BUSINESS REVIEW

For the fiscal year ended 30 June 2005, the Group's turnover increased modestly by 2.5% and amounted to HK$194.2 million (2004: HK$189.5 million). Gross profit amounted to HK$64.1 million (2004: HK$68.4 million), decreased by 6.3% compared to the previous year. Nevertheless, net profit attributable to shareholders increased by 51% to HK$5.9 million (2004: HK$3.9 million).

The directors do not recommend payment of any dividend in respect of the year ended 30 June 2005 (2004: nil).

Over the years, the Group has accumulated extensive experience in operating apparel business in China. The economic and political environments in China are stable and indeed improving steadily. The GDP growth is promising. This has fostered a steady consumer market development favoring our retailing business. As at 30 June 2005, the Group operated 270 "Fun" brand stores in Mainland China, of which 124 were managed directly by the Group, and 146 were operated on franchise basis. Most of our retail stores experienced a year-on-year sales increase. Our nationwide franchising strategy by inviting local young entrepreneurs to form partnerships with us has been very attractive and successful. Merchandise was sold to these operators directly at a lower margin. This enabled our Group to reduce the operating expenses and risk substantially in return.

Fashion retailing market in China is very competitive. Various international brands intend to expand their market share in China. The Group has maintained its strategy of strong brand positioning and high customer loyalty in order to grow our business persistently. Strong brand image defined through stylish designs and quality for value, eye-catching shop displays, and efficient delivery logistics are requisite for our long-term expansion.

We have reinforced brand development by delivering differentiated products with high quality, style and value to our customers at the right time and place. In pace with the changing fashion trend, we managed 4 collections with 10 deliveries throughout the year. Each collection had its unique style and presentation. They were uniquely identified by collections including "denim", "casual" and "sports" series respectively. To present brand character, we upgraded our stores regularly. We aimed to provide a relaxed lifestyle store ambiance and enjoyable services to our customers. The launch of different styles of casual lines coupled with country wide advertising campaigns through billboards and event sponsorships have effectively strengthened our brand image.

Our export activity, primarily shipments to Japan, contributed to both our turnover and our profit margin continuously though not substantially. Order flows from Japan had been stable. The textile quota disputes between the PRC and the USA and the European countries respectively had no adverse effect on our exports.

Recently, in order to improve cost control, procurement and logistics, we shifted our major production facilities from Anxi to Xiamen. This has simplified the manufacturing processes and shortened delivery lead-time to shops and customers.

The property projects in Zhangzhou City of Fujian province were launched smoothly and successfully. The first commercial/residential building with a gross floor area of approximately 1,290 square metres was completed recently and most of the units were pre-sold. The Group has commenced development for another piece of land with a gross floor area of 15,800 square metres. Property projects are expected to generate another kind of revenue for the Group in the future years.

PROSPECT

The retail market and consumer spending power in Mainland China continue to grow at high speed. Our Group is well established to capitalize the opportunities in China's fashion market. With intense competition, the Group will avoid risky capital outlays by setting an optimum balance between self-operating and franchising businesses.

The Group adheres to the strategy of strong market positioning. Besides fitting our customers by the introduction of 8 fresh seasonal collections a year, the Group is committed to shortening further our design lead-time in order to respond to the market needs faster. These measures will secure more merchandise be sold at regular price. To enhance further brand awareness and identity, we are upgrading our shop image through improvements in both store ambiance and services. We will also launch more nationwide promotions. The advertising campaigns with Kenji Wu will be one of the major events in the coming year. With improved and unique brand positioning, we will be able to enjoy more regular price and higher store sales in the near future.

The Group will further foster our export business in the coming years. In the long term, the development of the global economy is positive. The ultimate settlement of export disputes between the PRC and the USA and the European countries respectively will enable our garment products to compete and be sold in more countries. This will help in diversifying our Group's business portfolio. We aim at making export business a significant activity in our next phase of growth.

In respect of property development projects in Zhangzhou City, the recent sale of the units for the first erected premises is very successful. The construction work for the second larger area of land will commence soon. The demand for street stores and comfortable housing in China's second tier cities is very strong. The Group possesses appropriate expertise and financial strength for these land projects. These property developments will generate significant income to the Group in addition to its core business of garment manufacturing and retailing.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy net cash position during the year. Net cash inflow from operating activities was HK$15.1 million for the reported year, compared with HK$1.7 million for the prior year. Cash balance at the year-end amounted to HK$41.3 million, versus HK$17.9 million at the prior year-end.

Inventory under apparel manufacturing segment was maintained at HK$18.4 million as at 30 June 2005 (2004: HK$16.3 million). Average stock turnover for the year maintained at 1.7 months (2004: 1.6 months).

Outstanding bank loans as at 30 June 2005 was HK$8.9 million (2004: HK$9.9 million). The bank loans were secured by the Group's properties with an aggregate carrying value at approximately HK$27.8 million at 30 June 2005.

Capital commitment contracted for but not provided in the financial statement at 30 June 2005 was approximately HK$21.7 million (2004: HK$23.9 million).

The Group's bank borrowings at 30 June 2005 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 2005 was 0.09, compared with 0.11 on the same date last year.

The Group's current ratio as at 30 June 2005 was 1.68, as against 1.26 at the prior year-end. Quick ratio was 1.23, versus 0.98 at the prior year-end.

HUMAN RESOURCES

As at 30 June 2005, the Group employed a total of 2,317 full-time employees (2004: 2,112). The Group remunerates its employees on performance basis. The Group also offers medical benefits, retirement plans, share options, and discretionary performance bonuses, We manage to keep high quality personnel at all levels.