GAY GIANO INTERNATIONAL GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 686)

ANNOUNCEMENT INTERIM RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2006

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, 2006 together with the comparative figures for the corresponding period in the previous year as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2006

		UNAUDITED	
		Six months ended September 30,	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*3*	**56,409**	57,809
Cost of sales		**(18,900)**	(18,244)
GROSS PROFIT		**37,509**	39,565
Other income		**712**	387
Distribution costs		**(22,730)**	(21,502)
Administrative expenses		**(19,466)**	(19,492)
LOSS FROM OPERATIONS	*5*	**(3,975)**	(1,042)
Finance costs		**(106)**	(52)
LOSS BEFORE TAX		**(4,081)**	(1,094)
Tax expense	*6*	**—**	(103)
NET LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**(4,081)**	(1,197)
DIVIDEND	*7*	**Nil**	Nil
LOSS PER SHARE	*8*		
— Basic		**HK (2.04) cents**	HK(0.60) cent
— Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At September 30, 2006

	Notes	UNAUDITED September 30, 2006 HK$'000	AUDITED March 31, 2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**13,803**	13,223
Rental deposits		**5,839**	6,277
Deferred tax assets		**571**	571
		20,213	20,071
CURRENT ASSETS			
Inventories		**31,344**	27,395
Trade receivables	10	**748**	1,063
Prepayments, deposits and other receivables		**4,935**	4,216
Tax recoverable		**39**	—
Pledged bank deposits		**3,500**	3,500
Cash and cash equivalents		**3,334**	12,193
		43,900	48,367
CURRENT LIABILITIES			
Trade payables	11	**3,397**	2,767
Accrued liabilities and other payables		**4,682**	6,695
Tax payable		**—**	7
Bank loans (secured)		**5,653**	4,867
Other loan (secured)		**—**	59
Obligation under finance lease		**279**	78
		14,011	14,473
NET CURRENT ASSETS		**29,889**	33,894
TOTAL ASSETS LESS CURRENT LIABILITIES		**50,102**	53,965
NON-CURRENT LIABILITIES			
Obligation under finance lease		**298**	138
Employee benefits		**1,503**	1,503
		1,801	1,641
TOTAL NET ASSETS		**48,301**	52,324
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital	12	**20,013**	20,013
Reserves		**28,288**	32,311
TOTAL EQUITY		**48,301**	52,324

Notes:

1. **Basis of preparation**

These unaudited consolidated condensed interim financial statements are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

These condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended March 31, 2006.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2006, except for the adoption of certain new standards, amendments and interpretations issued by the HKICPA which are effective for accounting periods beginning on or after January 1, 2006.

2. **Potential impact arising on the new accounting standards not yet effective**

The Group has not yet applied the following new Hong Kong Financial Reporting Standards (the "HKFRSs") that have been issued but not yet been effective. The directors of the Company anticipated that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 Amendment	Capital disclosures
HKFRS 7	Financial instrument: Disclosures
HK(IFRIC) — Interpretation 8	Scope of HKFRS 2
HK(IFRIC) — Interpretation 9	Reassessment of embedded derivatives
HK(IFRIC) — Interpretation 10	Interim Financial reporting and impairment

3. **Turnover**

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

4. **Segment information**

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.

Geographical segments

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**	
	2006	2005	**2006**	2005	**2006**	2005
	HK\$'000	*HK\$'000*	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*
Segment revenue						
Sales to external customers	**55,853**	57,360	**556**	449	**56,409**	57,809
Segment results	**(4,164)**	(1,093)	**189**	51	**(3,975)**	(1,042)

5. Loss from operations

	UNAUDITED Six months ended September 30,	
	2006	2005
	HK\$'000	*HK\$'000*
Cost of inventories sold	**18,900**	18,244
Depreciation	**1,099**	988
Loss on disposal of property, plant and equipment	**692**	942
Finance cost —		
Interest expense on:		
Bank loans and overdrafts	**100**	44
Obligation under finance leases	**5**	6
Other loans not wholly repayable within five years	**1**	2

6. Tax expense

	UNAUDITED Six months ended September 30,	
	2006	2005
	HK\$'000	*HK\$'000*
Provision for the period:		
Hong Kong	**—**	—
Overseas	**—**	34
Over provision for prior year:		
Hong Kong	**—**	69
	—	103

No provision for Hong Kong profits tax (2005: Nil) has been made since the Group did not generate any assessable profits in Hong Kong during the period.

The Company's subsidiary in The People's Republic of China did not generate any taxable profit during the period. In the corresponding period in 2005, the Company's subsidiary in The People's Republic of China was subject to Enterprise Income Tax at a rate of 15%. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

7. Dividend

The Directors have resolved that no interim dividend be declared in respect of the six months ended September 30, 2006 (2005: Nil).

8. Loss per share

The calculation of basic loss per share is based on the unaudited loss for the six months ended September 30, 2006 of HK$4,081,000 (2005: HK$1,197,000) and the weighted average of 200,130,000 (2005: 200,124,000) ordinary shares in issue during the period.

Diluted loss per share for the period ended September 30, 2006 and September 30, 2005 had not been presented as the potential ordinary shares outstanding during the periods ended September 30, 2006 and September 30, 2005 were anti-dilutive.

9. Property, plant and equipment

During the period, the Group spent approximately HK$2,347,000 (2005: HK$1,237,000) principally in leasehold improvements for newly established and existing retail outlets.

10. Trade receivables

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

	UNAUDITED At September 30, 2006 *HK$'000*	AUDITED At March 31, 2006 *HK$'000*
0 — 30 days	**505**	436
31 — 60 days	**—**	—
Over 60 days	**243**	627
	748	1,063

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

11. Trade payables

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

	UNAUDITED At September 30, 2006 *HK$'000*	AUDITED At March 31, 2006 *HK$'000*
0 — 30 days	**2,346**	1,744
31 — 60 days	**708**	792
Over 60 days	**343**	231
	3,397	2,767

12. Share capital

	UNAUDITED At September 30, 2006, Number of Shares *'000*	UNAUDITED At September 30, 2006 *HK$'000*	AUDITED At March 31, 2006 Number of Shares *'000*	AUDITED At March 31, 2006 *HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:				
At the beginning of the period/year	**200,130**	**20,013**	200,060	20,006
Issued on exercise of share option	**—**	**—**	70	7
At the end of the period/year	**200,130**	**20,013**	200,130	20,013

BUSINESS REVIEW AND PROSPECT

Business Review

The operating environment in Hong Kong is challenging in the first half of this fiscal year. The result of the Group for the six-month period ended September 30, 2006 recorded a consolidated loss of approximately HK$4.1 million. (2005: approximately HK$1.2 million)

The Group continued to focus on the apparel retail market in Hong Kong. The turnover of the Group for the first half of the fiscal year was approximately HK$56.4 million, representing a decrease of 2% when compared with the same period in last year. The decrease in turnover was mainly caused by the intense price competition in apparel retail market and the unexpected change in climate in Hong Kong.

The management team of the group applied various strategic measures to maintain the gross profit margin of the Group at a relatively high level. However, facing the inflationary pressure in both the imported raw material and fashion accessories and the keen price competition in apparel retail market, the gross profit margin of the Group for the period ended September 30, 2006 was slightly decreased by 2% from 68% in last year same period to 66% in this period.

The Group keeps on deploying stringent control on operating costs. The ratio of distribution costs and the administrative expenses to turnover for the period were approximately 40% (2005: 37%) and 35% (2005: 34%) respectively. The increase in operative expenditure is mainly caused by the inflation in retail rental and other operating costs.

Facing the inflationary trend in the rental market, the Group continued its prudential strategy in distribution channel development. To achieve the goal of retail network optimization, certain shops were renovated or relocated so as to enhance the brand image and the distributional efficiency of the Group. On the other hand, a new retail outlet was opened in Metro City, which is located in Tseung Kwan O, in September 2006.

Prospect

Despite the challenging operative environment in Hong Kong, from our experience, the result of the second half of the year will be improved due to the adjustments of the pace of our operation so as to catch up the market changes and the seasonal factor of the apparel retail market in Hong Kong. Look ahead, we believe that our effort in brand loyalty building, effective operational and financial strategies, along with our sophisticated yet contemporary apparel products and effective distributional networks, will support the organic growth of the Group and allow 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

At as September 30, 2006, net current assets and current ratio of the Group were approximately HK$29.9 million and 3.1 respectively. The current assets mainly comprised inventories of approximately HK$31.3 million, prepayments, deposits and other receivables of approximately HK$4.9 million, trade receivables of approximately HK$0.7 million and cash and cash equivalents of approximately HK$3.3 million. The Group had total assets of approximately HK$64.1 million, current liabilities of approximately HK$14.0 million, non-current liabilities of approximately HK$1.8 million and shareholders' equity of approximately HK$48.3 million.

As at September 30, 2006, the overall gearing ratio of the Group is approximately 13% as total borrowings of approximately HK$6.2 million to net worth of approximately HK$48.3 million.

The Group recorded a net cash used in operating activities of approximately HK$7.6 million for the period and repaid aggregate other loans and the obligation under finance lease of approximately HK$0.1 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 September 30, 2006, the total outstanding short-term borrowings was approximately HK$5.9 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 period under review. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

Capital Expenditure

Capital expenditure amounted to approximately HK$2.3 million for the period under review. These expenditure were mainly used in retail network improvement. There were no material capital commitments at September 30, 2006.

Pledge of Assets and Contingent Liabilities

At September 30, 2006, the Group pledged leasehold land and buildings in Hong Kong with an aggregate net book value of approximately HK$5.4 million. At September 30, 2006, the Group had no significant contingent liabilities.

Investment in Properties

The Group's leasehold land and building were valued at approximately HK$5.4 million at March 31, 2006 by Messrs Savils Valuation and Professional Services Limited on an open market, existing use basis.

Properties leased in Hong Kong: the Group leases 16 retail outlets from independent third parties with a total floor area of 24,408 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.

Employees and Remuneration Policies

As at September 30, 2006, the Group had 180 full-time employees in Hong Kong and 344 full-time employees in the PRC. The total number of full-time employees of the Group is 524. 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.

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 render the Group suffering a greater exchange risk in the forthcoming year, certain amount of the Group's raw materials and finished goods are sourced from European countries. The Group had no foreign exchange rate hedging arrangement during the period under review. 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 period under review.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the code provisions (the "Code Provision") set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules during the six months ended September 30, 2006.

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 Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the six months ended September 30, 2006.

AUDIT COMMITTEE

The Company has established an audit committee on March 14, 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 period ended September 30, 2006 have been reviewed by the audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee on September 28, 2005 with written 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.

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

Hong Kong, December 8, 2006

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.

Please also refer to the published version of this announcement in the China Daily.