



GRANDTOP INTERNATIONAL HOLDINGS LIMITED

泓鋒國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2309)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2005

The Board of Directors of Grandtop International Holdings Limited (the “Company”) announces herewith the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2005:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2005

		Group	
		2005	2004
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	101,974	119,410
Cost of sales		(73,674)	(75,686)
Gross profit		28,300	43,724
Other revenue	3	380	99
Selling expenses		(4,636)	(7,960)
Administrative expenses		(10,092)	(6,587)
Profit from operations	4	13,952	29,276
Finance costs	5	(193)	(188)
Loss on disposal of a subsidiary	6	(2,585)	(72)
Profit before tax and minority interests		11,174	29,016
Taxation	7	(1,293)	(781)
Profit after tax and before minority interests		9,881	28,235
Minority interests		(7,721)	(4,738)
Net profit from ordinary activities attributable to shareholders		2,160	23,497
Earnings per share			
Basic, HK cents	8	0.68	7.34
Diluted		N/A	N/A

1. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARD (“new HKFRSs”)

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

The Group has commenced considering the potential impact of these new HKFRSs. Based on management’s preliminary assessment, the adoption of HKFRS 3 “Business Combinations” and HKAS 36 “Impairment of Assets” in the accounting period beginning on 1 January 2005 will result in cessation of amortisation of goodwill to the income statement. Pursuant to HKFRS 3 “Business Combinations” and HKAS 36 “Impairment of Assets”, goodwill is to be recognised as an asset and reviewed for impairment at least annually and any impairment is recognised immediately in the income statement while the Group’s current policy is to amortise goodwill on a straight-line basis over its useful economic life and reviewed for impairment if there are indicators of impairment at the year end. During the year ended 31 March 2005, the amortisation of goodwill charged to the income statement amounted to approximately HK\$271,000.

The Group is still considering the potential impact of other new HKFRSs but is not yet in a position to determine whether other new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. Other new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

2. SEGMENT INFORMATION

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group’s internal financial reporting system, the Group has determined that business segments as the primary reporting because this is more relevant to the Group in making operating and financial decisions.

In determining the Group’s geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Analysis of assets and liabilities by business segments and by geographical segments have not been prepared as most of the Group’s assets and liabilities were unable to be allocated in view of the nature of the Group’s business.

(i) Business segment

	Continuing operations						Discontinued operation					
	Apparel sourcing		Apparel trading		Sales support services		Subtotal		Marketing and compliance monitoring services		Consolidated	
	services											
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Turnover	<u>81,984</u>	<u>89,523</u>	<u>19,990</u>	<u>—</u>	<u>—</u>	<u>3,621</u>	<u>101,974</u>	<u>93,144</u>	<u>—</u>	<u>26,266</u>	<u>101,974</u>	<u>119,410</u>
Segment results	<u>8,823</u>	<u>9,167</u>	<u>8,114</u>	<u>—</u>	<u>—</u>	<u>385</u>	<u>16,937</u>	<u>9,552</u>	<u>(2,985)</u>	<u>19,724</u>	<u>13,952</u>	<u>29,276</u>
Loss on disposal of a subsidiary											(2,585)	(72)
Finance costs											(193)	(188)
Taxation											<u>(1,293)</u>	<u>(781)</u>
Profit after tax and before minority interests											9,881	28,235
Minority interests											<u>(7,721)</u>	<u>(4,738)</u>
Net profit from ordinary activities attributable to shareholders											<u>2,160</u>	<u>23,497</u>

(ii) Geographical segment

	Segment revenue						Segment results					
	Continuing operations		Discontinued operation		Total		Continuing operations		Discontinued operation		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	6,106	3,621	—	26,266	6,106	29,887	339	385	—	19,652	339	20,037
Russia	31,872	40,478	—	—	31,872	40,478	3,920	4,216	—	—	3,920	4,216
South Korea	29,203	35,182	—	—	29,203	35,182	2,892	3,227	—	—	2,892	3,227
Panama	8,901	7,040	—	—	8,901	7,040	1,938	985	—	—	1,938	985
US	12,008	6,823	—	—	12,008	6,823	7,007	739	—	—	7,007	739
PRC	9,532	—	—	—	9,532	—	3,371	—	—	—	3,371	—
Macau	4,352	—	—	—	4,352	—	1,419	—	—	—	1,419	—
	<u>101,974</u>	<u>93,144</u>	<u>—</u>	<u>26,266</u>	<u>101,974</u>	<u>119,410</u>	<u>20,886</u>	<u>9,552</u>	<u>—</u>	<u>19,652</u>	<u>20,886</u>	<u>29,204</u>

3. TURNOVER AND REVENUE

An analysis of the Group's turnover and other revenue is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover:		
Continuing operations:		
Apparel Sourcing	81,984	89,523
Provision of sales support services	—	3,621
Apparel trading	19,990	—
	<u>101,974</u>	<u>93,144</u>
Discontinued operation:		
Provision of marketing and compliance monitoring services	—	26,266
	<u>101,974</u>	<u>119,410</u>
Other revenue:		
Interest income	200	19
Dividend income from investment securities	159	80
Sundry income	21	—
	<u>380</u>	<u>99</u>
Total revenue	<u><u>102,354</u></u>	<u><u>119,509</u></u>

4. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

	2005 HK\$'000	2004 HK\$'000
Staff costs (excluding directors' remuneration):		
— Wages and salaries	2,467	3,033
— Retirement benefits contributions	173	264
	<u>2,640</u>	<u>3,297</u>
Auditors' remuneration	500	500
Depreciation of owned fixed assets	1,217	1,109
Loss on disposal of a subsidiary	2,585	72
Amortisation of intangible assets*		
— Goodwill	271	118
— System development costs	232	465
Operating lease rental in respect of rental premises	516	308
Cost of inventories expensed	73,674	75,686
Irrecoverable bad debts	<u>3,800</u>	<u>—</u>

* *The amortisation of intangible assets is included in "Selling Expenses" on the face of the consolidated income statement.*

5. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest expenses on:		
— Mortgage loan not wholly repayable within five years	172	184
Bank charges	<u>21</u>	<u>4</u>
	<u>193</u>	<u>188</u>

6. DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of the entire interests in Dragon City Limited which is principally engaged in the provision of marketing and compliance monitoring services. The effect of the disposal to the financial statements was as follows:

Net assets disposed of:

	2005 HK\$'000	2004 HK\$'000
Fixed assets	—	1,289
Intangible assets	3,835	—
Trade receivables	—	278
Agency costs	9,827	—
Inventories	—	375
Prepayments, deposits and other receivables	9	242
Cash and bank balances	8	267
Assignment of amount due to fellow subsidiaries	(8,286)	—
Trade and other payables	(8)	(165)
Taxation	—	(29)
Minority interests	—	(1,035)
	<u>5,385</u>	<u>1,222</u>
Loss on disposal of a subsidiary attributable to discontinued operation	<u>(2,585)</u>	<u>(72)</u>
Consideration satisfied by cash:	<u><u>2,800</u></u>	<u><u>1,150</u></u>

Analysis of the net cash inflow in respect of the disposal of a subsidiary is set out below:

	2005 HK\$'000	2004 HK\$'000
Cash consideration received	2,800	1,150
Cash and bank balances disposed of	<u>(8)</u>	<u>(267)</u>
Net cash inflow in respect of the disposal of a subsidiary attributable to discontinued operation	<u><u>2,792</u></u>	<u><u>883</u></u>

The subsidiary disposed of did not contribute significantly to the Group's cash flows. The subsidiary disposed of did not have material impact on the Group's results as a whole.

7. TAXATION

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits the year.

Overseas tax has been provided at the applicable rates on the estimated assessable profit in respective countries of operations for the year.

	2005 HK\$'000	2004 HK\$'000
Current taxation:		
— Hong Kong Profits Tax for the year	60	18
— Overseas taxation	1,254	799
— Over provision in previous year	(21)	(36)
	<u>1,293</u>	<u>781</u>
Deferred tax	<u>—</u>	<u>—</u>
	<u><u>1,293</u></u>	<u><u>781</u></u>

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (2004: Nil).

The charge for the year ended 31 March 2005 and 31 March 2004 can be reconciled to the profit per the income statement as follows:

	2005		2004	
	HK\$'000	%	HK\$'000	%
Profit before taxation	<u>11,174</u>		<u>29,016</u>	
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	1,955	17.5	5,078	17.5
Tax effect of expenses that are not deductible in determining taxable profit	980	8.8	82	0.3
Tax effect of income that is not taxable in determining taxable profit	(63)	(0.6)	(4,118)	(14.2)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,558)	(13.9)	(261)	(0.9)
Over provision in previous year	<u>(21)</u>	<u>(0.2)</u>	<u>—</u>	<u>—</u>
Taxation charge for the year	<u><u>1,293</u></u>	<u><u>11.6</u></u>	<u><u>781</u></u>	<u><u>2.7</u></u>

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year ended 31 March 2005 of approximately HK\$2,160,000 (2004: HK\$23,497,000) and the weighted average of 320,000,000 (2004: 320,000,000) ordinary shares in issue during the year.

There were no potential dilutive shares in existence for the two years ended 31 March 2005 and 2004, accordingly, no diluted earnings per share has been presented.

9. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year under review, the Group recorded a turnover of approximately HK\$101,974,000 (2004: HK\$119,410,000), representing a decrease of approximately 15% as compared to the previous year. It was mainly due to the discontinuance of the marketing and compliance monitoring services and deceleration of the growth of the operation of apparel sourcing, quality assurance and social compliance monitoring services (hereinafter referred to as “Apparel Sourcing”) during the year.

Net profit from ordinary activities decreased by 91% from approximately HK\$23,497,000 to HK\$2,160,000. This was due to closure of the operating of marketing and compliance monitoring service which contributed a high profit margin to the Group in previous year. Due to the pass away of Mr Garry Siu, the former chairman of the Group who was responsible for the marketing and compliance monitoring services, the Group has gradually faded out from this industry and concentrated on Apparel Sourcing and trading. In addition, more resources have been allocated to the operation of Apparel Sourcing which declined the gross profit margin and net profit margin of the Group during the year. Earnings per share for the year ended 31 March 2005 were HK0.68 cents (2004: HK7.34 cents).

In respect of the geographical analysis, Russia, South Korea, Panama, the United States of America (“USA”), the PRC, Macau and Hong Kong accounted for approximately 31%, 29%, 9%, 12%, 9%, 4% and 6% of the Group’s turnover respectively (2004: 34%, 29%, 6%, 3%, 0%, 0% and 28% respectively). The Group has successfully developed the Macau market by commencing its apparel trading operation in Macau during the year. Turnover attributable from Hong Kong decreased significantly during the year by 22% as compared to last financial year. It is mainly due to the closure of marketing and compliance monitoring services during the year.

Divisional Operating Performance

The Group’s operation are divided into four main operating divisions: (i) Apparel Sourcing, (ii) marketing and compliance monitoring services (iii) sales support services and (iv) apparel trading. Revenue derived from these divisions accounted for approximately 80%, 0%, 0% and 20% (2004: 75%, 22% 3% and 0%) of the Group’s turnover respectively. The details on the review of each business operation are discussed below:

BUSINESS REVIEW

Apparel Sourcing

During the year, the Group has allocated significant resources in the operation of Apparel Sourcing. For the year ended 31 March 2005, the turnover and net profit for the Group's Apparel Sourcing was approximately HK\$81,984,000 (2004: HK\$89,523,000) and HK\$8,823,000 (2004: HK\$9,167,000). The decrease was due to the deceleration of the growth of the operation of Apparel Sourcing which faced fierce competition among the industry resulting from the rebound in economy across the region.

Geographically, the revenue generated from Apparel Sourcing, namely, Russia, South Korea, Panama and the USA remained stable. This was attributable to the established network of the Group in industry of Apparel Sourcing.

Marketing and Compliance Monitoring Services

Due to the pass away of Mr Garry Siu, the former chairman of the Group, the operation of Marketing and Compliance Monitoring Service has been adversely affected and was discontinued during the year under review. No revenue was generated from the operation of marketing and compliance monitoring services and incurred a loss of HK\$2,985,000 during the year under review. (2004: the turnover and net profit were approximately HK\$26,266,000 and HK\$19,724,000 respectively).

Sales Support Services

During the year under review, no turnover derived from the provision of sales support services (2004: HK\$3,621,000). The quota system for textile products export to USA ceased during the year. There was no barrier for textile trading/manufacturing companies to export to USA. As a result, the Group lost its unique features for provision of the sales support services. For the purpose of cost effectiveness, the Group scaled down the operation of sales support service to minimum level.

Apparel Trading

During the year under review, the Group has commenced the operation of apparel trading which included wholesales and retails of garment products. Turnover attributable to the operation of apparel trading amounted to approximately HK\$19,990,000 and net profit from ordinary activities amounted to approximately HK\$8,114,000. Currently, the Group has rented two shops in Hong Kong and Macau.

PROSPECT

The Group's apparel sourcing division faced intensive competition during the year. Although the results of this division remained fairly stable, the gross profit has been in a downward trend. In view of significant resources required for the provision of apparel sourcing services such as extra sales team and sourcing team, the Group aimed to merge its apparel sourcing division into its apparel trading division in the future to minimize and better use of the Group's resources.

Following the continuing rebound of the Hong Kong economy which strengthens consumer sentiment and relaxation of travel policy of PRC citizens to Hong Kong and Macau, the directors of the Company anticipate that retail business will be booming with outstanding growth. To reap these development opportunities, the Group commenced operation of Apparel Trading in its leased outlets in Hong Kong and Macau. In addition, in view of the grand opening of the Disneyland in Hong Kong and existing attraction in gambles in Macau

which is expected to boost more tourist business in Hong Kong and Macau, the Group has planned to open more outlets in Hong Kong and Macau for retail of garment products. The directors of the Company believe that the commencement of the operation of apparel trading will diversify not only the business of the Group, but also revenue source.

The Group will continue to explore and identify investment opportunities so as to enhance shareholders' value by organic growth.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year. (2004: HK\$Nil).

The directors considered that to retain additional cash for apparel trading development in view of long term benefits of the shareholders of the Group.

CAPITAL STRUCTURE

It is 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 2005, the Group had total assets of approximately HK\$99,573,000 (2004: HK\$99,170,000), comprising non-current assets of approximately HK\$64,184,000 (2004: HK\$66,612,000) and current assets of approximately HK\$35,389,000 (2004: HK\$32,558,000).

Total debts remained at a low level of approximately HK\$14,450,000 (2004: HK\$9,228,000), comprising mainly the interests bearing bank borrowing related to a mortgage loan of HK\$6,200,000 (2004: HK\$6,358,000) in respect of a land and building. The directors of the Company considered that the Group has sufficient cash flow to settle all the debts when they fall due.

At 31 March 2005, the shareholders' equity was HK\$82,861,000 (2004: HK\$80,702,000), representing an increase of 2.7%.

The current ratio deteriorated from last year's 10.99 to 4.24 and the quick ratio also declined from last year's 10.81 to 2.89 this year. Due to the fact that the Group remained low level of debts, the directors of the Company considered that the Group has sufficient cash flow to settle all the debts when they fall due.

The debt to equity ratio remained stable at 0.17 while it was 0.11 last year. The ratio was calculated by dividing the total liabilities of HK\$14,450,000 (2004: HK\$9,228,000) by the total shareholders' equity of HK\$82,861,000 (2004: HK\$80,702,000).

The gearing ratio expressed as a percentage of total bank borrowings to total shareholders' equity was 7.5% for the year ended 31 March 2005. (2004: 7.8%)

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

LIQUIDITY AND FINANCIAL RESOURCES

It is the intention to manage its cash and bank balances and maintains a high level of liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business. Cash and bank balances of the Group as at 31 March 2005 were approximately HK\$4,246,000 (2004: HK\$9,168,000), representing a decrease of 54% compared to previous year. The decrease is mainly due to the fact that additional cash

has been used for development of apparel trading business during the year. Except for a long term mortgage loan of HK\$6,200,000 (2004: HK\$6,358,000), the management considered that the Group maintained a 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\$6,200,000 (2004: HK\$6,358,000) for the purpose of facilitating 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 does not have any bank overdraft for the year under review.

CONTINGENT LIABILITIES

- (i) As at 31 March 2005, several employees of the Group had completed the required number of years of service under the Employment Ordinance (the “Ordinance”) to be eligible for long service payments upon termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Ordinance. If the termination of the employees met the circumstances required by the Ordinance, the Group’s liability at 31 March 2005 would have been approximately HK\$52,000 (2004: HK\$39,000). No provision has been made for this amount in the financial statements.
- (ii) The IRD issued estimated assessments to a subsidiary of the Group in respect of their potential taxation liabilities for the year of assessment of 1998/1999. However, no provision for tax penalty has been made in the financial statements as in the opinion of the Directors of the Company, the estimated assessments were incorrect and it would be premature to endeavour to determine whether any tax penalty would arise.

FOREIGN EXCHANGE EXPOSURE

As at 31 March 2005, substantially all of the monetary assets of the Group was comprised of cash and bank balances, which denominated in Hong Kong dollars and Renminbi, 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 2005, a property with net book value of HK\$9,289,000 is pledged to secure a mortgage loan. (2004: HK\$9,436,000)

HUMAN RESOURCES

As at 31 March 2005, the Group employed 22 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.

PURCHASE, REDEMPTION OR SALE OR 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 year.

AUDIT COMMITTEE

The Company has an Audit Committee which was established on 22 October 2002 in accordance with the requirements of the Code of Best Practice as set out in Appendix 14 to the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive directors of the Company.

During the year, the Audit Committee met with the Group's executive directors, senior management and the external auditors to consider and review the Group's financial statements, the nature and scope of audit reviews, and the effectiveness of the system of internal control and compliance. The Audit Committee held two meetings during the year. The Audit Committee had reviewed the unaudited interim accounts and the audited annual financial statements for the year ended 31 March 2005 and communicated with external auditors before recommending them to the Board of Directors for approval.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Company has received, from each of the independent non-executive directors, an annual confirmation of the independence pursuant to Rules 3.13 of the Listing Rules. The Company was of the view that all the independent non-executive directors of the Company met the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

PUBLICATION OF FURTHER INFORMATION OF THE STOCK EXCHANGE'S WEBSITE

All the information of the annual results of the Group for the year ended 31 March 2005 required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Listing Rules in force prior to 31 March 2004, which remain applicable to results announcement in respect of accounting period commencing before 1 July 2004 under the transitional arrangements, will be published on the Stock Exchange's website in due course.

By Order of the Board of Directors
Tsai Lai Wa, Jenny
Chairlady

Hong Kong, 28 July 2005

As of the date of this announcement, the Board of Directors comprise three executive directors, namely Mrs. Tsai Lai Wa, Jenny, Mr. Edmund Siu and Ms. Mao Yue and three independent non-executive directors, namely Ms. Lo Wing Yan, Emmy, Mr. Fu Wing Kwok, Ewing and Mr. Liang Kwong Lim.

** For identification purposes only*

Please also refer to the published version of this announcement in The Standard.