BUSINESS REVIEW

For the year under review, the Group's turnover was approximately HK$219.4 million, representing an increase of 6.1 percent as compared with HK$206.9 million as restated last year. Gross profit amounted to HK$71.0 million, representing a decrease of 7.6 percent as compared with HK$76.8 million last year. The loss attributable to shareholders was HK$6.1 million, after an adjustment of HK$1.6 million for the fair value of the new share options, compared with a net profit of HK$6.0 million last year.

The directors do not recommend payment of any dividend in respect of the year ended 30 June, 2006 (2005: nil).

In the year under review, the Group had consistently focused its business in China. The economic and political environment remained quite stable in the nation. The promising GDP growth had fostered a steady consumer demand favoring our fashion retailing business. As at 30 June 2006, the Group operated 235 "Fun" brand stores in China. The number of directly managed stores increased by 19.3 percent to a total of 148, while the number of franchise stores decreased by 40.4 percent to 87 in total. Most of our retail stores experienced a year-on-year sales increase. The retail situation was dynamic yet volatile. To expand aggressively yet with modest risk, the Group had been revamping and restructuring its franchising mechanism to prepare for a new phase of development. We believed that the new phase of franchising would prevail in our market expansion. We allowed certain expiring franchisees to lapse without renewal, and programmed to invite only high caliber franchisees to run our innovative "Fun" shops under our new concept.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group had persevered in its strategy of enhancing market shares and improving margin through strong brand positioning and strong customer loyalty. We had further upgraded our brand image, and focused sharply on our target at the emerging high spending niche of elegant, educated yet trendy youths and young families. Designated programmes on merchandise restructuring were hence carried out in the second half-year. We aimed to participate in the global fashion world. We increased the number of product ranges and trendy collections in the year. Each collection had its distinctive style and meaning. We had our denim collection building up our labeled culture – a U.S. lifestyle expressing adventures and "fun". We had the contemporary collection tailoring to the educated yet trendy youths, and the basic collection catering to our elegant and loyal customers. Coupled with relaxed atmospheres and enjoyable services in our stores, the good product quality and designs had well presented the brand character of "Fun" and its image.

Property development projects in Zhangzhou City of Fujian Province were in smooth progress according to our timetable. The first commercial/residential building with a usable area of approximately 1,290 square meters was completed. All of its units were sold. The ground construction for another piece of land with an area of 15,800 square meters was at the completion stage. The land was intended for erection of a 22-storey commercial/residential building. This project is expected to complete for sale in the near future.

PROSPECT

China achieves a promising GDP growth every year. This enables the huge consumer market to expand each year at a dramatic pace. Our Group is dedicated to capitalizing the opportunities in China's fashion retail market. Our policy is to undertake geographic expansion for our retail operation and network. With intense market competition, the Group will mitigate risks and capital expenditures by pegging a higher proportion of franchising shops instead of self-operating shops in coming years.

The Group is dedicated to achieving a higher profit margin through enhancement of its brand value. We will boost "Fun" image through communicating a strong brand character, and positioning on a more focused customer group. We target at the higher end market where strong yet expanding spending power exists, while avoiding the lower end where price elasticity rules. We will manage "Fun" brand as a unique U.S. lifestyle fashion capturing all the fascinating trends and styles. The Group will continue its strategy of selling quality products identified with a contemporary character. Ladies-wear and menswear for casual, denim and contemporary collections will be intensively structured and delivered to our customer segment. Shop layout, shop atmosphere and promotion programmes will be distinctively composed and launched to elaborate our modern philosophy in life. The Group will monitor the delivery lead-time strictly to ensure timely response to our customers. These measures will concretely build up a new "Fun" image. We believe that higher margin and higher portion of full price sales will be rewarded in return.

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 strong. The construction of the ground work for the 22-storey commercial/residential building known as "Singapore Ritz" in Zhangzhou City is at the completion stage. It is estimated that the construction for this premises will be completed in late 2007 or early 2008. Additionally, the Group will commence pre-construction work on another piece of larger land in the same city soon. We plan to develop this piece of land with ground area of 26,428 square meters by three phases. It is estimated that the ground work for the first phase will be completed around the end of 2007. The Group is able to allocate appropriate expertise and funding for these land development projects. We will prudently acquire additional land reserves in the regions besides Zhangzhou City. The management believes that these property development projects will generate substantial revenue to the Group, in addition to its core business on apparel manufacturing and retailing.

LIQUIDITY AND FINANCIAL RESOURCES

As a result of merchandise restructuring and franchise re-composition, the temporary business interruption had affected the gross profit performance. The gross profit was HK$70.9 million as compared with HK$76.8 million last year. Gross profit percentage was 32.3%, as compared with 37.1% last year.

Because of merchandise review and the corresponding stock adjustment programmes, the apparel inventory level was reduced to HK$9.3 million from HK$18.4 million last year. Average stock turnover for the year was 1.2 months, as compared with 1.7 months last year.

Net cash outflow from operating activities was HK$30.2 million for the reported year, compared with net cash inflow of HK$15.6 million for the prior year. Cash balance at the year end amounted to HK$4.7 million, versus HK$41.3 million at the prior year end.

Outstanding bank loans as at 30 June 2006 was HK$5.8 million (2005: HK$8.9 million). The bank loans were secured by the Group's interest in leasehold land included in inventories under the category of properties under development with an aggregate carrying value of HK$6.9 million.

Capital commitment contracted for but not provided in the financial statement at 30 June 2006 was approximately HK$40.0 million, as compared with HK$21.7 million last year.

The debt equity ratio as at 30 June 2006 was 0.06, compared with 0.09 on the same date last year.

The Group's current ratio as at 30 June 2006 was 2.43, as against 1.68 at the prior year end. Quick ratio was 1.91, versus 1.23 at the prior year end.

HUMAN RESOURCES

As at 30 June 2006, the Group had 2,253 employees (2005: 2,317). 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.