MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year under review, the Group recorded a turnover of approximately HK$119,410,000 (2003: HK$34,769,000), representing a significant increase of 243% as compared with previous financial year. It was mainly the result of the Group's newly PRC based operations – apparel sourcing, quality assurance and social compliance monitoring services (hereinafter referred as Apparel Sourcing) through the acquisition of certain subsidiaries during the year.

Net profit from ordinary activities attributable to shareholders was approximately HK$23,497,000 (2003: HK$24,684,000), representing a slight decrease of 5% over the previous financial year. Earnings per share for the year ended 31 March 2004 were HK7.34 cents (2003: HK7.71 cents).

On a geographical basis, the Group has diversified its customer bases which reduced the risk of concentration in one single market. During the year, the Group expanded its markets base to Russia, South Korea, Panama and the US, which contributed 34%, 29%, 6% and 3% to the Group's total turnover for the year respectively, the remaining 28% was contributed from Hong Kong garment and fashion manufacturers.

Divisional Operating Performance

The Group's operations are divided into three main operating divisions: (i) Apparel Sourcing, (ii) Marketing and Compliance Monitoring Services and (iii) Sales Support Services. Revenue derived from (i) apparel sourcing, (ii) marketing and compliance monitoring services and (iii) sales support services were accounted for 75% (2003: Nil), 22% (2003: 85%) and 3% (2003: 15%) of the Group's turnover respectively. The details on the review of each business operation are discussed as follows:

BUSINESS REVIEW

Apparel Sourcing

During the year, the Group launched in a new PRC based apparel sourcing business through the acquisition of Fair Good Limited and its subsidiaries ("Fair Good"). Since the acquisition in October 2003, the Group restructured the organisation of Fair Good to integrate with its CSR operations and is now very trim and efficient. In addition, the Group has actively introduced its apparel sourcing services to its US buyers and manufacturing clients in Hong Kong and the PRC through the well established relationship in the CSR Marketing and Compliance Monitoring Services. As a result, the performance of the apparel sourcing operations achieved a remarkable performance and added significant value to the Group's as a whole. We confidently expect it will continue to be even more profitable for the group over the coming years.

For the year ended 31 March 2004, the turnover and net profit for the Group's Apparel Sourcing services accounted for approximately HK$89,523,000 and HK$9,167,000 respectively. The gross profit of the Apparel Sourcing was approximately HK$13,838,000, representing the gross profit margin of approximately 15%. In the opinion of the management, the gross profit margin was inline with the general industrial practice and expected to increase in the future as the Group has integrated the CSR elements as a value added services into the apparel sourcing operations.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Geographically, the customers of the apparel sourcing operation are grouped into four locations, namely Russia, South Korea, Panama and the US which accounted for approximately 45%, 39%, 6% and 10% to the operation's turnover respectively. The geographical distribution of the apparel sourcing operation was stable as compared with the pre-acquisition business value, however due to the Group has actively promoted the US market, the market shares of the US has increased from pre-acquisition state of 8% to 10% for the year ended 31 March 2004. The Group expects that, due to the well established relationship with the US buyers, further expansion in the US market will be created in the coming year.

Marketing and Compliance Monitoring Services

Due to the challenging business environment impacted by many factors including war, SARS, and terrorism, together with the decrease in the purchasing power of the Group's US buyers in past year, the Group's Marketing and Compliance Monitoring Services ("MCMS") recorded a downward turn in first time. As a result, the turnover and net profit of MCMS operation decreased to approximately HK$26,266,000 (2003: HK$29,607,000) and HK$19,652,000 (2003: HK$23,283,000), representing a decrease of 11% and 16% respectively.

In late 2002, the Group engaged certain agents to establish branch offices in northern cities in the PRC and the US to convince new buyers in the US to concur with the Group's compliance monitoring services and promote the awareness of the CSR issue to the US buyers. Since the payment of agency costs are recognised in a proportion of four years, and last year was the first complete year to recognise the expenses, as a result the net profit margin of MCMS's operation has been decreased to 75% (2003: 78%).

In order to maintain the profitability of the MCMS's operation, the management has ceased to engage all the overseas consultants to promote the Group's MCMS services to the US buyers as the Board considered that the function has been overlapped by the function of branch offices in the US. In addition, the Board decided to reallocate its existing staff who are engaged in the CSR monitoring and compliance services to its Macau and PRC offices to further reduce the costs and relocated in the CSR Apparel sourcing operation as planned.

Sales Support Services

The turnover and net loss derived from the provision of sales support services amounted to HK$3,621,000 (2003: HK$5,162,000) and HK$385,000 (2003: HK$1,552,000) respectively, representing 30% and 75% decrease as compared with previous year. The decrease was mainly attributable to the decrease in the price trend of each categories of quota allocation during the year and decrease in the purchasing power in the US buyers.

DETAILS OF MATERIAL ACQUISITION

On 27 October 2003, the Company entered into a sales and purchase agreement for acquiring 100% interests in Fair Goods, which in turn owns 51% in two subsidiaries ("Fair Good") for a total cash consideration of HK$10,600,000. Fair Good primarily provide apparel sourcing, quality assurance and social compliance monitoring services to customers located in the Russia, South Korea, Panama and the US. It also engaged in the sales of quality denim and jeans products in the PRC commencing in June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

After the completion of the acquisition, the Group strengthened the operation and internal control of Fair Good. As a result, the Group reorganised the structure of Fair Good and decided to dispose of a subsidiary which is engaged in the sales of quality denim and jeans products in the PRC for HK$1,150,000 to an independence third party. The main reason for the disposal was due to the fact that large amounts of capital resources were required to invest for the retail business in the PRC. After considering the risk and reward and held discussion within the management and outside expertise, the Board decided to dispose the retails business and no material loss has been recorded from the disposal.

Other than the aforementioned, the Group will continue to explore and identify investment and acquisition opportunities and intends to finance the expansion by the Group's internal resources and net proceeds from the new issue of the Company shares.

INVESTMENTS

As at 31 March 2004, the Group held various shares which are listed on both main board and GEM board of the Stock Exchange of Hong Kong Limited. The Board considered that there are potential growth in the Hong Kong stock market, thus, the Group invested in listed shares in Hong Kong with the intention of seeking for long-term capital gains and returns. All the investments were financed by internal resources. In order to reduce the investment risk arising from the investment, the Board has taken detailed research on the investee companies and made any investments before obtaining the Board approval. The Board is confident that the investments will bring positive return to the Group in the future.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year. (2003: HK$Nil).

The directors considered that additional cash are required to capture positive investment and acquisition opportunities in related business with growth potential and to expand its geographical presence in the future.

CAPITAL STRUCTURE

It was the intention of the Group to maintain a strong and stable financial position to ensure an efficient capital structure over time. As at 31 March 2004, the Group had total assets of approximately HK$99,170,000 (2003: HK$64,900,000), comprising non-current assets of approximately HK$66,612,000 (2003: HK$37,623,000) and current assets of approximately HK$32,558,000 (2003: HK$27,277,000).

Total debts remained at a low level of HK$9,228,000 (2003: HK$7,695,000), comprising mainly the interests bearing bank borrowing related to a mortgage loan in respect of a land and building of HK$6,358,000 (2003: HK$6,609,000). The Board considered that the Group has sufficient cash flow to settle all the debts when they fall due.

At 31 March 2004, the shareholders' equity was HK$80,702,000 (2003: HK$57,205,000), representing an increase of 41% compared to HK$57,205,000 at 31 March 2003.

The current ratio deteriorated from last year's 23.31 to 10.99 and the quick ratio also declined from last year's 23.31 to 10.81 this year. Due to the fact that the Group remained low level of debts, the Board considered that the Group has sufficient cash flow to settle all the debts when they fall due.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Debt to equity ratio remained stable at 0.11 while it was 0.13 last year. The ratio was calculated by dividing the total liabilities of HK$9,228,000 (2003: HK$7,695,000) by the total shareholders' equity of HK$80,702,000 (2003: HK$57,205,000).

The gearing ratio expressed as a percentage of total bank borrowings to total shareholders' equity was 7.9% for the year ended 31 March 2004. (2003:11.6%)

All ratio analyses showing the Group remained a healthy and stable financial position. Thus, at this stage, with continuing strong cash flows, there are no immediate requirements for debt finance.

LIQUIDITY AND FINANCIAL RESOURCES

It was the intention to manage its cash balance and maintains a high level of liquidity to ensure that the Group was well placed to take advantage of growth opportunities for the business. Cash and bank balances of the Group at 31 March 2004 were HK$9,168,000 (2003: HK$14,114,000), representing a decrease of 35% compared to previous year. The decrease was mainly due to the fact that additional cash has been used for acquisition and investment in last year. Since the Group was substantively debt-free, except for a long term mortgage loan of HK$6,358,000 (2003: HK$6,609,000), the management considered that the Group maintained a very healthy liquidity position.

BORROWINGS AND BANKING FACILITIES

The Group generally financed its operations with internally generated cash flows, except for one mortgage loan amounted to HK$6,358,000 (2003: HK$6,609,000) for the purpose of facilitate the acquisition of a land and building. The mortgage loan is not at fixed interest rates. Except for this, no banking facility has been obtained by the Group.

The Group serviced its debts primarily through cash generated by operations. The Group did not have any bank overdraft for the year under review (2003: Nil).

CORPORATE GOVERNANCE

The Board of Directors of Grandtop International Holdings Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of the Group on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board of Directors aims to ensure that the shareholders are well informed of all information essential to measure the performance of the directors. Information that keeps in touch with the shareholders through:

- The annual report which is distributed to all shareholders
- The interim report distributed to all shareholders
- The annual general meeting and other meetings so that to obtain approval for the board of action as appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

The board and key management meets regularly throughout the year to maintain and discuss the overall operation and financial performance. The important matters that required meetings included acquisition and disposals, annual and interim report, appointment of director and other significant operational function. The meeting also included any relevant change of rules and regulations that may affect the Group's business.

The Audit Committee consisting of two non-Executive Directors, Miss Lo Wing Yan, Emmy and Mr. Poon Kuai Cheong. The Audit Committee provides a forum for the effective communication between the Board and the external auditors. The Committee is to advise the Board on the maintenance of an appropriate framework of financial internal control.

The two non-executive Directors with diversified industry experience serve the important function of recommendation to the management on implementing strategic plan and development. Making sure that the Board maintains high standards of financial standard and safeguards the interests of the shareholders and the Company as a whole.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group did not have any material capital commitments and contingent liabilities for the year ended 31 March 2004, except for disclosed in note 31 to the financial statements.

FOREIGN EXCHANGE EXPOSURE

As at 31 March 2004, substantially all of the monetary assets of the Group was comprised of cash and bank balances, which denominated in Hong Kong dollars, US dollars and Renminbi, hence exchange risk of the Group was 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 2004, a property with net book value of HK$9,436,000 was pledged to secure a mortgage loan. (2003: HK$9,608,000)

HUMAN RESOURCES

As at 31 March 2004, the Group employed 42 full time employees in Hong Kong and overseas. 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.