

**GAY GIANO INTERNATIONAL GROUP LTD :  
NO COMMENT, NO COMMENT, NO COMMENT**

As is so common in Asia, as well as the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), founders of companies, private and public, seem to feel that their companies are their private little banks, to do with as they see fit.

Gay Giano International Group Ltd is no exception to this rule, with the Company's records, indicating that Mr Cheung Sing Chi, the 39-year old Chairman and Managing Director, having borrowed upwards of \$HK33,745,000 in the 1999 Financial Year, ended March 31, 1999 -- and he still owed about \$HK15.02 million, as at November 30, 1999.

This loan, from the coffers of Gay Giano's common fund (it would appear), was retired in January this year by the Company's recommendation -- via the authority, vested in Chairman Cheung Sing Chi, of course -- of a Special Dividend, amounting to \$HK22 million.

The loans to the Chairman were unsecured and bore interest at commercial rates, according to the records of the Company.

As TARGET has commented, on many occasions, it is very bad form for directors to borrow large sums of money from the companies that they control on the basis that, if bankers will not afford them the credit lines, for any number of reasons, for what reason should the artificial entities that they control, the limited companies, be forced or persuaded to speculate on the possibility of the directors, being in a position to repay their loans.

Gay Giano is one of the latest companies to seek a listing on The Stock Exchange of Hongkong Ltd.

It is seeking to raise \$HK60 million, gross, coming down to \$HK48 million, net, at the end of day, taking into account all expenses.

The Company is Placing a total of 37.50 million, 10-cent shares at a Premium of \$HK1.10 per share, and it is pitching a New Issue of Shares, amounting to another 12.50 million shares, on the same basis.

The Company is a manufacturer and retailer of ladies and men's apparel. It markets its products under the brandnames: '*Gay Giano*', '*Cour Carré*' and '*Due G*'.

Most of the Company's products are jackets, blazers, coats, dresses, skirts, pants, blouses, shirts, leatherwear and knitwear, according to the Prospectus.

Management maintains that \$HK168 million is the fair market value of the goodwill of the trademarks: '*Gay Giano*' and '*Cour Carré*'.

No comment.

This Company, as at January 31, 2000, had outstanding borrowings of about \$HK45.70 million, comprising:

1. Secured Bank Overdrafts ----- \$HK 3.10 million
2. Secured Bank Loans ----- \$HK 1.80 million
3. Secured Other Loans ----- \$HK 7.70 million
4. Unsecured Other Loans ----- \$HK13.50 million
5. Secured Trust Receipt Loans ----- \$HK 8.70 million

6. Outstanding Obligations Under Finance Leases ----- \$HK 0.60 million
7. Unsecured Loan from a Shareholder ----- \$HK10.30 million

The last-mentioned item appears to indicate that Gay Giano was/is top heavy in debt and had to seek the assistance of a shareholder (TARGET assumes that this unnamed shareholder is, in fact, the Founder: Chairman Cheung Sing Chi).

And yet, Chairman Cheung Sing Chi borrowed upwards of \$HK33,475,000 from his Company, during this critical time.

### **The History of Gay Giano**

This Company was founded in 1980 by Chairman Cheung Sing Chi, then aged 19 years, and his sister, Ms Subraina Cheng Yin Sheung, who was the Chairman's senior by 6 years.

With the marriage of Subraina to Mr Tong Kwong Fat, who is exactly the same age as Subraina, the newly established husband-in-law joined the Board of Directors of Gay Giano in 1994.

He is now responsible for strategic management (TARGET has no idea what this term means) as well as marketing and retail development.

It seems apparent that Chairman Cheung Sing Chi had an idea to build a chain of fashion boutiques when he was still wet behind the ears -- and it worked.

Today, Gay Giano boasts of having 19 boutiques in the HKSAR and 4 franchised outlets in the PRC and employs a total of 846 workers, 75 percent of whom are working in the People's Republic of China with the remainder, working in the Hongkong Special Administrative Region.

Which brings one back to that \$HK168-million valuation for the goodwill of the trademarks: 'Gay Giano' and 'Cour Carré'.

Still TARGET states: No comment.

The following is an analysis of the business of the Company since 1997:

	Year ended March 31			
	1997	1998	1999	Eight Months to November 30, 1999
	<i>(All Figures are Denominated in \$HK'000)</i>			
<b><u>Turnover by Product:</u></b>				
Ladies' Fashion Apparel	82,889	124,140	131,389	64,646
Men's Fashion Apparel	67,216	71,368	74,130	36,414
Complementary Accessories	<u>38,921</u>	<u>25,592</u>	<u>21,039</u>	<u>13,856</u>
<b>TOTALS:</b>	<b><u>189,026</u></b>	<b><u>221,100</u></b>	<b><u>226,567</u></b>	<b><u>114,916</u></b>
<b><u>Turnover by Brandname</u></b>				
Gay Giano	104,209	104,388	85,494	36,818
Cour Carré	75,073	107,980	124,988	68,803
Due G	Nil	8,732	16,085	9,295
Others	<u>9,744</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>
<b>TOTALS:</b>	<b><u>189,026</u></b>	<b><u>221,100</u></b>	<b><u>226,567</u></b>	<b><u>114,916</u></b>

<b><u>Turnover by Activity</u></b>				
Retail	154,890	187,317	208,972	107,498
Wholesale	<u>34,136</u>	<u>33,783</u>	<u>17,595</u>	<u>7,418</u>
<b>TOTALS:</b>	<b><u>189,026</u></b>	<b><u>221,100</u></b>	<b><u>226,567</u></b>	<b><u>114,916</u></b>

As can easily be seen from the above table, retail sales have been climbing, over the past 3 years, while wholesale sales have been declining, very rapidly.

At the same time, the 'Gay Giano' labels have fallen from grace, evidenced by the 18-percent fall in sales between the 1998 Year and the 1999 Year, the slack, having been taken up, only slightly mind you, by sales of 'Cour Carré' garments (the Turnover in the 1999 Financial Year rose by a piddling 2.47 percent in 1999 over 1998).

Which brings one back to that \$HK168-million valuation for the goodwill of the trademarks: 'Gay Giano' and 'Cour Carré'.

Still TARGET states: No comment.

The Accountants' Report, at Page 91 of the Prospectus, gives a breakdown of the Company's Trading Results for the past 44 months:

	Year Ended March 31			
	1997	1998	1999	Eight Months to November 30, 1999
	<i>(All Figures are Denominated in \$HK'000)</i>			
Turnover	189,026	221,100	226,567	114,916
Profit before Taxation	13,444	24,400	25,618	12,636
Taxation	(1,170)	(2,231)	(2,104)	(1,053)
Net Profit Attributable to Shareholders	12,274	22,169	23,514	11,583

For the Financial Year, ended March 31, 2000, the Directors are forecasting a Net Profit before Extraordinary Items of not less than \$HK35 million.

The Company owns 5 pieces of property in the HKSAR, all being flats and all having been rented out.

According to TARGET's calculations, the gross income from these flats should be about \$HK1.08 million.

However, the Profit Before Tax for the 1999 Year shows that the Net Rental Income was \$HK486,000, while the Net Rental Income for the first 8 months of the 1999-2000 Year was just \$HK385,000.

The 5 flats, located in Shatin, the New Territories, Kwaichung and Shaukeiwan, are in the books of the Company at the cost of \$HK27 million.

On the basis of TARGET's calculations ... [CLICK TO ORDER FULL ARTICLE](#)

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