

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.

The demand for street stores and small-to medium-sized apartments in China's second-tier cities like Zhangzhou is very strong. The 22-storey "Singapore Ritz" will be completed and ready for sale later this year. The Group will then commence its new property project with a portion of land that has a ground area of 26,428 square meters by three phases upon receipt of government permits. We will build up our land reserve through acquisition of land in regions besides Zhangzhou. The Group is confident that the property development business will generate substantial additional revenue in the near future.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The gross profit percentage of sales in self-operated stores was approximately 38%, while that of sales to franchise stores was 30%.

Inventory level under apparel manufacturing segment was maintained at HK\$10.4 million as at 31 December 2006. Average stock turnover for the period was kept at 1.0 months.

Net cash outflow from operating activities was HK\$13.1 million, compared with a net cash outflow of HK\$7.7 million for the same period last year. The bank loan balance at 31 December 2006 was HK\$24.9 million, compared with a balance of HK\$5.8 million outstanding at 30 June 2006. Cash balance at the period end was HK\$11.5 million, compared with a balance of HK\$4.7 million at 30 June 2006.

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 but not provided for in the financial statements at 31 December 2006 was approximately HK\$39.6 million (at 30 June 2006: HK\$40.0 million).

The debt equity ratio at 31 December 2006 was 0.27, compared with 0.06 at 30 June 2006.