

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

The turnover of the Group for the six months ended 31 December 2006 was approximately HK\$86.3 million, as compared with HK\$129.3 million for the corresponding period of last year. The loss attributable to shareholders was HK\$10.3 million, as compared with a net profit of \$5.4 million in the same period of last year.

In the period under review, the Group continued to focus its apparel retailing business in China. In response to a dynamic yet highly volatile retail environment and in order to boost competitiveness, the Group had continued to revamp and restructure its self-operating and franchising operation. During the period, we closed 25 under-performing self-stores and 16 expiring franchise stores. On the other hand we prudently opened 16 fitting stores and invited 6 high-caliber franchisees to run our innovative “Fun” shops under our new concept.

As at 31 December 2006, the Group operated 216 “Fun” brand stores in China, of which 139 were managed directly by the Group, and 77 were operated on franchise basis.

In the period, the Group established a strong presence in major western and inner cities like Chengdu and Chongqing where an agile fashion market has emerged. We departed ourselves further from the price-weighted mass market, but strengthened our presence in the higher-margin fashion markets. We have gradually located our branded fashion business in trendy department stores and prime-site street stores. In need of transformation for strong long-term development, the Group had streamlined the number of operating shops, and had upgraded pricing policies focusing on more targeted customer groups. Non-fitting and slow-moving merchandise was cleared through granting higher price discounts. Nevertheless these changes had led to a decrease in sales volume and an operating loss for the period.

In response to the high competition encountered, the Group put strong emphasis on brand image and product uniqueness. The Group was dedicated to delivering high quality products composed of unique design, fabric and cutting. Although the business result was behind the expectation during the period, the Group's cumulative effort on enhancing the brand image had attained a higher level of customer acceptability and satisfaction. New pronouncements on fashion concepts, improved merchandise quality, newly renovated shops, trendy merchandise display and cordial customer service had accumulated to more frequent customer patronage and re-visits. The Group is committed to positioning "Fun" brand uniquely and strongly in China. Through this effort, good performance in both turnover and margin in the future years is anticipated.

The development projects in Zhangzhou City of Fujian Province were progressed smoothly according to our plan. The construction of a 22-storey commercial/residential building known as "Singapore Ritz" is at the completion stage. This premises has a gross floor area of approximately 15,800 square meters and will be ready for sale in mid 2007. The property development projects will generate additional revenue to the Group.

PROSPECT

The GDP growth in China is strong and solid. This momentum of rapid development will continue in the next few years. The Group is optimistic that both the retailing environment and customer sentiment in China will remain positive during this growth period.

The apparel market in China undergoes leaping expansion. The market size is tremendously large, although the competition in the industry is fierce. The Group is diligent in its efforts to achieve higher turnover and margin through enhancement of its brand value and focused penetration to the selected niche cities and location. We are transforming our brand positioning to a higher end market where trend-right and quality-right products dominate against price. Our strengthened marketing policies backed up by unique product and pricing strategies will enable us to expand our market share and secure a fruitful margin in the near future.