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 Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at September 30, 2003, 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	Beneficial owner	Corporate	120,000,000	60
K&E Industries Limited	Beneficial owner	Corporate	30,000,000	15

Save as disclosed above, as at September 30, 2003, the Company was not notified by any persons (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.

SHARE OPTION SCHEME

Particulars of the Company's share options scheme are set out in the Company's annual report for the year ended March 31, 2003. Details of the movements in the share options granted and exercised during the six months ended September 30, 2003 under the Old Scheme are as follows:

Name or category of participant	Date of grant of share options (Note 1)	Exercise period of share options	At April 1, 2003	Granted during the period	Exercised during the period	Number of share options			Exercise price of share options HK\$ (Note 2)
						Cancelled during the period	Lapsed during the period	At September 30, 2003	
Directors									
Cheung Yin Sheung, Subalina	February 5, 2001	February 5, 2001 to February 4, 2011	1,800,000	—	—	—	—	1,800,000	0.2528
Tong Kwong Fat	February 5, 2001	February 5, 2001 to February 4, 2011	1,800,000	—	—	—	—	1,800,000	0.2528
Yung Wing Sze, Vivian	February 5, 2001	February 5, 2001 to February 4, 2011	1,170,000	—	—	—	—	1,170,000	0.2528
			4,770,000	—	—	—	—	4,770,000	
Other employees									
In aggregate	February 5, 2001	February 5, 2001 to February 4, 2011	10,720,000	—	—	—	(20,000)	10,700,000	0.2528
			15,490,000	—	—	—	(20,000)	15,470,000	

SHARE OPTION SCHEME *(continued)*

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 reasonable 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.

BUSINESS REVIEW AND PROSPECT

The first half of this fiscal year continued to be a difficult year for the Group.

Turnover of the Group was approximately HK\$46 million, representing a considerable decrease of approximately 34% as compared to approximately HK\$71 million for the corresponding period in last year. The reason of the decrease is mainly due to the outbreak of SARS in the first quarter of this fiscal year and the closure of some non-performing retail outlet.

With the management efforts of effective cost control strategies, the gross profit ratio maintained stably at about 60% and the distribution costs and administrative expenses of the Group has been reduced by 31% and 19% respectively. During the six months ended September 30, 2003, the Group incurred an unaudited consolidated net loss from ordinary activities attributable to shareholders of HK\$15 million, which is 10% lesser than that of last corresponding period.

During the period under review, Gay Giano has continued to be elected as one of the "Superbrands" in Hong Kong. This reward both confirms the quality of our products and the image of the brand are widely accepted by our customers. We will continue to improve ourselves in order to satisfy the changing needs of our high quality customers.

BUSINESS REVIEW AND PROSPECT *(continued)*

Recently, there are many signals of the recovery of the worldwide economy. We do believe that with the aids of CEPA and the relaxation of the travelling restriction on the PRC residents to visit Hong Kong will further speed up the pace of the recovery of the retail market in Hong Kong. Accordingly, the Group may consider to wider its distribution channel in this recovery period by expanding the existing retail network in a relatively cost-effective way in the second half of 2004. Other than the existing core retail business, the Group may also continue to seek for any other business opportunities to maximize the shareholder's benefits.

By our experience, the weaker performance in the first half of the fiscal year is reflecting the seasonal factor of the apparel industry and sale performance will usually improve in the second half of the fiscal year. The management believe the overall performance of the Group can have an improvement than these six months ended September 30, 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

At as September 30, 2003, net current assets and current ratio of the Group were approximately HK\$9.2 million and 1.3, respectively. The current assets mainly comprised inventories of approximately HK\$20.2 million, prepayment deposits and other receivable of approximately HK\$6.6 accounts receivable of approximately HK\$1.8 million and cash and bank balances of approximately HK\$1.6 million. The Group had total assets of HK\$67.5 million, current liabilities of HK\$32.4 million, non-current liabilities of HK\$5.9 million and shareholders' equity of HK\$29.2 million.

The overall gearing ratio of the Group is 0.7 as total borrowings of HK\$20.4 million to net worth of HK\$29.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity and Financial Resources *(continued)*

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks and financial institutions in Hong Kong. As of September 30, 2003, the total outstanding short-term borrowings was approximately HK\$14.4 million. Borrowing methods used by the Group mainly include bank loans and other loans. The interest rates of most of these are fixed by reference to the Hong Kong dollar prime rate. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

Foreign Exchange Exposure

The Group had limited exposure to fluctuation in foreign currencies as most of its transactions were conducted in Hong Kong dollars and Renminbi. Exchange rates between these currencies were relatively stable during the period under review. However, the recent fluctuation of the exchange rate of EURO may increase the exchange risk of the Group in the forthcoming year as certain of the Group's raw materials are sourced from European countries.

Pledge of Assets and Contingent Liabilities

At September 30, 2003, the Group pledged leasehold land and buildings and investment properties in Hong Kong. At September 30, 2003, the Group had no significant contingent liabilities.

Employees and Remuneration Policies

As at September 30, 2003, the Group had 180 full-time employees in Hong Kong and 343 full-time employees in the PRC. Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance. The Group has a share option scheme for the benefit of its directors and eligible employees of the Group.

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 Company established an audit committee on March 14, 2000 for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The audit committee consist of two of the Company's independent non-executive directors.

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 the review of the unaudited interim financial statements for the six month ended September 30, 2003.

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 of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except that the independent non-executive directors of the company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

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 Yin Sheung, Subraina
Chairman and Managing Director

Hong Kong, December 22, 2003