MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operation

The consolidated turnover of the Group for the six months ended 31 December 2003 was HK$94.0 million. This represented an increase of 15.1%, as compared to HK$81.7 million for the same period last year. The net profit after tax rose by 44.4% and increased to HK$1.3 million for the current period, compared to HK$0.9 million as restated for the same period last year.

Our business continued to be concentrated in China. The general consumer sentiment in China was strong and encouraging. Most industries including the apparel retailing market we were in had enjoyed favourably the rising spending power of the consumers. In summary, our Group had restored from the financial turmoil and negative influence of the SARS. We had successfully turned around our business since the end of 2002.

We continued to outperform local competitors and gained additional market share by expanding sales in the same shops and penetrating into more first-tier and second-tier cities through opening new shops aggressively. To serve the customers better and to improve merchandise logistics, the Group embarked on more effective supply chain management. China market had been further segmented into 9 districts. The Group had added 40 new shops in the past six months. We maintained 203 outlets at the end of the period, compared to 163 outlets as at end of June 2003. Out of the total number of shops, 80 shops were managed directly by the Group, and 123 shops were operated on franchise basis. Total retail area was 15,770 square meters at the period end.

The Group was persistent in strengthening brand image, product positioning and promoting strong customer loyalty. We launched successfully high quality casual lines and nationwide advertising programs through top singer “A-do” music concerts and television shows. A combination of better merchandise and higher speed of deliveries had allowed more full price sales and lower purchase cost.

Our export activity, primarily shipments to Japan, had also contributed to the growth in turnover. The export division continued to be a fast growing operation. Turnover increases allowed greater economies of scale in production.

Since mid 2002, the Group had been participating in certain property development projects in Zhangzhou of Fujian, China. Decision was made subsequent to the Group's insight on the high demand for street stores and comfortable living place in China's second-tier cities. In March 2004, the Group had acquired all the issued share of a company which has committed to acquire a piece of land in Zhangzhou. The Group intends to develop the land for both residential and commercial purposes but the Group has not yet decided the development schedule. Details of this transaction are set out in the Company's announcement dated 11 March 2004.

Outlook

Looking ahead into the second half of the current financial year, although the momentum of global growth may not be as strong as it was, the business environment and customer sentiment in China will remain positive. The competition in the nation's apparel market is fierce. Nevertheless our Group has extensive experience and expertise in China business. We develop the China market through steady addition of self-managed stores, and an aggressive nationwide franchising strategy.

Our unique product and pricing strategies, coupled with stringent cost control, will enable us to expand our market share and secure a fruitful margin in the long run. We penetrate into each district with trend-right and price-right products. Market share and profitability expansion according to each district's level of business development will be emphasized.

The promotional campaigns through image-catching top singer "A-do" will continue for the forthcoming year. These programs will define further unique brand identity, distinct styles and quality to our young generation of "Fun" fans.

Following the accession of China to the W.T.O. and the imminent abolishment of the quota system next year, we expect that the Group's export business will boost significantly in the coming years.

The Group has a small-scale property development project in Zhangzhou of Fujian Province during the period. The acquisition of a property development company in Zhangzhou in March 2004 will consolidate the Group's property investment projects. Our management believes that these projects will provide additional contribution to the Group in the near future.

Liquidity and Financial Resources

The Group maintained a stable net cash position during the period under review. Net cash balance at the period end was HK$15.6 million, compared with a balance of HK$9.5 million at 30 June 2003. Net cash inflow from operating activities was HK$8.3 million, compared with a net cash inflow of HK$9.2 million for the same period last year.

Outstanding bank loans were increased to HK$9.9 million as compared with HK$2.4 million at 30 June 2003. The bank loans are secured by the Group's properties with an aggregated carrying value of approximately HK$34.0 million at 31 December 2003 (at 30 June 2003: secured by the Group's properties with an aggregate carrying value of HK$18.0 million).

The Group's capital commitment which had been contracted for but not provided in the financial statements at 31 December 2003 was approximately HK$0.9 million (at 30 June 2003: HK$1.8 million).

The Group's bank borrowings at 31 December 2003 were in Renminbi and the Group continues to derive its revenue mainly in the same currency. Therefore its exposure to currency exchange rate fluctuation is not significant.

The debt equity ratio as at 31 December 2003 was increased to 0.11 compared with 0.03 as restated at 30 June 2003.

The Group's current ratio as at 31 December 2003 was improved to 1.15, as compared with 0.94 as at 30 June 2003. The Group's quick ratio was improved to 0.87 as at 31 December 2003, as compared with 0.61 as at 30 June 2003.