

 INTERNATIONAL
GAY GIANO INTERNATIONAL GROUP LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 686)

ANNOUNCEMENT INTERIM RESULTS
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2007

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, 2007 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, 2007

		UNAUDITED	
		Six months ended	
		September 30,	
		2007	2006
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	3	56,606	56,409
Cost of sales		(18,680)	(18,900)
GROSS PROFIT		37,926	37,509
Other income		453	712
Distribution costs		(22,908)	(22,730)
Administrative expenses		(20,644)	(19,466)
LOSS FROM OPERATIONS	5	(5,173)	(3,975)
Finance costs		(207)	(106)
LOSS BEFORE TAX		(5,380)	(4,081)
Tax expense	6	—	—
NET LOSS FOR THE PERIOD			
ATTRIBUTABLE TO EQUITY			
HOLDERS OF THE COMPANY		(5,380)	(4,081)
DIVIDEND	7	Nil	Nil
LOSS PER SHARE	8		
— Basic		HK(2.64) cents	HK (2.04) cents
— Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At September 30, 2007

		UNAUDITED September 30, 2007 HK\$'000	AUDITED March 31, 2007 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	11,650	12,361
Rental deposits		4,227	4,459
		<u>15,877</u>	<u>16,820</u>
CURRENT ASSETS			
Inventories		32,417	25,603
Trade receivables	10	237	308
Prepayments, deposits and other receivables		7,291	6,427
Tax recoverable		228	181
Pledged bank deposits		3,500	3,500
Cash and cash equivalents		15,725	10,790
		<u>59,398</u>	<u>46,809</u>
CURRENT LIABILITIES			
Trade payables	11	2,489	2,606
Accrued liabilities and other payables		6,018	3,692
Bank loans (secured)		6,572	5,212
Obligation under finance lease		279	279
		<u>15,358</u>	<u>11,789</u>
NET CURRENT ASSETS		44,040	35,020
TOTAL ASSETS LESS CURRENT LIABILITIES		59,917	51,840
NON-CURRENT LIABILITIES			
Obligation under finance lease		19	159
Employee benefits		1,503	1,503
		<u>1,522</u>	<u>1,662</u>
TOTAL NET ASSETS		<u>58,395</u>	<u>50,178</u>
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital	12	20,884	20,013
Reserves		37,511	30,165
TOTAL EQUITY		<u>58,395</u>	<u>50,178</u>

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, 2007.

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, 2007, 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, 2007.

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

The Group has not yet applied the following new and revised 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 and revised HKFRSs will have no material impact on the results and financial position of the Group.

HKFRS 8	Operating Segments ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HK(IFRIC)* — Int 12	Service Concession Arrangements ²
HK(IFRIC)* — Int 13	Customer Loyalty Programmes ³
HK(IFRIC)* — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ²

¹ Effective for annual periods beginning on or after January 1, 2009

² Effective for annual periods beginning on or after January 1, 2008

³ Effective for annual periods beginning on or after July 1, 2008

* IFRIC represents the International Financial Reporting Interpretations Committee.

3. Turnover

Turnover represents the net invoiced value of goods sold, after goods returned and trade discounts, from retail 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 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, People's					
Hong Kong		Republic of China		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	<u>56,606</u>	<u>55,853</u>	<u>—</u>	<u>556</u>	<u>56,409</u>
Segment results	<u>(4,749)</u>	<u>(4,164)</u>	<u>29</u>	<u>189</u>	<u>(3,975)</u>

5. Loss from operations

UNAUDITED Six months ended September 30,	
2007	2006
HK\$'000	HK\$'000
Cost of inventories sold	18,680
Depreciation	802
Loss on disposal of property, plant and equipment	362
Finance cost —	
Interest expense on:	
Bank loans and overdrafts	195
Obligation under finance leases	12
Other loans not wholly repayable within five years	<u>—</u>
	<u>1</u>

6. Tax expense

No provision for Hong Kong profits tax (2006: 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 (2006: Nil).

7. Dividend

The Directors have resolved that no interim dividend be declared in respect of the six months ended September 30, 2007 (2006: 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, 2007 of HK\$5,380,000 (2006: HK\$4,081,000) and the weighted average of 203,600,000 (2006: 200,130,000) ordinary shares in issue during the period.

Diluted loss per share for the period ended September 30, 2007 and September 30, 2006 had not been presented as the potential ordinary shares outstanding during the periods ended September 30, 2007 and September 30, 2006 were anti-dilutive.

9. Property, plant and equipment

During the period, the Group spent approximately HK\$290,000 (2006: HK\$2,347,000) 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 dates:

	UNAUDITED At September 30, 2007 HK\$'000	AUDITED At March 31, 2007 HK\$'000
0 — 30 days	237	308
31 — 60 days	—	—
Over 60 days	—	—
	237	308

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, 2007 HK\$'000	AUDITED At March 31, 2007 HK\$'000
0 — 30 days	2,015	2,368
31 — 60 days	395	158
Over 60 days	79	80
	2,489	2,606

12. Share capital

	UNAUDITED At September 30, 2007, Number of Shares '000	UNAUDITED At September 30, 2007 HK\$'000	AUDITED At March 31, 2007 Number of Shares '000	AUDITED At March 31, 2007 HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid:				
At the beginning of the period/year	200,130	20,013	200,130	20,013
Issued on exercise of share options	<u>8,710</u>	<u>871</u>	<u>—</u>	<u>—</u>
At the end of the period/year	<u>208,840</u>	<u>20,884</u>	<u>200,130</u>	<u>20,013</u>

13. Call options

On September 14, 2007, the Company entered into a placing agreement with Baron Capital Limited as placing agent to procure not less than six independent placees to subscribe for up to 40,026,000 call options at an issue price of HK\$0.01 of each option. The option period is 18 months commencing from the date of granting of the options. Upon exercise of each option, the placee will be able to subscribe for one subscription share at an initial subscription price of HK\$2.80. A sum representing 10% of the subscription price has been received by the Company from the placees upon signing of the options agreements as deposit and part payment of the subscription price for the subscription shares.

During the period ended September 30, 2007, no options have been exercised.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended September 30, 2007 (2006: Nil).

BUSINESS REVIEW AND PROSPECT

Business Review

The operating environment in Hong Kong is still challenging in the first half of this fiscal year. The result of the Group for the six-month period ended September 30, 2007 recorded a consolidated loss of approximately HK\$5.4 million. (2006: approximately HK\$4.1 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\$56.6 million, representing an increase of 0.3% when compared with the same period in last year. The slightly increase in turnover was mainly caused by the improvement in the retailing industry in Hong Kong, however, the keen price competition in apparel retail market limited the degree of improvement of the turnover for the period.

The management team of the group applied various strategic measures to maintain the gross profit margin of the Group at a relatively high level. Although we are still 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, 2007 was slightly increased by 1% from 66% in last year same period to 67% 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% (2006: 40%) and 36% (2006: 35%) respectively. The increase in operative expenditure is mainly caused by the inflation in retail rental and other operating costs. In addition, certain non-recurring professional fees incurred is also a main reason for the increase in administrative expenses during this period.

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 have been leased and planned to be opened in the second half of the year.

Prospect

Year 2007 marked an important year of transition for the group. With extensive resources and connection in the PRC of the new management team, the Group targets to enter into new businesses with substantial return potential for shareholders. As per announcement dated November 13, 2007, the Company entered into a conditional agreement with an independent third party to acquire mining companies in the PRC which involve zinc and lead mines (“the Acquisition”). The Company is being prepared a circular to the shareholders of the Company since the Acquisition is subject to shareholders’ approval. As a whole, we expect that our targeted businesses development areas will include but not limit to nonferrous metals industry in China. The Company will publish an announcement if there are any new businesses in future.

For the apparel retailing business, the Group is seeking strategic partners with solid experience in brand building to develop our “Gay Giano”, “Cour Carre” brand in China. Our brand mainly targets middle class white-collar employees who favour professionalism and an upbeat image. The rapid development of the banking, insurance, finance, securities, properties as well as various commercial segments in China will create huge demand for our apparel products. Regarding the Hong Kong market, it is expected the sales performance will improve as the Hong Kong economy is posting steady growth and the financial and commerce sectors will see better salary improvement in 2008.

We see positive growth prospects for the Group’s businesses. In particular, business development in China and Hong Kong will go from strength to strength by capitalizing on the strong growth momentum of these markets. The new management team aims to put the group in an enviable position to prosper on sustained growth, and to maximize returns for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

At as September 30, 2007, net current assets and current ratio of the Group were approximately HK\$44.4 million and 3.9 respectively. The current assets mainly comprised inventories of approximately HK\$32.4 million, prepayments, deposits and other receivables of approximately HK\$7.3 million, trade receivables of approximately HK\$0.2 million and cash and cash equivalents of approximately HK\$15.7 million. The Group had total assets of approximately HK\$75.3 million, current liabilities of approximately HK\$15.3million, non-current liabilities of approximately HK\$1.5 million and shareholders’ equity of approximately HK\$58.4 million.

As at September 30, 2007, the overall gearing ratio of the Group is approximately 12% as total borrowings of approximately HK\$6.9 million to net worth of approximately HK\$58.4 million.

The Group recorded a net cash used in operating activities of approximately HK\$9.4 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, 2007, the total outstanding short-term borrowings was approximately HK\$6.8 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\$0.4 million for the period under review. These expenditure were mainly used in retail network improvement. There were no material capital commitments at September 30, 2007.

Pledge of Assets and Contingent Liabilities

At September 30, 2007, the Group pledged leasehold land and buildings in Hong Kong with an aggregate net book value of approximately HK\$5.7 million. At September 30, 2007, the Group had no significant contingent liabilities.

Investment in Properties

The Group's leasehold land and building were valued at approximately HK\$5.7 million at March 31, 2007 by Messrs Savills Valuation and Professional Services Limited on an open market, existing use basis.

Properties leased in Hong Kong: the Group leases 15 retail outlets from independent third parties with a total floor area of 22,790 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, 2007, the Group had 172 full-time employees in Hong Kong and 272 full-time employees in the PRC. The total number of full-time employees of the Group is 444. 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.

POST BALANCE SHEET DATE EVENTS

- (a) On October 15, 2007, the Company has entered into a placing agreement with DBS Asia Capital Limited and a subscription agreement with Ti Yu Investments Limited, a company controlled by Mr. Wong Pak Lam, Louis, the executive director of the Company for the placing and subscription of 10,000,000 ordinary shares of the Company of HK\$0.01 at the price of HK\$2.34 each respectively. Subsequent to completion of placing and subscription, the net proceeds amounted to approximately HK\$23.1 million, after deducting related placing fee, professional fees and all related expenses.
- (b) Subsequent to the entering into of a memorandum of understanding as set out in the announcement of the Company dated October 9, 2007, Diamante Globe Limited, an indirect wholly-owned subsidiary of the Company, entered into an agreement with the vendor, Chengdu Zing An Mining Co. Ltd, pursuant to which Diamante Globe Limited conditionally agreed to acquire 70% of the equity interests in three mining companies at a consideration of HK\$361 million.

The consideration is to be satisfied (i) as to HK\$343 million in cash; and (ii) as to HK\$18 million by the issue of convertible bonds of the Company.

The acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is subject to the shareholders' approval at a special general meeting of the Company.

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, 2007.

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, 2007.

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 financial statements of the Group for the period ended September 30, 2007 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, Mr. Wong Kwong Lung Terence. Mr. Chan Ka Ling Edmond is the chairman of the remuneration committee.

APPRECIATION

We are proud to have intelligent, creative and dedicated employees, the Group's most valuable asset. The management team would take this opportunity to thank every colleagues of the Group for their hard work, contributions and loyal service during the period.

By order of the Board
Wong Pak Lam, Louis
Chairman

Hong Kong, December 24, 2007

As at the date of this announcement, the directors of the Company is comprised of six directors, of which three are executive directors, namely Mr. Wong Pak Lam Louis, Mr. Wong Kin Tung and Mr. Wong Kwong Lung Terence, and three are independent non-executive directors, namely Mr. Chan Ka Ling Edmond, Mr. Lo Wa Kei Roy and Mr. Ching Kwok Ho Samuel.