BUSINESS REVIEW

For the fiscal year ended 30 June 2003, the Group's turnover increased by 18.6% to HK$163.6 million (2002: HK$137.9 million), and net profit from ordinary activities attributable to shareholders was HK$2.9 million (2002: loss of HK$38.9 million). Gross profit amounted to HK$74.6 million (2002: HK$36.8 million), representing a 102.7% growth over the previous year, while gross profit margin expanded to 45.6% (2002: 26.7%). The directors do not recommend the payment of any dividend in respect of the year ended 30 June 2003 (2002: Nil).

In the past few years, the Group has consistently concentrated on its business in China. The stable economic and political environment in China has fostered a steady consumer and export market development. As at 30 June 2003, the Group operated 163 "Fun" brand stores in Mainland China, of which 76 were managed directly by the Group, and 87 were operated on franchise basis. Our business growth was driven by a strong demand of "Fun" products in both the first and second-tier cities. Although the outbreak of SARS in the second half of the fiscal year affected the general consumer sentiment, all of our retail stores still experienced a year-by-year basis sales increase. Although our export activity contributed only a relatively small portion of our revenue, our sales to overseas customers had increased by more than 100% compared with last year.

Major international fashion brands had been actively seeking different channels to establish their foothold in the China market. To encounter the highly competitive operating environment, the Group persevered in its strategy of expanding market share and improving profit margin through strong brand positioning and high customer loyalty. Successful launch of high-quality casual lines and nationwide advertising programs through top singer "A-do" music concerts and television shows increased the proportion of sales at full price.

The expansion of the Group's production facilities had been completed during the year. The production capacity was expanded by 25% compared with last year. The extensive application of the coal-fired electricity system had greatly reduced energy cost. Approximately 62% of the Group's products were supplied by the Group's own production facilities. Productivity was increased through application of economy of scale, advanced technologies and shorter lead-time.

LIQUIDITY AND FINANCIAL RESOURCES

As a result of successful advertising programs, more products were sold without discounts. The better application of economy of scale had reduced the overall cost of sales. Accordingly, the Group achieved a promising gross profit percentage of 45.6% (2002: 26.7%). Staff costs as a percentage to sales were reduced to 18% from 21% compared with last year because of improved productivity.

Inventory level was maintained at HK$16.3 million as at 30 June 2003 (2002: HK$11.9 million). Average stock turnover for the year was two months. Delivery lead-time had been closely monitored and shortened.

Net cash inflow from operating activities was HK$17.3 million for the reported year, compared with HK$22.8 million for the prior year. Cash balance at year-end amounted to HK$9.5 million, compared with HK$22.4 million at the prior year-end.

Outstanding bank loans were significantly reduced to HK$2.4 million, as compared with HK$19.1 million last year. The bank loans were secured by the Group's properties with an aggregate carrying value of approximately HK$18 million at 30 June 2003.

The Group's capital commitment which had been contracted for but not provided in the financial statements at 30 June 2003 was approximately HK$1.8 million (2002: Nil).

The Group's bank borrowings at 30 June 2003 were in Renminbi and the Group continues to derive its revenue mainly in the same currency. Therefore its exposure to exchange rate fluctuation is not significant.

The debt equity ratio as at 30 June 2003 was 0.03, compared with 0.27 on the same date last year.

The Group's current ratio as at 30 June 2003 was 0.94, compared with 0.84 at the prior year-end. Quick ratio was 0.61, compared with 0.64 at the prior year-end.

HUMAN RESOURCES

As at 30 June 2003, the Group had a total of 1,880 employees (2002: 1,874). The Group offers competitive remuneration, bonus and share option packages based on the performance of the Group as well as that of each individual employee. Considerable emphasis is placed on keeping high quality personnel at all levels. Accordingly, appropriate training courses are provided to employees from time to time.

PROSPECT

The Group turned around its business in the fiscal year of 2002/2003 and we managed to lay a solid foundation for our future growth for many years ahead. We will increase our women's wear collections from two seasons to six seasons a year. The Group will manage to reduce our product design lead-time by another one month in order to allow faster response to the market need. These measurements will secure more merchandise to be sold at full price.

The momentum of strong market positioning will carry on. To meet the rising demands by China's upper-middle class of youths on shopping pleasure, we are upgrading our shop image with improvements in both store environment and services. To further capitalize our extensive brand awareness, we remain committed to selling high quality apparel with distinctive style at affordable prices only. Merchandise presentation through image-matching top singer "A-do" will continue for the forthcoming year.

We will continue to develop the extensive China market through steady increase of directly managed stores, and an aggressive nationwide franchising strategy by forming partnerships with local young entrepreneurs possessing strong business talents.

We expect that the development of the global economy will be positive. The Group will expand further its export business. The management will endeavor to improve the profitability of export business by securing prompt deliveries through effective supply chain management. With the accession of China to the World Trade Organization, we are confident that export business will become one of the significant activities in our next phase of growth.

The Group has initiated a small-scale property development project in Zhangzhou of Fujian Province during the year. This project is launched subsequent to the Group's insight on the high demand for street stores and comfortable housing in China's second-tier cities. This project will provide an additional revenue to the Group in the near future.