

Management Discussion and Analysis

FINANCIAL REVIEW

(All the analysis below is based on the results of the Group for the year ended 31st March, 2006 and the year ended 31st March, 2005 for comparison purpose only)

The Group's turnover for the year ended 31st March, 2006 amounted to HK\$254,384,000 (2005: approximately HK\$205,882,000), representing an increase of 24% as compared with that of last year. Gross profit increased to HK\$82,995,000 while the gross profit margin was approximately 33% (2005: 33%).

The selling and distribution expenses of the Group for the year ended 31st March, 2006 increased to approximately HK\$16,155,000 as a result of the upsurge of operating expenses for retail business. The administrative and other operating expenses increased by 30% to HK\$23,742,000 compared to approximately HK\$18,287,000 of last year. The rise was mainly attributable to the expanded manpower, increased staff remuneration and special bonus paid to the executive directors of the Company.

Profit attributable to shareholders increased by approximately 3% to nearly HK\$41,501,000. The basic earnings per share increased to approximately HK13.03 cents. The Board has recommended the payment of a final dividend of HK2 cents per share for the year ended 31st March, 2006. An interim dividend of HK2.4 cents per share was paid by the Company in January 2006, making a total dividend payout ratio of around 34% for the year ended 31st March, 2006.

GEOGRAPHICAL REVIEW

Sales to Japan dropped to HK\$85,037,000 as a result of slow down of orders placed by the major customer in Japan in the second half of the financial year. Despite the sales dropped, Japan remained the largest export market of the Group.

The result of export sales to Europe was encouraging. During the year under review, the Group successfully expanded its market presence in Europe by outperforming certain competitors from Eastern Europe. Export sales to Europe surged to approximately HK\$71,529,000. Europe was the second largest export market of the Group.

Sales to the U.S. grew by approximately 49% to HK\$24,972,000. The growth was attributable to the increasing sales orders placed by the new customers in the U.S. during the year under review

Sales in Hong Kong rose to HK\$38,778,000 representing approximately 120% growth over fiscal 2005. The growth was mainly due to the organic growth of manufacturing business and revenue contribution from the Group's expanding retail operation in Hong Kong.

The Group's export sales to the other countries such as Canada, Taiwan, Philippines, Singapore and Malaysia, etc. rose approximately 39%, to HK\$17,144,000.

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BUSINESS REVIEW

- *Manufacturing Business*

During the year under review, turnover of the manufacturing business grew by 16% to HK\$236,814,000 (2005: HK\$203,911,000). Most of the growth in results came from the first half of the financial year. The turnover growth was slow down in the second half of the financial year because the sales order from Japan decreased. In addition, the Group encountered a production jam in the bottle-neck working procedure in our processing factory in Dongguan and resulted in reduction of production output. Revenue from manufacturing of belts increased from approximately HK\$196,882,000 to approximately HK\$229,939,000. Sales of leather goods and other accessories was approximately HK\$6,875,000 in fiscal 2006. The gross profit of manufacturing business increased to around HK\$75,106,000 but the gross profit margin dropped slightly to around 32%. The decrease of gross profit margin was mainly attributed to the rise of labor cost and outsourcing volume, and the increase of provision made for slow moving inventories.

- *Retail Business*

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. In fiscal 2006, turnover of the Groups' retail business was approximately HK\$17,570,000. The Group incurred an operating loss of approximately HK\$1,540,000 in the retail sector. At the end of March 2006, the Group operated three AREA0264 stores in Hong Kong. During the review year, the Group opened two new stores and ceased operation of one small retail store for strategic reason. The Group implemented various policies in order to improve the operational effectiveness and efficiency. In the second half of the financial year, the overall performance in retail sector had greatly improved.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st March, 2006, the Group's cash and bank deposits were approximately HK\$90,999,000 (2005: HK\$89,597,000).

As at 31st March, 2006, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8,000,000 were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$172,226,000 as at 31st March, 2006 (2005: HK\$145,496,000) and total current liabilities of approximately HK\$21,782,000 (2005: HK\$20,647,000). The current ratio of the Group, calculated by dividing the total currents assets by the total current liabilities, was approximately 8 times as at 31st March, 2006 (2005: 7 times).

Supported by its strong financial position, the Group had not raised any bank loan during the year.

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The Group recorded an increase in shareholders' funds from approximately HK\$133,786,000 as at 31st March, 2005 to approximately HK\$160,853,000 at 31st March, 2006. The increase was mainly attributable to operating profit generated during the year.

TREASURY POLICY

The Group generally finances its operation with internally generated resources.

Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars.

Transactions of the Group are mainly denominated either in Hong Kong dollars, Renmenbi or United States dollars such that the Group does not have significance exposure to foreign exchange fluctuation. Though the Group does not engage in any hedging contracts, the Group's exposure to foreign exchange risk is minimal.

CHARGES ON ASSETS

The Group did not have any assets pledged for general facilities granted by banks.

MATERIAL ACQUISITIONS/DISPOSAL

The Group had no material acquisition/disposals for the year ended 31st March, 2006.

EMPLOYEE INFORMATION

As at 31st March, 2006, the Group had 56 full times employees in Hong Kong and 120 in the PRC. The Group remunerated its employee mainly based on their individual performance. Apart from basic salaries, discretionary bonus, contribution to the statutory retirement scheme, the Group adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares of the Company.

CONTINGENT LIABILITIES

As at 31st March, 2006, the Group did not have any contingent liabilities.