Interim Report 2006

HANG TEN

Hang Ten Group Holdings Limited

(Incorporated in Bermuda with Limited Liability)

stock code : 448

CONTENTS

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 2006. 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 2006
(Expressed in United States dollars)

	Notes	**Six months ended 30 September 2006 *$'000* (unaudited)**	Six months ended 30 September 2005 *$'000* (unaudited)
Turnover	*3*	**114,573**	111,443
Cost of sales		**(49,664)**	(49,127)
Gross profit		**64,909**	62,316
Other revenue	*4*	**1,615**	1,630
Other net loss		**(106)**	(438)
Selling expenses		**(50,469)**	(46,441)
Administrative expenses		**(8,192)**	(8,654)
Other operating expenses		**(108)**	(2,443)
Profit from operations		**7,649**	5,970
Finance costs	*6*	**(511)**	(514)
Profit before taxation	*6*	**7,138**	5,456
Taxation	*7*	**(1,788)**	(1,935)
Profit for the period		**5,350**	3,521
Attributable to:			
Equity shareholders of the Company		**5,414**	3,202
Minority interests		**(64)**	319
		5,350	3,521
Earnings per share	*9*		
– Basic		**US cent 0.55**	US cent 0.40
– Diluted		**US cent 0.55**	US cent 0.33

The notes on pages 8 to 22 form part of these interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2006
(Expressed in United States dollars)

	Notes	30 September 2006 $'000 (unaudited)	31 March 2006 $'000 (audited)
Non-current assets			
Property, plant and equipment	*10*	**9,319**	8,838
Goodwill		**8,989**	8,989
Intangible assets – trademarks		**17,707**	17,523
Deferred tax assets		**2,495**	2,455
		38,510	37,805
Current assets			
Investments	*11*	**10,151**	10,567
Inventories		**36,031**	29,324
Trade and other receivables	*12*	**26,736**	23,540
Amount due from related companies		**199**	104
Cash and bank balances		**8,123**	21,235
		81,240	84,770
Current liabilities			
Bank loans	*13*	**635**	621
Trade and other payables	*14*	**26,340**	24,001
Amount due to shareholders	*15*	**403**	955
Current taxation		**3,021**	4,294
		30,399	29,871
Net current assets		**50,841**	54,899
Total assets less current liabilities		**89,351**	92,704

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

As at 30 September 2006
(Expressed in United States dollars)

	Notes	**30 September 2006 *$'000* (unaudited)**	31 March 2006 *$'000* (audited)
Non-current liabilities			
Loans from shareholders	*16*	**16,400**	16,400
Deferred income	*17*	**7,670**	8,260
Employee benefits		**229**	233
		24,299	24,893
NET ASSETS		**65,052**	67,811
CAPITAL AND RESERVES			
Share capital	*18*	**12,593**	12,593
Reserves	*19*	**51,709**	52,538
Total equity attributable to equity shareholders of the Company		**64,302**	65,131
Minority interests	*19*	**750**	2,680
TOTAL EQUITY		**65,052**	67,811

The notes on pages 8 to 22 form part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 September 2006
(Expressed in United States dollars)

	2006	2005
	$'000	*$'000*
	(unaudited)	(unaudited)
Total equity at 1 April		
As previously reported		
– attributable to equity shareholders of the Company	**65,131**	57,054
– minority interests	**2,680**	1,917
	67,811	58,971
Prior period adjustment arising from change in accounting policy for equity-settled share-based transactions		
– charged to profit or loss	**–**	(338)
– share option reserve	**–**	338
At 1 April, after prior period adjustment	**67,811**	58,971
Net income recognised directly in equity:		
Exchange differences on translation of financial statements of overseas subsidiaries	**274**	(1,298)
Net income for the period recognised directly in equity	**274**	(1,298)
Net profit for the period	**5,350**	3,521
Total recognised income and expense for the period	**5,624**	2,223

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(continued)

For the Six Months Ended 30 September 2006

(Expressed in United States dollars)

	2006	2005
	$'000	*$'000*
	(unaudited)	(unaudited)
Attributable to:		
– Equity shareholders of the Company	**5,675**	1,948
– Minority interests	**(51)**	275
	5,624	2,223
Dividend declared or approved during the period	**(6,350)**	(5,484)
Movements in equity arising from capital transactions:		
Redemption of share capital of a subsidiary from minority shareholder	**(2,033)**	–
Equity-settled share-based transactions	**–**	52
	(2,033)	52
Total equity at 30 September	**65,052**	55,762

The notes on pages 8 to 22 form part of these interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the Six Months Ended 30 September 2006
(Expressed in United States dollars)

	Six months ended 30 September 2006 ***$'000*** **(unaudited)**	Six months ended 30 September 2005 *$'000* (unaudited)
Net cash (used in)/ generated from operating activities	**(1,655)**	821
Net cash used in investing activities	**(2,085)**	(5,838)
Net cash used in financing activities	**(9,372)**	(6,534)
Net decrease in cash and cash equivalents	**(13,112)**	(11,551)
Cash and cash equivalents at 1 April	**21,235**	25,345
Cash and cash equivalents at 30 September	**8,123**	13,794
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**8,123**	13,794

The notes on pages 8 to 22 form part of these interim financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the Six Months Ended 30 September 2006
(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 condensed financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2006 except for the adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations which are effective for accounting periods beginning on or after 1 January 2006 as set out below:

Amendments to HKAS 19	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
Amendments to HKAS 39	Financial Instruments: *Recognition and measurement:* – Cash flow hedge accounting of forecast intragroup transactions – The fair value option – Financial guarantee contracts

The adoption of the above new and revised accounting standards has no material impact on the Group's results of operations and financial position.

Certain new standards, amendments and interpretations to existing standards have been issued that are relevant to the Group's business and are effective for accounting periods beginning on or after 1 January 2007. The Group has not early adopted these new standards, amendments and interpretations. The Group is in the process of making an assessment of what the impact of these new standards, amendments and interpretations is expected to be in the period in initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

3. Turnover

The principal activities of the Group are designing, marketing and sale of apparel and accessories 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 2006	Six months ended 30 September 2005
	$'000	*$'000*
Sales of apparels	**113,134**	109,686
Royalty income	**1,439**	1,757
	114,573	111,443

4. Other Revenue

	Six months ended 30 September 2006	Six months ended 30 September 2005
	$'000	*$'000*
Rental income	**379**	360
Bank interest income	**331**	248
Claims receivable from suppliers	**401**	609
Others	**504**	413
	1,615	1,630

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 2006

	Taiwan	Korea	Philippines	Singapore	Hong Kong	Malaysia	Inter-segment eliminations	Unallocated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers	49,891	49,248	2,229	8,076	1,755	1,201	-	2,173	114,573
Inter-segment revenue	4,047	-	-	19	91	-	(5,099)	942	-
Total	53,938	49,248	2,229	8,095	1,846	1,201	(5,099)	3,115	114,573
Segment result	2,886	5,559	(142)	(1,028)	(1,000)	(127)			6,148
Unallocated operating income and expenses									1,501
Finance costs									(511)
Taxation									(1,788)
Profit for the period									5,350
Depreciation and amortisaton for the period	823	586	111	250	153	96		50	2,069
Impairment losses on trade receivables	-	-	-	-	-	-		570	570

Six months ended 30 September 2005

	Taiwan *$'000*	Korea *$'000*	Philippines *$'000*	Singapore *$'000*	Hong Kong *$'000*	Malaysia *$'000*	Inter-segment eliminations *$'000*	Unallocated *$'000*	Total *$'000*
Revenue from external customers	57,169	38,364	2,372	7,471	1,066	1,016	–	3,985	111,443
Inter-segment revenue	3,926	–	–	–	–	–	(4,671)	745	–
Total	61,095	38,364	2,372	7,471	1,066	1,016	(4,671)	4,730	111,443
Segment result	5,309	5,540	(5)	(423)	(625)	(117)	–		9,679
Unallocated operating income and expenses									(3,709)
Finance costs									(514)
Taxation									(1,935)
Profit for the period									3,521
Depreciation and amortisaton for the period	894	354	104	264	82	77		254	2,029
Impairment losses on trade receivables	–	–	–	–	–	–		23	23

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

	Six months ended 30 September 2006	Six months Ended 30 September 2005
	$'000	*$'000*
Sales of apparels	**113,134**	109,686
Royalty income	**1,439**	1,757
	114,573	111,443

6. Profit before Taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 September 2006	Six months ended 30 September 2005
	$'000	*$'000*
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	**18**	21
Interest on shareholders' loans	**493**	493
	511	514
(b) Other items		
Cost of inventories sold	**49,664**	49,127
Staff costs	**14,030**	15,880
Depreciation	**2,069**	2,029

7. Taxation

	Six months ended 30 September 2006 *$'000*	Six months ended 30 September 2005 *$'000*
Current tax – Hong Kong Profits Tax		
Provision for the period	**–**	–
Current tax – Overseas		
Provision for the period	**1,828**	1,935
Deferred tax		
Origination and reversal of timing differences	**(40)**	–
	1,788	1,935

No Hong Kong profits tax has been provided as the Company and its subsidiaries in Hong Kong had no assessable profits in Hong Kong for the six months ended 30 September 2006 (2005: $nil).

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

8. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2006 (2005: $nil).

9. Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders for the six months ended 30 September 2006 of $5,414,000 (2005: $3,202,000) and the weighted average number of 982,250,000 ordinary shares (2005: 803,218,000 ordinary shares) in issue during the period.

The diluted earnings per share for the six months ended 30 September 2006 is the same as the basic earnings per share for that period as there was no dilutive potential ordinary shares for the six months ended 30 September 2006. The calculation of diluted earnings per share for the six months ended 30 September 2005 is based on the profit attributable to shareholders for the six months ended 30 September 2005 of $3,202,000 and the weighted average number of 987,824,000 ordinary shares in issue during the period and after adjusting for the effects of all dilutive potential ordinary shares.

10. Fixed Assets

During the six months ended 30 September 2006, the Group purchased new fixed assets amounted to $2,681,000 (2005: $6,445,000).

11. Investments

	As at 30 September 2006	As at 31 March 2006
	$'000	*$'000*
Trading securities (at market value)		
Listed funds in Taiwan	**10,151**	10,567

12. Trade and Other Receivables

	As at 30 September 2006 $'000	As at 31 March 2006 $'000
Trade debtors	**10,423**	7,766
Royalty receivable	**1,348**	2,176
Prepayment and other receivables	**2,472**	2,266
Rental deposits	**12,493**	11,332
	26,736	23,540

All of the trade and other receivables are expected to be recovered within one year, except for the rental deposits.

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 and royalty receivable (net of impairment losses for bad and doubtful debts) with the following aging analysis:

	As at 30 September 2006 $'000	As at 31 March 2006 $'000
Current	**9,483**	8,095
1 to 3 months overdue	**866**	856
More than 3 months but less than 1 year overdue	**1,422**	592
More than 1 year but less than 2 years overdue	**–**	399
	11,771	9,942

13. Bank Loans

	As at 30 September 2006 **$'000**	As at 31 March 2006 *$'000*
Secured	**635**	615
Unsecured	**–**	6
	635	621

The bank loans were repayable within 1 year or on demand.

14. Trade and Other Payables

	As at 30 September 2006 **$'000**	As at 31 March 2006 *$'000*
Trade creditors	**11,771**	9,600
Bills payable	**338**	1,381
Accrued charges	**8,044**	6,185
Deposits received	**3,344**	2,507
Deferred income *(note 17)*	**1,180**	1,180
Interest on loans from shareholders	**493**	985
Others	**1,170**	2,163
	26,340	24,001

Credit terms obtained by the Group range from 30 to 45 days. All of the trade and other payables are expected to be settled within one year, except for the deposits received.

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

	As at 30 September 2006 *$'000*	As at 31 March 2006 *$'000*
Due within 1 month or on demand	**11,712**	9,668
Due after 1 month but within 3 months	**337**	475
Due after 3 months but within 6 months	**60**	838
	12,109	10,981

15. Amount due to Shareholders

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

16. 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.

17. Deferred Income

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

18. Share Capital

Authorized:

	Number of shares		Amount	
	30 September 2006	31 March 2006	**30 September 2006**	31 March 2006
			$'000	*$'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 2005	780,650	10,008	2,016	2,585	12,593
Conversion of CPS	201,600	2,585	(2,016)	(2,585)	–
Share capital at 31 March 2006 and 30 September 2006	982,250	12,593	–	–	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.

10,820,000 options granted to certain employees of the Group under the share option scheme adopted by the Group were outstanding as at 30 September 2006. No option was granted during the six months ended 30 September 2006.

The principal terms of the convertible preference shares and the share options scheme have been set out in the annual report of the Company for the year ended 31 March 2006.

19. Reserves

	Attributable to equity 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 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	–	–	453	–	–	453	143	596
Equity-settled share-based transactions	–	–	–	104	–	104	–	104
Dividend paid	–	–	–	–	(5,483)	(5,483)	–	(5,483)
Profit for the year	–	–	–	–	13,003	13,003	620	13,623
At 31 March 2006 and 1 April 2006	5,710	1,528	4,124	442	40,734	52,538	2,680	55,218
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	261	–	–	261	13	274
Redemption of capital of a subsidiary from minority shareholder	–	–	–	–	(154)	(154)	(1,879)	(2,033)
Dividend paid	–	–	–	–	(6,350)	(6,350)	–	(6,350)
Profit for the period	–	–	–	–	5,414	5,414	(64)	5,350
At 30 September 2006	5,710	1,528	4,385	442	39,644	51,709	750	52,459

20. Material Related Party Transactions

Name of Related Party	Relationship	Nature of Transaction	Six months ended 30 September 2006 $'000	Six months ended 30 September 2005 $'000	As at 30 September 2006 $'000	As at 31 March 2006 $'000
Michel Rene Enterprises Limited	A company controlled by a shareholder of the Company	Rental income received	6	13		
		Rental expense paid	12	59		
		Amount due therefrom			61	51
Chua and Company and its associates	A minority shareholder of a non-wholly owned company and their associates	Sales of goods	909	583		
Hang Ten China Group Limited	A company controlled by substantial shareholders of the Company	Royalty income	74	76		
		Amount due therefrom			127	53
Avon Dale Garments Inc.	A minority shareholder of a non-wholly owned subsidiary of the Company and their associates	Royalty income	5	–		
		Amount due therefrom			11	–
					199	104

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

21. Commitments

(a) Operating lease commitments

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

	As at 30 September 2006	As at 31 March 2006
	$'000	*$'000*
Within one year	**24,356**	21,050
After 1 year but within 5 years	**33,241**	33,184
	57,597	54,234

(b) There were no material capital commitments outstanding at 30 September 2006 (31 March 2005: $nil).

22. 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 2006, 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 considers 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 has filed a formal objection to the TTA. Having taken relevant professional advice, the Group had made a provision for additional VAT in the prior years but no provision has been made for the penalties. Based on the current available information, the directors are confident that the Group has reasonable grounds to refute the penalties.

23. Approval of Interim Financial Statements

These interim financial statements were approved and authorized for issue by the Board on 18 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operation Review

Operation Overview

The Group has experienced intensified competition and unfavourable operating environment in some of its markets during the period under review. In spite of that, the Group's overall turnover increased slightly by 2.8%. For the six months ended 30 September 2006, turnover of the Group amounted to US$114,573,000 (2005: US$111,443,000). Operating profit for the period amounted to US$7,649,000 (2005: US$5,970,000), showing an increase of US$1,679,000. Net profit attributable to shareholders amounted to US$5,414,000 (2005: US$3,202,000).

Because of sluggish retail environment and political instability, the Taiwan market experienced a decline in sales during the period. However, such decline has been more than compensated by an increase in sales in the Korean market which has been driven by an expansion of the Group's retail network in Korea.

Gross margin ratio for the current six-month period increased slightly to 56.7% (2005: 55.9%). 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$64,909,000 (2005: US$62,316,000).

The Group remained cost conscious and adopted cost control measures to control its operating expenses. Selling expenses for the six months ended 30 September 2006 totalled US$50,469,000 (2005: US$46,441,000). The increase in selling expenses is mainly attributed to increase in selling expenses in the Korea market due to increase in sales and set up costs incurred for the launch of a new product line. Administrative expenses decrease to US$8,192,000 (2005: US$8,654,000). Other operating expenses amounted to about US$108,000 (2005: US$2,443,000). The significant reduction in the other operating expenses is due to that there was an impairment loss on the investment in the United States market of about US$1,600,000 incurred in the corresponding prior period and there was no similar loss incurred in the current period.

Apparel Sales

Sales generated from retail and distribution of apparels amounted to US$113,134,000 for the six months ended 30 September 2006 (2005: US$109,686,000). This represents an increase of 3.1% from the same period of the previous year. During the period, the Group continued to open new stores with the majority additions located in Korea. As at 30 September 2006, the Group had 600 (2005: 511 outlets) retail outlets with a total shop floor area of about 552,000 square feet (2005: 460,000 square feet). When comparing to the total number of outlets of 540 as at 31 March 2006, the Group has achieved a net increase of 60 stores during the current period.

Taiwan

Sales in this market contributed to about 43.5% of the Group's total turnover for the current period. During the six months ended 30 September 2006, total sales of the Taiwan market amounted to US$49,891,000 (2005: US$57,169,000), of which retail sales amounted to US$46,012,000 (2005: US$52,180,000) and sales generated from distributing activity amounted to US$3,879,000 (2005: US$4,989,000). The retail market has been affected by a tightening of consumer credit and political instability. These factors have dampened consumer sentiments and purchasing power and contributed to the decline in sales in this market of 12.7%.

While the Group has been able to reduce its operating costs in Taiwan, the decline in sales has caused a drop in operating profit of about 45.6% for the six months ended 30 September 2006. The operating profit attributed to this market amounted to US$2,886,000 (2005: US$5,309,000).

South Korea

The Group has continued to expand its retail network in South Korea. Recognising a strong demand of trendy casual clothing among fashion-conscious youths, the Group launched a separate line of products during the period, targeting the youth and teenager market. This line of product is labeled as "H&T" to distinguish it from the traditional "Hang Ten" brand products. Out of the total 53 new stores opened during this period in South Korea, 43 were "H&T" stores. About 11% of the sales generated in this market during the period was attributed to the new product line. As a result of the expansion of its network, the Group's sales in South Korea grew by 28% to US$49,248,000 (2005: US$38,364,000). Sales generated from the South Korean market contributed to 43% of the Group's total turnover for the period ended 30 September 2006. During the period, as the Group incurred additional operating expenses for the new product line, operating profit only increased slightly to US$5,559,000 (2005: US$5,540,000). The Group had 239 retail outlets (2005: 158) in South Korea as at 30 September 2006.

Philippines

The economic environment in the Philippines has not shown any significant improvement. Sales in the Philippine market decreased slightly to US$2,229,000 (2005: US$2,372,000). The Group had 50 retail outlets (2005: 45) in Philippines as at 30 September 2006. Because of the less than satisfactory sales level, this market incurred an operating loss of US$142,000 for the six months ended 30 September 2006 (2005: profit of US$5,000).

Singapore

Because of an intensified competitive retail environment and rising operating costs in Singapore, the Group did not add any new store during the period. As at 30 September 2006, the Group had 38 retail outlets (2005: 35 outlets) in Singapore. Sales in Singapore for the six months ended 30 September 2006 increased slightly to US$8,076,000 (2005: US$7,471,000). The Group recorded an operating loss of US$1,028,000 for the six months ended 30 September 2006 (2005: loss of US$423,000) in this market.

Malaysia

For the six months ended 30 September 2006, sales generated in the Malaysian market amounted to US$1,201,000 (2005: US$1,016,000), recording an increase of 18%. As at 30 September 2006, the Malaysian operation had 11 retail outlets (2005: 10 outlets). An operating loss of US$127,000 (2005: loss of US$117,000) was recorded in this market.

Hong Kong

Market competition in the apparel retail sector has remained very keen. Operating costs, in particularly rental costs, remained high. The Group recorded total sales amounted to US$1,755,000 (2005: US$1,066,000) for the period ended 30 September 2006. Though there has been an improvement in sales during the period, because of the highly competitive and high operating cost environment, the Group recorded an operating loss in this market of US$1,000,000 (2005: US$625,000). As at 30 September 2006, the Group had 8 retail outlets (2005: 6 outlets) in Hong Kong.

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$1,439,000 for the six months ended 30 September 2006 (2005: US$1,757,000).

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 2006, the Group used US$1,655,000 (2005: generated US$821,000) of cash in operating activities. During the period, the Group paid US$6,334,000 in dividend to its shareholders and expended US$2,681,000 in capital expenditure. The Group also expended US$2,033,000 to repurchase the shares of its subsidiary company in South Korea held by a minority shareholder of the subsidiary company. As at 30 September 2006, the Group had cash and bank balances amounted to US$8,123,000 (31 March 2006: US$21,235,000).

As at 30 September 2006, the Group had financial facilities provided by banks amounting to approximately US$42,000,000 (31 March 2006: US$35,000,000), of which US$635,000 (31 March 2006: US$621,000) had been utilized. Certain of the banking facilities were secured by an office premise of the Group. Total indebtedness as at 30 September 2006, comprising bank loans of US$635,000 (31 March 2006: US$621,000) and shareholders' loans of US$16,400,000 (31 March 2006: US$16,400,000) amounted to US$17,035,000 (31 March 2006: US$17,021,000) and represented 14.2% (31 March 2006: 13.9%) 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 continues to enhance the quality and design of its products to strengthen its competitiveness. In addition to traditional and basic style of clothing, to broaden the Group's market penetration, a trendy-looking favour will be added to the design of some of the Group's products. The Group will remain cost-conscious and will continue to strengthen its sourcing capability to improve profit margin. The Group will maintain a strategy of growth with emphasis on profitability and efficiency.

While the current operating environment in Taiwan is affected by the political instability and sluggish consumer demand, the management is taking appropriate measures to ensure that the Taiwanese operation will continue to produce a satisfactory result. In addition to the broadening of the range and style of its products, the Group will strengthen its market penetration by setting up a new product line targeting more up-market customers. This line of products will be offered in new stores located in high consumer traffic area and 4 new stores are planned for opening during the current financial year. The Group will also refurnish and upgrade existing stores to ensure that a fresh and energetic appearance to the Group's outlets is maintained.

The Group will continue to expand its retail network in South Korea. The performance of the new "H&T" brand stores has so far indicated that there is a potential for these fashion-favoured products. The Group plans to open 55 new stores, of which 25 will be "H&T" stores, in the second half of this fiscal year. By rolling out more new stores and improving shop efficiency, the Group expects the new product line will contribute more significantly to the Group's sales and profitability in the second half of the year. The management is confident that the South Korean operation will continue to perform satisfactorily.

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. Measures will be taken to improve their contribution to revenue and profitability.

The licensing operation continues to provide a steady flow of revenue to the Group. The Group will leverage on its existing network of licensees and utilise the well-recognised "Hang Ten" brand to generate more licensing revenue. The Group is exploring new licensing opportunities in a number of countries, particularly in Europe and America. Through such effort, the management expects that the revenue from the licensing operation will increase.

OTHER INFORMATION

Interim Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2006 (2005: nil).

Employee and Remuneration Policies

As at 30 September 2006, the Group had approximately 1,800 (31 March 2006: 1,670) full time employees of which 1,200 were based in Taiwan. About 1,480 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 2006, the interests of the directors and chief executive of the Company and their associates, as defined in the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of director	Nature of interests	Number of ordinary shares held	As approximate percentage of total issued ordinary shares
Kenneth Hung	Personal	36,200,000	3.69%
Wang Li Wen	Personal	9,000,000	0.92%
Kao Yu Chu	Personal	9,000,000	0.92%

Save as disclosed above, as at 30 September 2006, 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) that was required to be disclosed pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 September 2006.

Substantial Shareholders

As at 30 September 2006, 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 were required 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:

Name	Nature of interests	Number of ordinary shares	As approximate percentage of total issued ordinary shares
Asian Wide Services Limited	Beneficial owner	369,886,000	37.66%
YGM Trading Limited	Beneficial owner	201,200,000	20.48%
Value Partners Limited *(note 1)*	Investment manager	83,500,000	8.50%

Note 1: Mr. Cheah Cheng Hye is deemed to be interested in the shares held by Value Partners Limited because of his control over Value Partners Limited.

Save as disclosed above, the Company has not been notified of any relevant interest or short positions in the issued ordinary shares of the Company as at 30 September 2006.

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 2006. 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:

Date of grant	Outstanding at 1 April 2006	Lapsed during the period	Outstanding at 30 September 2005	Exercise price per share	Exercise period
7 April 2004	5,580,000	(170,000)	5,410,000	HK$1.52	1 April 2005 to 31 March 2009
7 April 2004	5,580,000	(170,000)	5,410,000	HK$1.52	1 April 2006 to 31 March 2009
	11,160,000	(340,000)	10,820,000		

All the above options were granted to employees of the Group.

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 2006.

Corporate Governance

During the six months ended 30 September 2006, the Company has complied with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules.

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 comprises three members, all being independent non-executive directors of the Company. The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 September 2006.

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

18 December 2006
Hong Kong