



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group recorded total turnover of US\$80,737,000 for the six months ended 30 September 2002 (2001: US\$72,646,000).

Despite an adverse retail environment, turnover of the Group still recorded a growth of 11.1% and the gross profit margin increased from 52.5% to 56.2% for the period under review. This demonstrated the management's efforts in attaining growth without compromising margins. The turnover of the apparel sales business increased from US\$70,020,000 for the previous period to US\$78,346,000 for the current period, representing an increase of 11.9%. The turnover for the licensing operation for the six months ended 30 September 2002 amounted to US\$2,391,000, representing a decrease of US\$235,000 from that of last year.

The increase in sales was mainly attributed to increase in retail sale of apparels in Korea. The sales of apparel in Korea increased from US\$9,998,000 from the corresponding prior period to US\$19,638,000 for the six months ended 30 September 2002, an increase of about 96.4%. This was largely driven by opening of new sales outlets. Number of sales outlets in Korea increased from 75 as at 30 September 2001 to over 100 as at 30 September 2002.

With the exception of Taiwan which recorded a slight decrease in sales, all the other locations showed a slight increase in sales. Owing to the weak economic environment and consumer sentiment, sales in Taiwan fell slightly by 4.7%. The Group commenced retail operation in Malaysia in August 2002 and its contribution to sales for the six months ended 30 September 2002 was not significant.

Gross margin for the six months ended 30 September 2002 increased by 19.1% to US\$45,403,000 (2001: US\$38,133,000). Gross profit margin increased from 52.5% to 56.2%. This reflects the management's efforts in maintaining profit margin by strategic relocation of non-profitable retail outlets, less frequent and smaller product mark-downs and control on purchase cost. The increase in gross profit was partly set off by increase in operating expenses of US\$7,766,000 resulting in a profit from operation before finance costs of US\$5,603,000, representing a decrease of 2.3% comparing to that of the corresponding prior period. The increase in operating expenses was mainly caused by an increase in the selling expenses attributable to Korean market of US\$5,000,000 as the Group continued to expand the business and sales in this market, an increase in salaries for administrative staff of US\$738,000 an amortization of goodwill of US\$338,000 and a provision for impairment in value in an owned shop premise of the Group of US\$453,000. Finance costs for the six months ended 30 September 2002



amounted to US\$1,412,000 (2001: US\$238,000). The increase in finance costs was caused by increase in bank loans and shareholders' loans to finance the acquisition of ILC by Hang Ten BVI pursuant to the Reorganization.

Profit attributable to shareholders for the first six months of the current financial year amounted to US\$3,330,000, a decrease of US\$1,352,000 from the corresponding prior period.

Liquidity and Financial Resources

For the six months ended 30 September 2002, the Group generated US\$10.6 million from operations. As at 30 September 2002, cash and bank balances amounted to US\$8,080,000 (31 March 2002: US\$8,053,000) and total debts were US\$39,340,000. Included in the total debts were loans from shareholders of the Company of US\$16,400,000 which carry interest at 6% per annum and are due for repayment in the year 2011.

As at 30 September 2002, the Group had financial facilities provided by banks amounting to US\$36.5 million, of which US\$22.9 million had been utilized. Certain of the banking facilities were secured by pledge of 620,681 shares of ILC. Total indebtedness as at 30 September 2002, comprising bank loans, shareholders' loans and loan from a minority shareholder of a subsidiary, amounted to US\$39.9 million (31 March 2002: US\$48.6 million) and represented 48.7% of the total assets of the Group (31 March 2002: 57.9%).

Human Resources

As at 30 September 2002, the Group had approximately 1,500 full time employees. The Group offers its employees competitive remuneration packages based on industry's practices and performance of individual employees.

Significant Event Since Balance Sheet Date

On 9 January 2003, the ordinary shares of the Company were listed on the Stock Exchange by way of introduction. The listing of the ordinary shares allows the Group to access to the capital market to strengthen its fund raising capability and fosters the Group's image in the industry.

Other major events occurred since the balance sheet date are set out in note 22 to the interim financial statements above.