

Revenue from manufacturing of belts increased from HK\$118,743,000 to HK\$126,563,000. Sales of leather goods and other accessories was approximately HK\$4,802,000. The gross profit of manufacturing business decreased to HK\$39,372,000 and the gross margin dropped to around 30%. The decrease of gross margin was due to the rise of labor cost and outsourcing jobs, and additional rental for expanded production floor and dormitory for labor. During the review period, the Group raised the average wages of the processing factory in order to retain experienced workers. In the meantime, more new workers were hired but the average quality was not up to standard. The overall production efficiency was relatively lower than corresponding period last year.

Retail Business

Retail sales for the six months ended 30th September, 2006 was approximately HK\$9,983,000, representing around 7% of the Group's total turnover. The retail performance kept improving and the operating loss reduced to HK\$758,000 compared to HK\$1,000,000 in corresponding period last year. The overall shop rental to turnover ratio was lower as compared to the same period last year as a result of improvement in top-line. Nevertheless, the gross margin for retail sales was still far from satisfactory as low proportion of in-house brand sales was made during the reporting period. More resources would be allocated to advertising and promotion activities in order to enhance the brand image and popularity.

PROSPECTS

With years of development, the Group has successfully consolidated its leading position in leather accessories manufacturing. Better sales performance is foreseeable in the second half of fiscal year especially for the recovery of orders from the Group's major customer in Japan. Sales orders placed by new customers with extensive retail network over Europe and the U.S are promising. Nevertheless, the management expects that the pressure on manufacturing margin still exist in the second half of fiscal year. The Group has employed several experienced production management personnel who are responsible for improving production flow and enhancing workers quality. To cope with the increasing orders in future, the Group will strive to improve the production efficiency and increase the production capacity.

For retail business, the Group's strategy is to maintain the momentum of growth through adjusting the existing product mix and improving the operational efficiency. The Group will endeavor to increase the proportion of in-house brand sales in order to drive up the overall retail profit margin. To fully utilize the competitive strength in leather surface treatment, the Group will focus on developing diversified products with strong rough and raw leather element. For retail network expansion, the Group will open the forth AREA0264 store at a new shopping mall in Kowloon Bay around June 2007.

Looking forward, based on our continuous effort on product development and favorable global market condition, the management is cautiously optimistic towards the Group's performance in the second half of fiscal year 2006/07.

Liquidity, Financial Resources and Capital Structure

As at 30th September, 2006, the Group's cash and bank deposits were approximately HK\$98,701,000, compared to approximately HK\$90,999,000 as at 31st March, 2006.

As at 30th September, 2006, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8,000,000 which were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$195,478,000 as at 30th September, 2006 (31st March, 2006: HK\$172,226,000) and total current liabilities of approximately HK\$28,879,000 (31st March, 2006: HK\$21,516,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 7 times as at 30th September, 2006 (31st March, 2006: 8 times).

Supported by its strong cash flows, the Group did not raise any bank loan during the period.

The Group recorded an increase in shareholders' funds from approximately HK\$160,853,000 as at 31st March, 2006 to approximately HK\$176,708,000 as at 30th September, 2006.

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, Renminbi 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/Disposals

The Group had no material acquisitions/disposals for the six months ended 30th September, 2006.

Human Resources

As at 30th September, 2006, the Group had 202 employees in Hong Kong and the PRC and the processing factory had around 1,500 workers. The Group remunerated its employees 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.