Notes on the financial statements

(Expressed in United States dollars)

1 HISTORY OF CORPORATE REORGANISATIONS

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

2003 Reorganisation

As stated in a 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", the Company entered into a sale and purchase agreement on 28 October 2002 ("Sale and Purchase Agreement") to acquire the entire issued share capital of Hang Ten International Holdings Limited ("Hang Ten (BVI)") from the then shareholders. The Sale and Purchase Agreement was completed on 3 January 2003. The consideration was satisfied by the issue of 21,100 million new ordinary shares of the Company (with one warrant for every five shares) and 7,038 convertible preference shares. In addition, the 100 million ordinary shares of the Company then in issue were credited as fully paid.

In order to maintain a sufficient public float for the shares of the Company upon its listing on The Stock Exchange of Hong Kong Limited ("HKSE"), Hang Ten (BVI) entered into two subscription agreements ("Subscription Agreements") with two independent parties ("New Investors") on 28 October 2002. The Subscription Agreements were completed on 3 January 2003 and Hang Ten (BVI) issued 38,218 ordinary shares of $0.1 each to certain new investors for a total consideration of HK$35 million (equivalent to $4.5 million). The New Investors then received 810 million shares (with one warrant for every five shares) and 269 convertible preference shares pursuant to the Sale and Purchase Agreement referred to the above paragraph. Furthermore, the New Investors immediately converted their convertible preference shares into 2,690 million ordinary shares of the Company at a conversion price of HK$0.001 each.

Other transactions

In addition to the 2003 Reorganisation described above, the following transactions were completed on the same date, 3 January 2003:

Pursuant to the scheme of arrangement between Akai Holdings Limited (In Compulsory Liquidation) ("Akai") and its shareholders ("Akai shareholders") as set out in the Listing Document, Akai shareholders transferred all of their shares in Akai ("Akai shares") to the Company. In consideration of this transfer, the Company issued 300 million new ordinary shares of the Company to Akai shareholders in accordance with their respective holdings of Akai shares. The Company also paid a cash consideration of HK$12 million (equivalent to $1.5 million) and issued 2,100 million new ordinary shares of the Company to the creditors of Akai ("Akai creditors"). The Akai shares were subsequently transferred to the liquidators of Akai for a nominal sum.

The listing of the Akai shares were withdrawn from the HKSE and the Company's shares were listed on the HKSE by way of introduction on 9 January 2003.

Notes on the financial statements
(Expressed in United States dollars)

1 HISTORY OF CORPORATE REORGANISATIONS (Continued)

2001 Reorganisation

Hang Ten (BVI), which was acquired by the Company as part of the 2003 Reorganisation, is the holding company of ILC International Corporation ("ILC"). Hang Ten (BVI) acquired 97.01% of the issued share capital of ILC on 31 December 2001 from the then shareholders for a total consideration of $54.6 million. The then shareholders also subscribed a total of 999,999 new shares of $0.1 each in the share capital of Hang Ten (BVI) at $17 per share for a total subscription price of approximately $17 million. As the number of new shares of Hang Ten (BVI) subscribed by the then shareholders of ILC was not in proportion to their original respective shareholdings of ILC, the reorganisation resulted in a change in the controlling shareholders of ILC.

The acquisition cost of ILC of $54.6 million was partly financed by the subscription proceeds of $17 million and shareholders' loans of $20 million. The remaining acquisition cost was financed by bank loans.

On completion of the 2001 Reorganisation, Hang Ten (BVI) became the new holding company of ILC and its subsidiaries, as listed in note 34 to the financial statements.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company and its subsidiaries ("the Group") acquired pursuant to the Sale and Purchase Agreement in the 2003 Reorganisation are regarded as a continuing group. Accordingly, the acquisition of the subsidiaries has been accounted for by merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions". On this basis, the Company was the holding company of the Group for both years presented, rather than from the date of completion of the 2003 Reorganisation on 3 January 2003.

The consolidated income statement of the Group for the year ended 31 March 2003 includes the results of the Company and its subsidiaries with effect from 1 April 2002 or since their respective dates of incorporation, where this is a shorter period. The comparative figures include the results of Hang Ten (BVI) from its date of incorporation to 31 March 2002 and those of its subsidiaries from 31 December 2001 (date of completion of the 2001 Reorganisation) to 31 March 2002. The 2001 Reorganisation has been accounted for by acquisition accounting in accordance with SSAP 27 due to the change in controlling shareholders of ILC following the completion of the reorganisation.

The consolidated balance sheet at 31 March 2002 is a combination of the balance sheets of the Company's subsidiaries as at 31 March 2002. The directors of the Company are of the opinion that the resulting consolidated financial statements give a more meaningful view of the results and the state of affairs of the Group as a whole.

As the Company was incorporated on 17 July 2002, no comparative figures as at 31 March 2002 are presented in respect of the Company's balance sheet.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKSE ("Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power directly or indirectly, to govern the financial and operating policies of an enterprise, so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 3(j)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

Notes on the financial statements
(Expressed in United States dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. Positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation (see note 3(h)) and any impairment losses (see note 3(j)).

Negative goodwill arising on acquisitions of subsidiaries represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

Any negative goodwill not yet recognised in the consolidated income statement is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill.

(e) Investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries are as follows:

(i) Investments in securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the consolidated income statement as they arise.

(ii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Fixed assets

(i) Fixed assets are carried in the balance sheet at cost less accumulated depreciation (see note 3(h)) and impairment losses (see note 3(j)).

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(g) Intangible assets (other than goodwill)

(i) Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (see note 3(h)) and impairment losses (see note 3(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

(ii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(h) Amortisation and depreciation

(i) No depreciation is provided on freehold land.

(ii) Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives as follows:

– Buildings are depreciated on a straight-line basis over their estimated useful lives, being 55 years from the date of completion.

Notes on the financial statements
(Expressed in United States dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Amortisation and depreciation (Continued)

– Other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	3 to 5 years
Furniture, fixtures and other fixed assets	2 to 10 years
Motor vehicles	5 years

(iii) Intangible assets (other than goodwill)

Amortisation of intangible assets is charged to the consolidated income statement on a straight-line basis over its estimated useful life as follows:

Trademarks	20 years

(iv) Positive goodwill

Amortisation of positive goodwill is charged to the income statement on a straight-line basis over its estimated useful life of 20 years.

(i) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(j) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– fixed assets;

– intangible assets (including positive goodwill); and

– investments in subsidiaries (except for those accounted for at fair value under notes 3(c)).

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes on the financial statements
(Expressed in United States dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Inventories (Continued)

When the inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Cash equivalents

Cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(m) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) The Group's Taiwan subsidiaries participate in a central pension scheme providing benefits to all employees in accordance with the Labour Standards Law (as amended) in Taiwan. The Group has an obligation to ensure that there are sufficient funds in the scheme to pay the benefits earned. The Group currently contributes at 2% of the total salaries as determined and approved by the relevant government authorities. The contributions are placed with the Central Trust of China, a government institution.

The Group's net obligation in respect of the pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. An actuarial valuation as at 31 March 2003 was carried out by Dr. Lin, who is a Fellow of Actuarial Institute of Republic of China.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Employee benefits (Continued)

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the consolidated income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the consolidated income statement.

In calculating the Group's obligation in respect of a scheme, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the pension scheme obligation and the fair value of plan assets, that portion is recognised in the consolidated income statement over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the scheme or reductions in future contributions to the scheme.

For other non-Taiwan subsidiaries, contributions to the defined contribution pension schemes are recognised as an expense in the consolidated income statement as incurred.

(n) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the forseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Notes on the financial statements

(Expressed in United States dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Provisions and contingent liabilities (Continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered to the customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Royalty income

Royalty income is recognised in accordance with the substance of the relevant agreements.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. This is taken to be for interim dividends, when the directors of such investments declare such dividends and for final dividends, when the shareholders of such investments at the general meeting approve the dividends proposed by the directors.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated into United States dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement.

The results of overseas subsidiaries are translated into United States dollars at average exchange rates for the year; balance sheet items are translated into United States dollars at the exchange rates ruling at the balance sheet date. The resulting exchange differences are dealt with as movements in reserves.

Foreign exchange forward contracts undertaken for hedging purposes are accounted for on an equivalent basis to the underlying assets, liabilities or net provisions. Any profit or loss arising is recognised on the same basis as that arising from the related assets, liabilities or positions.

(r) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen geographical segment information as the primary reporting format and business segment information as the secondary reporting format.

Notes on the financial statements

(Expressed in United States dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Segment reporting (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and other fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

4 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. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2003	2002
	$'000	*$'000*
Sales of apparels	**170,418**	44,807
Royalty income	**3,972**	1,367
	174,390	46,174

5 OTHER REVENUE AND NET LOSS

	2003 $'000	2002 $'000
Other revenue		
Rental income	**682**	195
Bank interest income	**85**	45
Claims receivable from suppliers	**754**	63
Others	**1,299**	384
	2,820	687
Other net loss		
Net loss on disposal of fixed assets	**(211)**	(129)
Net exchange gain/(loss)	**109**	(164)
Net realised and unrealised gains on listed funds carried at fair value	**2**	–
Others	**(86)**	3
	(186)	(290)

Notes on the financial statements

(Expressed in United States dollars)

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

		2003 $'000	2002 $'000
(a)	Finance costs:		
	Interest on bank advances and other borrowings wholly repayable within five years	**853**	393
	Interest on shareholders' loans	**1,088**	300
	Other borrowing costs	**51**	28
		1,992	721
(b)	Staff costs:		
	Salaries and staff benefits	**19,387**	4,742
	Retirement costs (Taiwan)	**218**	174
	Retirement costs (other countries)	**217**	9
		19,822	4,925
(c)	Other items:		
	Cost of inventories sold	**81,484**	23,728
	Auditors' remuneration	**260**	37
	Amortisation of positive goodwill	**506**	120
	Amortisation of trademarks	**922**	297
	Depreciation	**2,985**	821
	Operating lease charges (including retail shops and department store counters)	**28,671**	6,768
	Commission to franchisees	**13,843**	2,385
	Provision for inventories	**884**	677
	Provision for bad debts	**22**	100
	Impairment loss on fixed assets	**470**	–

(d) Negative goodwill on investment in subsidiary:

In October 2002, the Group subscribed for 440,000 new shares in Hang Ten Korea Corp. for a cash consideration of KRW4,400 million (equivalent to approximately $3.6 million) and increased its effective shareholding in Hang Ten Korea Corp. from 67.9% to 89.2%. The negative goodwill of $808,000 arising therefrom has been credited to the consolidated income statement for the year.

7 TAXATION

(a) Taxation in the consolidated income statement represents:

	2003	2002
	$'000	*$'000*
Current income tax		
– Hong Kong profits tax	**–**	–
– Taiwan income tax	**296**	(86)
– Income tax in other countries	**1,033**	211
	1,329	125
Deferred taxation		
– Taiwan	**(104)**	(48)
– other countries	**(19)**	6
	(123)	(42)
	1,206	83

No Hong Kong profits tax has been provided as the Group had no assessable profits in Hong Kong for the years ended 31 March 2003 and 2002.

The Taiwan income tax for the year ended 31 March 2003 is charged at a rate of 25% on the taxable income of the Taiwan subsidiaries. The Taiwan income tax for the year ended 31 March 2002 represents overprovision for income tax written back. Taxation for non-Taiwan subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Taxation in the consolidated balance sheet represents:

	2003	2002
	$'000	*$'000*
Income tax payable		
– Taiwan	**360**	85
– other countries	**625**	984
	985	1,069

The Group operates mainly in Taiwan, Korea, Singapore, United States and other countries in Asia and Europe. The directors have reviewed the Group's worldwide operations and consider that adequate provision for taxation has been made in the consolidated financial statements. Details of certain income tax contingencies are set out in note 32.

Notes on the financial statements
(Expressed in United States dollars)

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2003 **$'000**	2002 $'000
Fees	**15**	–
Salaries and other emoluments	**531**	71
Discretionary bonuses	**37**	76
Retirement scheme contributions	**6**	1
	589	148
Number of directors	**6**	4

Included in the directors' remuneration were fees of $15,000 (2002: $Nil) paid to the independent non-executive directors during the year.

The remuneration of the directors is within the following bands:

	2003 **Number**	2002 Number
Nil – $128,205 (equivalent to HK$1,000,000)	**3**	4
$128,206 – $192,308 (equivalent to HK$1,000,001 – HK$1,500,000)	**3**	–
	6	4

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2002: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2002: three) individuals are as follows:

	2003	2002
	$'000	*$'000*
Salaries and emoluments	**705**	813
Discretionary bonuses	**22**	93
Retirement scheme contributions	**–**	–
	727	906

The emoluments of the two (2002: three) individuals with the highest emoluments fall within the following bands:

	2003	2002
	Number	Number
Nil – $128,205 (equivalent to HK$1,000,000)	**–**	2
$192,309 – $256,410 (equivalent to HK$1,500,001 – HK$2,000,000)	**1**	–
$448,718 – $512,821 (equivalent to HK$3,500,001 – HK$4,000,000)	**1**	–
$705,128 – $769,231 (equivalent to HK$5,500,001 – HK$6,000,000)	**–**	1
	2	3

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of $1,142,000 which has been dealt with in the financial statements of the Company.

Notes on the financial statements
(Expressed in United States dollars)

11 DIVIDENDS

Dividends attributable to the year and proposed after the balance sheet date

	2003 $'000	2002 $'000
Dividend on convertible preference shares at 1%	22	–
Final dividend proposed on ordinary shares of HK0.03 cent (equivalent to approximately US0.0038 cent) per ordinary share (2002: Nil)	1,046	–
	1,068	–

The dividends proposed after the balance sheet date have not been recognised as liabilities at the balance sheet date.

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $9,765,000 (2002: $794,000) and the proforma weighted average of 22,641,370,000 ordinary shares (2002: 21,200,000,000 ordinary shares) in issue during the year, being the shares that would have been in issue throughout the year on the assumption that the Company's acquisition of Hang Ten (BVI) as set out in note 1 to the financial statements had been completed on 1 April 2001.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of $9,765,000 (2002: $794,000) and the proforma weighted average number of ordinary shares of 94,466,354,000 shares (2002: 93,030,526,000 shares) in issue during the year, being the shares that would have been in issue throughout the year on the assumption that the Company's acquisition of Hang Ten (BVI) as set out in note 1 to the financial statements had been completed on 1 April 2001, and after adjusting for the effects of all dilutive potential ordinary shares.

12 EARNINGS PER SHARE (Continued)

(c) Reconciliations

	2003 Number of shares *'000*	2002 Number of shares *'000*
Weighted average number of ordinary shares used in calculating basic earnings per share	**22,641,370**	21,200,000
Deemed issue of ordinary shares for no consideration	**71,824,984**	71,830,526
Weighted average number of ordinary shares used in calculating diluted earnings per share	**94,466,354**	93,030,526

Notes on the financial statements
(Expressed in United States dollars)

13 FIXED ASSETS

	Land and buildings held for own use	Leasehold improve-ments	Motor vehicles	Furniture, fixtures and other fixed assets	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Cost:					
At 1 April 2002	766	3,348	207	1,824	6,145
Exchange adjustments	6	94	5	15	120
Additions	–	2,884	131	984	3,999
Disposals	–	(1,405)	–	(74)	(1,479)
At 31 March 2003	**772**	**4,921**	**343**	**2,749**	**8,785**
Accumulated depreciation:					
At 1 April 2002	–	32	22	767	821
Exchange adjustments	1	26	1	(12)	16
Charge for the year	3	2,399	62	521	2,985
Impairment loss	470	–	–	–	470
Written back on disposal	–	(1,220)	–	(41)	(1,261)
At 31 March 2003	**474**	**1,237**	**85**	**1,235**	**3,031**
Net book value:					
At 31 March 2003	**298**	**3,684**	**258**	**1,514**	**5,754**
At 31 March 2002	766	3,316	185	1,057	5,324

All land and buildings are located in Taiwan. The land is freehold.

The Group's land and buildings held for own use were revalued at 31 August 2002 by an independent firm of valuers, Chesterton Petty Limited on an open market value basis at $297,000. Based on this revaluation, an impairment loss of $470,000 has been charged to the consolidated income statement during the year.

14 GOODWILL

	Positive goodwill *$'000*
Cost:	
At 1 April 2002 and 31 March 2003	**10,121**
Accumulated amortisation:	
At 1 April 2002	120
Amortisation for the year	506
At 31 March 2003	**626**
Carrying amount:	
At 31 March 2003	**9,495**
At 31 March 2002	10,001

Positive goodwill represents the excess of Hang Ten (BVI)'s cost of acquisition of ILC over its share of the fair value of the identifiable assets and liabilities acquired in relation to the 2001 Reorganisation as set out in note 1 to the financial statements. Positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of 20 years. The amortisation of positive goodwill for the year is included in "other operating expenses" in the consolidated income statement.

15 INTEREST IN SUBSIDIARIES

	2003 ***$'000***
Unlisted shares, at cost	**30,339**
Less: Amount due to subsidiary	**(2,257)**
	28,082

The amount due to subsidiary is unsecured, interest free and will not be repayable within the next 12 months. The particulars of principal subsidiaries are set out in note 34.

Notes on the financial statements
(Expressed in United States dollars)

16 INTANGIBLE ASSETS – TRADEMARKS

	$'000
Cost:	
At 1 April 2002 and 31 March 2003	**19,506**
Accumulated amortisation:	
At 1 April 2002	297
Charge for the year	922
At 31 March 2003	**1,219**
Net book value:	
At 31 March 2003	**18,287**
At 31 March 2002	19,209

The amortisation of trademarks for the year is included in "other operating expenses" in the consolidated income statement.

17 INVESTMENTS

	2003 **$'000**	2002 $'000
Trading securities (at market value)		
Listed funds in Taiwan	**5,982**	5,429

Notes on the financial statements

(Expressed in United States dollars)

18 INVENTORIES

	2003	2002
	$'000	*$'000*
Finished goods	**20,209**	17,704
Goods in transit	**416**	196
	20,625	17,900
Less: Provisions	**(2,355)**	(1,471)
	18,270	16,429

Included in the above are inventories stated at net realisable value as follows:

	2003	2002
	$'000	*$'000*
Inventories stated at net realisable value	**3,895**	2,010

19 TRADE AND OTHER RECEIVABLES

	The Group		**The Company**
	2003	2002	**2003**
	$'000	*$'000*	***$'000***
Trade debtors (net of provisions)	**7,559**	9,439	–
Deposits, prepayments and other receivables	**8,640**	8,159	**120**
	16,199	17,598	**120**

The ageing analysis of trade debtors (net of provisions) of the Group is as follows:

	2003	2002
	$'000	*$'000*
Current	**5,484**	5,894
1 to 3 months overdue	**1,783**	2,824
More than 3 months but less than 6 months overdue	**292**	210
More than 6 months but less than 1 year overdue	–	109
More than 1 year but less than 2 years overdue	–	402
	7,559	9,439

Notes on the financial statements

(Expressed in United States dollars)

19 TRADE AND OTHER RECEIVABLES (Continued)

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.

20 CASH AND CASH EQUIVALENTS

	The Group		The Company
	2003	2002	**2003**
	$'000	*$'000*	***$'000***
Deposits with banks	**2,182**	3,137	**–**
Cash at bank and in hand	**5,311**	4,916	**30**
Cash and cash equivalents in the balance sheet	**7,493**	8,053	**30**
Bank overdrafts *(note 21)*	**(107)**	(178)	–
Cash and cash equivalents in the cash flow statement	**7,386**	7,875	**30**

21 BANK OVERDRAFTS AND LOANS

	The Group	
	2003	2002
	$'000	*$'000*
Bank overdrafts and loans		
– secured	**12,245**	18,858
– unsecured	**7,478**	9,286
	19,723	28,144

21 BANK OVERDRAFTS AND LOANS (Continued)

The bank loans of the Group were repayable as follows:

	2003	2002
	$'000	*$'000*
Within 1 year or on demand	**18,223**	13,058
After 1 year but within 2 years	**1,500**	7,543
After 2 years but within 5 years	**–**	7,543
	1,500	15,086
	19,723	28,144

At 31 March 2003, a banking facility of $19,000,000 is secured by 620,681 ordinary shares of ILC (representing 97.01% equity interest) and the amount utilised at that date was $12,245,000. Details of guarantees provided by certain shareholders of the Company in respect of the Group's banking facilities are set out in note 35.

22 TRADE AND OTHER PAYABLES

	The Group		**The Company**
	2003	2002	**2003**
	$'000	*$'000*	***$'000***
Trade creditors	**6,952**	6,881	**–**
Bills payable	**601**	2,468	**–**
Accrued charges	**3,855**	2,045	**31**
Deposits received	**977**	662	**–**
Dividend payable to minority shareholders	**117**	–	**–**
Others	**605**	898	**–**
	13,107	12,954	**31**

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

Notes on the financial statements
(Expressed in United States dollars)

22 TRADE AND OTHER PAYABLES (Continued)

The ageing of trade creditors and bills payable of the Group is analysed as follows:

	2003 $'000	2002 $'000
Outstanding balances aged:		
Within 1 month or on demand	**6,224**	8,370
Between 1 month and 3 months	**626**	710
Between 4 months and 6 months	**703**	269
	7,553	9,349

23 EMPLOYEE BENEFITS

	2003 $'000	2002 $'000
Present value of funded obligations	**928**	660
Fair value of plan assets	**(811)**	(563)
Present value of net obligations	**117**	97
Unrecognised transitional liabilities	**(50)**	(52)
Unrecognised actuarial losses	**(169)**	(127)
	(102)	(82)

Movements in the net asset recognised in the consolidated balance sheet are as follows:

	2003 $'000	2002 $'000
At 1 April	**(82)**	(14)
Contributions paid to schemes	**(237)**	(244)
Expenses recognised in the consolidated income statement	**218**	174
Exchange adjustments	**(1)**	2
At 31 March	**(102)**	(82)

23 EMPLOYEE BENEFITS (Continued)

Expenses recognised in the consolidated income statement are as follows:

	2003 **$'000**	2002 $'000
Current service costs	**214**	172
Interest on obligations	**30**	24
Expected return on plan assets	**(30)**	(25)
Amortisation of actuarial losses and transitional liabilities	**4**	3
	218	174

The expenses are recognised in the following line items in the consolidated income statement:

	2003 **$'000**	2002 $'000
Selling expenses	**213**	162
Administrative expenses	**5**	12
	218	174
Actual return on plan assets	**14**	16

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

	2003	2002
Discount rate	**3.5%**	4.5%
Expected return on plan assets	**2.75%**	4.5%
Future salary increases	**2.5%**	3.0%

24 EQUITY COMPENSATION BENEFITS

Under the terms of the Company's share option scheme (the "Share Option Scheme") adopted on 3 January 2003, the directors of the Company may, at their discretion, grant options to all employees, including directors of the Company or any of its subsidiaries, to subscribe for ordinary shares of the Company. A nominal consideration of HK$1 is payable on acceptance of the grant of an option and will entitle the holder to subscribe for ordinary shares during a period to be determined and notified by the directors of the Company, in any event not later than 10 years from the date of the grant of the option, as may be determined by the directors of the Company at a price not less than the higher of (i) the nominal value of the ordinary shares; (ii) the closing price of the ordinary shares as stated in the HKSE's daily quotation sheet on the date of the offer of grant and (iii) the average closing price of the ordinary shares as stated in the HKSE's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant. The maximum number of ordinary shares in respect of which options may be granted under the Share Option Scheme, must not in aggregate exceed 30% of the issued ordinary share capital of the Company from time to time. In respect of the maximum entitlement of each participant, the number of ordinary shares issued and issuable under the Share Option Scheme may not exceed 1% of the issued share capital of the Company from time to time. Any ordinary shares allotted and issued on the exercise of options will rank pari passu with the other ordinary shares in issue at the date of exercise of the relevant option.

Up to 31 March 2003, no share options have been granted pursuant to the Share Option Scheme.

25 BALANCES WITH RELATED COMPANIES/SHAREHOLDERS

The balances are unsecured, interest free and repayable on demand. Details of related party transactions are summarised in note 35.

26 DEFERRED TAXATION

(a) Movements on deferred taxation are analysed as follows:

	2003	2002
	$'000	*$'000*
At 1 April	**230**	–
Acquisition of subsidiaries pursuant to 2001 Reorganisation *(note 30(a))*	**–**	207
Effect of exchange rate changes	**5**	(19)
Transfer from consolidated income statement (*note 7(a)*)	**123**	42
At 31 March	**358**	230

Notes on the financial statements
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26 DEFERRED TAXATION (Continued)

(b) Major components of deferred taxation provided for are set out below:

	2003 $'000	2002 $'000
General provisions	**320**	203
Others	**38**	27
	358	230

(c) Major components of the deferred tax assets not recognised are:

	2003 $'000	2002 $'000
Future benefit of tax losses	**758**	911
Others	**168**	–
	926	911

The above deferred tax assets have not been recognised as the realisation of these assets in the foreseeable future is uncertain.

27 OTHER LOANS

	2003 $'000	2002 $'000
Loans from shareholders	**16,400**	20,000
Loans from minority shareholder of subsidiary	**–**	497
	16,400	20,497

The loans from shareholders were borrowed by Hang Ten (BVI) to finance the acquisition of ILC as set out in note 1 to the financial statements. The loans are unsecured and interest bearing at an annual rate of 6%. During the year, the Group repaid a total amount of $3.6 million to the shareholders. The remaining balance of $16.4 million is due for repayment in the year 2011 or earlier if an event of default occurs under the terms of the loan agreements. Accrued interest of $1,388,000 (2002: $300,000) is included under trade and other payables.

The loans from the minority shareholder of a subsidiary at 31 March 2002 were unsecured, interest free and repaid in full during the year.

Notes on the financial statements
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28 SHARE CAPITAL

	Note	2003 Number of ordinary shares '000	Amount of ordinary shares $'000	Number of convertible perference shares	Amount of convertible perference shares $'000	Total amount $'000
Authorised:						
On incorporation	*(a)*	10,000	13	–	–	13
Sub-division of shares	*(b)*	90,000	–	–	–	–
Increase in authorised share capital						
– ordinary shares of HK$0.001 each	*(b)*	249,900,000	32,038	–	–	32,038
– convertible preference shares ("CPS") of HK$10,000 each	*(b)*	–	–	7,307	9,368	9,368
		250,000,000	32,051	7,307	9,368	41,419

Notes on the financial statements

(Expressed in United States dollars)

28 SHARE CAPITAL (Continued)

	Note	2003 Number of ordinary shares *'000*	Amount of ordinary shares *$'000*	Number of convertible perference shares	Amount of convertible perference shares *$'000*	Total amount *$'000*
Issued and fully paid:						
Issued nil paid on incorporation and subsequently credited as fully paid as consideration for the acquisition of Hang Ten (BVI)	*(a)*	10,000	13	–	–	13
Sub-division of shares	*(b)*	90,000	–	–	–	–
Issue of shares to the then shareholders of Hang Ten (BVI) as consideration for the acquisition of Hang Ten (BVI)	*(c)*	21,100,000	2,705	7,038	9,023	11,728
Proforma share capital at 31 March 2002		21,200,000	2,718	7,038	9,023	11,741
Issue of shares to New Investors	*(c)*	810,000	104	269	345	449
Issue of shares to Akai shareholders	*(c)*	300,000	38	–	–	38
Issue of shares to Akai creditors	*(c)*	2,100,000	269	–	–	269
Conversion of CPS upon completion of 2003 Reorganisation	*(d)*	2,690,000	345	(269)	(345)	–
Conversion of CPS after listing of the Company's shares	*(e)*	100,000	13	(10)	(13)	–
Share capital at 31 March 2003		27,200,000	3,487	7,028	9,010	12,497

Notes on the financial statements
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28 SHARE CAPITAL (Continued)

Notes:

(a) On 17 July 2002, the Company was incorporated with an authorised share capital of HK$100,000 divided into 10,000,000 ordinary shares of HK$0.01 each, issued nil paid to a sole shareholder on 19 July 2002.

(b) Pursuant to a written resolution passed by the sole shareholder on 24 October 2002, the par value of the ordinary shares of the Company was reduced from HK$0.01 each to HK$0.001 each, and each of the issued share of HK$0.01 each of the Company was sub-divided into 10 shares. In addition, the authorised share capital of the Company was increased to HK$323,070,000, represented by 250,000 million ordinary shares of HK$0.001 each and 7,307 CPS of HK$10,000 each, by the creation of an additional 249,900 million ordinary shares and 7,307 CPS. Additional ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.

(c) Details of the shares issued to the then shareholders of Hang Ten (BVI), Akai shareholders and Akai creditors are set out in note 1 to the financial statements.

(d) Immediately upon the completion of the sale and purchase agreement for the Company's acquisition of the entire issued share capital of Hang Ten (BVI) on 3 January 2003, the holders of 269 CPS converted their CPS into 2,690 million ordinary shares of the Company at a conversion price of HK$0.001.

(e) On 22 January 2003, the holders of 10 CPS converted their CPS into 100 million ordinary shares of the Company at a conversion price of HK$0.001 each.

(f) The principal rights and restrictions attached to the CPS are summarised below. The CPS holders:

(i) will receive in priority to the holders of ordinary shares, a fixed cumulative cash dividend payable on the principal amount outstanding under the CPS at the rate of 1% per annum;

(ii) may convert all or any part of the CPS into ordinary shares at a conversion price of HK$0.001 each (subject to adjustments) and all CPS that remain outstanding on the fifth anniversary of the date of issue of the CPS will be mandatorily converted, unless such conversion is restricted as described in (iv) below in which case the mandatory conversion date will automatically be extended for a successive period of 2 years until such conversion is not so restricted;

(iii) may not exercise the conversion rights attached to the CPS if such exercise would result in the number of the Company's ordinary shares, which are in the hands of the public, falling below 25% or the relevant prescribed minimum percentage for the Company as required by the HKSE from time to time;

(iv) will rank in priority to the ordinary shareholders on a return of capital on a winding-up or otherwise, provided that the assets of the Company available for distribution to its shareholders will be applied first towards arrears or accruals of the fixed dividend payable on the CPS before repaying the capital paid up on any CPS or ordinary shares;

(v) will not be entitled to attend or vote at any general meetings of the Company, except at a general meeting of the CPS holders held to vary or abrogate the rights of the CPS holders; and

(vi) may assign or transfer the CPS with the prior approval from the HKSE, if so required.

28 SHARE CAPITAL (Continued)

(g) Warrants

As mentioned in note 1 to the financial statements, 4,402 million warrants in the proportion of one warrant for every five ordinary shares were issued together with the new issue of 22,010 million ordinary shares as consideration for the Company's acquisition of the entire issued share capital of Hang Ten (BVI).

No warrants were exercised up to 31 March 2003. Exercise in full of the outstanding 4,402 million warrants would result in the issue of 4,402 million ordinary shares of the Company of HK$0.001 each and the receipt by the Company of an aggregate amount of HK$44,020,000 (equivalent to $5.6 million).

The warrant holders:

(i) subject to paragraph (ii) below, will entitle to subscribe for ordinary shares of HK$0.001 each of the Company at an initial subscription price of HK$0.01 each (subject to adjustments);

(ii) may not exercise the subscription rights attached to the warrants if such exercise would result in the number of the Company's shares, which are in the hands of the public, falling below 25% or the relevant prescribed minimum percentage for the Company as required by the HKSE from time to time;

(iii) subject as described in paragraph (ii) above, may exercise the warrants in whole or in part at any time during the three year period following the date of issue of the warrants; all ordinary shares that are issued on an exercise of the warrants will rank pari passu with the other ordinary shares then in issue;

(iv) may transfer the warrants in integral multiples of HK$1,000;

(v) will not be entitled to participate in any distributions or offers of further securities made by the Company by reason only of them being holders of the warrants; and

(vi) will not be entitled to attend or vote any general meetings of the Company by reason only of them being holders of the warrants.

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29 RESERVES

The Group

	Contributed surplus *$'000*	Exchange reserve *$'000*	Retained profits *$'000*	Total *$'000*
At 1 April 2001	–	–	–	–
Exchange differences on translation of financial statements of foreign entities	–	59	–	59
Issue of shares to the then shareholders of Hang Ten (BVI) for acquisition of Hang Ten (BVI) *(note 1)*	5,259	–	–	5,259
Profit for the year	–	–	794	794
At 31 March 2002	**5,259**	**59**	**794**	**6,112**
At 1 April 2002	5,259	59	794	6,112
Exchange differences on translation of financial statements of foreign entities	–	91	–	91
Issue of shares to the New Investors as consideration for the acquisition of Hang Ten (BVI) (*note 1*)	4,038	–	–	4,038
Issue of shares to Akai shareholders (*note 1*)	(38)	–	–	(38)
Issue of shares to Akai creditors (*note 1*)	(269)	–	–	(269)
Share issue expenses	(3,280)	–	–	(3,280)
Profit for the year	–	–	9,765	9,765
At 31 March 2003	**5,710**	**150**	**10,559**	**16,419**

The exchange reserve has been set up and will be dealt with in accordance with the accounting policy adopted for foreign currency translation.

29 RESERVES (Continued)

The Company

	Contributed surplus *$'000*	Retained profits *$'000*	Total *$'000*
Amount arising on acquisition of the entire issued share capital of Hang Ten (BVI)	18,149	–	18,149
Issue of shares to Akai shareholders (*note 1*)	(38)	–	(38)
Issue of shares to Akai creditors (*note 1*)	(269)	–	(269)
Share issue expenses	(3,280)	–	(3,280)
Profit for the year	–	1,142	1,142
At 31 March 2003	**14,562**	**1,142**	**15,704**

The excess of the consolidated net assets of Hang Ten (BVI) acquired over the nominal value of the shares issued by the Company pursuant to the 2003 Reorganisation described in note 1 is credited to contributed surplus. Contributed surplus is available for distribution to shareholders in accordance with the Companies Act 1981 of Bermuda subject to certain conditions.

As at 31 March 2003, the aggregate amount of reserves of the Company available for distribution to shareholders amounted to $15,704,000 (2002: $Nil) subject to the restriction stated above.

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30 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiary

On 31 December 2001, the Group acquired 97.01% equity interest in ILC for a consideration of $54,619,000.

	2002
	$'000
Net assets acquired:	
Fixed assets	4,637
Intangible assets	19,506
Employee benefits	24
Deferred taxation	207
Inventories	21,948
Trade and other receivables	19,004
Amounts due from related companies	1,382
Cash and cash equivalents	5,103
Bank loans and overdrafts	(10,331)
Trade and other payables	(12,843)
Taxation	(1,101)
Other loans	(497)
Minority interests	(2,541)
Net identifiable assets and liabilities	44,498
Positive goodwill *(note 14)*	10,121
Consideration for the acquisition of ILC	54,619
Less: cash of the subsidiary acquired	(5,103)
Less: consideration for the acquisition of ILC partly satisfied by the subscription proceeds of shares in Hang Ten (BVI) *(note 1)*	(17,000)
Net cash outflow in respect of the purchase of subsidiary	32,516

(b) Material non-cash transactions

Pursuant to the scheme of arrangement between Akai and its shareholders as set out in the Listing Document and note 1 to the financial statements, 300 million ordinary shares of the Company were issued to the Akai shareholders in consideration of the transfer of all of their shares in Akai to the Company. In addition, the Company issued 2,100 million ordinary shares of the Company to the Akai creditors.

31 OPERATING LEASE COMMITMENTS

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

	2003	2002
	$'000	*$'000*
Within one year	**15,679**	15,129
After one year but within five years	**22,066**	23,072
After five years	**32**	–
	37,777	38,201

The Group leases a number of properties under operating leases. The leases typically run for an initial period of two to six years, with an option to renew the lease when all terms are renegotiated. The monthly rentals of the leases are either fixed or contingent based on an agreed percentage of the turnover of the respective months. For the purpose of the above disclosure, contingent rentals are based on the minimum rental payments stipulated in the lease agreements.

32 CONTINGENT LIABILITIES

(a) Letters of credit

As at 31 March 2003, outstanding letters of credit of the Group for the purchase of goods amounted to $2,897,000 (2002: $4,409,000).

(b) Withholding tax

In 1997, ILC entered into a two-year service agreement with the Taiwan branch of another subsidiary of the Group, 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 "Tax 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 ("TTA"). As at 31 March 2003, the application filed by ILC with the TTA for a reduction of the withholding tax rate to 3.75% has 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 consider it highly likely that the TTA will approve the application, on the basis of the success of similar applications previously made by ILC.

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33 PLEDGE OF ASSETS AND GUARANTEES

During the year, the Group's banking facilities were secured/guaranteed as follows:

(i) Pledge of 620,681 ordinary shares of ILC representing 97.01% of the issued share capital of ILC; and

(ii) Unconditional personal guarantees executed by certain shareholders of the Company, for banking facilities totalling $9.85 million.

In September 2002, the banking facilities secured by the personal guarantees of Mr. Dennis Kung and Ms. Wang Li Wen in the total amount of $4.35 million were terminated by the Group. In addition, the Group has obtained an approval-in-principle letter from each of the other two banks in respect of banking facilities in the total amount of $5.5 million for replacing the personal guarantees given by Mr. Dennis Kung and Ms. Wang Li Wen with corporate guarantees to be given by member(s) of the Group upon listing of the shares of the Company on the HKSE. As at 31 March 2003, formal procedures for the release of the personal guarantees are still in progress.

34 PARTICULARS OF SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results or assets of the Group. The class of shares held is ordinary shares unless otherwise stated.

All of these subsidiaries have been consolidated into the consolidated financial statements.

Name	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: held by the company	Proportion of ownership interest: held by the subsidiary	Principal activities
Hang Ten International Holdings Limited	British Virgin Islands ("BVI")	$103,821	100%	100%	–	Investment holding
ILC International Corporation	BVI	$639,830	97%	–	97%	Investment holding
Hang Ten Enterprises Limited	BVI	$50,000	97%	–	97%	Investment holding and wholesale of apparels
Chinaway Trading Co., Ltd.	BVI	$50,000	97%	–	97%	Trading of apparels

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34 PARTICULARS OF SUBSIDIARIES (Continued)

Name	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	held by the company	held by the subsidiary	Principal activities
Yangtze Apparel Taiwan Enterprise Limited	Taiwan	NT$ 100,000,000	97%	–	97%	Retail and wholesale of apparels
Hang Ten (Phils) Holdings Corporation	BVI	$50,000	97%	–	97%	Investment holding
Hang Ten Phils., Corp	Philippines	PHP50,000,000	53.4%	–	55%	Retail and wholesale of apparels
Hang Ten Enterprises (Pte) Ltd.	Singapore	SGD1,000,000	97%	–	97%	Retail and wholesale of apparels
Hang Ten Korea Corp.	Korea	KRW 6,000,000,000	89.2%	-	92%	Retail and wholesale of apparels
Hang Ten Enterprises (M) Sdn Bhd	Malaysia	RM500,000	97%	–	97%	Retail and wholesale of apparels
ILC Trademark Corporation	BVI	$50,000	97%	–	97%	Trademark ownership and licensing
ILC (Cyprus) Limited	Cyprus	Cypriot pounds 1,000	97%	–	97%	Investment holding
ILC (Hungary) Limited	Hungary	$6,400	97%	–	97%	Trademark licensing
HTIL Holdings Corporation N.V.	Netherlands Antilles	$6,000	97%	–	97%	Investment holding
HTIL Corporation, B.V.	The Netherlands	NLG40,000	97%	–	97%	Trademark licensing
International Licensing (California) Corp	United States of America	$10,000	97%	–	97%	Trademark licensing and management

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35 RELATED PARTY TRANSACTIONS

The following transactions with related parties were in the opinion of the directors carried out in the ordinary course of business and on normal commercial terms.

(a) (i) Transactions with Michel Rene Enterprises Limited, a subsidiary of YGM Trading Limited, a substantial shareholder of the Company

	2003 **$'000**	2002 *$'000*
Rental income from leasing of retail stores and equipment	**145**	47
Rental expenses for leasing of retail stores	**26**	7
Purchases of goods	**–**	2

(ii) Amount due from Michel Rene Enterprises Limited

	2003 **$'000**	2002 *$'000*
Amount due from Michel Rene Enterprises Limited	**15**	2

Details of the terms are stated in note 25.

(b) (i) Transactions with shareholders of the Company

	2003 **$'000**	2002 *$'000*
Consultancy fee paid to Mr Dennis Kung or its associate	**388**	94
Consultancy fee paid to Mr Kenneth Hung	**175**	–
Guarantees given by Mr Dennis Kung and Ms Wang Li Wen to banks in respect of credit facilities granted to a subsidiary of the Company	**9,850**	10,500

35 RELATED PARTY TRANSACTIONS (Continued)

(ii) Balances with shareholders

	2003 **$'000**	2002 $'000
Amounts due to shareholders	**191**	618

Details of the terms are stated in note 25.

(c) (i) Transactions with Hang Ten (China) Group Limited, a company 97.01% owned by the substantial shareholders of the Company

	2003 **$'000**	2002 $'000
Loans advanced	**–**	1,650
Royalty income and advertising contributions	**244**	–

(ii) Balance with Hang Ten (China) Group Limited

	2003 **$'000**	2002 $'000
Amount due from Hang Ten (China) Group Limited	**244**	1,650

Details of the terms are stated in note 25.

(d) (i) Transactions with minority shareholders of non-wholly owned subsidiaries of the Company and their associates

	2003 **$'000**	2002 $'000
Sales of goods to Global Inc.	**301**	76
Purchases of goods from Global Inc.	**166**	569
Rental expenses paid to Global Inc. for leasing of warehouse and office premises	**87**	26
Sales of goods to Chua and company	**1,389**	615
Royalty income from Avon Dale Garments, Inc.	**88**	26

Notes on the financial statements
(Expressed in United States dollars)

35 RELATED PARTY TRANSACTIONS (Continued)

(ii) Balances with the minority shareholders and their associates

	2003	2002
	$'000	*$'000*
Amount due from/(to) Global Inc.	**51**	(26)
Amount due from Avon Dale Garments, Inc.	**41**	4

Details of the terms are stated in note 25.

36 SEGMENT REPORTING

Segment information is presented in respect of the Group's geographical and business segments. Information related to geographical segments based on the location of customers is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

Geographical segments by the location of customers and by the location of assets

The Group's business is managed on a worldwide basis, but operations are conducted in two principal economic environments. Taiwan and Korea are the major markets for the Group's business.

When presenting information on the basis of geographical segments, segment information is based on the geographical location of customers unless otherwise stated. Segment assets and capital expenditure are not further analysed by the geographical locations of the assets, as the Group's assets are located in the same geographical areas as its customers.

36 SEGMENT REPORTING (Continued)

(i) An analysis of the Group's revenue and results by geographical segments is as follows:

	2003							
	Taiwan	Korea	Philippines	Singapore	Malaysia	Inter-segment elimination	Unallocated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers	106,013	45,267	6,322	11,798	1,018	–	3,972	174,390
Inter-segment revenue	25,225	–	–	–	–	(26,176)	951	–
Total revenue	131,238	45,267	6,322	11,798	1,018	(26,176)	4,923	174,390
Segment result	9,481	2,467	520	(652)	(15)	(89)	1,432	13,144
Finance costs								(1,992)
Taxation								(1,206)
Negative goodwill on investment in subsidiary								808
Minority interests								(989)
Profit attributable to shareholders								9,765
Depreciation and amortisation for the year	2,433	494	242	553	64		627	4,413
Impairment loss on fixed assets	470	–	–	–	–		–	470

Notes on the financial statements

(Expressed in United States dollars)

36 SEGMENT REPORTING (Continued)

(i) An analysis of the Group's revenue and results by geographical segments is as follows: (Continued)

	2002							
	Taiwan	**Korea**	**Philippines**	**Singapore**	**Malaysia**	**Inter-segment elimination**	**Unallocated**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	31,199	10,039	1,106	2,463	–	–	1,367	46,174
Inter-segment revenue	6,305	–	–	–	–	(6,526)	221	–
Total revenue	37,504	10,039	1,106	2,463	–	(6,526)	1,588	46,174
Segment result	1,009	397	(224)	(336)	–	254	857	1,957
Finance costs								(721)
Taxation								(83)
Minority interests								(359)
Profit attributable to shareholders								794
Depreciation and amortisation for the year	818	95	57	113	–		155	1,238
Impairment loss on fixed assets	–	–	–	–	–		–	–

36 SEGMENT REPORTING (Continued)

(ii) An analysis of the Group's assets and liabilities by geographical segments is as follows:

	Taiwan	Korea	Philippines	Singapore	Malaysia	Inter-segment elimination	Un-allocated	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 31 March 2003								
Segment assets	69,943	12,517	1,781	3,851	743	(38,786)	32,242	82,291
Segment liabilities	14,034	2,649	1,486	4,442	620	(6,775)	36,919	53,375
At 31 March 2002								
Segment assets	67,608	8,478	1,874	2,530	–	(30,066)	33,587	84,011
Segment liabilities	15,033	3,894	831	2,544	–	(8,924)	52,780	66,158

(iii) Segmental capital expenditure

Capital expenditure for the year:

	2003	2002
	$'000	*$'000*
Taiwan	**1,758**	1,020
Korea	**719**	70
Philippines	**281**	114
Singapore	**786**	143
Malaysia	**415**	–
Unallocated	**40**	–
	3,999	1,347

Notes on the financial statements

(Expressed in United States dollars)

36 SEGMENT REPORTING (Continued)

Business segments

The Group comprises the following main business segments:

(i) Sales of apparels – Retails and wholesale of branded apparels and accessories

(ii) Royalty income – Licensing "Hang Ten" brand to worldwide licensees

	2003	2002
	$'000	*$'000*
Revenue from customers:		
– Sales of apparels	**170,418**	44,807
– Royalty income	**3,972**	1,367
Total	**174,390**	46,174

	2003	2002
	$'000	*$'000*
Segment assets:		
– Sales of apparels	**50,666**	50,424
– Royalty income	**3,569**	3,994
– Unallocated (including trademarks)	**28,045**	29,593
Total	**82,280**	84,011

	2003	2002
	$'000	*$'000*
Segment capital expenditure:		
– Sales of apparels	**3,959**	1,347
– Royalty income	**40**	–
Total	**3,999**	1,347