

## Notes on the proforma unaudited combined income statement

(Expressed in United States dollars)

### 1 BASIS OF PREPARATION OF THE PROFORMA UNAUDITED COMBINED INCOME STATEMENT

In preparation of the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE"), a group reorganisation was completed on 3 January 2003 ("2003 Reorganisation") as set out in note 1 to the audited consolidated financial statements.

For the purpose of the preparation of the audited consolidated financial statements, the Company and its subsidiaries ("the Group") acquired in connection with the 2003 Reorganisation are regarded as a continuing group and the acquisition 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 reorganisation completed on 31 December 2001 ("2001 Reorganisation") in connection with the acquisition of ILC International Corporation ("ILC") by Hang Ten International Holdings Limited ("Hang Ten (BVI)") as set out in note 1 to the audited consolidated financial statements has been accounted for by acquisition accounting in accordance with SSAP 27. The 2001 Reorganisation has resulted in a change of the controlling shareholders and does not meet all the requirements for adopting merger accounting. Consequently, the comparative figures included in the audited consolidated income statement in respect of the year ended 31 March 2002 presented on page 24 represent only 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.

To better reflect the Group's operating performance for the two years ended 31 March 2003 and 2002, the directors consider that it appropriate to include additional financial information by way of a proforma unaudited combined income statement of the Group with comparative figures in respect of the year ended 31 March 2002 prepared on the basis as if the 2001 Reorganisation had been completed on 1 April 2001. Under this basis of preparation, the full year's results of Hang Ten (BVI) and its subsidiaries for the year ended 31 March 2002 have been included as comparative figures which are consistent with those reflected in the Accountants' Report included in the document dated 31 October 2002 issued for the purpose of the listing of the Company's shares on the HKSE.

### 2 TURNOVER

Turnover represents the sales value of goods supplied to customers and royalty income.

(a) **The amount of each significant category of revenue recognised in turnover during the year is as follows:**

	2003 \$'000	2002 \$'000
Sales of apparels	170,418	155,469
Royalty income	3,972	3,877
	<u>174,390</u>	<u>159,346</u>

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### 2 TURNOVER (Continued)

(b) An analysis of the Group's turnover by geographical location is as follows:

	2003 \$'000	2002 \$'000
Taiwan	106,013	112,260
Korea	45,267	30,156
Philippines	6,322	4,582
Singapore	11,798	8,471
Malaysia	1,018	-
Unallocated	3,972	3,877
	<u>174,390</u>	<u>159,346</u>

### 3 OTHER REVENUE AND NET LOSS

	2003 \$'000	2002 \$'000
<b>Other revenue</b>		
Rental income	682	679
Bank interest income	85	339
Claims receivable from suppliers	754	472
Others	1,299	1,344
	<u>2,820</u>	<u>2,834</u>
<b>Other net loss</b>		
Net loss on disposal of fixed assets	(211)	(292)
Net exchange gain	109	62
Net realised and unrealised gains on listed funds carried at fair value	2	-
Others	(86)	3
	<u>(186)</u>	<u>(227)</u>

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### 4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003 \$'000	2002 \$'000
<b>(a) Finance costs:</b>		
Interest on bank advances and other borrowings wholly repayable within five years	853	697
Interest on shareholders' loans	1,088	300
Other borrowing costs	51	28
	<u>1,992</u>	<u>1,025</u>
<b>(b) Staff costs:</b>		
Salaries and staff benefits	19,387	18,977
Retirement costs (Taiwan)	218	174
Retirement costs (other countries)	217	37
	<u>19,822</u>	<u>19,188</u>
<b>(c) Other items:</b>		
Cost of inventories sold	81,484	80,300
Auditors' remuneration	260	149
Amortisation of positive goodwill	506	120
Amortisation of trademarks	922	1,186
Depreciation	2,985	2,838
Operating lease charges (including retail shops and department store counters)	28,671	25,699
Commission to franchisees	13,843	8,544
Provision for inventories	884	1,471
Provision for bad debts	22	100
Impairment loss on fixed assets	470	-
	<u>470</u>	<u>-</u>
<b>(d) Negative goodwill on investment in subsidiary:</b>		

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 from 67.9% to 89.2%. The negative goodwill arising therefrom of \$808,000 has been credited to the consolidated income statement for the year.

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### 5 TAXATION

	2003 \$'000	2002 \$'000
Current income tax		
– Hong Kong profits tax	–	–
– Taiwan income tax	296	25
– Income tax in other countries	1,033	1,143
	<u>1,329</u>	<u>1,168</u>
Deferred taxation		
– Taiwan	(104)	(48)
– other countries	(19)	6
	<u>(123)</u>	<u>(42)</u>
	<u>1,206</u>	<u>1,126</u>

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 years ended 31 March 2003 and 2002 is charged at a rate of 25% on the taxable income of the Taiwan subsidiaries. Taxation for non-Taiwan subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

### 6 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 US0.0038 cent) per ordinary share (2002: Nil)	1,046	–
	<u>1,068</u>	<u>–</u>

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

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### 7 PROFORMA EARNINGS PER SHARE

#### (a) Proforma basic earnings per share

The calculation of proforma basic earnings per share is based on the proforma combined profit attributable to shareholders of \$9,765,000 (2002: \$8,560,000) 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 audited consolidated financial statements had been completed on 1 April 2001.

#### (b) Proforma diluted earnings per share

The calculation of diluted earnings per share is based on the proforma combined profit attributable to ordinary shareholders of \$9,765,000 (2002: \$8,560,000) 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 audited consolidated financial statements had been completed on 1 April 2001, and after adjusting for the effects of all dilutive potential ordinary shares.

#### (c) Reconciliations

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