BUSINESS REVIEW

For the fiscal year ended 30 June 2004, the Group's turnover increased by 15.8 % to HK$189.5 million (2003: HK$163.6 million). Gross profit decreased by 8.3% and amounted to HK$68.4 million (2003: $74.6 million). Nevertheless net profit from ordinary activities attributable to shareholders increased to HK$3.9 million (2003: HK$0.2 million as restated).

The directors do not recommend the payment of any dividend in respect of the year ended 30 June 2004 (2003: nil).

The Group has consistently concentrated on its business in China. Although the Chinese Government imposed macroeconomic measures to discourage excessive investment, the economic and political environment remained quite stable. The promising GDP growth has fostered a steady consumer and export market development favoring our business. As at 30 June 2004, the Group operated 261 "Fun" brand stores in China. The number of directly managed stores increased by 30% to a total of 99, while the number of franchise stores increased by 86% to 162 in total. Most of our retail stores experienced a year-on-year sales increase. The Group's nationwide franchising strategy by forming partnerships with local young entrepreneurs proved to be very successful. Merchandise was sold to these operators at lower margin but the corresponding expenses substantially reduced. The Group was dedicated to expanding its nationwide distribution network aggressively through low risk franchising programs.

Orders for our export business were steadily constant with those of previous year. In the past, export activity contributed only a small portion to our revenue, being 4.4% of the total turnover. However, we believe that, upon the phasing out of the U.S. export quota system next year, our competitive pricing strategy will enable a progressive expansion of our export business.

Fashion retailing market in China has been very competitive during the year. Various international fashion brands adopted different channels to establish their foothold in China. The Group has persevered in its strategy of enhancing market shares and improving profit margin through strong brand positioning and high customer loyalty.

We reinforced this by delivering differentiated products with high quality and value to our customers. To catch up with the fast changing fashion pace, we maintained 10 collections in the year. Each collection had its distinctive style and meaning. We had the denim collection building up our labeled culture - a U.S lifestyle expressing adventures and "fun". With different target groups in mind, we had the contemporary collection tailoring to the younger and more fashionable customers, and the basic collection catering to the long and loyal customers. Upgrading for our stores was regularly conducted with dedication to provide relaxed lifestyle store atmospheres and enjoyable services to our customers. Successful launch of different styles of casual lines coupled with nationwide advertising programs through top singer "A-do" music concerts and television shows had effectively strengthened our brand image.

Management Discussion and Analysis

The Group's production facilities worked smoothly in the year. Stringent cost control measures were implemented for each business process, including procurement and logistics. The production capacity was further expanded by 15% compared with last year. Approximately 60% of the group's product was supplied by the Group's production facilities.

Several prudent property projects in Zhangzhou City of Fujian Province were launched during the year. The first commercial/residential building with an usage area of approximately 3,000 square metres is under construction and expected to complete by the end of year 2004. The land use right for two additional pieces of land was committed to be acquired from the Land Bureau through public auction during the year. Our total land reserves accumulated to approximately 33,000 square metres situating in prime area. The Group would develop the land purchased for both commercial and residential purposes.

LIQUIDITY AND FINANCIAL RESOURCES

As a result of strong brand positioning and effective implementation of product strategies, higher percentage of full price sales continued in the year. The better application of economy of scale further reduced the overall production cost. Accordingly the gross profit percentage of sales in self-operated stores maintained at approximately 42%, while that of sales to franchise stores was 29%.

The Group has adopted a motivating performance-based remuneration system. The staff cost as a percentage to sales maintained at 18.5% as against 17.9% of last year. Because more weighting was put on franchising business, the rental cost as a percentage to sales fell to 7.7%, compared with 9.6% of last year.

Inventory level maintained at HK$16.3 million as at 30 June 2004 (2003: HK$16.3 million). Because of tight control on ordering and delivery, average stock turnover for the year improved to 1.6 month only.

Net cash inflow from operating activities was HK$1.7 million for the reported year, compared with HK$17.0 million for the prior year. Cash balance at the year-end amounted to HK$17.9 million, versus HK$9.5 million at the prior year-end.

Outstanding bank loans increased to HK$9.9 million, as compared with HK$2.4 million last year. The bank loans were secured by the Group's properties with an aggregate carrying value of approximately HK$31 million at 30 June 2004.

Capital commitment contracted for but not provided in the financial statement at 30 June 2004 was approximately HK$23.9 million (2003: HK$1.8 million).

The Group's bank borrowings at 30 June 2004 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 2004 was 0.11, compared with 0.03 on the same date last year.

The Group's current ratio as at 30 June 2004 was 1.26, as against 0.94 at the prior year-end. Quick ratio was 0.98, versus 0.61 at the prior year-end.

HUMAN RESOURCES

As at 30 June 2004, the Group had 2,112 employees (2003: 1,880). The Group offers competitive remuneration, bonus and share option packages based on the performance of the Group and that of individual employees. Much weighting is placed on keeping high quality personnel at all levels. Relevant training courses are offered to employees regularly.

PROSPECT

Driven by a promising GDP growth and the rising consumer spending power, the Group will further capitalize the growth opportunity in China's fashion market. The Group will undertake geographic expansion for its retail operation and network. With increasing market competition, the Group will mitigate risks and capital expenditures by setting an optimum balance between self-operating and franchising businesses.

We will further boost the brand positioning of "Fun" with promotion of a unique U.S lifestyle fashion capturing all the fitting trend and styles. The Group will continue its strategy on product diversification. Ladieswear and menswear for casual, denim and contemporary collections will be delicately composed and delivered to our customer segments. The Group will monitor the delivery lead-time strictly to ensure timely response to the market. These measures will secure more merchandise at full price sales.

The momentum of strong market positioning can be sustained. To meet the rising demands of our selected group of youths on shopping pleasure, we will upgrade our shopping environment and advance our service standard regularly. To further capitalize our extensive brand awareness, we will sell high quality apparel with distinctive style at affordable prices. Extensive promotion programs will be launched to boost our label and brand culture in the coming year.

Management Discussion and Analysis

We expect a stable overall global economy with steady growth. With the foreseeable abolition of the U.S. quota system, the management will expand export garment business through implementation of fitting supply chain management system. We are improving and upgrading our production floor area by another 2,400 square metres to enable a more efficient local and export ordering process.

The Group will continue to undertake prudent property development projects in China. The demand for street stores and comfortable housing in China's second-tier cities is strongly on the rise. It is expected that construction of all remaining land reserves will commence in the next few years. The Group is able to allocate appropriate expertise and finance for these land development projects. We will prudently acquire additional land reserves in the region besides Zhangzhou City. The management is confident that these property developments will provide substantial revenue to the Group in addition to its core business on garment manufacturing and retailing.