Management Discussion and Analysis

COMPARISON OF OPERATING PERFORMANCE

As disclosed in note 2 to the financial statements, the comparative figures for the year ended 31 March 2002 shown in the financial statements include only the results of Hang Ten International Holdings Limited from its date of incorporation and those of its subsidiaries from 31 December 2001 (date of completion of the 2001 Reorganization, which is described in note 1 to the financial statements) to 31 March 2002. In order to make a more meaning comparison of the operating performance of the Group for the two years ended 31 March 2003 and 2002, the results of the Group for the year ended 31 March 2003 are compared to the full year's results for the year ended 31 March 2002 as shown in the proforma unaudited combined income statement disclosed on pages 77 to 82.

BUSINESS AND OPERATIONAL REVIEW

Operation Overview

Turnover of the Group for the year ended 31 March 2003 amounted to US$174,390,000 (2002: US$159,346,000), representing an increase of 9.4%. The increase in turnover for the year ended 31 March 2003 was mainly attributed to growth in the South Korean market where the sales increased by about US$15,111,000.

During the year, the management adopted a more structured and rational promotion strategy to improve profit margin. Gross profit increased by 17.5% to US$92,906,000 (2002: US$79,046,000). Gross margin ratio increased from 49.6% for the year ended 31 March 2002 to 53.3% for the current financial year.

Net profit attributable to shareholders increased by 14.1% to US$9,765,000 (2002: US$8,560,000).

Profit from operations for the year ended 31 March 2003 was US$13,144,000 (2002: US$11,731,000). The increase in profit from operations was mainly attributed to increase in gross profit of the Group. Selling expenses amounted to US$71,892,000 (2002: US$62,632,000), representing an increase of US$9,260,000 which was mainly attributed to increase in expenses such as commission to franchisees and sales staff and rental charges to department stores which generally increased in line with sales. In addition, advertising expenses also increased to US$4,255,000 (2002: US$2,335,000) mainly as a result of more aggressive advertising campaign in South Korea. Administrative expenses for the year ended 31 March 2003 amounted to US$8,325,000 (2002: US$5,574,000). The increase in administrative expenses was mainly due to increase in administrative expenses in South Korea as the operation has expanded substantially in the past two years. Other operating expenses of the Group remained at the same level as the previous year.

Finance costs for the year ended 31 March 2003 amounted to US$1,992,000 (US$1,025,000). The increase in finance costs was mainly due to increase in interest on shareholders' loans which were borrowed in December 2001 to finance the Group's acquisition of ILC International Corporation ("ILC"), which is described in note 1 to the financial statements. The shareholders' loans bear a fixed interest at 6% per annum and are due for repayment in the year 2011.

Management Discussion and Analysis

Apparel Sales

Sales generated from retail and distribution of apparels amounted to US$170,418,000 for the year ended 31 March 2003 (2002: US$155,469,000). This represents a growth of 9.6%. Most of the sales have been generated from the retail operation in Asia. The Group recorded growth in sales revenue in all markets except Taiwan.

Sales in Taiwan contributed to about 60.8% of the Group's turnover. Despite of a very competitive retail environment, sales in Taiwan only decreased slightly by 5.6% to US$106,013,000 (2002: US$112,260,000). However operating profit attributed to the Taiwan market increased to US$9,481,000 (2002: US$6,601,000). During the year, the management focused their effort in improving profit margin instead of growth. The Group adopted tight cost control measures and engaged in more structured and rational promotion activities to improve the profit margin. The management also reviewed regularly the performance of each retail outlet. To improve overall efficiency and profitability, under-performed outlets were closed or relocated to more promising locations. During the year ended 31 March 2003, the Group closed 19 outlets and opened 15 new outlets in Taiwan and had 203 retail outlets (2002: 207) as at 31 March 2003.

Sales in South Korea increased to US$45,267,000 (2002: US$30,156,000), recording a growth of 50.1%. The South Korean market is becoming a significant market of the Group. For the year ended 31 March 2003, sales to this market represented 26.0% (2002: 18.9%) of the total turnover of the Group. The Group has continued to expand the South Korean market by expanding the Group's network of outlets and increasing advertising activities. 27 new outlets were opened during the year. As a high level of advertising expenses of approximately US$2,200,000 were incurred in expanding the South Korean market during the year ended 31 March 2003, operating profit attributed to the South Korean operation amounted to US$2,467,000 (2002: US$2,849,000). However, as the Group has already established a strong position in this market, the management believes that profitability of the South Korean operation will continue to improve. The Group had 115 retail outlets (2002: 88) as at 31 March 2003.

Sales in Philippines increased by 38.0% to US$6,322,000 (2002: US$4,582,000). There has been a steady growth in sales in Philippines over the past years. The Philippines operation recorded an increase in operating profit of 62.0% to US$520,000 (2002: US$321,000). The Group had 35 retail outlets (2002: 34) in Philippines as at 31 March 2003.

For the year ended 31 March 2003, sales in Singapore amounted to US$11,798,000 (2002: US$8,471,000). However, because of a very competitive retail environment in Singapore and high operating costs, the operation in Singapore still recorded an operating loss of US$652,000 (2002: loss of US$293,000). The Group had 31 retail outlets (2002: 21) as at 31 March 2003.

In August 2002, the Group set up retail operation in Malaysia. As the operation is still in the development stage, sales derived from this operation amounted to only US$1,018,000 and an operating loss of US$15,000 was incurred. As at 31 March 2003, the Malaysian operation had 5 retail outlets.

Management Discussion and Analysis

Licensing Operation

The licensing operation provides a steady revenue stream to the Group through licensing of the "Hang Ten" trademark and other trademarks owned by the Group to independent licensees. For the year ended 31 March 2003, revenue generated from the licensing operation amounted to US$3,972,000 (2002: US$3,877,000).

Capital Structure

In January 2003, the ordinary shares of the Company were listed on The Stock Exchange of Hong Kong Limited by way of introduction. A total of 27,100 million ordinary shares and 7,038 convertible preference shares were in issue at the time of listing of the Company's ordinary shares. As at 31 March 2003, 27,200 million ordinary shares and 7,028 convertible preference shares were in issue. Total shareholders' funds amounted to US$28,916,000 (2002: US$17,853,000) as at 31 March 2003.

Liquidity and Financial Resources

The Group generally financed its operation by internally generated cashflow and banking facilities provided by its bankers.

For the year ended 31 March 2003, the Group generated US$17,526,000 (2002: US$10,065,000) of cash from operations. As at 31 March 2003, the Group had cash and bank balances amounted to US$7,493,000 (2002: US$8,053,000) and listed funds, which were readily convertible into cash, amounted to US$5,982,000 (2002: US$5,429,000).

As at 31 March 2003, the Group had financial facilities provided by banks amounting to approximately US$36,500,000, of which US$19,723,000 had been utilized. Certain of the banking facilities were secured by the pledge of 620,681 shares of ILC (representing 97.01% of the issued share capital of ILC), an indirect subsidiary of the Company. Total indebtedness as at 31 March 2003, comprising bank loans and overdrafts of US$19,723,000 (2002: US$28,144,000) and other loans of US$16,400,000 (2002: US$20,497,000) amounted to US$36,123,000 (2002: US$48,641,000) and represented 43.9% (2002: 57.9%) of the total assets of the Group.

The other loans as at 31 March 2003 represented loans from shareholders which are unsecured and are due for repayment in the year 2011.

Human Resources

As at 31 March 2003, the Group had approximately 1,383 full time employees of which 1,372 were based in Asia. About 1,250 employees were engaged in sales and marketing functions. The Group offers its employees competitive remuneration packages based on industry's practices and performance of individual employees. The Company had also adopted a share option scheme to which employees may participate. No share option has been granted or agreed to be granted by the Company under the share option scheme.