MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 31 March 2003, the Group recorded a turnover of approximately HK$34,769,000 (2002: HK$27,671,000), representing an increase of 26% as compared with the previous year. It was mainly due to a 27% increase in marketing and compliance monitoring services compared with pervious year. It was a result of the expansion in the US market and the growth in demand of our manufacturing clients' garment and fashion products from the US buyers.

The net profit from ordinary activities attributable to shareholders was about HK$24,684,000 (2002: HK$21,367,000), representing an increase of 16% over the previous year. The net profit margin of the Group is 71%, representing a slightly decrease from 77% in previous year. The decrease was mainly attributable to the extra resources incurred for the Group's business development since our listing on the main board of the Stock Exchange. Nevertheless, earnings per share for the year ended 31 March 2003 remained stable at 11.3 HK cents (2002: 10.5 HK cents).

During the year under review, revenue derived from marketing and compliance monitoring services and sales support services, accounting for 85% (2002: 85%) and 15% (2002: 15%) of the Group's turnover respectively. The details of the financial review of the core businesses are discussed as follows:

Marketing and Compliance Monitoring Services

Despite the sluggish global economic environment experienced during the year subsequent to the September 11 event in the United States, the PRC remained its comparative advantage of being the "The World Factory" by providing low labour and production costs. The export of the PRC's garment and fashion products to the United States continued to grow in 2002. As a result, the volume of purchase orders placed by the US buyers to the Group's manufacturing clients have been increased during the year. Moreover, the Group has successfully convinced new buyers in the US to concur with the Group's compliance monitoring services and began to place purchase orders to the Group's manufacturing clients. It was attributable to the outstanding effort from the Group's overseas consultants together with overseas agents with the new branch offices setting up in the United States. As a result, for the year ended 31 March 2003, turnover of marketing and compliance monitoring services increased to approximately HK$29,607,000 (2002: HK$23,389,000), representing an increase of approximately 27% compared with the last year.

In 2003, the Group has engaged overseas agents to establish new branch offices in New York and Los Angeles to convince new buyers in the United States to concur with the Group's compliance monitoring services and promote its awareness of the CSR issue to the US buyers. On the other hand, the Group also has engaged agents to set up regional offices in Harbin, Beijing and Shenyang for expansion of the Group's compliance monitoring services in the PRC. In the process of setting up branch offices, the Group entered into agency agreements with several independent agents (the "Agents") for operating the branch offices and promoting the Group's business.

The agency agreements entered between the Group and the Agents are initiated for four years. According to the agency agreements, the Agents are responsible for initial set up costs of each branch offices including rental, decoration, furniture and fixtures, human resources and daily operating expenses. On the other hand, the Group deploys its CSR legal compliance consultants, CSR compliance monitoring consultants and marketing consultants to provide training to personnel in each of these branch offices. In return, each of the Agents is required to prepare a quarterly progress report for each branch office to give details on its performance and marketing strategies.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

The directors consider that these outsourcing arrangements are in the best interest for the Group, which the Group will benefit from the following ways:

- The Group is able to control initial set up costs and ongoing operating costs for each branch office as all those costs are fixed and borne by the Agents;

- The Agents are well-versed with local culture and business environment, which they have better connection with US buyers and PRC manufacturers, not only within the garment and fashion industries, but for other industries. It would be more easily for the Group to create business relationship with new US buyers and new PRC's manufacturers. It allows the Group to expand its customers base, derive new income source and promote marketing and compliance monitoring services; and

- The Agents are chargeable to tax in the respective jurisdictions under the respective local tax requirements for their service income derived in the Jurisdictions. As a result, no tax implication to the Group regarding the operation of the branch office, hence the Group would be able to maintain its low effective tax rates.

Sales Support Services

For the year ended 31 March 2003, the turnover and net profit derived from the provision of sales support services amounted to approximately HK$5,162,000 and HK$1,401,000 respectively, representing 21% and 18% increase as compared with previous year. The increase in both turnover and net profit of sales support services is mainly attributable to (i) increase in the price trend of each categories of the Group's permanent textile quota allocation; (ii) the Group has fully utilised its quota allocation; and (iii) an increase in the provision of sales support services without utilisation of the group's permanent textile quota allocation during the year.

DIVIDEND

An interim dividend of HK1.5 cents per ordinary share was paid by the Company during the year. However, the directors do not recommend the payment of a final dividend for the year ended 31 March 2003. (2002: HK$Nil)

CAPITAL STRUCTURE

The Group maintains a strong and stable financial position. As at 31 March 2003, the Group had total assets of approximately HK$64,900,000, comprising non-current assets of approximately HK$37,623,000 and current assets of approximately HK$27,277,000, which were financed by current liabilities, non-current liabilities and shareholders' funds of approximately HK$1,170,000, HK$6,525,000 and HK$57,205,000 respectively.

The current ratio improved from last year's 12.22 to 23.31 for the year ended 31 March 2003. It represents the Group has further strengthened its liquidity position which is able to meet its liabilities when they fall due.

The debt to equity ratio was 0.13 while it was 0.06 last year. The ratio was calculated by dividing the total liabilities of HK$7,695,000 (2002: HK$788,000) by the total shareholders' equity of HK$57,205,000 (2002: HK$13,975,000).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

The gearing ratio expressed as a percentage of total bank borrowings to total shareholders' equity was 11.6% for the year ended 31 March 2003. (2002: Nil)

As at 31 March 2003, the Group does not use any financial instruments for hedging purpose.

LIQUIDITY AND FINANCIAL RESOURCES

The Group enhances its financial strength with positive net cash flow of HK$24,987,000 generated from operating activities of the year ended 31 March 2003, representing an increase of 11% compared to the net cash flow of HK$22,457,000 for the year ended 31 March 2002. Cash and bank balances of the Group at 31 March 2003 were approximately HK$14,114,000, an increase of approximately 5 times as compared to HK$2,297,000 at 31 March 2002.

At 31 March 2003, the shareholders' equity was HK$57,205,000, representing an increase of approximately 3 times as compared to HK$13,975,000 at 31 March 2002.

BORROWINGS AND BANKING FACILITIES

The Group generally financed its operations with internally generated cash flows. During the year, a mortgage loan amounted to approximately HK$6,650,000 (2002: Nil) has been granted for the purpose of facilitating the acquisition of a land and building. The mortgage loan is not at fixed interest rates. Except for this, no banking facilities has been obtained by the Group during the year under review.

The Group serviced its debts primarily through cash generated by operations. As at 31 March 2003, the Group had cash and bank balances of approximately HK$14,114,000 (2002: HK$2,297,000) and taking into consideration the Group's internally generated funds, the directors believe that sufficient funds are available to pursue its planned business development opportunities. The Group did not have any bank overdraft for the year under review.

COMMITMENTS AND CONTINGENT LIABILITIES

The Group does not have any capital commitments and material contingent liabilities as at 31 March 2003.

FOREIGN EXCHANGE EXPOSURE

As at 31 March 2003, substantially all of the monetary assets of the Group was comprised of cash and bank balances which denominated in Hong Kong dollars, hence exchange risk of the Group is minimal. In addition, the Group did not have any foreign currency investments which has been hedged by currency borrowings and other hedging instruments.

PLEDGE AND CHARGE OF GROUP ASSETS

As at 31 March 2003, a property with net book value of HK$9,608,000 has been pledged to secure a mortgage loan. (2002: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

USE OF PROCEEDS

The Group raised approximately HK$28.2 million, after deducting of related issuance expenses, from the issue of 36 million new shares in connection with the listing of the Company's shares on the Stock Exchange. The net proceeds have been applied as follow:

- approximately HK$13 million to set up regional offices in New York and Los Angeles in the US and the northern part of the PRC, including Harbin, Beijing and Shenyang, for expansion of the Group's marketing and compliance monitoring services;
- approximately HK$4 million to set up website forum and to recruit information technology professionals for maintenance of the website;
- approximately HK$2 million to recruit compliance monitoring personnel of other industries to modify and develop the existing compliance monitoring programme for utilisation in such other industries;
- approximately HK$1 million to develop a certification system; and
- approximately HK$8.2 million as additional working capital of the Group.

The net proceeds have been applied in accordance with the proposed applications set out in the Company's prospectus dated 30 October 2002.

HUMAN RESOURCES

As at 31 March 2003, the Group employed 12 full time employees. The Group's emolument policies are formulated on the performance of individual employee and will be reviewed regularly every year. The Group also participates in a defined contribution retirement benefits scheme for its qualified employees. Since 22 October 2002, the Group established a share option scheme for its employees and other eligible participants with a view to provide an incentive to or as a reward for their contribution to the Group. No option has been granted up to the date of this report.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 22 August 2003 to 27 August 2003 both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for attending the annual general meeting to be held on 27 August 2003, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong, Tengis Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 21 August 2003.