

## CHAIRMAN'S STATEMENT



Dear Shareholders,

The Group continued to deliver solid and respectable results for the year ended 31 March 2006 despite a tougher operating environment.

### OPERATING RESULTS

The Group owns the "Hang Ten" trademark and operates about 540 retail outlets in Asia. Turnover of the Group grew by 14.2% to US\$243,093,000. Profit attributable to equity shareholders was US\$13,003,000, a decrease of 18.9% from the previous year. The Group's performance has been affected by the unsatisfactory performance of the Group's retail operation in the United States which sustained an operating loss of US\$4,834,000. As it is uncertain as to when the United States retail operation would be profitable and to avoid further losses and further capital commitment, the directors decided in December 2005 to close down the United States retail operation. The Taiwanese operation had also recorded a decrease in sales and

operating profit because of unseasonable weather and unfavourable economic conditions. On the other hand, the directors are encouraged by the tremendous growth of the Group's market in South Korea. Sales revenue generated in this market grew by 61.1% and the Group had 186 retail outlets in South Korea as at 31 March 2006. The directors are delighted to report to our shareholders that "Hang Ten" has recently been awarded "The Best Apparel Brand in 2006" by a panel of major newspapers and magazines in South Korea.

### DIVIDEND

The board of directors proposed a final dividend of Hong Kong 5.0 cents (equivalent to approximately United States 0.64 cent) per share for the year ended 31 March 2006 to the holders of ordinary shares of the Company whose names appear on the register of members of the Company on 15 September 2006 and is subject to the approval by the shareholders in the forthcoming annual general meeting.

### RETAIL OPERATION

The Group operates about 540 retail outlets in Asia. Most of the sales revenue of the Group have been generated from the retail of "Hang Ten" brand products. About 98.3% of the Group's turnover for the year ended 31 March 2006 was derived from the apparels retail and distribution operation. Revenue generated from the retail and distribution operation for the year ended 31 March 2006 amounted to US\$238,948,000.

### LICENSING OPERATION

The licensing division of the Group is responsible for the management and licensing of the trademarks owned by the Group. The Group has granted licences to licensees the right to design, manufacture and sell products bearing the trademarks owned by the Group. It has established an



## CHAIRMAN'S STATEMENT *(continued)*

international network of licensees covering a number of countries in Asia, Australia, South America and Europe and in the United States. The licensing operation provides a steady income to the Group. For the year ended 31 March 2006, the licensing operation generated licensing income of US\$4,145,000.

### **FUTURE PLANS AND PROSPECT**

The Group will continue to adopt a strategy of growth with emphasis on profitability and efficiency.

#### **Taiwan**

The recent consumer credit crunch in Taiwan has affected the general consumer spending there. However, as the Group has already established itself as one of the leading retailers in Taiwan, the directors believe that the Taiwanese operation will be able to deliver satisfactory result by undertaking appropriate measures to improve merchandising, to conduct structured promotions and to control costs. To further consolidate its leading position, the Group will continue to look for opportunity to increase its market penetration. New outlets will be opened with special focus on newly developed residential or commercial districts and suburban area. Product lines will also



be expanded and enhanced to attract new customers. To leverage on the Group's extensive experience in the Taiwanese retail market, the Group is exploring opportunity to diversify into higher end products to attract new customers so as to generate more sales and improve overall profit margin in Taiwan. The Group believes that Taiwan will remain one of the most significant markets of the Group.

#### **South Korea**

The directors believe that the South Korean market still has a lot of potential for growth, particular in the teenagers market. Building on the exciting performance of the South Korean market, the Group will continue to expand the retail network there. The Group will also strengthen its product line. In addition to general Hang Ten stores, in order to expand its customer base, the Group will also open new specialised stores selling products targeting teenagers. Over 20 specialised shops have already been set up. Initial consumer response to those specialised stores is very promising and those stores are already providing positive contribution to the Group.



## CHAIRMAN'S STATEMENT *(continued)*



### **Other Markets**

Because of the high operating costs and competitive operating environment in Hong Kong and the fact that the operation is still in the early stage of development, the Hong Kong retail operation's contribution has been small. However, the Group will take appropriate measures to enhance sales in this market in order to generate positive contribution to the Group.

The Group's operations in the Philippines, Singapore, and Malaysia remain relatively small. The Group will continue to develop the retail network in those territories to increase their contribution to the Group.

### **Licensing Operation**

Our licensing operation has been providing a steady stream of revenue to the Group. To leverage on the public's recognition of the "Hang Ten" brand and utilizing our brand management expertise, the Group will continue to develop new licensees. Through such effort, the Group aims to expand its international network of licensees and to generate a steady income from this operation.

### **APPRECIATION**

On behalf of the board of directors, I would like to express our sincere appreciation to all the staff of the Group. I would like to thank our shareholders, our suppliers, our bankers and our customers for their continuous support.

### **Chan Wing Sun**

*Chairman*

20 July 2006