HANG TEN

Hang Ten Group Holdings Limited

(Incorporated in Bermuda with Limited Liability)

Interim Report 2005

INTERIM RESULTS

The Board of Directors (the "Board") of Hang Ten Group Holdings Limited (the "Company") presents the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2005. The interim results have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the Six Months Ended 30 September 2005
(Expressed in United States dollars)

	Notes	**Six months ended 30 September 2005 *$'000* (unaudited)**	Six months ended 30 September 2004 *$'000* (unaudited and restated)
Turnover	*3*	**111,443**	92,570
Cost of sales		**(49,127)**	(42,639)
		62,316	49,931
Other revenue	*4*	**1,630**	1,222
Other net (loss)/income		**(438)**	(393)
Selling expenses		**(46,441)**	(36,186)
Administrative expenses		**(8,654)**	(5,917)
Other operating expenses		**(2,443)**	(239)
Profit from operations		**5,970**	8,418
Finance costs	*6*	**(514)**	(570)
Profit before taxation	*6*	**5,456**	7,848
Taxation	*7*	**(1,935)**	(1,323)
Profit for the period		**3,521**	6,525
Attributable to:			
Shareholders of the Company		**3,202**	6,490
Minority interests		**319**	35
		3,521	6,525
Earnings per share	*8*		
– basic		**US cent 0.40**	US cent 0.93
– diluted		**US cent 0.33**	US cent 0.66

The notes on pages 6 to 20 form part of these interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2005
(Expressed in United States dollars)

	Notes	30 September 2005 $'000 (unaudited)	31 March 2005 $'000 (audited and restated)
Non-current assets			
Fixed assets	*10*	**10,046**	7,756
Goodwill		**8,989**	8,989
Intangible assets – trademarks		**17,523**	17,523
Deferred taxation		**1,286**	1,318
		37,844	35,586
Current assets			
Investments at fair value through profit and loss	*11*	**8,721**	9,298
Inventories		**31,350**	21,611
Trade and other receivables	*12*	**21,687**	20,453
Amounts due from related companies	*21*	**236**	169
Cash and bank balances		**13,794**	25,345
		75,788	76,876
Current liabilities			
Bank loans	*13*	**584**	6
Trade and other payables	*14*	**28,729**	20,830
Amount due to shareholders	*15*	**–**	1,200
Current taxation		**3,063**	4,673
		32,376	26,709
Net current assets		**43,412**	50,167
Total assets less current liabilities		**81,256**	85,753

	Notes	30 September 2005 $'000 (unaudited)	31 March 2005 $'000 (audited and restated)
Non-current liabilities			
Bank loans	*13*	**–**	586
Employee benefits		**–**	112
Deferred income	*16*	**8,850**	9,440
Loans from minority shareholders	*17*	**244**	244
Loans from shareholders	*18*	**16,400**	16,400
		25,494	26,782
NET ASSETS		**55,762**	58,971
CAPITAL AND RESERVES			
Share capital	*19*	**12,593**	12,593
Reserves	*20*	**40,977**	44,461
Equity attributable to shareholders of the Company		**53,570**	57,054
Minority interests	*20*	**2,192**	1,917
TOTAL EQUITY		**55,762**	58,971

The notes on pages 6 to 20 form part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 30 September 2005
(Expressed in United States dollars)

	2005 **$'000** **(unaudited)**	2004 $'000 (unaudited)
Shareholders' equity at 1 April		
– as previously reported	**57,054**	41,864
– as previously separately reported as minority interests	**1,917**	1,488
– adjustment to opening retained profits on adoption of Hong Kong Financial Reporting Standard ("HKFRS") 3	**–**	528
– adjustment to opening retained profits on adoption of HKFRS 2 *(note 2)*	**(338)**	–
– adjustment to share options reserve on adoption of HKFRS 2 *(note 2)*	**338**	–
– as restated	**58,971**	43,880
Exchange difference on translation of financial statements of foreign entities	**(1,298)**	(275)
Net losses not recognised in the condensed consolidated income statement	**(1,298)**	(275)
Net profit for the period	**3,521**	6,525
Share option cost	**52**	169
Dividend approved in respect of the previous year	**(5,484)**	(4,085)
Addition to minority interests in investment in a subsidiary	**–**	287
Shareholders' equity at 30 September	**55,762**	46,501

The notes on pages 6 to 20 form part of these interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the Six Months Ended 30 September 2005
(Expressed in United States dollars)

	Six months ended 30 September 2005 $'000 (unaudited)	Six months ended 30 September 2004 $'000 (unaudited)
Net cash generated from operating activities	**821**	4,149
Net cash (used in)/generated from investing activities	**(5,838)**	2,022
Net cash used in financing activities	**(6,534)**	(911)
Net (decrease)/increase in cash and cash equivalents	**(11,551)**	5,260
Cash and cash equivalents at 1 April	**25,345**	12,406
Cash and cash equivalents at 30 September	**13,794**	17,666
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**13,794**	17,666

The notes on pages 6 to 20 form part of these interim financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the Six Months Ended 30 September 2005
(Expressed in United States dollars)

1. Basis of Preparation

The unaudited consolidated condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. Principal Accounting Policies

The accounting policies used in the consolidated condensed financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of HKAS 1 has resulted in a change in the presentation of the income statement, the balance sheet and the statement of changes in equity. In particular the presentation of minority interest has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have effect on how the results for the current or prior accounting periods are prepared and presented.

The adoption of HKFRS 2 "Share-based Payment" has resulted in a change in the accounting policy for share-based payments. In prior year, the provision of share options to employees did not result in an expense in the income statement. Following the adoption of HKFRS 2, fair value of share options granted at the grant date is amortised over the relevant vesting periods to the income statement and a corresponding increase in reserve is recognised. The new accounting policy has been applied retrospectively with comparative figures restated.

The effects of the changes in the accounting policies described above on the results for the current period and the comparative prior period are as follows:

	Six months ended 30 September 2005	Six months ended 30 September 2004
	$'000	*$'000*
Increase in administrative expenses	**52**	169

The effects of the application of HKFRS 2 on the consolidated balance sheet as at 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005 (originally stated)	**Adjustment**	**As at 31 March 2005 (restated)**	**Adjustment**	**As at 1 April 2005 (restated)**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Retained profits	33,552	(338)	33,214	–	33,214
Share options reserve	–	338	338	–	338
Total effects on equity attributable to shareholders of the Company		–		–	

3. Turnover

The principal activities of the Group are designing, marketing and sale of apparel and accessories mainly under the brand name of "Hang Ten" and licensing of trademarks. Turnover represents the sales value of goods supplied to customers and royalty income from licensing of trademarks.

	Six months ended 30 September 2005	Six months ended 30 September 2004
	$'000	*$'000*
Sales of apparels	**109,686**	90,425
Royalty income	**1,757**	2,145
	111,443	92,570

4. Other Revenue

	Six months ended 30 September 2005	Six months ended 30 September 2004
	$'000	*$'000*
Rental income	**360**	256
Bank interest income	**248**	83
Claims receivable from suppliers	**609**	244
Others	**413**	639
	1,630	1,222

5. Segmental Information

The Group's business is managed on a worldwide basis, but participates in several principal economic environments. The analysis of the revenue and results by geographical segments of the Group during both of the financial periods are as follows:

Six months ended 30 September 2005

	Taiwan	Philippines	Singapore	Korea	Malaysia	United States of America	Others and unallocated	Inter-segment eliminations	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	57,169	2,372	7,471	38,364	1,016	1,723	3,328	–	111,443
Inter-segment revenue	3,926	–	–	–	–	–	745	(4,671)	–
Total	61,095	2,372	7,471	38,364	1,016	1,723	4,073	(4,671)	111,443
Segment result	5,309	(5)	(423)	5,540	(117)	(4,834)	500	–	5,970
Finance costs									(514)
Taxation									(1,935)
Profit for the period									3,521

Six months ended 30 September 2004

	Taiwan *$'000*	Philippines *$'000*	Singapore *$'000*	Korea *$'000*	Malaysia *$'000*	United States of America *$'000*	Others and unallocated *$'000*	Inter-segment eliminations *$'000*	Total *$'000*
Revenue from external customers	57,353	2,398	8,409	20,995	1,270	–	2,145	–	92,570
Inter-segment revenue	5,722	–	–	108	–	–	399	(6,229)	–
Total	63,075	2,398	8,409	21,103	1,270	–	2,544	(6,229)	92,570
Segment result	6,825	8	(260)	1,484	8	(252)	605	–	8,418
Finance costs									(570)
Taxation									(1,323)
Profit for the period									6,525

The analysis of the Group's revenue by business segments is as follows:

	Six months ended 30 September 2005 ***$'000***	Six months ended 30 September 2004 *$'000*
Sales of apparels	**109,686**	90,425
Royalty income	**1,757**	2,145
	111,443	92,570

6. Profit before Taxation

Profit before taxation is arrived at after charging:

		Six months ended 30 September 2005 *$'000*	Six months ended 30 September 2004 *$'000*
(a)	**Finance costs**		
	Interest on bank advances and other borrowings wholly repayable within five years	**21**	40
	Interest on shareholders' loans	**493**	530
		514	570
(b)	**Other items**		
	Cost of inventories sold	**49,127**	42,639
	Staff costs	**15,880**	12,287
	Depreciation	**2,029**	1,656

7. Taxation

	Six months ended 30 September 2005	Six months ended 30 September 2004
	$'000	*$'000*
Current tax – provision for Hong Kong Profits Tax		
Tax for the period	**–**	–
Current tax – overseas		
Tax for the period	**1,935**	1,322
Deferred tax		
Origination and reversal of timing differences	**–**	1
	1,935	1,323

No Hong Kong profits tax has been provided as the Group had no assessable profits in Hong Kong for the six months ended 30 September 2005 (2004: $nil).

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

8. Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the six months ended 30 September 2005 of $3,202,000 (2004: $6,490,000) and the weighted average number of 803,218,000 ordinary shares (2004: 700,653,280 ordinary shares after adjusting for the consolidation (the "Share Consolidation") of 100 ordinary shares of HK$0.001 each of the Company into 1 ordinary share of HK$0.10 each on 12 November 2004) in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the six months ended 30 September 2005 of $3,202,000 (2004: $6,490,000) and the weighted average number of 987,824,000 ordinary shares (2004: 987,245,200 ordinary shares after adjusting for the Share Consolidation) in issue during the period and after adjusting for the effects of all dilutive potential ordinary shares.

9. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2005 (2004: $nil).

10. Fixed Assets

During the six months ended 30 September 2005, the Group purchased new fixed assets amounted to $6,445,000 (2004: $1,568,000).

11. Investments at Fair Value through Profit and Loss

	As at 30 September 2005	As at 31 March 2005
	$'000	*$'000*
Trading securities (at market value)		
Listed funds in Taiwan	**8,721**	9,298

12. Trade and Other Receivables

	As at 30 September 2005	As at 31 March 2005
	$'000	*$'000*
Trade debtors (net of provision)	**7,185**	6,912
Royalty receivable (net of provision)	**2,191**	1,830
Deposits, prepayment and other receivables	**12,311**	11,711
	21,687	20,453

Debts arising from wholesales of goods and royalty income are due within one to two months from the date of billing. Debtors with long overdue balances are requested to settle all outstanding balances before any further credit is granted.

Included in trade and other receivables are trade debtors (net of provisions) and royalty receivable (net of provision) with the following aging analysis:

	As at 30 September 2005 ***$'000***	As at 31 March 2005 *$'000*
Current	**7,454**	6,998
1 to 3 months overdue	**931**	1,287
More than 3 months but less than 6 months overdue	**1,030**	457
	9,415	8,742

13. Bank Loans

	As at 30 September 2005 ***$'000***	As at 31 March 2005 *$'000*
Secured	**578**	586
Unsecured	**6**	6
	584	592

	As at 30 September 2005 ***$'000***	As at 31 March 2005 *$'000*
The bank loans were repayable as follows:		
Within 1 year or on demand	**584**	6
After 1 year but within 2 years	**–**	–
After 2 years but within 5 years	**–**	586
	–	586
	584	592

14. Trade and Other Payables

	As at 30 September 2005 *$'000*	As at 31 March 2005 *$'000*
Trade creditors	**14,602**	9,492
Bills payable	**200**	314
Accrued charges	**6,478**	5,554
Deposits received	**1,131**	863
Deferred income *(note 16)*	**1,180**	1,180
Interest on loans from shareholders	**494**	1,021
Others	**4,644**	2,406
	28,729	20,830

Credit terms obtained by the Group range from 30 to 45 days.

Included in trade and other payables are trade creditors and bills payable within the following aging analysis:

	As at 30 September 2005 *$'000*	As at 31 March 2005 *$'000*
Within 1 month or on demand	**11,956**	8,340
Between 1 month and 3 months	**2,083**	792
Between 4 months and 6 months	**763**	674
	14,802	9,806

15. Amount due to Shareholders

The balances are unsecured, interest free and repayable on demand.

16. Deferred Income

Deferred income represents the unearned portion of up-front lump sum trademark licensing fee received from a licensee which is recognized as revenue over the term of the trademark licence.

17. Loans from Minority Shareholders

The loans from minority shareholders of a subsidiary are unsecured, interest bearing at 4.11% p.a. and repayable from 1 March 2010 by four annual installments.

18. Loans from Shareholders

The loans from the Company's shareholders were borrowed by Hang Ten International Holdings Limited, a wholly owned subsidiary of the Company, to finance the acquisition of ILC International Corporation ("ILC") in 2001. The loans are unsecured and interest bearing at 6% p.a. The balance is due for repayment in the year 2011.

19. Share Capital

Authorized:

	Number of shares		**Amount**	
	30 September 2005	31 March 2005	**30 September 2005**	31 March 2005
			$'000	*$'000*
Ordinary shares of HK$0.10 each	**2,500,000,000**	2,500,000,000	**32,051**	32,051
Convertible preference shares ("CPS") of HK$10,000 each	**7,307**	7,307	**9,368**	9,368
			41,419	41,419

Issued and fully paid:

	Number of ordinary shares	Amount of ordinary shares	Number of convertible preference shares	Amount of convertible preference shares	Total amount
	'000	*$'000*		*$'000*	*$'000*
Shares capital at 1 April 2004	63,695,000	8,166	3,453	4,427	12,593
Conversion of CPS before the Share Consolidation	14,370,000	1,842	(1,437)	(1,842)	–
The Share Consolidation into HK$0.10 each	(77,284,350)	–	–	–	–
Share capital at 31 March 2005	780,650	10,008	2,016	2,585	12,593
Conversion of CPS during the period	70,000	897	(700)	(897)	–
Share capital at 30 September 2005	850,650	10,905	1,316	1,688	12,593

Holders of convertible preference shares may convert all or any part of the convertible preference shares into ordinary shares at a conversion price of HK$0.10 each.

44,020,000 warrants were outstanding as at 30 September 2005. No warrants were exercised during the period. Exercise in full of the outstanding 44,020,000 warrants would result in the issue of 44,020,000 ordinary shares of the Company of HK$0.10 each and the receipt by the Company, at an exercise price of HK$1.00 per ordinary share, of an aggregate amount of HK$44,020,000 (equivalent to $5.6 million).

11,340,000 options granted to certain employees of the Group under the share option scheme adopted by the Group were outstanding as at 30 September 2005. No option was granted during the six months ended 30 September 2005.

The principal terms of the convertible preference shares, the warrants and the share options scheme have been set out in the annual report of the Company for the year ended 31 March 2005.

20. Reserves

	Attributable to shareholders of the Company							
	Share premium $'000	Contributed surplus $'000	Exchange reserve $'000	Share options reserve $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total $'000
At 1 April 2004, as previously reported as equity	5,710	1,528	1,302	–	20,731	29,271	–	29,271
At 1 April 2004, as previously reported as minority interests	–	–	–	–	–	–	1,488	1,488
Adjustment on early adoption of HKFRS 3	–	–	–	–	528	528	–	528
At 1 April 2004, as restated	5,710	1,528	1,302	–	21,259	29,799	1,488	31,287
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	2,369	–	–	2,369	148	2,517
Share option cost	–	–	–	338	–	338	–	338
Addition to minority interests in investment in a subsidiary	–	–	–	–	–	–	287	287
Purchase of additional interest in a subsidiary	–	–	–	–	–	–	(19)	(19)
Dividend paid	–	–	–	–	(4,085)	(4,085)	–	(4,085)
Profit for the year	–	–	–	–	16,040	16,040	13	16,053
At 31 March 2005	5,710	1,528	3,671	338	33,214	44,461	1,917	46,378
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	(1,254)	–	–	(1,254)	(44)	(1,298)
Share option cost	–	–	–	52	–	52	–	52
Dividend paid	–	–	–	–	(5,484)	(5,484)	–	(5,484)
Profit for the period	–	–	–	–	3,202	3,202	319	3,521
At 30 September 2005	5,710	1,528	2,417	390	30,932	40,977	2,192	43,169

21. Material Related Party Transactions

Name of Related Party	Relationship	Nature of Transaction	Six months ended 30 September 2005 $'000	Six months ended 30 September 2004 $'000	As at 30 September 2005 $'000	As at 31 March 2005 $'000
Michel Rene Enterprises Limited	A company controlled by a shareholder of the Company	Rental income received	13	7		
		Rental expense paid	59	20		
		Amount due therefrom			30	50
Chua and Company and its associates	A minority shareholder of a non-wholly owned company and their associates	Sales of goods	583	811		
Global Inc.	A minority shareholder of a non-wholly owned subsidiary of the Company	Sales of goods	276	180		
		Amount due therefrom			66	48
Hang Ten China Group Limited	A company controlled by substantial shareholders of the Company	Royalty income	81	76		
		Amount due therefrom			140	58
Avon Dale Garments Inc	A minority shareholder of a non-wholly owned subsidiary of the Company and their associates	Royalty income	–	–		
		Amount due therefrom			–	13
					236	169

The amounts due from related companies are unsecured, interest free and repayable on demand.

22. Commitments

(a) Operating lease commitments

The total future lease payments under operating leases are as follows:

	As at 30 September 2005	As at 31 March 2005
	$'000	*$'000*
Within one year	**23,588**	19,565
After 1 year but within 5 years	**40,267**	37,799
After 5 years	**5,041**	4,633
	68,896	61,997

(b) There were no material capital commitments outstanding at 30 September 2005 (31 March 2005: $nil).

23. Contingent Liabilities

In 1997, ILC, a subsidiary of the Group, entered into a two-year service agreement with the Taiwan branch of another subsidiary, Hang Ten Enterprises Limited (the "Branch"). Pursuant to the agreement, ILC provided decoration design service to retail stores operated by the Branch as well as sales promotion support service to the Branch. The service fees amounted to $3,200,000 for each of the two years ended 31 March 1998 and 1999. In accordance with the Income Tax Law (the "Law") of Taiwan, the service fees are subject to 20% withholding tax. However, the withholding tax rate may be reduced to 3.75% under Article 25 of the Law subject to approval of the Taiwan Tax Authority. As at 30 September 2005, the application filed by ILC with the Tax Authority for a reduction of the withholding tax rate to 3.75% had not yet been approved. If the application is not successful, ILC will be liable to pay an additional withholding tax of approximately $1,040,000. No provision for this amount has been made as the directors of the Company consider it highly likely that the Taiwan Tax Authority will approve the application, on the basis of the success of similar applications previously made by ILC.

In December 2003, the Group received a notice of claim from TTA for additional value added tax ("VAT") and penalties in respect of sales made through certain retail shops which are operated under co-operative arrangements with third parties (the "Partners") during the period from January 1999 to December 2002. The TTA has a view that the Group has excluded a portion of the sales value for the purpose of VAT filings and accordingly, levied additional VAT and penalties on this excluded portion which represents the commission income of the Partners. The Group is in the process of negotiating with the TTA on the notice of the claim. Having taken relevant professional advice, the directors have decided not to make any provision in the financial statements for the penalties as they are confident that the Group has reasonable grounds to deny the additional penalties.

24. Approval of Interim Financial Statements

These interim financial statements were approved and authorized for issue by the Board on 15 December 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operation Review

Operation Overview

Turnover of the Group for the six months ended 30 September 2005 amounted to US$111,443,000 (2004: US$92,570,000). Operating profit for the period amounted to US$5,970,000 (2004: US$8,418,000), showing a decrease of US$2,448,000 which is due to an operating loss incurred by the United States retail operation. The operating profit of all operations excluding the United States for the period amounted to US$10,804,000 (2004: US$8,670,000) showing a significant growth of 25%. Net profit attributable to shareholders amounted to US$3,202,000 (2004: US$6,490,000). The drop in net profit is again due to the loss incurred by the United States retail operation.

Since the launch of the United States retail operation in April 2005, it has encountered very severe competition that is beyond the management's original anticipation thus resulting in unsatisfactory performance. Its store roll-out timetable had not progressed as planned due to delays in store handover by mall owners and subsequent store renovation and delivery of merchandise. As a result, the United States operation failed to achieve its performance target and some key members of the senior management who were responsible for operation and are also minority shareholders of the operation had departed. In view of the extreme competitive and high operating costs environment, it is uncertain by what time the United States retail operation could become profitable. After analysis of the situation and due consideration, the board of directors has decided it would be in the best interest of the Group to close down the retail operation in the United States as soon as possible to avoid further capital commitment and further losses to the Group. Full provision for the impairment loss on the investment in the operation has been made in the income statement for the six months ended 30 September 2005. The United States retail operation suffered an operating loss of US$4,834,000, including the provision for the impairment loss of the Group's investment, for the six months ended 30 September 2005. The management believes that the closure of this operation will not have significant adverse financial impact to the Group in the second half of the financial year and the overall performance of the Group in the second half of the financial year will be significantly improved.

Turnover of the Group for the period increased by 20%. The increase in turnover was mainly driven by a significant growth in sales in the South Korean market of about 83%. The Group continued to expand its retail network in its major markets, namely Taiwan and South Korea. The Group also expanded its retail network to Hong Kong and Macau. The Group had a total of 511 retail outlets (2004: 426) as at 30 September 2005.

Gross margin ratio for the current six-month period is 55.9% (2004: 53.9%). The improvement in gross margin was mainly attributed to improvement in the Group's sourcing and merchandising efficiency and capability. Gross profit of the Group increased to US$62,316,000 (2004: US$49,931,000).

The Group remained cost conscious and adopted cost control measures to control its operating expenses. Selling expenses for the six months ended 30 September 2005 totalled US$46,441,000 (2004: US$36,186,000). The increase in selling expenses is mainly attributed to increase in sales and set up costs for new markets. Administrative expenses amounted to US$8,654,000 (2004: US$5,917,000). During the period, the Group incurred various set up costs in the new markets in particularly the United States market which incurred total administrative expenses of about US$1,400,000. Other operating expenses increased to about US$2,443,000 (2004: US$239,000) which was mainly caused by the provision made by the Group in impairment loss on the investment in the United States operation.

Apparel Sales

Sales generated from retail and distribution of apparels amounted to US$109,686,000 for the six months ended 30 September 2005 (2004: US$90,425,000). This represents an increase of 21% from the same period of the previous year.

Taiwan

Taiwan remained the largest market of the Group. Sales in this market contributed to about 51% of the Group's total turnover for the current period. During the six months ended 30 September 2005, the Taiwan economy had not performed as well as expected. Unseasonable weather and frequent tropical typhoons also dampened consumer spending. As a result, sales in Taiwan remained steady for the period and totalled US$57,169,000 (2004: US$57,353,000) for the six months ended 30 September 2005, of which US$52,180,000 (2004: US$53,450,000) were generated from retail sales and US$4,989,000 (2004: US$3,903,000) were generated from distribution activity. As at 30 September 2005, there were 241 retail outlets (2004: 225) in Taiwan.

Operating profit for the six months ended 30 September 2005 amounted to US$5,309,000 (2004: US$6,825,000), recording a decrease of about 22% which was mainly attributed to increase in certain staff benefit expenses and general shop expenses as number of outlets increased.

South Korea

The Group had continued to expand its retail network in South Korea. During the six months ended 30 September 2005, the Group opened 26 new outlets. The performance of the South Korean operation is very satisfactory. The Group's sales in South Korea grew by 83% to US$38,364,000 (2004: US$20,995,000). The increase in sales was attributed to the increase in number of outlets in South Korea as well as increase in demand of the Group's products because of their good quality and good value for money appeal. The Group had 158 retail outlets (2004: 115) in South Korea as at 30 September 2005, including 118 franchised stores (2004: 89). The South Korea market contributed to about 34% of the Group's turnover. Operating profit for the period amounted to US$5,540,000 (2004: US$1,484,000) representing an increase of 273%.

Philippines

Sales in Philippines amounted to US$2,372,000 (2004: US$2,398,000). The operation in Philippines remained steady. The Group had 45 retail outlets (2004: 42) in Philippines as at 30 September 2005. Operating loss resulted from the Philippines market for the six months ended 30 September 2005 amounted to US$5,000 (2004: profit of US$8,000).

Singapore

Because of the slow down in the Singapore economy, sales in Singapore for the six months ended 30 September 2005 decreased by 11% to US$7,471,000 (2004: US$8,409,000). The Group had 35 retail outlets (2004: 33) as at 30 September 2005 in Singapore. The Singapore market suffered an operating loss of US$423,000 for the six months ended 30 September 2005 (2004: loss of US$260,000).

Malaysia

For the six months ended 30 September 2005, sales generated in the Malaysia market amounted to US$1,016,000 (2004: US$1,270,000), recording a decrease of 20%. As at 30 September 2005, the Malaysian operation had 11 retail outlets (2004: 10). Operating loss for the period amounted to US$117,000 (2004: profit of US$8,000).

United States of America

As at 30 September 2005, the Group had 11 outlets. The United States retail operation had not performed as expected. Sales for period amounted to US$1,723,000 (2004: US$nil). Because of the large operating overhead and set up costs, the United States operation suffered an operating loss for the six months 30 September 2005. Total selling and administrative expenses of the United States retail operation amounted to over US$3,500,000. In view of the unsatisfactory performance of the United States operation, the Group had made full provision for impairment loss on the Group's investment in the operation of about US$1,600,000. Operating loss, inclusive of the provision for impairment loss for the six months ended 30 September 2005 of the United States operation amounted to US$4,834,000.

Other Markets

With a view to strengthen the Hang Ten brand's international image, during the period, the Group set up a retail network in Hong Kong and Macau. As at 30 September 2005, the Group had 7 outlets in Hong Kong and 3 outlets in Macau. Sales for the period amounted to US$1,571,000 (2004: US$nil).

Licensing Operation

The licensing operation of the Group has continued to provide a steady income to the Group. Revenue generated from the licensing of the "Hang Ten" trademark and other trademarks amounted to US$1,757,000 for the six months ended 30 September 2005 (2004: US$2,145,000).

Liquidity and Financial Resources

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

For the six months ended 30 September 2005, the Group generated US$821,000 (2004: US$4,149,000) of cash from operating activities. During the period, the Group paid US$5,484,000 in dividend to its shareholders and expended US$6,445,000 in capital expenditure. As at 30 September 2005, the Group had cash and bank balances amounted to US$13,794,000 (31 March 2005: US$25,345,000).

As at 30 September 2005, the Group had financial facilities provided by banks amounting to approximately US$35,000,000, of which US$584,000 had been utilized. Certain of the banking facilities were secured by an office premise of the Group. Total indebtedness as at 30 September 2005, comprising bank loans of US$584,000 (31 March 2005: US$592,000), shareholders' loans of US$16,400,000 (31 March 2005: US$16,400,000) and loans from minority shareholders of a subsidiary of US$244,000 (31 March 2005: US$244,000) amounted to US$17,228,000 (31 March 2005: US$17,236,000) and represented 15.2% (31 March 2005: 15.3%) of the total assets of the Group. The loans from shareholders are unsecured and are due for repayment in the year 2011.

OUTLOOK

The Group will continue to adopt a strategy of growth with emphasis on profitability and efficiency. The Group plans to open about 25 new outlets with the majority to be located in South Korea in the second half of the current financial year.

The Group is continuing its effort in consolidating its leading position in Taiwan. In addition to setting up new outlets in newly developed residential and commercial districts and suburban area, new product lines will be developed to attract new customers. As Taiwan's economic environment is expected to be stable, the management is confident that the Taiwan operation will continue to grow.

Building on the strong growth momentum in the South Korea market, the Group will continue to expand its retail network in South Korea. With the recovery of domestic consumer spending in sight, it is expected that sales generated from the South Korea market will continue to grow. The management will remain cost-conscious and will continue to strengthen its sourcing capability to improve profit margin. The management is confident that the South Korea operation will continue to perform satisfactorily.

In view of the unsatisfactory performance of the United States retail operation, the management has decided to close down the operation to avoid incurring any further losses in this market. By discontinuing the United States retail operation, the Group believes the overall performance of the Group in the second half of the financial year will be significantly improved. The Group will maintain its presence in the United States market through its existing licensing arrangement which has been contributing a steady stream of licensing income to the Group. The Group will look for opportunity to further develop its licensing network in the United States market.

While the Group's retail operation in other markets including Singapore, Malaysia, Philippines, Hong Kong and Macau remain relatively small, the Group will continue to develop the retail network in these markets and measures have been taken to improve the contribution to revenue and profitability from these markets.

With the continuing effort of the Group's dedicated staff and the continuing growth in the Group's major markets, particularly the South Korea market, the management is optimistic that the Group will continue to achieve satisfactory performance and the overall profitability of the Group in the second half of the financial year will improve.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2005 (2004: nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 30 September 2005, the Group had approximately 1,780 (31 March 2005: 1,500) full time employees of which 1,110 were based in Taiwan. About 1,460 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 in which employees may participate.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions of which they were taken or deemed to have under such provisions of the SFO) or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which would have to be notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

Name of director	Nature of interests	Number of shares and warrants held	As approximate percentage of total issued ordinary shares
Kenneth Hung			
– ordinary shares	Personal	25,500,000	3.00%
– convertible preference shares	Personal	107	1.26%
– warrants	Personal	1,600,000	0.19%
Wang Li Wen			
– ordinary shares	Personal	6,400,000	0.75%
– convertible preference shares	Personal	26	0.31%
– warrants	Personal	400,000	0.05%
Kao Yu Chu			
– ordinary shares	Personal	6,400,000	0.75%
– convertible preference shares	Personal	26	0.31%
– warrants	Personal	400,000	0.05%

Save as disclosed above, as at 30 September 2005, none of the directors and chief executive of the Company or any of their respective associates had or deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, so far as is known to the directors of the Company, the following persons, other than the directors of the Company whose interests are disclosed above, had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO:

(i) Long position in ordinary shares

Name	Capacity	Number of ordinary shares	As approximate percentage of total issued ordinary shares
Asian Wide Services Limited	Beneficial owner	401,886,000	47.24%
YGM Trading Limited	Beneficial owner	159,400,000	18.74%

(ii) Long position in underlying shares

Name	Capacity	Number of underlying shares	As approximate percentage of total issued ordinary shares
Asian Wide Services Limited	Beneficial owner	73,200,000	8.61%
YGM Trading Limited	Beneficial owner	61,800,000	7.27%

(iii) Short position in underlying shares

Name	Capacity	Number of underlying shares	As approximate percentage of total issued ordinary shares
YGM Trading Limited	Beneficial owner	7,800,000	0.92%

Save as disclosed above, as at 30 September 2005, so far as is known to the directors, there was no person who had an interest or a short position in the shares or underlying shares of the Company which fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to a written resolution of the sole shareholder of the Company on 24 October 2002, the Company adopted a share option scheme, the principal terms of which have been set out in annual report of the Company for the year ended 31 March 2005. No option was granted during the period. Movements in the number of share options granted under the share option scheme during the period are set out below:

Category	Date of grant	Outstanding at 1 April 2005	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding at 30 September 2005	Exercise price per share	Exercise period
Continuous contract employees	7 April 2004	6,055,000	–	–	(385,000)	5,670,000	HK$1.52	1 April 2005 to 31 March 2009
	7 April 2004	6,055,000	–	–	(385,000)	5,670,000	HK$1.52	1 April 2006 to 31 March 2009
		12,110,000	–	–	(770,000)	11,340,000		

PURCHASE, SALE OR REDEMPTION OF SHARES

There had been no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the six months ended 30 September 2005.

CORPORATE GOVERNANCE

During the six months ended 30 September 2005, the Company has compiled with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules with the exception of the deviation from Code Provision A.4.1 of the Code.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. One of the independent non-executive directors of the Company is not appointed for a specific term. However all directors, including executive directors and independent non-executive directors are subject to retirement from office by rotation in accordance with the bye-laws of the Company.

The Company has an Audit Committee composing of three independent non-executive directors. A set of written terms of reference is adopted to describe the authority and duties of the Audit Committee.

The Company has established a Remuneration Committee with written terms of reference to set out its authority and duties. The Remuneration Committee comprises two executive directors and three independent non-executive directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all the directors of the Company, all the directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

AUDIT COMMITTEE

The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 September 2005.

The audit committee comprises three independent non-executive directors, namely Mr. So Hon Cheung Stephen, Mr. Kwong Chi Keung and Mr. Cheung Yat Hung Alton.

On behalf of the Board
Hang Ten Group Holdings Limited
Chan Wing Sun
Chairman

15 December 2005
Hong Kong