BUSINESS AND OPERATIONAL REVIEW

Operation Overview

Turnover of the Group for the year ended 31 March 2006 amounted to US$243,093,000 (2005: US$212,955,000), showing a growth of 14.2%. The increase in turnover was mainly driven by increase in sales of apparels of 14.6% during the year. Operating profit for the year amounted to US$18,921,000 (2005: US$21,848,000). The operating result of the Group has been affected by the unsatisfactory performance of the United States retail operation. Net profit attributable to equity shareholders amounted to US$13,003,000 (2005: US$16,040,000).

Since the launch of the United States retail operation in April 2005, it had 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 delivery of merchandise. As a result, the United States retail operation failed to achieve its performance target and some key members of the senior management who were responsible for operation and were also minority shareholders of the operation had departed. In view of the extreme competitive and high operating costs environment and the uncertainty of when the United States retail operation could become profitable, the directors decided to close down the retail operation in the United States in December 2005 and the subsidiary undertaking the United States retail operation was put into liquidation. The Group's remaining investment cost in the operation has been fully written off. The United States retail operation sustained an operating loss of US$4,834,000 for the year ended 31 March 2006 which included the write-off of the Group's remaining investment cost in the operation of US$1,683,000.

Gross margin for the year ended 31 March 2006 was 53.9%, comparing to 54.3% for the year ended 31 March 2005. The decrease in gross margin was mainly due to decrease in gross margin in Taiwan as a result of more promotion campaigns in the last quarter of the year and the passing on saving in merchandising costs to customers. Selling expenses amounted to US$95,551,000 (2005: US$79,390,000), representing an increase of US$16,161,000 which was mainly attributed to increase in sales activities, set up costs for new markets and selling expenses incurred in the United States market. Administrative expenses for the year ended 31 March 2006 amounted to US$17,155,000 (2005: US$14,441,000). During the year, the Group incurred various set up costs for the new markets, in particular the United States market which incurred total administrative expenses of about US$1,400,000. Other operating expenses amounted to US$3,459,000 (2005: US$2,843,000) which included the write-off of the remaining investment cost in the United States retail operation of US$1,683,000. Finance cost

for the year ended 31 March 2006 amounted to US$1,127,000 (2005: US$1,231,000).

Net profit attributable to equity shareholders decreased by US$3,037,000. Such decrease was mainly due to the operating loss sustained by the United States retail operation described above.

Apparels Sales

About 98.3% (2005: 97.9%) of the Group's turnover was attributed to sales of apparels for the year ended 31 March 2006. Sales generated from retail and distribution of apparels amounted to US$238,948,000 for the year ended 31 March 2006 (2005: US$208,575,000). This represents a growth of 14.6% from last year. As at 31 March 2006, the Group had 540 retail outlets (2005: 450 outlets) with total shop floor area of about 512,000 square feet (2005: 427,000 square feet).

Taiwan

Taiwan remained the largest market of the Group. Sales in Taiwan contributed to about 51.9% (2005: 62.1%) of the Group's total turnover. During the year ended 31 March 2006, unseasonable weather and frequent typhoons dampened consumer spending during the first half of the year. The overall Taiwan economy had not performed as well as expected and had been affected by the tightening of consumer credits since the last quarter of the year. The Group's Taiwanese operation had therefore been affected by those adverse factors. Revenue generated from retail sales decreased by 5.6% comparing to last year and amounted to US$116,743,000 (2005: US$123,703,000). Sales derived from distribution activity amounted to US$9,542,000 (2005: US$8,545,000). Nevertheless the Group has continued to consolidate its leading position in this market. During the year, the Group added 14 new outlets in Taiwan. It has also

enhanced and extended its product ranges with particular focus on kids' products and expansion of ladies' products.

Operating profit derived from the Taiwanese market decreased by 27.5% to US$12,419,000 (2005: US$17,131,000). The decrease in operating profit was due to decrease in sales in Taiwan of about 4.5% and the decrease in gross margin of 1.5%. The Group had 247 retail outlets (2005: 233 outlets) as at 31 March 2006 with a total retail floor area of approximately 284,000 square feet (2005: 263,000 square feet).

Despite the temporary unfavorable economic environment in Taiwan, the management is confident that the Taiwanese operation will remain strong because of its long-established and solid base there.

South Korea

South Korea is a significant market of the Group and its contribution to the Group has been increasing over the years. The South Korean operation had showed tremendous growth for the year ended 31 March 2006. Sales attributed to this market represented 33.6% (2005: 23.8%) of the turnover of the Group. Sales in South Korea amounted to US$81,750,000 (2005: US$50,757,000) for the year ended 31 March 2006, recording a growth of 61.1%. The increase in sales was attributed to expansion of the retail network in South Korea and increase in popularity of the Group's products because of their quality and good value for money appeal. The Group considers that the South Korean market has a lot of potential for development and has continued to expand its retail network. During the year, 54 new outlets were added.

Operating profit for the year ended 31 March 2006 amounted to US$9,825,000 (2005: US$4,322,000) representing an increase of 127.3%. As at 31 March 2006, the Group had 186 retail outlets (2005: 132 outlets) in South Korea with total retail floor area of approximately 136,000 square feet (2005: 92,000 square feet).

Singapore

Because of the highly competitive operating environment, the operation recorded a decrease in sales of 11% during the first half of the year. However, the operation's performance improved in the second half of the year as the Group had adopted a structured and effective promotion campaign to promote sales.

For the year ended 31 March 2006, sales in Singapore amounted to US$16,285,000 (2005: US$17,506,000) and represented 6.7% (2005: 8.2%) of the Group's turnover. Operating loss for the year amounted to US$315,000 (2005: operating profit of US$539,000). The operation sustained an operating loss because of the drop in sales for the year. The Group had 39 retail outlets (2005: 34 outlets) as at 31 March 2006 with total retail floor area of approximately 28,000 square feet (2005: 25,000 square feet). The management will continue to adopt structured and rational promotion strategies to promote sales and to strengthen the Group's products to improve the operation's sales and profitability.

Philippines

There had been no significant improvement in the economic environment in the Philippines. The Group's operation in the Philippines remained steady. Sales for the year ended 31 March 2006 decreased slightly by 1.9% to US$5,390,000 (2005: US$5,496,000). This operation recorded an operating profit of US$90,000 (2005: US$193,000). The Philippine market contributed to about 2.2% (2005: 2.6%) of the total turnover of the Group. The Group had 45 retail outlets (2005: 41 outlets) in the Philippines as at 31 March 2006 with

total retail floor area of approximately 37,000 square feet (2005: 34,000 square feet).

Malaysia

The Malaysian market contributed to about 1.0% (2005: 1.2%) of the total turnover of the Group for the year ended 31 March 2006. Contribution from this market remained small to the Group as this market was still under development. However, the Group had consolidated its position in this market and the operation had performed satisfactorily despite its small operation. The Group achieved total sales of US$2,485,000 (2005: US$2,568,000) for the year ended 31 March 2006 and an operating profit amounted to US$1,000 (2005: US$4,000). The management believes that the Group has already established a solid foundation for further development in this market. As at 31 March 2006, the Malaysian operation had 12 (2005: 10 outlets) retail outlets with total retail floor area of approximately 14,000 square feet (2005:13,000 square feet).

Other Markets

The United States retail operation had not performed as expected. Sales for the year ended 31 March 2006 until the close down of the operation amounted to US$1,723,000 (2005: US$nil). Because of the large operating overhead and set up costs, coupling with severe competition and delay in store roll out, the United States retail operation sustained an operating loss for the year ended 31 March 2006 of US$4,834,000, inclusive of the write off the Group's remaining investment cost in the operation of US$1,683,000. In view of the unsatisfactory performance of the operation, the Group closed down the operation in December 2005.

The Group set up a retail operation in Hong Kong and Macau during the year with a view to strengthen the Hang Ten brand's international image and retail network. As at 31 March 2006, the Group had 8 (2005: nil) retail outlets in Hong Kong and 3 (2005: nil) outlets in Macau with aggregate sales floor area of 13,000 square feet. As the Group only commenced the operation during the year, sales in Hong Kong amounted to only US$3,391,000 (2005: US$nil). Because of high operating costs, especially rental cost, and that the shops had not been operating for the full year, the Hong Kong operation sustained an operating loss of US$1,142,000 (2005: US$nil). However, as the operation becomes more mature and the stores become more efficient, the management believes that the Hong Kong operation will provide positive contribution to the Group in future.

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 2006, revenue generated from the licensing operation amounted to US$4,145,000 (2005: US$4,380,000) and represented about 1.7% (2005: 2.1%) of the Group's total turnover.

CAPITAL STRUCTURE

As at 31 March 2006, 982,250,000 ordinary shares were in issue. All the convertible preference shares issued by the Company have been converted into ordinary shares. Total equity amounted to US$67,811,000 (2005: US$58,971,000) as at 31 March 2006.

LIQUIDITY AND FINANCIAL RESOURCES

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

For the year ended 31 March 2006, the Group generated US$18,576,000 (2005: US$30,021,000) of cash from operations. As at 31 March 2006, the Group had cash and bank balances amounted to US$21,235,000 (2005: US$25,345,000) and listed funds, which were readily convertible into cash, amounted to US$10,567,000 (2005: US$9,298,000).

As at 31 March 2006, the Group had financial facilities provided by banks amounting to approximately US$35,000,000, of which US$621,000 (2005: US$592,000) had been utilized. Certain of the banking facilities were secured by the pledge of land and building with a net book value of US$1,122,000 (2005: US$1,093,000). Total indebtedness as at 31 March 2006, comprising bank loans and overdrafts of US$621,000 (2005: US$592,000), loans from shareholders of US$16,400,000 (2005: US$16,400,000) and loans from minority shareholders of a subsidiary of US$nil (2005: US$244,000) amounted to US$17,021,000 (2005: US$17,236,000) and represented 13.9% (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.

CONTINGENT LIABILITIES

The Group had certain contingent liabilities with respect to withholding tax in Taiwan totalled US$1,040,000. The Group also had certain contingent liabilities with respect to additional value-added tax and penalties in Taiwan and provision for the additional value-added tax has been made and no provision for the penalties has been made. Having taken relevant professional advice, no further provision has been made for those contingent liabilities.

HUMAN RESOURCES

As at 31 March 2006, the Group had approximately 1,670 full time employees of which 1,120 were based in Taiwan. About 1,390 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. 11,160,000 options granted to certain employees of the Group remained outstanding as at 31 March 2006.