

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Operation

The consolidated turnover of the Group reached HK\$104.0 million for the six months ended 31 December 2004. This represented an increase of 10.6%, as compared to HK\$94.0 million for the same period last year. The operating profit (earnings before interest and taxes “EBIT”) increased to HK\$5.6 million, up 95.6% from the corresponding period last year. The net profit attributable to shareholders increased to HK\$2.8 million, up 120% from the corresponding period last year.

The business environment during the period was stable and indeed improved. The Chinese Government had recently implemented macroeconomic measures to control excessive investments. Nevertheless, the overall retail sentiment in China was positive and strong. The consumer market for fashion continued to expand.

To further sharpen our competitive edge, the Group embarked on effective management on supply chain, apparel design, service enhancement and cost control. With unique labeled products and quality services for our customers, we managed to outperform local competitors and gain additional market share by expanding sales in the same stores and penetrating into more first-tier and second-tier cities. The Group added 47 new stores last year that rounded up the total number of our stores to 250 as at the end of the period, compared to 203 shops as at the end of December 2003. Of all the shops in operation, 100 of them were under our direct management, and 150 were operated on franchise basis.

The Group is determined to enhance the market stronghold of our fashion brand “Fun” in China. To promote brand loyalty among our selected and expanding group of young customers, we implemented nationwide promotion programs to boost the young lifestyle of “Fun”.

Our export activity, primarily shipment to Japan, also contributed to the growth in turnover. The export division was fast growing, which allowed our factory to enjoy greater economies of scale through increased production volume.



The Group continued to upgrade its production facilities extensively. To improve cost control, procurement and logistics, we started to shift our major production facilities from Anxi to Xiamen. This further simplified the manufacturing processes and shortened delivery lead-time to shops and customers.

The property projects in Zhangzhou City of Fujian province were launched successfully during the period. The first commercial/residential building with an usable area of approximately 1,290 square metres is close to completion, which is expected to generate additional revenue for the Group in the near future.

## Outlook

Looking forward, as driven by a promising GDP growth in China, local consumer spending power will expand further. The business environment and customer sentiment will remain sound and strong. Although the competition in the apparel market is fierce, the Group has extensive expertise and network to expand our business in China. We will undertake business expansion with steady opening of new stores under our own management and aggressive franchising strategies.

We will continue to boost the brand positioning of “Fun” as a young and unique U.S. lifestyle fashion capturing all the fitting trends and styles. With product diversification as our on-going strategy, we will monitor and compose delicate casual denim, and contemporary collections for men and ladies. The Group aims at securing full selling price for our merchandise and delivering them to our customers efficiently. We will continue to launch extensive promotion programs to boost our label and brand culture.

Since the export quota system has been eliminated, overseas buyers are keen to look for competitive supplies. Our management will enhance aggressively our export garment business in the coming year. We are improving and upgrading our production in the Xiamen plant to secure efficient domestic and international order processing.



The property development projects in Zhangzhou City of Fujian are under smooth progress. The first small-scale project is at the completion stage and will be ready for sale in the coming period. The Group expects to commence development for a larger area of land next year, as the demand for street stores and comfortable housing in China's second-tier cities is growing strong. The Group is able to allocate appropriate expertise and finance for these land development projects. We are optimistic that these property developments will provide substantial revenue to the Group in addition to its core business on garment manufacturing and retailing.

#### **Liquidity and Financial Resources**

Because of stronger branding and more effective product management, the Group has maintained a higher percentage of sales at full price during the period. Overall production cost was reduced because of better application of economy of scale. The gross profit percentage of sales in self-operated stores was maintained at approximately 41%, while that of sales to franchise stores was 29%.

The Group's performance-based remuneration system was motivating. The staff cost as a percentage to sales was 18.3%. Since more weighting was put on franchising business, the rental cost as a percentage to sales was 5.8%.

Inventory level was strictly maintained at HK\$15.2 million as at 31 December 2004. Because of constant tight control on ordering and delivery, average stock turnover for the period was further improved to 1.3 months only.

The Group maintained a stable net cash position during the period under review. Cash balance at the period end was HK\$23.4 million, compared with a balance of HK\$17.9 million at 30 June 2004. Net cash inflow from operating activities was HK\$3.5 million, compare with a net cash inflow of HK\$8.3 million for the same period of last year. Outstanding bank loan was HK\$8.9 million, compared with HK\$9.9 million at 30 June 2004.

The Group's bank borrowings at 31 December 2004 were in Renminbi and the Group continues to derive its revenue mainly in the same currency. Its exposure to currency exchange rate fluctuation is not significant.

Capital commitment contracted for but not provided in the financial statement at 31 December 2004 was approximately HK\$21.9 million (at 30 June 2004: HK\$23.9 million).

The debt equity ratio at 31 December 2004 was 0.09, compared with 0.11 at 30 June 2004.

The Group's current ratio at 31 December 2004 was further improved to 1.63, as compared with 1.26 at 30 June 2004. Quick ratio was also improved to 1.32, as compared with 0.98 at 30 June 2004.

## **HUMAN RESOURCES**

As at 31 December 2004, the Group had 2,229 employees of which 2,223 were employed in the PRC for the Group's retailing and manufacturing business.

The Group offers competitive remuneration packages to its employees, and provides benefits such as staff insurance, retirement scheme, discretionary bonus and option scheme, and provides both in-house and external training programs to strengthen the Group's human resources.

## **DIRECTORS' INTERESTS IN SHARES**

As at 31 December 2004, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of

