

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.

The Group will continue to undertake prudent property development projects in China. There are high demands for street stores and comfortable housing in China's second-tier cities. Subsequent to the successful sale of the first small-sized property in Zhangzhou City of Fujian, the Group is constructing another piece of land with a gross floor area of 15,800 square metres in the same city. We believe that these property development projects will provide substantial revenue to the Group in addition to those from our core business on garment manufacturing and retailing.

## LIQUIDITY AND FINANCIAL RESOURCES

As a result of stronger brand positioning and effective product management, the Group has maintained a high percentage of sales at full price during the period. The gross profit percentage of sales in self-operated stores was slightly increased to approximately 44 %, while that of sales to franchise stores was 23%.

Inventory level under apparel manufacturing segment was maintained at HK\$ 18.9 million as at 31 December 2005. Average stock turnover for the period was kept at 1.4 months only.

The Group maintained a rather healthy net cash position during the period under review. Net cash outflow from operating activities was HK\$7.7 million, compared with a net cash inflow of HK\$3.5 million for the same period last year. The bank loan was fully repaid during the period under review, compared with a balance of HK\$8.9 million outstanding at 30 June 2005. Cash balance at the period end was HK\$21.2 million, compared with a balance of HK\$41.4 million at 30 June 2005.

The Group derives its revenue and incurs its expenditure mainly in the same currency. Its exposure to currency exchange rate fluctuation is therefore not significant.

Capital commitment contracted for but not provided in the financial statement at 31 December 2005 was approximately HK\$39.7 million (at 30 June 2005: HK\$21.7 million).