



NOTES TO THE COMBINED FINANCIAL STATEMENTS

For the Six Months Ended 30 September 2002

(Expressed in United States dollars)

1. GROUP REORGANIZATION AND BASIS OF PREPARATION

The Company was incorporated in Bermuda on 17 July 2002 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

As stated in the document ("Listing Document") dated 31 October 2002 entitled "Proposal for Akai Holdings Limited (In Compulsory Liquidation) by way of a shareholders' scheme of arrangement and withdrawal of the listing of the shares of Akai Holdings Limited (In Compulsory Liquidation) and the listing of the ordinary shares of Hang Ten Group Holdings Limited on The Stock Exchange of Hong Kong Limited by way of introduction", ILC International Corporation ("ILC") was the holding company of its then existing subsidiaries until 31 December 2001 when Hang Ten International Holdings Limited ("Hang Ten BVI") became the new holding company pursuant to a corporate reorganization (the "Reorganization"). Upon the completion of a further reorganization (the "Further Reorganization") on 3 January 2003 in preparation for the listing of the Company's ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as set out in the Listing Document, the Company became the new holding company of Hang Ten BVI and its subsidiaries.

For the purpose of this report, the combined income statements, the combined cash flow statements and the combined statements of changes in equity of the Group for the six months ended 30 September 2002 and the corresponding prior period, include the results of the companies now comprising the Group as if the Company had been the holding company of these companies throughout these periods or since the respective dates of their incorporation, where this is a shorter period.

The combined balance sheets as at 30 September 2002 and 31 March 2002 have been prepared to present the state of affairs of the Group as if the Company had been the holding company of these companies as at the respective dates.

The financial information relating to the combined balance sheet as at 31 March 2002 has been extracted from the Accountants' Report included in the Listing Document. The reporting accountants have expressed an unqualified opinion on the Accountants' Report in their report dated 31 October 2002.

All significant intra-group transactions and balances have been eliminated on combination.



2. ACCOUNTING POLICIES

The unaudited combined condensed financial statements have been prepared in accordance with requirements of the Main Board Listing Rules of the Stock Exchange (the "Listing Rules") including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The same accounting policies and basis of preparation adopted in the preparation of the Accountants' Report as set out in the Listing Document have been applied to these condensed financial statements except as disclosed below. During the period, the Group has adopted the following revised or new SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting period commencing on or after 1 January 2002:

– SSAP 1 (revised)	Presentation of financial statements
– SSAP 15 (revised)	Cash flow statements

SSAP 1 (revised) "Presentation of financial statements"

In order to comply with the revised requirements of SSAP 1 (revised), the Group has prepared a combined statement of changes in equity which replaces the combined statements of recognized gain and losses included in the Accountants' Report. The new statement reconciles the movement of key components of the shareholders' funds, including share capital, reserves and retained profits, from the beginning to end of a period.

SSAP 15 (revised) "Cash flow statements"

The format of the condensed combined cash flow statements has been revised to follow the new requirements of SSAP 15 (revised).

3. TURNOVER

The principal activities of the Group are designing, marketing and sale of apparel and accessories under the brand name of "Hang Ten" and licensing of trademarks. Turnover represents the sales value of goods supplied to customers and royalty income. Revenues recognized during the six months ended 30 September 2002, together with the comparative figures for the corresponding period in 2001 are as follows:

	Six months ended 30 September 2002 \$'000	Six months ended 30 September 2001 \$'000
Sales of apparels	78,346	70,020
Royalty income	2,391	2,626
	<u>80,737</u>	<u>72,646</u>

**4. OTHER REVENUE**

	Six months ended 30 September 2002 \$'000	Six months ended 30 September 2001 \$'000
Rental income	357	448
Bank interest income	107	101
Claims receivable from suppliers	237	143
Others	601	342
	<u>1,302</u>	<u>1,034</u>

5. SEGMENTAL INFORMATION

The Group's business is managed on a worldwide basis, but participates in several principal economic environments. Taiwan and Korea are the major markets for the Group's retailing business. 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 2002:

	Taiwan \$'000	Philippines \$'000	Singapore \$'000	Korea \$'000	Others and Unallocated \$'000	Inter- segment eliminations \$'000	Total \$'000
Revenue from external customers	51,623	2,639	4,585	19,638	2,252	-	80,737
Inter-segment revenue	<u>13,477</u>	<u>-</u>	<u>7</u>	<u>-</u>	<u>412</u>	<u>(13,896)</u>	<u>-</u>
Total revenue	<u>65,100</u>	<u>2,639</u>	<u>4,592</u>	<u>19,638</u>	<u>2,664</u>	<u>(13,896)</u>	<u>80,737</u>
Segment result	4,993	229	(782)	1,026	137	-	5,603
Finance costs							(1,412)
Taxation							(413)
Minority interests							<u>(448)</u>
Profit attributable to shareholders							<u>3,330</u>



Six months ended 30 September 2001:

	Taiwan \$'000	Philippines \$'000	Singapore \$'000	Korea \$'000	Others and Unallocated \$'000	Inter- segment eliminations \$'000	Total \$'000
Revenue from external customers	54,158	2,470	3,690	9,998	2,330	-	72,646
Inter-segment revenue	9,453	-	-	-	234	(9,687)	-
Total revenue	<u>63,611</u>	<u>2,470</u>	<u>3,690</u>	<u>9,998</u>	<u>2,564</u>	<u>(9,687)</u>	<u>72,646</u>
Segment result	3,696	177	186	1,335	943	(605)	5,732
Finance costs							(238)
Taxation							(334)
Minority interests							<u>(478)</u>
Profit attributable to shareholders							<u>4,682</u>

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

	Six months ended 30 September 2002 \$'000	Six months Ended 30 September 2001 \$'000
Sales of apparels	78,346	70,020
Royalty income	<u>2,391</u>	<u>2,626</u>
	<u>80,737</u>	<u>72,646</u>

**6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION IS ARRIVED AT AFTER CHARGING:**

	Six months ended 30 September 2002 \$'000	Six months ended 30 September 2001 \$'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	521	236
Interest on shareholders' loans	891	–
Other borrowing costs	–	2
	<u>1,412</u>	<u>238</u>

The acquisition of ILC by Hang Ten BVI pursuant to the Reorganization set out in note 1 was partly financed by bank loans and shareholders' loans of \$17.6 million and \$20 million respectively and the acquisition was completed on 31 December 2001. Accordingly, finance costs for the six months ended 30 September 2002 include interest payable on these loans for the period from 1 April 2002 to 30 September 2002.

(b) Other items

Cost of inventories	35,334	34,513
Staff costs		
– Salaries and staff benefits	10,012	9,158
– Retirement costs (Taiwan)	116	119
– Retirement costs (other countries)	55	–
Provision for impairment loss on land and buildings	453	–
Amortization of positive goodwill	338	–
Amortization of trademarks	593	593
Depreciation	1,565	1,556
Provision for inventories	277	339
Provision for bad debts	–	100
	<u> </u>	<u> </u>



7. TAXATION

	Six months ended 30 September 2002 \$'000	Six months ended 30 September 2001 \$'000
Current income tax		
– Hong Kong profits tax	–	–
– Taiwan income tax	99	(162)
– Income tax in other countries	314	457
	<u>413</u>	<u>295</u>
Deferred taxation		
– Taiwan	–	–
– Other countries	–	39
	<u>–</u>	<u>39</u>
	<u>413</u>	<u>334</u>

No Hong Kong profits tax has been provided as the Group did not earn any assessable profits subject to Hong Kong profits tax for the six months ended 30 September 2002 (2001: \$ nil).

The Taiwan income tax for the six months ended 30 September 2002 was charged at a rate of 25% (2001: 25%) on the taxable income of the Taiwan subsidiaries. Taxation for non-Taiwan subsidiaries was similarly 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 2002 of \$3,330,000 (2001: \$4,682,000) and on 27,100 million ordinary shares in issue on completion of the Further Reorganization on 3 January 2003 as if these ordinary shares had been in issue since 1 April 2001.

The calculation of the diluted earnings per share based on the profit attributable to shareholders for the six months ended 30 September 2002 of \$3,330,000 (2001: \$4,682,000) and 101,882 million ordinary shares in issue and issuable, comprising 27,100 million ordinary shares in issue as described above, and 70,380 million ordinary shares and 4,402 million ordinary shares to be issued upon full conversion of the 7,038 convertible preference shares and exercise in full of 4,402 million warrants respectively.



9. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002 (2001: \$ nil).

10. FIXED ASSETS

During the six months ended 30 September 2002, the Group made a provision for impairment loss of \$453,000 in respect of the Group's land and buildings in Taiwan.

11. INVESTMENTS

	As at 30 September 2002 \$'000	As at 31 March 2002 \$'000
Trading securities (at market value)		
Listed funds in Taiwan	—	5,429

The Group disposed of the investments during the six months ended 30 September 2002.

12. TRADE AND OTHER RECEIVABLES

	As at 30 September 2002 \$'000	As at 31 March 2002 \$'000
Trade debtors (net of provision)	8,707	9,439
Deposits, prepayment and other receivables	8,899	8,159
	17,606	17,598

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) with the following aging analysis:

	As at	As at
	30 September	31 March
	2002	2002
	\$'000	\$'000
Current	3,410	5,894
1 to 3 months overdue	4,090	2,824
More than 3 months but less than 6 months overdue	1,207	210
More than 6 months but less than 1 year overdue	–	109
More than 1 year but less than 2 years overdue	–	402
	<u>8,707</u>	<u>9,439</u>

13. AMOUNTS DUE FROM RELATED COMPANIES

	As at	As at
	30 September	31 March
	2002	2002
	\$'000	\$'000
Amount due from Michel Rene Enterprises Limited	3	2
Amount due from Avon Dale Garments, Chua and Company and associates	–	4
Amount due from Hang Ten China Group Limited	–	1,650
Amount due from Global Inc.	98	–
	<u>101</u>	<u>1,656</u>

The above balances are unsecured, interest free and repayable on demand. Details of related party transactions are summarized in note 19.

**14. BANK LOANS**

	As at 30 September 2002 \$'000	As at 31 March 2002 \$'000
Secured	18,720	18,858
Unsecured	4,220	9,286
	<u>22,940</u>	<u>28,144</u>

The bank loans were repayable as follows:

	As at 30 September 2002 \$'000	As at 31 March 2002 \$'000
Within 1 year or on demand	<u>11,708</u>	<u>13,058</u>
After 1 year but within 2 years	7,488	7,543
After 2 years but within 5 years	<u>3,744</u>	<u>7,543</u>
	<u>11,232</u>	<u>15,086</u>
	<u>22,940</u>	<u>28,144</u>

15. TRADE AND OTHER PAYABLES

	As at 30 September 2002 \$'000	As at 31 March 2002 \$'000
Trade creditors	10,438	6,881
Bills payable	716	2,468
Accrued charges	4,155	2,045
Deposits received	703	662
Others	<u>258</u>	<u>898</u>
	<u>16,270</u>	<u>12,954</u>

Credit terms obtained by the Hang Ten 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 2002 \$'000	As at 31 March 2002 \$'000
Within 1 month or on demand	9,269	8,370
Between 1 month and 3 months	1,731	710
Between 4 months and 6 months	116	269
Between 7 months and 12 months	38	-
	<u>11,154</u>	<u>9,349</u>

16. LOANS FROM SHAREHOLDERS

The loans were borrowed by Hang Ten BVI from the Company's shareholders to finance the acquisition of ILC. The loans are unsecured and interest bearing at 6% p.a. The Group repaid \$3,600,000 to the shareholders during the six months ended 30 September 2002 and the remaining balance is due for repayment in the year 2011.

17. SHARE CAPITAL

At 30 September 2002, the Further Reorganization has not been completed and the share capital as at 30 September 2002 represents the combined share capital of the Company and Hang Ten BVI. The share capital as at 31 March 2002 represents that of Hang Ten BVI.

The share capital of the Company as at 3 January 2003, the date of completion of the Further Reorganization was as follows:

	Number of shares	Amount
Authorized:		
Ordinary shares of HK\$0.001 each	250,000,000,000	HK\$250,000,000
Convertible preference shares of HK\$10,000 each	<u>7,307</u>	<u>HK\$73,070,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.001 each	27,100,000,000	HK\$27,100,000
Convertible preference shares of HK\$10,000 each	<u>7,038</u>	<u>HK\$70,380,000</u>
		<u>HK\$97,480,000</u>
	equivalent to approximately	<u>\$12,497,000</u>

As at 3 January 2003, there were also 4,402 million warrants outstanding.

The principal terms of the convertible preference shares and the warrants are set out in the Listing Document.



18 RESERVES

	Capital Surplus \$'000	Exchange reserve \$'000	Retained profits \$'000	Total \$'000
As at 1 April 2001	18,206	(4,547)	23,243	36,902
Profit for the period	–	–	4,682	4,682
Exchange differences on translation of financial statements of foreign entities	–	(77)	–	(77)
As at 30 September 2001	<u>18,206</u>	<u>(4,624)</u>	<u>27,925</u>	<u>41,507</u>
As at 1 April 2002	16,900	59	794	17,753
Profit for the period	–	–	3,330	3,330
Exchange differences on translation of financial statements of foreign entities	–	255	–	255
As at 30 September 2002	<u>16,900</u>	<u>314</u>	<u>4,124</u>	<u>21,338</u>



19. MATERIAL RELATED PARTY TRANSACTIONS

Name of Related Party	Relationship	Nature of Transaction	Six months	Six months	As at	As at
			ended 30 September 2002 \$'000	ended 30 September 2001 \$'000	30 September 2002 \$'000	31 March 2002 \$'000
Michel Rene Enterprises Limited	A company controlled by a shareholder of the Company	Rental income received	106	120		
		Rental expense paid	14	16		
		Amount due therefrom			3	2
Chua and Company and its associates	A minority shareholder of a subsidiary of the Group	Purchase of goods	673	1,120		
		Amount due therefrom			-	4
Global Inc.	A minority shareholder of a subsidiary of the Group	Sale of goods	169	124		
		Purchase of goods	170	724		
		Amount due therefrom			98	-
Asian Wide Services Limited	A Company in which Kenneth Hung, a director of the Company, has significant influence	Consultancy fees	543	517		
		Amount due thereto			355	618
Hang Ten China Group Limited	A company controlled by certain shareholders of the Company	Amount due therefrom			-	1,650



20. COMMITMENTS

(a) Operating lease commitments

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

	As at 30 September 2002 \$'000	As at 31 March 2002 \$'000
Within one year	14,152	15,129
After 1 year but within 5 years	19,328	23,072
	<u>33,480</u>	<u>38,201</u>

- (b) There were no material capital commitments outstanding at 30 September 2002 (31 March 2002: \$ nil).

21. 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 the Republic of China, 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 2002, 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.



22. SUBSEQUENT EVENTS

Subsequent to 30 September 2002, the following events took place:

- (a) In October 2002, ILC subscribed for 440,000 additional new shares at a par value of Korean Won10,000 each in Hang Ten Korea Corp., a non-wholly owned subsidiary of the Group, for a cash consideration of Korean Won4,400 million (equivalent to approximately \$3,600,000). Following the subscription, the Group's effective equity interest in Hang Ten Korea Corp. increased from 67.9% as at 30 September 2002 to 89.3%.
- (b) Pursuant to agreements entered into between Hang Ten BVI and certain new investors on 28 October 2002, the new investors subscribed for a total of 38,218 new shares of \$0.1 each in Hang Ten BVI, representing approximately 3.7% of Hang Ten BVI's enlarged issued share capital, for a cash consideration of HK\$35 million (approximately \$4,487,000) on 3 January 2003.
- (c) Pursuant to a sale and purchase agreement dated 28 October 2002 entered into by the Company which was completed on 3 January 2003, the Company acquired from the shareholders of Hang Ten BVI the entire issued share capital of Hang Ten BVI, which was satisfied by the issue of 7,307 convertible preference shares and 22,010 million ordinary shares (with one warrant for every five ordinary shares, making a total of 4,402 million warrants) to the shareholders of Hang Ten BVI. 269 convertible preference shares were converted by certain shareholders into 2,690 million ordinary shares on the same date.
- (d) Pursuant to the Further Reorganization which was completed on 3 January 2003, the Company issued 300 million ordinary shares and 2,100 million ordinary shares to the shareholders of Akai Holdings Limited and the liquidators of Akai Holdings Limited (for the benefit of the creditors of Akai Holdings Limited) respectively and also paid cash amounting to HK\$12 million (equivalent to approximately \$1.5 million) to the liquidator of Akai Holdings Limited (for the benefit of the creditors of Akai Holdings Limited). The ordinary shares of the Company were successfully listed on the Stock Exchange on 9 January 2003 by way of introduction.
- (e) The Group incurred total expenses amounting to approximately \$2 million in respect of the above transactions.

23. APPROVAL OF INTERIM FINANCIAL STATEMENTS

These interim financial statements were approved and authorized for issue by the Board on 28 February 2003.