GAY GIANO INTERNATIONAL GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 686)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH, 2007

FINANCIAL SUMMARY

The board of directors (the "Board") of Gay Giano International Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March, 2007 with comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March, 2007

	Notes	**2007** *HK$'000*	2006 *HK$'000*
Turnover	*3*	**131,447**	132,785
Cost of sales		**(45,936)**	(44,123)
Gross profit		**85,511**	88,662
Other income		**931**	971
Distribution costs		**(47,641)**	(46,363)
Administrative expenses		**(40,509)**	(41,450)
(Loss)/profit from operations	*5*	**(1,708)**	1,820
Finance costs	*6*	**(278)**	(140)
(Loss)/profit before tax		**(1,986)**	1,680
Tax (expense)/income	*7*	**(572)**	463
(Loss)/profit for the year		**(2,558)**	2,143
Attributable to:			
— Equity holders of the Company		**(2,558)**	2,143
Dividend	*8*	**NIL**	NIL
(Loss)/earnings per share			
— Basic	*9*	**HK(1.28) cents**	HK1.07 cents
— Diluted	*9*	**N/A**	HK1.07 cents

CONSOLIDATED BALANCE SHEET

As at 31 March, 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		**12,361**	13,223
Rental deposits		**4,459**	6,277
Deferred tax assets		**—**	571
Total non-current assets		**16,820**	20,071
Current assets			
Inventories		**25,603**	27,395
Trade receivables	*10*	**308**	1,063
Prepayments, deposits and other receivables		**6,427**	4,216
Tax recoverable		**181**	—
Pledged bank deposits		**3,500**	3,500
Cash and cash equivalents		**10,790**	12,193
Total current assets		**46,809**	48,367
Current liabilities			
Trade payables	*11*	**2,606**	2,767
Accrued liabilities and other payables		**3,692**	6,695
Tax payable		**—**	7
Bank loans (secured)		**5,212**	4,867
Other loan (secured)		**—**	59
Obligations under finance leases		**279**	78
Total current liabilities		**11,789**	14,473
Net current assets		**35,020**	33,894
Total assets less current liabilities		**51,840**	53,965
Non-current liabilities			
Obligations under finance leases		**159**	138
Employee benefits		**1,503**	1,503
Total non-current liabilities		**1,662**	1,641
TOTAL NET ASSETS		**50,178**	52,324
Capital and reserves attributable to equity holders of the Company			
Share capital		**20,013**	20,013
Reserves		**30,165**	32,311
TOTAL EQUITY		**50,178**	52,324

Notes:

1. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

(b) Basis of preparation

The financial statements have been prepared under the historical cost basis, except for certain properties and financial instruments, which are measured at fair values or revalued amounts.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Judgements and estimations made by the management that have a significant effect on the financial statements are discussed in note 32 of the financial statements in the annual report.

2. POTENTIAL IMPACT ARISING ON THE NEW/REVISED ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not yet applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new HKFRSs will have no material impact of the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[4]
HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 7	Financial Instruments: Disclosures[4]
HKFRS 8	Operating Segments[1]
HK (IFRIC) — Interpretation 8	Scope of HKFRS 2[7]
HK (IFRIC) — Interpretation 9	Reassessment of Embedded Derivatives[6]
HK (IFRIC) — Interpretation 10	Interim Financial Reporting and Impairment[5]
HK (IFRIC) — Interpretation 11	Group and Treasury Share Transactions[3]
HK (IFRIC) — Interpretation 12	Service Concession Arrangements[2]

[1] Effective for annual periods beginning on or after 1 January, 2009.
[2] Effective for annual periods beginning on or after 1 January, 2008.
[3] Effective for annual periods beginning on or after 1 March, 2007.
[4] Effective for annual periods beginning on or after 1 January, 2007.
[5] Effective for annual periods beginning on or after 1 November, 2006.
[6] Effective for annual periods beginning on or after 1 June, 2006.
[7] Effective for annual periods beginning on or after 1 May, 2006.

3. TURNOVER

Turnover represents the net invoiced value of goods sold, after goods returns and trade discounts, from retail and wholesale of ladies' and men's fashion apparel and complementary accessories.

4. SEGMENT INFORMATION

(a) Business segments

No segment analysis for business segment is presented as the Group principally operates in one business segment, which is the retail and wholesale of fashion apparel.

(b) Geographical segments

The following table presents the revenue, results, assets and capital expenditure information for the geographical segments of the Group.

GROUP

	Hong Kong		**PRC**		**Consolidated**	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Sales to external customers	**129,533**	131,337	**1,914**	1,448	**131,447**	132,785
Segment results	**(2,112)**	1,950	**404**	(130)	**(1,708)**	1,820
Other segment information:						
Segment assets	**57,353**	57,841	**6,276**	10,597	**63,629**	68,438
Capital expenditure	**2,435**	2,912	**36**	115	**2,471**	3,027

The carrying amounts of the segment revenue and segment assets are analysed by the geographical area in which the customers and assets are located respectively.

5. (LOSS)/PROFIT FROM OPERATIONS

	GROUP	
	2007	2006
	HK$'000	*HK$'000*
(Loss)/profit from operations is arrived at after charging:		
Cost of inventories sold	**45,936**	44,123
Staff costs (excluding directors' emoluments)*		
Wages and salaries	**35,205**	35,573
Retirement benefits	**1,858**	1,805
Provision for long service payments	**—**	539
	37,063	37,917
Write-down of inventories to net realisable value*	**1,804**	877
Depreciation of property, plant and equipment*		
— Owned	**2,252**	3,358
— Leased	**172**	102
Minimum lease payments under operating leases on land and buildings*	**33,449**	31,996
Auditors' remuneration	**310**	320
Loss on write-off and disposals of property, plant and equipment, net	**1,286**	1,329
Exchange losses, net*	**605**	—
and after crediting:		
Royalty fee income	**616**	616
Interest income	**219**	176
Exchange gains, net*	**—**	741

* Cost of inventories sold includes direct staff costs, operating lease rentals on land and buildings, write-down of inventories to net realisable value, net exchange gains/losses and depreciation of property, plant and equipment in aggregate of HK$7,862,000 (2006: HK$7,109,000), which are included in the above respective captions of expenses.

6. FINANCE COSTS

	GROUP	
	2007	2006
	HK$'000	*HK$'000*
Interest expenses on:		
Bank loans and overdrafts	**261**	123
Obligations under finance leases	**16**	12
Other loan wholly repayable within five years	**1**	5
Total finance costs	**278**	140

7. TAX (EXPENSE)/INCOME

The amount of tax (expense)/income in the consolidated income statement represents:

	GROUP	
	2007	2006
	HK$'000	*HK$'000*
Current tax — provision for Hong Kong Profits Tax		
— tax for the year	**(1)**	(5)
— under provision in respect of prior years	**—**	(68)
	(1)	(73)
Current tax — overseas		
— tax for the year	**—**	(35)
Deferred tax		
— current year	**(571)**	571
	(572)	463

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

The Group's subsidiary established in the PRC is subject to Corporate Income Tax at a rate of 15% (2006: 15%).

On 16 March, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January, 2008. A subsidiary in the Group is registered in the Lo Wu District in the PRC and hence enjoy a preferential income tax rate of 15%. From 1 January, 2008, the income tax rate is expected to gradually increase to the standard rate of 25% over a five-year transition period. However, the new tax law has not set out the details as to how the existing tax rate will gradually increase to the standard rate of 25%. Consequently, the Group is not able to make an estimate of financial effect of the new tax law, if any, will be reflected in the Group's 2008 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

8. DIVIDEND

No dividend was paid or proposed during the year of 2007 and 2006, nor has any dividend been proposed since the balance sheet date.

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss for the year of HK$2,558,000 (2006: profit for the year of HK$2,143,000) and the weighted average number of 200,130,000 (2006: 200,127,000) ordinary shares in issue during the year, calculated as follows:

	2007 Number of shares *'000*	2006 Number of shares *'000*
Issued ordinary shares at beginning of the year	**200,130**	200,060
Share options exercised	**—**	67
Weighted average number of ordinary shares for the purpose of basic (loss)/earning per share	**200,130**	200,127

Diluted loss per share for the year ended 31 March, 2007 has not been disclosed as the potential ordinary shares outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 31 March, 2006 is based on the profit for the year of HK$2,143,000 and the weighted average number of 200,133,000 ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 200,127,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 6,000 ordinary shares assumed to have been issued at no consideration upon exercise of all share options outstanding during the year.

10. TRADE RECEIVABLES

The following is an ageing analysis of trade receivables at the balance sheet date, based on the invoice dates:

	GROUP	
	2007 *HK$'000*	2006 *HK$'000*
0 — 30 days	**308**	436
Over 60 days	**—**	627
	308	1,063

The amounts approximated to the respective fair values as at 31 March, 2007 and 2006.

Normal credit terms granted by the Group to its customers ranges from 30 to 60 days of invoice date. The Group grants credit terms of over 60 days to certain customers of long business relationship or with high creditability.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

Included in trade receivables is the following amount denominated in a currency other than the functional currency of the Group to which it relates:

	GROUP	
	2007	2006
	HK$'000	*HK$'000*
Renminbi	**—**	760

11. TRADE PAYABLES

The following is an ageing analysis of trade payables at the balance sheet date:

	GROUP	
	2007	2006
	HK$'000	*HK$'000*
0 — 30 days	**2,368**	1,744
31 — 60 days	**158**	792
Over 60 days	**80**	231
	2,606	2,767

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the Group to which they relate:

	GROUP	
	2007	2006
	HK$'000	*HK$'000*
Euro	**941**	75
Renminbi	**115**	49

BUSINESS AND OPERATION REVIEW

Business Review

During the year, the Group continued to apply different strategies to improve the overall performance. However, facing the inflationary pressure in imported material, local rental and human resources costs, the result of the struggle contributed by the management was impaired accordingly.

The Group continued to focus on the fashion apparel retail market in Hong Kong. With a similar structure of the distributional channel to last year, the turnover of the Group for the year was maintained at a steady level of approximately HK$131.4 million (2006: HK$132.8 million). The keen price competition in fashion market impair turnover for the year by approximately 1%.

The gross profit margin of the Group for the year ended 31 March, 2007 was maintained at a relatively high level at approximately 65% (2006: 67%), representing a 2% decrease when compared with last year. The management of the Group had imposed different efforts in production cost control to maintain the gross profit margin. However, the imported inflation of fabrics and fashion accessories from European countries and the keen price competition has lowered down the gross profit ratio of the Group.

During the year, the Group tried to develop the distributional channel and the total number of retail outlets as at 31 March, 2007 is 16 (2006: 15) with total controlled retail area of 24,408 sq. feet (2006: 24,911 sq. feet). In order to achieve the strategic goal of retail outlets area optimization, the Group continued the progress of relocation of the existing retail outlets and opened a new retail outlet in Metro City Phase II, which is located in Tseung Kwan O. As a result, the total number of retail outlets increased with a similar level of total controlled retail area in this year and the ratio of turnover per square is slightly improved accordingly. This retail area optimization strategy effectively controlled the overall rental expenditure of the Group in the existing rental inflationary trend in retail market. On the other hand, certain retail outlets were renovated so as to enhance the brand image and to provide a more comfortable shopping environment to our customers.

The net loss for the year ended 31 March, 2007 is approximately HK$2.6 million (2006: net profit HK$2.1 million). The reason of deteriorated result during the year is mainly due to the worsened operating environment in retail market. The ratio of distribution costs to turnover and administrative expenses to turnover for the year are maintained at the level of approximately 36% (2006: 35%) and 31% (2006: 31%) respectively. Despite the tight fiscal discipline on operating expenses, the ratio of distribution and administrative expenses increased slightly due to the burden of inflating human resources and retail rental cost.

Prospect

Facing the inflationary pressure of the operating environment, the Group will continue to deploy prudent cost control and distributional strategies on our future retail outlets development. Looking ahead, we believe that the firm commitment of the management to build brand loyalty, effective operational and financial strategies, along with our sophisticated yet contemporary apparel products and effective distribution channel, will support the Group's healthy growth and enable us to gain access to additional business opportunities that may be presented to the Group in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 31 March, 2007, net current assets and current ratio of the Group were approximately HK$35.0 million (2006: HK$33.9 million) and 4.0 (2006: 3.3), respectively. The current assets mainly comprised inventories of approximately HK$25.6 million (2006: HK$27.4 million), accounts receivable of approximately HK$0.3 million (2006: HK$1.1 million) and cash and bank balances of approximately HK$10.8 million (2006: HK$12.2 million). The Group had total assets of approximately HK$63.6 million (2006: HK$68.4 million), current liabilities of approximately HK$11.8 million (2006: HK$14.5 million), non-current liabilities of approximately HK$1.7 million (2006: HK$1.6 million) and shareholders' equity of approximately HK$50.2 million (2006: HK$52.3 million).

The overall gearing ratio for the year was maintained at 11.3% (2006: 9.8%) with total borrowings of approximately HK$5.7 million (2006: HK$5.1 million) and net worth of approximately HK$50.2 million (2006: HK$52.3 million) as at 31 March, 2007. Overall gearing ratio is defined as the total borrowings over the net worth.

The Group recorded a net cash inflow from operating activities of approximately HK$0.5 million (2006: HK$0.5 million) for the year. The Group repaid aggregated secured bank and other loans of HK$4.9 million (2006: HK$4.2 million) and the aggregated proceeds received from secured bank loans is HK$5.2 million (2006: HK$4.9 million).

Treasury policies

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 31 March, 2007, the total outstanding short-term borrowings stood at approximately HK$5.2 million (2006: HK$5.0 million). Borrowing methods used by the Group mainly include bank loans and other loans from financial institutions. The interest rates of most of these loans are determined by reference to the Hong Kong dollar prime rate. The Group had no interest rate hedging arrangement during the year. The directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

Capital expenditure and commitments

Capital expenditures amounted to approximately HK$2.5 million (2006: HK$3.0 million) for the year ended 31 March, 2007. These expenditure were mainly used in retail network improvement. There were no material capital commitments at 31 March, 2007 (2006: Nil).

Pledge of assets and contingent liabilities

At 31 March, 2007, the Group pledged the leasehold land and buildings in Hong Kong with an aggregate net book value of approximately HK$5.7 million (2006: HK$5.4 million). At 31 March, 2007, the Group had no significant contingent liabilities (2006: Nil).

Material acquisitions and disposals of subsidiaries and associated companies

There were no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 March, 2007.

Investment in properties

The Group's leasehold land and buildings were valued at approximately HK$5.7 million (2006: HK$5.4 million) at 31 March, 2007 by Savills Valuation and Professional Services Limited on an open market, existing use basis. This valuation gave rise to a revaluation surplus of approximately HK$0.3 million which has been credited to reserves.

Properties leased in Hong Kong: the Group leases 16 (2006: 15) retail outlets from independent third parties with a total floor area of 24,408 sq.ft. (2006: 24,911 sq.ft). The Group also leases certain units at Siu Lek Yuen, Shatin, New Territories as warehouse and office space.

Property leased in the PRC: the production facilities and dormitories of the Group are located in Shediju, Shenzhen, PRC.

Segment information

Details of the segment information of the Group are disclosed in Note 4 of this announcement.

Hong Kong is the major geographical segment of the Group. This segment incurred a loss of approximately HK$2.1 million (2006: profit of HK$2.0 million). The deteriorated segment result is mainly due to the keen price competition and the worsened operating environment in Hong Kong retail market.

Employees and remuneration policies

As of 31 March, 2007, the Group had employed approximately 171 (2006: 187) full-time employees in Hong Kong and approximately 288 (2006: 375) full-time employees in the PRC. The total number of full-time employees of the Group is 459 (2006: 562). The Group has a share option scheme for the benefit of its directors and eligible employees of the Group.

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 year under review. However, the recent fluctuation of the exchange rate of EURO may render the Group suffering a greater exchange risk as in the forthcoming year, certain amount of the Group's raw materials are sourced from European countries. The Group had no foreign exchange rate hedging arrangement during the year. However, the management will monitor foreign exchange exposure and considers hedging significant foreign currency exposure should the need arises.

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.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 March, 2007, the Group has adopted and complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a model code as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors of the Company (the "Directors"), the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the year ended 31 March, 2007.

AUDIT COMMITTEE

The Company has established an audit committee on 14 March, 2000 with written terms of reference in accordance with the requirements of the CG Code. The audit committee has three members, including the Company's three independent non-executive Directors, namely Mr. Chan Ka Ling Edmond, Mr. Lo Wa Kei Roy and Mr. Ching Kwok Ho Samuel. Mr. Chan Ka Ling Edmond is the Chairman of the audit committee. The audit committee acts as an important link between the Board and the Company's auditors in matters within the scope of the group audit. The duties of the audit committee are to review and provide supervision over the financial reporting process of the Group. The audit committee meets regularly with the management and the external auditors to discuss the accounting principles and practices adopted by the Group and financial reporting matters. The financial statements of the Group for the year ended 31 March, 2007 have been reviewed by the audit committee and there were 3 meetings held during the year ended 31 March, 2007.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 28 September, 2005 with terms of reference in compliance with the provisions set out in the CG Code. The principal responsibilities of the remuneration committee include making recommendations to the Board on the Company's policy and structure in relation to the remuneration of directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. It comprises three members, including the Company's two independent non-executive Directors, namely Mr. Chan Ka Ling Edmond and Mr. Lo Wa Kei Roy and an executive director, Ms. Yung Wing Sze Vivian. Mr. Chan Ka Ling Edmond is the Chairman of the remuneration committee.

The remuneration committee meets at least once a year. During the financial year ended 31 March, 2007, the remuneration committee has held 3 meetings to review the existing remuneration packages of each Director and senior management of the Company, recommend to the Board the salaries and bonuses of the Directors and senior management and discuss the remuneration package of the newly appointed directors and senior management.

PUBLICATION OF RESULTS ANNOUNCEMENT

The results announcement is published on the Stock Exchange's website at http://www.hkex.com.hk and the Company's website at http://www.gaygiano.com/investmain.html.

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.

By Order of the Board
Cheung Yin Sheung Subraina
Chairman

Hong Kong, 27 July, 2007

As at the date of this announcement, the directors of the Company is comprised of seven directors, of which three are executive directors, namely Ms. Cheung Yin Sheung Subraina, Mr. Tong Kwong Fat and Ms. Yung Wing Sze Vivian, a non-executive director, namely Ms. To Ming Oi Wendy, and three are independent non-executive directors, namely Mr. Chan Ka Ling Edmond, Mr. Lo Wa Kei Roy and Mr. Ching Kwok Ho Samuel.