

BUSINESS REVIEW

Manufacturing Business

The Group's OEM/ODM business recorded encouraging results for the period ended 30th September, 2005. Turnover grew by approximately 28% to approximately HK\$123 million (2004: HK\$96 million). Japan continued to be the Group's major market, accounting for approximately 40% of the turnover for the period. Total export sales to Japan rose to approximately HK\$52 million, representing a growth of 13% as compared to that of the same period last year. During the reporting period, the Group successfully expanded its market presence in Europe by outperforming certain competitors from Eastern Europe. Sales to Europe surged approximately 46% to approximately HK\$30 million. It is expected that the Group's proportion of sales to Europe shall become more and more significant with time.

Revenue from manufacturing sales of belts increased from approximately HK\$92 million to approximately HK\$119 million. Sales of wallets and other accessories recorded a turnover of approximately HK\$4 million. The gross profit of manufacturing sales increased to approximately HK\$40 million and the gross profit margin improved slightly to around 33%. The price of genuine leather imported from Italy went down as a result of depreciation of Euro. Metal cost and other chemical consumables became more expensive because of high crude oil price. With management's flexible sales strategies and stringent cost control measures, the impact of inflating metal prices on profit margin had been minimized.

Retail Business

The Group's retail operations kicked off in November 2004. As at 30th September, 2005, the Group had four AREA 0264 stores in Hong Kong. Retail sales for the six months ended 30th September 2005 was approximately HK\$6 million, representing around 5% of the Group's total turnover. Despite the retail business recorded a net loss of approximately HK\$1 million, the Group has been on the right track of development. The Group's retail operations play a strategic role in positioning itself as a trendy and young street-fashion multi-brand store in the market. Facing with the challenge of high rental, the Group will focus on enhancing product development capability and improving the operation efficiency of existing stores. In addition to the Group's in-house brand name "STRANGER", the Group has launched another unique icon "eDOLL_KUBRICK" to the market in late September 2005 which is targeted for younger boys and girls. The Group will launch more brands with unique image and different price levels in order to enlarge the market share.