

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK\$0.02 per ordinary share for the six months ended 30th September, 2004. The interim dividend will be paid on or about 10th January, 2005 to members, whose names appear on the register of members of the Company at the close of business on 31st December, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30th September, 2004, the Group recorded a 25.4% growth in turnover over the same period in 2003 to HK\$96.2 million. Gross profit increased by 17.5% to HK\$30.9 million while gross profit margin dropped to 32% for the current period. The decrease in gross profit margin was mainly attributable to the rise in labor cost and the number of outsourcing works during the period under review.

The selling and distribution expenses of the Group for the six months ended 30th September, 2004 increased to approximately HK\$2.2 million. The administrative and other operating expenses increased by approximately 18.2% to HK\$7.8 million compared to approximately HK\$6.6 million for the same period of last year. The rise was mainly attributable to the expanded manpower and increased staff remuneration.

Profit attributable to shareholders for the period under review was HK\$19.4 million, which represented 14.2% increase compared with the corresponding period in last year. Basic earnings per share were approximately HK6.1 cents as compared to approximately HK5.4 cents in 2003.

Business Review

Geographical analysis

Japan continued to be the largest export market for the Group which recorded approximately HK\$46.3 million in turnover, representing 2.7% growth over the same period in 2003 and accounting for approximately 48.1% of the Group's total turnover. During the period under review, the Group's major customer in Japan, which used to



engage in sales of men belts only, started to place orders for lady belts this year, leading to a soar in the sales and offset the unfavourable impact of slow down of orders from other customers in Japan. Being the exclusive supplier for this customer, the Group believes that this major customer will continue to be one of the main driver for growth of sales in Japan.

Sales in Europe had also undergone a substantial increase to approximately HK\$20.5 million in the reviewing period. The Group benefited from the outstanding performance of its key customer's operation in Germany. Sales order from other customers, including some famous brands in United Kingdom, Netherlands and France had experienced an up-surge for the period under review. Total export sales to Europe accounted for 21.3% of the Group's total turnover, representing approximately 165% growth compared with the same period in 2003.

In addition, encouraging results had also been recorded in the Australian market of HK\$4.9 million, representing approximately 331% growth over last year. Market demand from Australian market for causal belts designed by the Group soared as supported by the growth in repeat orders received during the reviewing period.

The US market reported turnover of approximately HK\$7.2 million, representing a decrease of approximately 16.8% comparing with the same period in last year.

In view of Hong Kong and the PRC market, a mild increase has been recorded in the sales volume. One of the Group's strategies is to look for quality customers with low credit risk in order to secure the financial position of the Group. However, this strategy also resulted in relative slow expansion in the PRC market. Nevertheless, sales revenue from other countries such as Canada, Taiwan, Philippines, Singapore and Malaysia etc. rose by approximately 47.8%, to HK\$5.2 million.

Product Analysis

In terms of product mix, the sales of belt items remained the core part of the Group's OEM and ODM business. Revenue from the sales of belt items increased from approximately HK\$75.1 million to approximately HK\$91.9 million, representing a growth of 22.4% over the same period in 2003. Sales of small leather goods recorded approximately HK\$3.2 million for the six months ended 30th September, 2004, representing approximately 148.3% increase compared to same period in 2003. The surge was mainly attributable to the widened customer base and the increased demand for wallets and phone straps. During the period under review, the Group generated additional revenue of approximately HK\$764,000 from sales of handbags, backpacks and waist bags.

Prospects

Retail Shop Opening - Area 0264

The Group has launched new collections, including backpacks, handbags and waist bags of its own label "Stranger" which are sold through the local distribution channels of the young fashion apparel retailer, Bauhaus, to the market in July, 2004. Stranger, as the prime brand of the Group, focuses on the sales of a wide range of unisex trendy products for teens. In November, 2004, the first retail outlet of our Group - Area 0264 opened at Langham Place in Mongkok. Area 0264 is a multi-brand shop not only displaying full collection of Stranger's products, including handbag, backpack, belts and wallets, but also incorporating with various trendy and popular brands from Japan, Europe and the U.S. The second shop will be opened in Tsimshatsui in mid December, 2004. Upon the establishment of new retail outlets, the Group planned to embed more resources on brand building and promotion through a series of advertising campaigns such as advertisements on magazines, billboards and participation in sponsorship in the near future. In order to extend the sales network and build up the unique image for the retail outlets, 3-5 more retail outlets will be opened in the main commercial areas in Hong Kong next year. Backed up by a team of experienced and innovative design and product development professionals, the Group planned to launch more new products, including wallets, belts, backpacks, handbags as well as fashion items and accessories, such as jeans, T-shirts, jackets and watches. The widening of the product range could surely help enhancing the market penetration and increasing the market shares.

OEM and ODM Business

The dedication on high quality designs and products helps further strengthening the confidence of the customers upon our products. In order to accommodate the various and ever-changing requirements of different customers and maintain our competitiveness, the Group will focus on improving the product quality by further enhancing the product development capability. The Group will expand the existing product development team to develop a wider range of leather products for the Group's OEM and ODM customers. In the first half of fiscal year 2004/05, the Group experienced an encouraging growth in OEM and ODM businesses, among which, the export sales to Japan, Europe and Australia are the segments of the most significant growth.



Looking forward, based on our continuous effort on product development and the improved global market sentiment, the management is optimistic towards the Group's business performance for the coming fiscal year.

Use of Proceeds

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 12th March, 2003 (the "Listing Date"), after deduction of related issuance expenses, amounted to approximately HK\$29.3 million. The usage of the proceeds since its Listing Date and up to 30th September, 2004 was as follows:

- as to approximately HK\$1,270,000 for further development of the Group's production facilities in Dongguan;
- as to approximately HK\$700,000 for strengthening the Group's product development capability and diversifying the Group's product categories;
- as to approximately HK\$330,000 for promotion activities and further development of the Group's brand recognition; and
- as to approximately HK\$6,300,000 as general working capital of the Group.

As at 30th September, 2004, the balance of the proceeds of approximately HK\$20.7 million was placed on short-term deposits with licensed banks in Hong Kong.

Liquidity, Financial Resources and Capital Structure

As at 30th September, 2004, the Group's cash and bank deposits were approximately HK\$79.3 million, compared to approximately HK\$67.1 million as at 31st March, 2004.

As at 30th September, 2004, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8 million which were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$134.9 million as at 30th September, 2004 (31st March, 2004: HK\$113.1 million) and total current liabilities of approximately HK\$22.4 million (31st March, 2004: HK\$13.8 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 6 times as at 30th September, 2004 (31st March, 2004: 8.2 times).