

INTRODUCTION

The Group is principally engaged in the provision of (i) marketing and compliance monitoring services; and (ii) sales support services, to garment and fashion manufacturers in Hong Kong with production facilities situated in Hong Kong and/or the PRC with the US being their principal export market.

(i) Marketing and compliance monitoring services

The Group has a team of experienced marketing and compliance personnel to provide marketing and compliance monitoring services to Hong Kong garment and fashion manufacturers in order to meet the CSR requirements of certain buyers in the US who are acquainted with the Group. This is achieved by conducting a compliance monitoring programme under the framework of the Code. The Code is codified by the Group by adopting what the Directors perceive to be the best industry practice with the rationale that the PRC factories producing goods for the US Buyers should fully comply with their CSR requirements and internationally accepted labour standards. The Group communicates with the US Buyers that the manufacturing clients of the Group meet the requirements of CSR. This, in effect, is a marketing function that facilitates the manufacturing clients of the Group to obtain purchase orders from the US Buyers.

CSR generally refers to business decision-making linked to ethical values, compliance with legal requirements, respect for people, communities and the environment. CSR is viewed as a comprehensive set of policies, practices and programmes that are integrated throughout business operations and decision-making processes that are supported and rewarded by top management. For details of CSR, please refer to the paragraph headed “Corporate social responsibilities” in the section headed “Industry overview” of this prospectus.

(ii) Sales support services

To assist those Hong Kong garment and fashion manufacturers which lack permanent quota allocations or do not possess sufficient Hong Kong manufacturing history and experience to export certain textile products that are required by their US buyers to be of “Hong Kong Origin”, the Group provides sales support services to these clients. The Hong Kong garment and fashion manufacturers who employ the Group’s sales support services are principally engaged in manufacturing textile products and garments made of cotton and man-made fibre.

For the year ended 31st March, 2002, the Group’s services were rendered to Hong Kong garment and fashion manufacturers and the net profits generated from the provision of the Group’s marketing and compliance monitoring services and sales support services amounted to approximately \$20.2 million and approximately \$1.2 million respectively. The quota allocations form an integral part of the Group’s provision of sales support services. In summary, the garment and fashion manufacturing clients using the Group’s marketing and compliance monitoring services are not induced by the Group’s quota allocations and sales support services.

PRINCIPAL STRENGTHS OF THE GROUP

The Directors believe the principal strengths of the Group are as follows:

- (1) *Established business relationship with its major garment and fashion manufacturing clients*

The close business relationship between the Group and its garment and fashion manufacturing clients in Hong Kong has been gradually established by the current senior management's predecessors over the last 25 years. The current senior management continues to cultivate, maintain and improve such close business relationship.

- (2) *In-depth knowledge of garment and fashion industry in Hong Kong and the US*

With experience in the garment and fashion industry in Hong Kong and the US, the senior management of the Group is adept in dealing with the import and export procedures and various compliance issues in relation to textile products.

- (3) *Well developed code of vendor conduct for Hong Kong garment and fashion manufacturers*

The Directors believe that the compliance monitoring programme developed under the framework of the Code is extensive for the garment and fashion manufacturers in Hong Kong exporting to the US markets as the Code not only stipulates strict adherence to various compliance issues but also facilitates garment and fashion manufacturers to operate in the current competitive environment.

- (4) *Established compliance history of its Hong Kong clients for export to the US markets*

To the best knowledge of the Directors, for those Hong Kong garment and fashion manufacturers utilising the Group's compliance monitoring and sales support services over the past years so far have not encountered significant compliance difficulties with those US buyers acquainted with the Group when exporting their products to the US markets. Furthermore, to the best knowledge of the Directors, no Hong Kong garment and fashion manufacturers utilising the Group's compliance monitoring and sales support services have been the subject of any lawsuits from buyers in the US during the Track Record Period.

- (5) *Established permanent quota allocation with wide spectrum of categories*

The provision of sales support services includes utilising quotas allocated to the Group by the Trade and Industry Department of Hong Kong in relation to a wide spectrum of categories of garment products exporting to the US. This forms an integral part of the business model of sales support service provided by the Group.

HISTORY AND DEVELOPMENT

In March 1966, Mr. Siu Ban and Mr. Siu Kwok Yin who are Mr. Garry Siu's father and elder brother respectively, founded Sun Tai Hing. Sun Tai Hing was then engaged in manufacturing and sales of textiles for export to the US. A customers base and export quota allocations were gradually established.

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Mr. Garry Siu and Mr. Shamson Zeall were appointed as directors of Sun Tai Hing in June 1986 and August 1993 respectively. Mr. Siu Kwok Yin resigned his directorship of Sun Tai Hing in December 1987. In view of increased stiff competition in the garments manufacturing business, the Group made a strategic move to cease the garments manufacturing activity of Sun Tai Hing. After ceasing the manufacturing and sales of garments, Sun Tai Hing concentrated its principal activity on the provision of sales support services to Hong Kong garment and fashion manufacturers who are required to export “Hong Kong Origin” garment products to the US. Further details of the mode of operations of the Group’s provision of sales support services are set out in the paragraph headed “Sales support services” in this section.

In January 1998, under the Uruguay Round Textiles and Clothing Agreement, a number of textiles and clothing quantitative restrictions to the US were removed. As a result, certain textiles quota allocations to the Group from the Trade and Industry Department of Hong Kong were phased out. The business of the Group was affected by this and in view of this and the industry trend on CSR, in August 1998 Mr. Garry Siu founded Dragon City which engage in the provision of marketing and compliance monitoring services. These services were to assist the Hong Kong garment and fashion manufacturing clients of the Group to export their products to the US market by addressing the issue of CSR of certain US buyers on these Hong Kong manufacturing clients by capitalising respectively the marketing expertise of certain expatriate marketing professionals of the Group, and the knowledge and the professional legal expertise of Mr. Shamson Zeall.

While the Group recognises the legal and cultural environments of the PRC and Hong Kong in which factories operate are different, the Code sets forth the CSR requirements in which all the Group’s clients have to meet in order to conduct business with certain buyers in the US who are concerned with CSR. The Code also provides the basis for the Group’s ongoing evaluation of factories’ employment practices and environmental compliance. Further details of the Code are summarised in the paragraph headed “Code of vendor conduct of the Group” in this section. As a condition for doing business with the US Buyers, each and every factory of the Group’s clients should comply with the Code. The Group also continues to assess and review the practice of the Group’s clients so as to ensure continual compliance with the Code. If the Group considers a factory has violated the Code, it would require the relevant factory to implement a remedial action. To maintain its professional independence and protect the interest of the US Buyers, the Group may, in cases of material violation of the Code, advise the US Buyers to consider suspending placement of future orders to that particular manufacturing client.

In May 1999, Mr. Edmund Siu joined the Group as the compliance monitoring director and strengthened the Group’s compliance monitoring capability. He is the son of Mr. Siu Kwok Yin, a co-founder of the Group.

In anticipation that a major textile quota allocation, namely silk blend and/or non-cotton vegetable fibre and man-made fibre brassieres would be phased out in January 2002, the Group in April 2000 and September 2001 strengthened its marketing and compliance monitoring segment by engaging two extra expatriate marketing personnel to provide better marketing services.

In May 2002, the Group acquired a staff quarter at Flat B, 22nd Floor, Hove Court, Perth Garden, 7 Perth Street, Homantin, Kowloon, Hong Kong with a saleable area of approximately 994 sq.ft. from Siu Ban & Sons Limited (“SBSL”) at open market value for a consideration of \$4.1 million. SBSL is a Hong Kong incorporated company ultimately and beneficially 100% owned by Mr. Siu Ban, co-founder of the Group. In the same month, the Group also acquired carparking space No. 67 in the same property as the staff quarter from Mr. Garry Siu, a Director, at open market value for a consideration of \$200,000. The said staff quarter, with the car parking space, was acquired for the senior business development manager of the Group, Miss Siu So Ha, Melisa.

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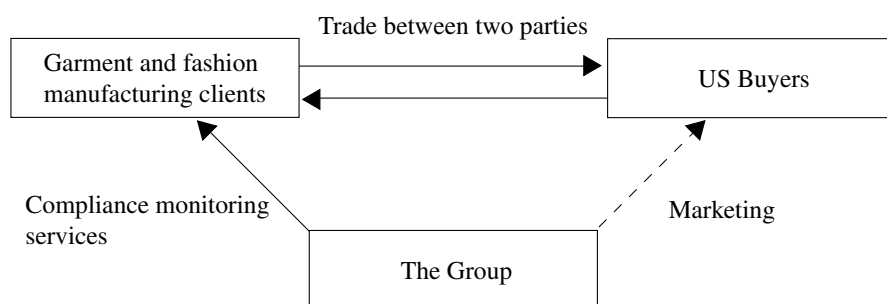
In October 2002, the Group underwent a corporate reorganisation in preparation for the listing of its Shares on the Stock Exchange in Hong Kong. The Company then became the holding company for the Group. Details of the corporate reorganisation are set out in the paragraph headed “Group reorganisation” in Appendix 6 to this prospectus.

BUSINESS MODEL OF THE GROUP

The Group’s integral business model is built upon (i) the provision of marketing and compliance monitoring services; and (ii) the provision of sales support services to Hong Kong garment and fashion manufacturers.

MARKETING AND COMPLIANCE MONITORING SERVICES

The following diagram illustrates the business model of the Group’s marketing and compliance monitoring services:



The marketing and compliance monitoring services provided by the Group for its Hong Kong garment and fashion manufacturing clients with production bases in the PRC are principally aimed to address the issues of CSR of certain US buyers. Such manufacturing clients have to solicit their own specific orders to be placed by the US Buyers by offering, among others, competitive prices, prompt delivery schedule and reliable quality. However, if there are other competing garment manufacturers bidding for the same purchase orders, the Group’s manufacturing clients will then have a competitive edge by being approved by the Group which would address the US Buyers’ concern about CSR. As at the Latest Practicable Date, there were six US Buyers concurring with the Group’s compliance monitoring programme and willing to place orders to the Group’s approved garment and fashion manufacturing clients. Although there is no contractual arrangement between the Group and the US Buyers, the Group has many years of business relationship with them. On the other hand, the Group had 24 Hong Kong garment and fashion manufacturing clients which utilised the Group’s marketing and compliance monitoring services as at the Latest Practicable Date. The garment and fashion manufacturing clients have production facilities situated in Hong Kong and/or the PRC. The Group relies on the orders placed by the US Buyers to these manufacturing clients to receive its marketing and compliance monitoring service fee income based on a certain percentage of the gross value of the orders. In other words, the Group does not receive any compliance monitoring service fee from the manufacturing clients based on frequency of factory visits or on orders placed by any other US buyers to the manufacturing clients even though the manufacturing clients are approved by the Group as “qualified” vendors under the Code.

In order to provide marketing and compliance monitoring services, the Group will enter into an engagement letter with each manufacturing client, which is usually for a term of three years on renewable basis unless terminated by either party.

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Pursuant to such engagement letter, the Group is engaged for its marketing and compliance monitoring services. The Group will commence its compliance monitoring programme in the manufacturer's PRC factory. Should either party wish to terminate the services, they must give the other party a three-month advance notice. Under the terms of the engagement letter, a team of compliance monitoring staff from the Group would conduct its compliance monitoring programme at least four times a year on the PRC factory producing goods for the US Buyers to ensure continual compliance with the Code. The compliance monitoring programme is principally performed by the senior manager and three compliance monitoring personnel headed by Mr. Edmund Siu. Each of the engagement letters provides that if the Group detects any violations of the Code by a particular PRC factory, the Group can require the relevant PRC factory to implement a remedial action. To maintain its independence and to protect the interest of the US Buyers from litigations and/or complaints from their customers in connection with any violations of the Code, the Group has authority as stated in the engagement letter and may, in cases of material violation of the Code, inform the US Buyers, who may in turn suspend placement of future orders and terminate current production of the orders being placed to the relevant PRC factory if remedial action which has been advised by the Group has not been implemented by the PRC factory. Although there are no contractual arrangements between the Group and the US Buyers in respect of the Group's compliance monitoring services, the Group may communicate verbally with the US Buyers regarding the suitability of such manufacturers as their vendors as a result of any material unfavourable findings noted during the Group's provision of its compliance monitoring services. The Directors will periodically review the compliance monitoring findings to determine if the manufacturing clients are still in compliance with the Code on an ongoing basis. Please refer to the disclosures in the section headed "Risk factors" of this prospectus for the risks relating to this potential conflict of interest.

The Group's manufacturing clients have their own marketing and sales team to solicit specific purchase orders placed directly from the US Buyers. To protect the Group, the engagement letters entered into between the Group and its manufacturing clients stipulate that the manufacturing clients will indemnify the Group against any and all losses, costs, expenses, claims, actions, liabilities, proceedings or damages of any nature whatsoever which may be made or established against the Group by any US Buyers or any persons, including but not limited to, consumers, class of consumers, human rights bodies, labour unions, governmental agencies or regulatory bodies arising out of, in relation to or in connection with the performance of the marketing and compliance monitoring services, and against any and all costs, charges, losses or expenses which the Group may suffer or incur in connection with or disputing or defending any such claim action or proceedings arising out of or in connection with the appointment. Furthermore, each manufacturing client has undertaken that neither itself, nor any of its subsidiaries, their respective associates (the "Member Companies") and directors of the manufacturing client and/or the Member Companies shall make any claim against the Group to recover any damages, losses, costs, charges or expenses which the client may suffer arising out of the performance by the Group of its obligations under such engagement letters.

The marketing element of the Group's marketing and compliance monitoring services is that it is appointed by its Hong Kong manufacturing clients as agent to communicate with the US Buyers that these manufacturers are qualified to address the issues of CSR which the US Buyers are concerned with. In other words, the Group is delegated to communicate with the US Buyers that such Hong Kong manufacturing clients meet the CSR requirements of the US Buyers. This, in effect, is a marketing function that facilitates the Group's manufacturing clients to obtain purchase orders from the US Buyers. The Group does not act as a sales agent for its manufacturing clients in Hong Kong. The marketing and business development functions of the Group are carried out by Mr. Garry Siu, chairman of the Company with assistance from Mr. Edvon Sze, Miss Siu So Ha,

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Melisa and the four Australian business development consultants who travel periodically to the US to visit, maintain business relationships with the US Buyers and solicit new/potential US buyers to concur with the Group's compliance monitoring programme.

Revenue model of marketing and compliance monitoring services

Those Hong Kong garment and fashion manufacturers are required to pay the marketing and compliance monitoring services fee to the Group by way of Hong Kong dollar cheques once the finished products have boarded shipping vessels. The calculation of the service fee is based on the gross value of the orders placed by the US Buyers with a maximum amount of 3% of the gross value of the orders. Credit terms of 0 to 30 days are usually granted to the garment and fashion manufacturing clients.

The Group relies on the Hong Kong garment and fashion manufacturing clients to report their volume of shipments to the US Buyers for collection of the marketing and compliance monitoring services fees. At the same time, the Group will normally obtain order placement lists from the manufacturing clients and enquire with the US Buyers regarding the shipments made monthly to identify if there exist any material discrepancies against the reported volume of shipments. During the Track Record Period, the Directors are not aware of the existence of any material discrepancies or incompleteness of the marketing and compliance monitoring services fees received and earned.

Revenue received from the marketing and compliance monitoring services is charged to the Group's manufacturing clients. The Group does not pay any commission to, nor receive any commission from, the US Buyers. The Directors believe that this gives a competitive advantage to the Group as from the US Buyers' point of view, the cost of the compliance monitoring services have been shifted to the manufacturing clients and they merely need to concur with the Group's compliance monitoring programme. From the manufacturing clients' point of view, the Directors believe it is their view that they can bargain more favourable terms with the US Buyers as their products have gone through the compliance monitoring program and as such are likely in compliance with the CSR requirements. The Directors believe that this revenue model is favourable to both the US Buyers and the manufacturing clients.

If the Group detects any violations of the Code by a manufacturing client, it would require the garment and fashion manufacturer concerned to implement remedial action. The Group's compliance monitoring team would then visit the factory of such manufacturer more frequently to monitor the progress of such remedial action. In such circumstances, the Group would require a higher fee for its services and such fee base would need to be re-negotiated and agreed by both the Group and the garment and fashion manufacturing client. During the Track Record Period, the Group did not find such violations of the Code and hence did not charge its clients any such additional service fees.

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The breakdown of the turnover derived from the manufacturing clients who solely subscribed to the Group's marketing and compliance monitoring services and from the manufacturing clients who subscribed to the Group's both marketing and compliance monitoring services and sales support services for the Track Record Period is set out as below:

	Marketing and compliance monitoring services and sales support services (Note 1)	Marketing and compliance monitoring services only (Note 2)	Total
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
For the year ended 31st March, 2000	<u>371</u>	<u>17,767</u>	<u>18,138</u>
For the year ended 31st March, 2001	<u>1,226</u>	<u>19,213</u>	<u>20,439</u>
For the year ended 31st March, 2002	<u>1,169</u>	<u>22,220</u>	<u>23,389</u>

Notes:

- (1) These manufacturing clients used the Group's both marketing and compliance monitoring services and sales support services. The turnover shown here only represents the revenue derived from the marketing and compliance monitoring services.
- (2) These manufacturing clients are independent to those clients who used the Group's sales support services.

The Sponsors are of the opinion that, except those clients who have used both the marketing and compliance monitoring services and the sales support services of the Group, the manufacturing clients using the Group's marketing and compliance monitoring services are independent to those clients who used the Group's sales support services.

For the year ended 31st March, 2002, there were six importers in the US concurring with the Group's compliance monitoring programme who placed orders to the Group's garment and fashion manufacturing clients. For the three years ended 31st March, 2002, the US Buyers placed orders for textile and garment products amounting to approximately \$907 million, \$1,022 million and \$1,169 million respectively to the Group's garment and fashion manufacturing clients.

Code of vendor conduct of the Group

The Code was formulated with the rationale that the PRC factories producing goods for US buyers should fully comply with CSR requirements. The Group's legal compliance consultant, Mr. Shamson Zeall is a China-Appointed Attesting Officer and practising solicitor of Hong Kong who will constantly monitor possible impact on the Code brought by changes in laws, rules and regulations and advise the Group accordingly. The Code, covers among other things, the following six areas:

(1) *Environment*

Factories must comply with all applicable environmental laws and regulations.

(2) *Discrimination*

Factories should employ workers on the basis of their ability to do the job, not on the basis of their personal characteristics or beliefs.

(3) *Forced Labour*

Factories shall not use any prison, indentured or forced labour.

(4) *Child Labour*

Factories shall only employ workers who meet the applicable minimum legal age requirement or are at least 16 years of age. Factories must also comply with all other applicable child labour laws. Factories are encouraged to develop lawful workplace apprenticeship programmes for the educational benefit of their workers, provided that all participants meet both the Group's minimum age standard of 16 years and the minimum legal age requirement.

(5) *Wages and Hours*

Factories shall set working hours, wages and overtime pay in compliance with all applicable laws. Workers shall be paid at least the minimum legal wage or a wage that meets local industry standards, whichever is greater. While it is understood that overtime is often required in garment production, factories shall carry out operations in ways that limit overtime to a level that ensures humane and productive working conditions.

(6) *Working Conditions*

Factories must treat all workers with respect and dignity and provide them with a safe and healthy working environment. Factories shall comply with all applicable laws and regulations regarding working conditions. Factories shall not use corporal punishment or any other form of physical or psychological coercion. Factories must be sufficiently lighted and ventilated, aisles accessible, machinery maintained, and hazardous materials sensibly stored and disposed of. Factories providing accommodation for workers must keep these facilities clean and safe.

Compliance monitoring programme

After entering into an engagement letter in respect of marketing and compliance monitoring services with a garment and fashion manufacturer, the Group will commence its compliance monitoring programme in the manufacturer's factory. A team of compliance monitoring staff will travel to the garment and fashion manufacturer's factories to carry out the required duties. Notwithstanding the possible existence of conflict of interests, the Directors confirm that the Group has no incentive to allow "under-qualified" garment and fashion manufacturing clients to accept orders from the US Buyers because the reputation of the Group in performing the marketing and compliance monitoring services is of paramount importance. If any manufacturing client does not comply with the Code, the Group can either advise remedial actions or advise the US Buyers to consider transferring current production orders to other manufacturing clients of the Group. The

compliance monitoring programme for the garment and fashion manufacturers, which substantially incorporated the requirements of the Code, covers 11 areas:

(1) *Company structure*

Various questions are asked to solicit information relating to, among other things, the company's legal title, ownership, date of establishment, turnover, type of products, branches or affiliate production locations, export rate in percentage, export destination in percentage, major customers, main sub-contractors and other sub-contractors; lead-time from sampling (order release) to production; average lead-time of an order of units from ordering to shipment; average working hours per week; shift operation and the number of shifts; whether the factory operates on piece-work basis; total employees working for the factory and whether the factory is set up vertically (from raw material to end product).

(2) *Organisation*

Various questions are asked to solicit information relating to, among other things, whether multiple sales, multiple purchases and in house sampling/design departments exist, names of various relevant managers, for example, general manager, sales manager, purchase manager, technical manager, production manager, quality assurance manager, logistics manager, export manager, accounts/finance manager and human resources manager; to whom the quality assurance manager reports.

(3) *Administration*

Various questions are asked to solicit information relating to, among other things, whether orders from one single customer are handled by one key staff member only; registration, handling, filing and records keeping are in order; whether systematic order processing system is employed; whether confidential treatment of technical information of customers is in place; whether communication equipment in use is of acceptable operational level; whether internal system controlling the flow of documents, data and information is in use; whether systematic reporting procedure is in use in case of any production complications; planning department which controls delivery dates exists; availability of written instructions for the administration of export documentation, including lead times and contact persons.

(4) *Quality assurance*

Various questions are asked to solicit information relating to, among other things, valid customer or ISO 9000 certification; quality manual; internal quality assurance procedures for individual stages of production; quality control procedures on production equipment; availability of documentation on internal quality control; analysis of inspection reports; initiation of remedial actions; control of subcontracted productions by the quality assurance team; maintenance of quality control throughout production according to standard procedures; assessment of parts/material suppliers through audits or presentation of inspection reports; individual work instructions for the various stages of production; training for work procedures and production skills; availability of training records; authority of quality assurance responsible to stop production at any time; efforts made to comply with customers specific quality requirements; control of external production by supplier's own quality control and availability of special quality control instructions for external production.

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(5) *Control facilities*

Various questions are asked to solicit information relating to, among other things, whether the company's Hong Kong office maintains in-house laboratory facilities and/or utilise nominated external laboratory facilities which are qualified to ascertain product compliance with legal requirements; whether required analysis is executed by laboratories nominated by customers; availability of equipment for incoming material control; availability of records to document the incoming material control, in-line inspections at various production stages and availability of records; final inspections and availability of records; sufficiency of final inspection to ensure conformity with customer's requirements; adequate training for inspectors and availability of training records; assurance that defective units are segregated and/or repaired at every production stage and availability of records; identification of defective material to ensure that it is not dispatched with bulk; awareness of the factory of legal requirements of the country of import that need to be adhered to.

(6) *Building and facilities*

Various questions are asked to solicit information relating to, among other things, size of production, office and administration areas; the number of staff in production, management and administration; suitability of plant layout; maintenance of production facilities; whether the internal maintenance department can provide quick and efficient trouble shooting mechanism; maintenance of production equipment; availability of suitable warehousing facilities; availability of suitable loading docks/delivery areas; production schedule; suitability of safety/security arrangements for prevention of accidents; suitability of fire extinguishing equipment and first aid kits; availability of emergency exits; cleanliness of production areas and work stations; availability of suitable sanitary facilities; availability of adequate packing/delivery methods; conditions of facility and production equipment; lighting conditions in production area and condition of electrical wiring and back-up systems.

(7) *Labour*

Various questions are asked to solicit information relating to, among other things, local minimum wages; whether the factory pays the daily and monthly workers at the legal minimum levels of wages; whether the factory's regular working hours are based on the applicable laws; determination of the hourly rate and the formula; payment of overtime; piece rate workers' monthly earnings; payment of workers on statutory holidays; whether the workers have at least one day off in every seven days; attendance and payroll records available for all workers; the worker's working hours; workers' employment records; minimum age of workers and the factory's hygiene and safety conditions.

(8) *Manufacturing*

Various questions are asked to solicit information relating to, among other things, general description of the manufacturing processes; the estimated capacity of the factory, its current levels and any scope for increase; subcontracting of any work to outside subcontractors and the reasons for it; the proportion of the process subcontracted.

(9) *Purchasing*

Various questions are asked to solicit information relating to, among other things, raw materials used; names of the suppliers; origins of the goods; stability or volatility of

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prices; terms of purchase; whether contracts or commitments are entered into; difficulties experienced in the past with regards to the supply of raw materials either from its regular suppliers or alternative sources; import tariffs and duties and the time taken for delivery of raw materials purchased from overseas; whether there are government restrictions such as the control of prices or supply, or any control under trade association agreements.

(10) Plant

Various questions are asked to solicit information relating to, among other things, descriptions of main categories of plant used; age and apparent condition of plant; any plant not used or obsolete; details of any recent valuations; whether there are capital commitments, i.e. on order and what are the expected delivery dates.

(11) Environment

Various questions are asked to solicit information relating to, among other things, compliance with all applicable environmental laws; the date of last environmental audit by control authorities; whether the factory has ever been subjected to an environmental/efficiency evaluation of its operation and the date of it; purification of waste water/exhaust air before released into the environment; analysis of waste water/exhaust air for hazardous substances; whether the plant is connected to a public water purification plant; maintenance of emergency planning for environmental incidents; whether the company has an environment delegate/responsible person; maintenance of programs targeting avoidance of waste, reduction of raw material and energy use; whether all employees who are handling dangerous substances have been appropriately trained; provision of protective facilities, protective clothing, etc.

After the Group has conducted its compliance monitoring program, the assessment will be quantified by the responsible staff in a preliminary report revealing the scores for each of the above areas and the total scores. Such report determines the remedial action (if any) to be recommended by the Group to the garment and fashion manufacturing client concerned.

For the Group's internal record, a report named "Internal Memo on Compliance Monitoring Assessment" will be prepared and kept by the responsible staff after each compliance monitoring visit to the Group's garment and fashion manufacturing clients. The memorandum, reviewed by the senior business development manager, specifies the current compliance status of the latest visit. Mr. Garry Siu and Mr. Edmund Siu will review these memoranda from time to time to monitor the adherence to the Code by the garment and fashion manufacturing clients. The Group is in the process of formulating a certification system for its compliance monitoring services, details of which are set out in the section headed "Future plans and use of proceeds" of this prospectus.

SALES SUPPORT SERVICES

Provision of sales support services to the garment and fashion manufacturing clients in its export activity to the US market is an important part of the Group's business model. The sales support service is a one-stop service that assists the manufacturing clients which lack permanent quota allocation and with insufficient Hong Kong manufacturing history and experience to export certain textile products that are required by their US buyers to be of "Hong Kong Origin". Generally, Hong Kong-based garment and fashion manufacturers have production facilities in Hong Kong and the PRC. With the Group's manufacturing experience and knowledge on the application of quota

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on export of the apparel product to the US, it is capable of advising its manufacturing clients regarding the OPA requirements and other statutory requirement of the quota allocation scheme prescribed by the Trade and Industry Department of Hong Kong. The sales support services include principally the following:

1. Advisory services

With the Group's experience in the garment and fashion industry, it is able to provide advisory services to its garment and fashion manufacturing clients in areas such as OPA and general trade issues.

2. Order placement

Once the Group's manufacturing client negotiates a purchase order with its own US buyer in conjunction with the Group, the manufacturing client will contact the Group for sales support services. Since the manufacturing clients does not possess relevant knowledge with respect to documentation requirements for export of the Trade and Industry Department of Hong Kong, the Group will handle and prepare all the relevant documentation and follow up the purchase order on behalf of the manufacturing clients. In regard of this, the purchase order from the US buyer will be issued to the Group. The Group will then place the manufacturing order to the manufacturing client to notify the manufacturing client to commence the manufacture of products for the purchase order.

3. Administrative support/quota utilisation

The Group will advise its manufacturing clients on export-related rules and regulations relating to the export of garment to the US and the manufacturing process so that they will manufacture their products in compliance with the OPA requirements. The Group will also follow up any order-related documents, lodging relevant documents with the Trade and Industry Department of Hong Kong. If and when required, the manufacturing client has an option to use the Group's permanent quota allocation. According to the Trade and Industry Department of Hong Kong, buying and selling quotas, both temporarily and permanently, is not illegal in Hong Kong provided the quota transfer regulations are followed. For companies purchasing the quotas permanently, they may own the quotas permanently provided they ship over 98% of the allotted quota in each calendar year once the transfer is completed. Companies purchasing the quotas temporarily at market price may only use the quotas during the year of transfer.

The Directors have confirmed that the Group was in full compliance with the relevant quota regulations stipulated by the Trade and Industry Department of Hong Kong during the Track Record Period.

4. Logistic management

Once the Group has prepared and obtained all the necessary documents for export to US, the Group will arrange shipment, select and engage freight forwarder, receive and consign the bill of lading and arrange transportation from the production facilities to the export site.

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5. Collection recovery services

The Group will also organise settlements for the manufacturing clients of the Group by collecting the whole amount of invoice value for and on behalf of the Group's manufacturing clients from the US buyers.

Revenue Model of Sales Support Services

In return for using the Group's sales support services, the garment and fashion manufacturers are required to pay a fee calculated at approximately 3% to 8% of the gross value of the purchase orders. The Group will charge higher fees to those manufacturing clients who use the Group's permanent quota allocation. The fee is payable after the boarding of the finished products on shipping vessels. Credit terms of 0 to 30 days are usually granted to the garment and fashion manufacturers.

During the Track Record Period, all of the quotas allocated to the Group were used by the Group in conjunction with the provision of the sales support services to its garment and fashion manufacturers clients. The permanent textile quota allocation owned by the Group carried a \$20.6 million fair market value as at 31st May, 2002 as assessed by American Appraisal Hongkong Limited, an independent valuer. Further details of the permanent textile quota allocation owned by the Group are summarised in Appendix 4 to this prospectus.

The breakdown of the turnover from the sales support services provided to the Group's manufacturing clients for the Track Record Period is set out as below:

	Sales support services with utilisation of the Group's permanent quota allocation \$'000	Sales support services without utilisation of the Group's permanent quota allocation \$'000	Total
For the year ended 31st March, 2000 Turnover	<u>5,795</u>	<u>–</u>	<u>5,795</u>
For the year ended 31st March, 2001 Turnover	<u>6,010</u>	<u>–</u>	<u>6,010</u>
For the year ended 31st March, 2002 Turnover	<u>4,207.5</u>	<u>74.5</u>	<u>4,282</u>

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CLIENTS

For each of the three years ended 31st March, 2002, the five largest clients of the Group accounted for approximately 76.3%, 69.3% and 61.8% of the Group's turnover and the single largest client of the Group accounted for approximately 11.3%, 15.0% and 17.3% of the Group's turnover respectively. None of the Directors, their respective associates and shareholders who own more than 5% of the issued share capital of the Company has any interest in any of the largest five clients of the Group.

INVESTMENT IN LISTED EQUITY SECURITIES

As the Group has surplus cash inflows generated from ordinary operating activities, the Group, advised by certain securities brokers and bankers, has decided to invest in some listed shares with the intention of seeking for long-term growth and returns. For the year ended 31st March, 2002, the Group had acquired 15,900,000 shares of Info Com, a company listed on GEM and independent of and not connected with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined in the Listing Rules), at \$0.345 per share. As at 22nd October 2002, the Group had not disposed of any share of the company and the closing price of Info Com was \$0.035. The market value of the investment in listed equity securities as at 22nd October 2002 was therefore \$556,500.

The Directors are of the opinion that provision of permanent diminution in value is unnecessary as indicated by the following conditions:

- (1) The investee company has been listing for less than one year and it is pre-mature to conclude that permanent diminution is established;
- (2) There is no indication of severe losses by the investee in the current year and prior years;
- (3) There is no indication of continued losses by the investee company for a period of years;
- (4) There is no suspension of trading in the securities of the company; and
- (5) There is no indication of liquidity or going concern problems of the investee company.

Based on the above conditions, the auditors and reporting accountants have reviewed, substantiated and confirmed that the above assessment made by the Directors is reasonable and no provision for permanent diminution is required.

INTELLECTUAL PROPERTY RIGHTS

The Group is the owner of the Internet domain name of "www.grandtop.com".

COMPETITION

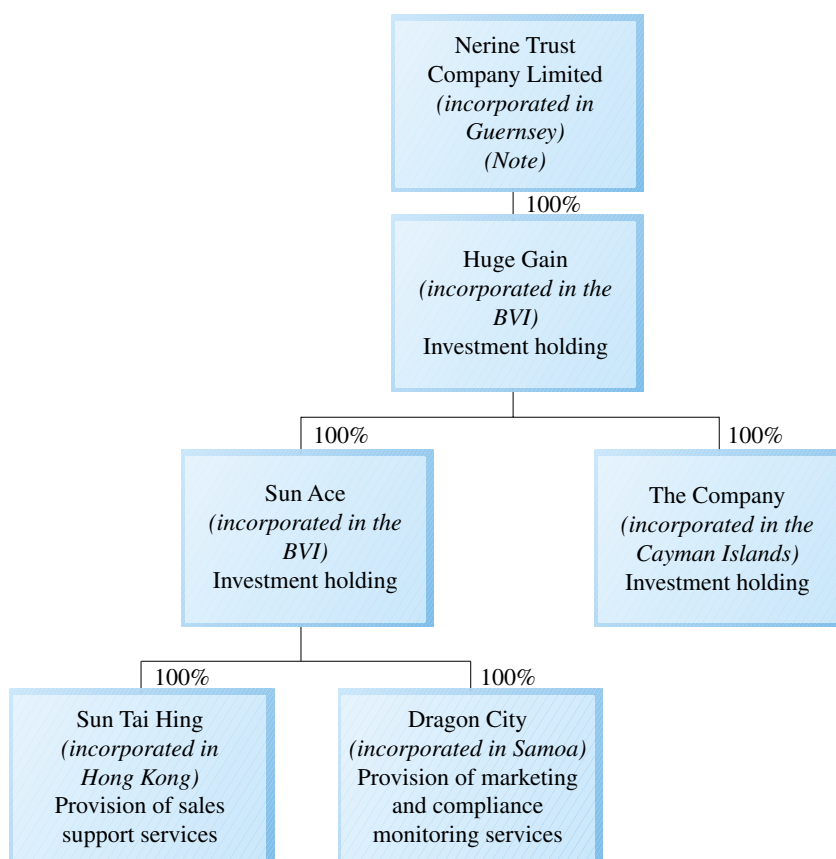
While international certification bodies and multi-national accounting firms provide compliance monitoring services, the Directors believe that they generally act on behalf of the buyers to determine whether their existing or potential vendors comply with their own code of vendor conducts. On the other hand, the Group provides its marketing and compliance monitoring services with the fee charged to the vendors. The Directors therefore believe that the Group at present does not face intense competition in Hong Kong and the PRC on the aspect of the provision of compliance monitoring program to garment and fashion manufacturers. Besides, the Directors are not aware of any other compliance monitoring service providers who render comprehensive services in providing marketing, compliance monitoring services and sales support services to garment and fashion manufacturers with production facilities in Hong Kong and/or the PRC.

BUSINESS

There are a number of local companies involved in the provision of marketing and sales support services to garment and fashion manufacturers in Hong Kong who are exporting to the US market. The Directors consider that the competition in the industry that the Group currently faces in Hong Kong is not intensive. The Directors assess that the establishment of scale of operations comparable to those of the Group requires staff with the possession of industry experience together with long established relationships with the US buyers and manufacturing clients. The Directors consider that Mr. Garry Siu, the chairman of the Company, Mr. Shamson Zeall, the Group's legal consultant and Mr. Edmund Siu, an executive Director, are well qualified to ensure the satisfactory performance of the marketing and compliance monitoring services provided by the Group to garment and fashion manufacturing clients in Hong Kong as a result of their experience in respect of US garment industry, legal framework and compliance monitoring procedures. Although the Directors do not consider that there exists significant entry barrier for the provision of such services, the Directors believe that the Group can remain competitive with its competitors and potential competitors after taking into account the principal strengths of the Group as set out in the paragraph headed "Principal strengths of the Group" in this section.

GROUP STRUCTURE

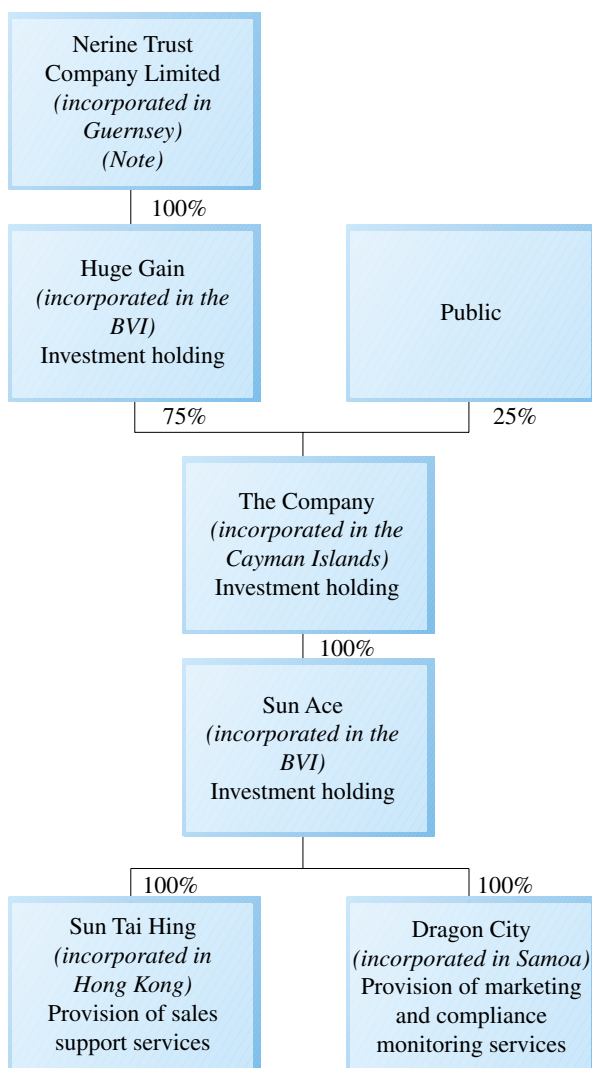
The corporate structure and business activities of members of the Group prior to the listing of the Shares on the Stock Exchange are set out below:



Note: Nerine Trust Company Limited is the trustee of SB Unit Trust and holds properties for the benefit of holders of units issued by SB Unit Trust. As at the Latest Practicable Date, all the units issued by SB Unit Trust were held by family members of Mr. Siu Ban, co-founder of the Group and the discretionary objects of which include Mr. Garry Siu and Mr. Edmund Siu.

BUSINESS

The shareholding and corporate structure of the Group (assuming the Share Offer and the Capitalisation Issue have been completed and that the Over-allotment Option is not exercised) and business activities of members of the Group immediately upon listing of the Shares on the Stock Exchange are set out below:



Note: Nerine Trust Company Limited is the trustee of SB Unit Trust and holds properties for the benefit of holders of units issued by SB Unit Trust. As at the Latest Practicable Date, all the units issued by SB Unit Trust were held by family members of Mr. Siu Ban, co-founder of the Group and the discretionary objects of which include Mr. Garry Siu and Mr. Edmund Siu.