

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

The consolidated turnover of the Group reached HK\$129.3 million for the six months ended 31 December 2005. This represented an increase of 14.0%, as compared to HK\$113.5 million as restated for the same period last year. The operating profit (earnings before interest and taxes "EBIT") increased to HK\$7.6 million, up by 33.6% from the corresponding period last year. The net profit attributable to shareholders increased to HK\$5.4 million, up by 89.6% from the corresponding period last year.

Throughout these years, the Group has concentrated its business in China where tremendous opportunities and spending power lied. Despite the macroeconomic measures imposed by the Chinese Government to discourage excessive investment, both the economic and political environment remained quite stable. The continued GDP growth in China has fostered a stable market development benefiting exactly our business. The overall retail sentiment in China was strong. The consumer market for fashion continued to expand.

As at 31 December, 2005, the Group operated 264 "Fun" brand stores in China, of which 137 were managed directly by the Group, and 127 were operated on franchise basis. Most of our retail stores experienced a year-on-year sales increase.

Despite increased competition due to growing number of new entrants in apparel business, we managed to enhance the market stronghold of our "Fun" brand through sharp brand positioning. We insisted that strong brand image defined through stylish designs and quality for value, eye-catching shop displays, and efficient delivery logistics are requisite for ultimate expansion. In pace with the fast changing fashion trend, we successfully maintained a rolling 4 collections with 10 deliveries annually. Each collection had its distinctive style and meaning featuring a relaxed and elegant lifestyle. Furthermore, the advertising campaigns with Kenji Wu, a young and famous singer in South-east Asia, was well delivered to and welcomed by our young customer group.

The property projects in Zhangzhou City of Fujian province were launched smoothly and successfully. The first small-scale commercial/residential building with a gross area of approximately 1,290 square metres was completed. All units of the small property were sold contributing to an extra profit of HK\$0.8 million. The Group has already commenced the construction work for another piece of land with a gross floor area of 15,800 square metres.

PROSPECT

The GDP in China will grow further and the local consumer spending power will expand at the same pace. The Group will continue to capitalize the development of our business in China. In response to an increasing competition, the Group will continue to mitigate risks and capital expenditures by setting an optimum balance between self-operating and franchising businesses.

To strengthen further our “Fun” brand positioning, we emphasize our brand as 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. We will monitor the delivery lead time strictly to ensure timely response to the market. These measures will secure more merchandise at full price sales.

To meet the fine demand of our selected group of youths on shopping pleasure, we will further upgrade our shopping environment and advance our service quality regularly. To further capitalize our extensive brand awareness, we strive to sell high quality apparel with distinctive style at affordable prices. Extensive promotion programs including advertising programs with Kenji Wu will continue to be launched to boost our label and brand culture in the coming year.