Interim Report 2003

Hang Ten Group Holdings Limited
(Incorporated in Bermuda with Limited Liability)

HANG TEN

INTERIM RESULTS

The Board of Directors (the "Board") of Hang Ten Group Holdings Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2003. The interim results have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the Six Months Ended 30 September 2003
(Expressed in United States dollars)

	Notes	**Six months ended 30 September 2003 *$'000* (unaudited)**	Six months ended 30 September 2002 *$'000* (unaudited)
Turnover	*4*	**77,792**	80,737
Cost of sales		**(34,464)**	(35,611)
		43,328	45,126
Other revenue	*5*	**561**	1,302
Other net income		**278**	293
Selling expenses		**(32,035)**	(34,839)
Administrative expenses		**(5,393)**	(4,777)
Other operating expenses		**(868)**	(1,502)
Profit from operations		**5,871**	5,603
Finance costs	*7*	**(716)**	(1,412)
Profit from ordinary activities before taxation	*7*	**5,155**	4,191
Taxation	*8*	**(702)**	(413)
Profit from ordinary activities after taxation		**4,453**	3,778
Minority interests		**(291)**	(448)
Profit attributable to shareholders		**4,162**	3,330
Earnings per share	*9*		
– basic		**US cent 0.0152**	US cent 0.0157
– diluted		**US cent 0.0042**	US cent 0.0036

* *The notes on pages 5 to 16 form part of these interim financial statements.*

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2003
(Expressed in United States dollars)

	Notes	30 September 2003 $'000 (unaudited)	31 March 2003 $'000 (audited)
Non-current assets			
Fixed assets	*11*	**6,177**	5,754
Goodwill		**9,242**	9,495
Intangible assets – trademarks		**17,799**	18,287
Employee benefits		**–**	102
Deferred taxation		**385**	358
		33,603	33,996
Current assets			
Investments	*12*	**1,540**	5,982
Inventories		**19,194**	18,270
Trade and other receivables	*13*	**18,338**	16,199
Amounts due from related companies	*20*	**389**	351
Cash and cash equivalents		**4,267**	7,493
		43,728	48,295
Current liabilities			
Bank overdrafts and loans	*14*	**6,902**	18,223
Trade and other payables	*15*	**15,878**	13,107
Amount due to shareholders	*16*	**–**	191
Taxation		**1,266**	985
		24,046	32,506
Net current assets		**19,682**	15,789
Total assets less current liabilities		**53,285**	49,785
Non-current liabilities			
Bank loans	*14*	**522**	1,500
Employee benefits		**49**	–
Loans from shareholders	*17*	**16,400**	16,400
		16,971	17,900
Minority interests		**3,342**	2,969
NET ASSETS		**32,972**	28,916
CAPITAL AND RESERVES			
Share capital	*18*	**12,497**	12,497
Reserves	*19*	**20,475**	16,419
		32,972	28,916

* *The notes on pages 5 to 16 form part of these interim financial statements.*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 30 September 2003
(Expressed in United States dollars)

	2003	2002
	$'000	*$'000*
	(unaudited)	(unaudited)
Shareholders' equity at 1 April	**28,916**	17,853
Net profit for the period	**4,162**	3,330
Dividend on convertible preference shares for the year ended 31 March 2003 paid	**(22)**	–
Final dividend for the year ended 31 March 2003 paid	**(1,046)**	–
	(1,068)	–
Exchange difference on translation of financial statements of foreign entities	**962**	255
Gain not recognized in the condensed consolidated income statement	**962**	255
Shareholders' equity at 30 September	**32,972**	21,438

* *The notes on pages 5 to 16 form part of these interim financial statements.*

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the Six Months Ended 30 September 2002
(Expressed in United States dollars)

	Six months ended 30 September 2003 ***$'000*** **(unaudited)**	Six months ended 30 September 2002 *$'000* (unaudited)
Net cash generated from operating activities	**6,799**	5,129
Net cash generated from investing activities	**2,812**	3,318
Net cash used in financing activities	**(13,501)**	(8,762)
Net decrease in cash and cash equivalents	**(3,890)**	(315)
Effect of foreign exchange rates	**771**	342
Cash and cash equivalents at 1 April	**7,386**	8,053
Cash and cash equivalents at 30 September	**4,267**	8,080
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**4,267**	8,080

* *The notes on pages 5 to 16 form part of these interim financial statements.*

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the Six Months Ended 30 September 2003
(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.

2003 Reorganization

As stated in a document (the "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 (the "Sale and Purchase Agreement") to acquire the entire issued share capital of Hang Ten International Holdings Limited ("Hang Ten International") 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 (the "Stock Exchange"), Hang Ten International 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 International 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 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 Reorganization described above, the following transaction 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 share 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 was withdrawn from the Stock Exchange and the Company's shares were listed on the Stock Exchange by way of introduction on 9 January 2003.

2. Basis of Presentation of Financial Statements

The Company and its subsidiaries ("the Group") acquired pursuant to the Sales and Purchase Agreement in the 2003 Reorganization 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 periods presented, rather than from the date of completion of the 2003 Reorganization on 3 January 2003. Accordingly the comparative figures include 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.

3. Accounting Policies

The unaudited consolidated condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The accounting policies adopted for the preparation of the consolidated condensed interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2003 except that the Group has adopted the revised SSAP12 "Income taxes" issued by the HKSA which is effective for accounting period commencing on or after 1 January 2003.

The change to the Group's accounting policies and the effect of adopting the revised standard is set out below:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxation is provided on temporary difference arising on investments in subsidiaries and associated companies except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy and had no material impact on the Group's accounts in prior periods/years.

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.

	Six months ended 30 September 2003 ***$'000***	Six months ended 30 September 2002 *$'000*
Sales of apparels	**75,001**	78,346
Royalty income	**2,791**	2,391
	77,792	80,737

5. Other Revenue

	Six months ended 30 September 2003 ***$'000***	Six months ended 30 September 2002 *$'000*
Rental income	**93**	357
Bank interest income	**14**	107
Claims receivable from suppliers	**207**	237
Others	**247**	601
	561	1,302

6. 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 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 2003:

	Taiwan $'000	Philippines $'000	Singapore $'000	Korea $'000	Malaysia $'000	Others and unallocated $'000	Inter-segment eliminations $'000	Total $'000
Revenue from external customers	47,835	2,570	5,791	18,062	743	2,791	–	77,792
Inter-segment revenue	9,485	–	–	–	–	379	(9,864)	–
Total revenue	57,320	2,570	5,791	18,062	743	3,170	(9,864)	77,792
Segment result	4,708	163	(450)	1,003	(82)	529	–	5,871
Finance costs								(716)
Taxation								(702)
Minority interests								(291)
Profit attributable to shareholders								4,162

Six months ended 30 September 2002:

	Taiwan $'000	Philippines $'000	Singapore $'000	Korea $'000	Malaysia $'000	Others and unallocated $'000	Inter-segment eliminations $'000	Total $'000
Revenue from external customers	51,623	2,639	4,585	19,638	157	2,095	–	80,737
Inter-segment revenue	13,477	–	7	–	–	412	(13,896)	–
Total revenue	65,100	2,639	4,592	19,638	157	2,507	(13,896)	80,737
Segment result	4,993	229	(782)	1,026	(20)	157	–	5,603
Finance costs								(1,412)
Taxation								(413)
Minority interests								(448)
Profit attributable to shareholders								3,330

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

	Six months ended 30 September 2003 *$'000*	Six months ended 30 September 2002 *$'000*
Sales of apparels	**75,001**	78,346
Royalty income	**2,791**	2,391
	77,792	80,737

7. Profit from Ordinary Activities before Taxation

Profit from ordinary activities before taxation is arrived at after charging:

	Six months ended 30 September 2003 *$'000*	Six months ended 30 September 2002 *$'000*
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	**241**	521
Interest on shareholders' loans	**475**	891
	716	1,412
(b) Other items		
Cost of inventories sold	**34,464**	35,611
Staff costs	**11,004**	10,183
Provision for impairment loss on land and buildings	**–**	453
Amortization of positive goodwill	**253**	338
Amortization of trademarks	**488**	593
Depreciation	**1,484**	1,565

8. Taxation

	Six months ended 30 September 2003 $'000	Six months ended 30 September 2002 $'000
Current income tax		
– Hong Kong profits tax	**–**	–
– Taiwan income tax	**376**	99
– Income tax in other countries	**353**	314
	729	413
Deferred taxation		
– Taiwan	**(26)**	–
– Other countries	**(1)**	–
	(27)	–
	702	413

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 2003 (2002: $ nil).

The Taiwan income tax for the six months ended 30 September 2003 was charged at a rate of 25% (2002: 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.

9. 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 2003 of $4,162,000 (2002: $3,330,000) and the weighted average of 27,364,426,000 ordinary shares (2002: 21,200,000,000 ordinary shares) in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the six months ended 30 September 2003 of $4,162,000 (2002: $3,330,000) and the weighted average number of ordinary shares of 99,565,158,000 shares (2002: 93,030,526,000 shares) in issue during the period and after adjusting for the effects of all dilutive potential ordinary shares.

10. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2003 (2002: $nil).

11. Fixed Assets

During the six months ended 30 September 2003, the Group purchased new fixed assets amounted to US$1,741,000.

12. Investments

	As at 30 September 2003 $'000	As at 31 March 2003 $'000
Trading securities (at market value)		
Listed funds in Taiwan	**1,540**	5,982

13. Trade and Other Receivables

	As at 30 September 2003 $'000	As at 31 March 2003 $'000
Trade debtors (net of provision)	7,776	7,559
Deposits, prepayment and other receivables	10,562	8,640
	18,338	16,199

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 30 September 2003 $'000	As at 31 March 2003 $'000
Current	5,850	5,484
1 to 3 months overdue	1,795	1,783
More than 3 months but less than 6 months overdue	131	292
	7,776	7,559

14. Bank Overdrafts and Loans

	As at 30 September 2003 $'000	As at 31 March 2003 $'000
Secured	7,409	12,245
Unsecured	15	7,478
	7,424	19,723
The bank loans were repayable as follows:		
Within 1 year or on demand	6,902	18,223
After 1 year but within 2 years	–	1,500
After 2 years but within 5 years	522	–
	522	1,500
	7,424	19,723

15. Trade and Other Payables

	As at 30 September 2003 $'000	As at 31 March 2003 $'000
Trade creditors	9,216	6,952
Bills payable	322	601
Accrued charges	4,778	3,855
Deposits received	674	977
Dividend payable to minority shareholders	–	117
Others	888	605
	15,878	13,107

Credit terms obtained by the 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 2003 $'000	As at 31 March 2003 $'000
Within 1 month or on demand	8,718	6,224
Between 1 month and 3 months	413	626
Between 4 months and 6 months	149	703
Between 7 months and 12 months	258	–
	9,538	7,553

16. Amount due to Shareholders

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

17. Loans from Shareholders

The loans from the Company's shareholders were borrowed by Hang Ten International to finance the acquisition of ILC International Corporation ("ILC") in 2001. The loans are unsecured and interest bearing at 6% p.a. balance is due for repayment in the year 2011.

18. Share Capital

Authorized:

	Number of shares		Amount	
	30 September 2003	31 March 2003	30 September 2003 $'000	31 March 2003 $'000
Ordinary shares of HK$0.001 each	250,000,000,000	250,000,000,000	32,051	32,051
Convertible preference shares ("CPS") of HK$10,000 each	7,307	7,307	9,368	9,368
			41,419	41,419

Issued and fully paid:

	Number of ordinary shares *'000*	Amount of ordinary shares *$'000*	Number of convertible preference shares	Amount of convertible preference shares *$'000*	Total amount *$'000*
Shares capital at 1 April 2002	21,200,000	2,718	7,038	9,023	11,741
Issue of shares to New Investors *(note 1)*	810,000	104	269	345	449
Issue of shares to Akai shareholders *(note 1)*	300,000	38	–	–	38
Issue of shares to Akai creditors *(note 1)*	2,100,000	269	–	–	269
Conversion of CPS upon completion of 2003 Reorganization *(note 1)*	2,690,000	345	(269)	(345)	–
Conversion of CPS after listing of the Company's shares	100,000	13	(10)	(13)	–
Share capital at 31 March 2003	27,200,000	3,487	7,028	9,010	12,497
Conversion of CPS during the period	1,170,000	150	(117)	(150)	–
Share capital at 30 September 2003	28,370,000	3,637	6,911	8,860	12,497

As mentioned in note 1, 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 International.

No warrants were exercised up to 30 September 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).

Holders of convertible preference shares may convert all or any part of the convertible preference shares into ordinary shares at a conversion price of HK$0.001 each

The principal terms of the convertible preference shares and the warrants have been set out in the annual report of the Company for the year ended 31 March 2003.

19. Reserves

	Contributed surplus *$'000*	Exchange reserve *$'000*	Retained profits *$'000*	Total *$'000*
As 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 International *(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
As at 31 March 2003	5,710	150	10,559	16,419
Exchange differences on translation of financial statements of foreign entities	–	962	–	962
Dividend on convertible preference shares for the year ended 31 March 2003 paid	–	–	(22)	(22)
Final dividend for the year ended 31 March 2003 paid	–	–	(1,046)	(1,046)
Profit for the period	–	–	4,162	4,162
As at 30 September 2003	**5,710**	**1,112**	**13,653**	**20,475**

20. Material Related Party Transactions

Name of Related Party	Relationship	Nature of Transaction	Six months ended 30 September 2003 $'000	Six months ended 30 September 2002 $'000	As at 30 September 2003 $'000	As at 31 March 2003 $'000
Michel Rene Enterprises Limited	A company controlled by a shareholder of the Company	Rental income received	11	106		
		Rental expense paid	12	14		
		Amount due therefrom		–	1	15
Chua and Company and its associates	A minority shareholder of a non-wholly owned subsidiary of the Company and its associates	Sales of goods	640	673		
Global Inc.	A minority shareholder of a non-wholly owned subsidiary of the Company	Sales of goods	118	169		
		Purchase of goods	–	170		
		Amount due therefrom			39	51
Asian Wide Services Limited	A shareholder of the Company	Consultancy fees	–	543		
Hang Ten China Group Limited	A company controlled by substantial shareholders of the Company	Royalty income	106	–		
		Amount due therefrom			349	244
Avon Dale Garments inc	A minority shareholder of a non-wholly owned subsidiary of the Company and its associates	Royalty income	1	–		
		Amount due therefrom			–	41
					389	351

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

21. Commitments

(a) Operating lease commitments

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

	As at 30 September 2003	As at 31 March 2003
	$'000	*$'000*
Within one year	**19,726**	15,679
After 1 year but within 5 years	**23,701**	22,066
After five years	**–**	32
	43,427	37,777

(b) There were no material capital commitments outstanding at 30 September 2003 (31 March 2003: $nil).

22. Contingent Liabilities

In 1997, ILC, a subsidiary of the Group, entered into a two-year service agreement with the Taiwan branch of another subsidiary, Hang Ten Enterprises Limited (the "Branch"). Pursuant to the agreement, ILC provided decoration design service to retail stores operated by the Branch as well as sales promotion support service to the Branch. The service fees amounted to $3,200,000 for each of the two years ended 31 March 1998 and 1999. In accordance with the Income Tax Law (the "Law") of Taiwan, the service fees are subject to 20% withholding tax. However, the withholding tax rate may be reduced to 3.75% under Article 25 of the Law subject to approval of the Taiwan Tax Authority. As at 30 September 2003, 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.

23. Subsequent Event

On 3 December 2003, Hang Ten International, a wholly owned subsidiary of the Company, entered into an agreement (the "Transaction") with a minority shareholder (the "Vendor") of ILC, a non-wholly owned subsidiary of the Company, to acquire 2.99% of the issued share capital of ILC from the Vendor for a consideration of HK$12,665,000. The consideration is to be satisfied by the issue of 745,000,000 ordinary shares of the Company to the Vendor. The Transaction is expected to be completed in early March 2003. ILC will become an indirect wholly owned subsidiary of the Company upon completion of the Transaction.

24. Approval of interim financial statements

These interim financial statements were approved and authorized for issue by the Board on 12 December 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operational Review

Operation Overview

Turnover of the Group for the six months ended 30 September 2003 amounted to US$77,792,000 (2002: US$80,737,000). Despite the occurrence of the Severe Acute Respiratory Syndrome ("SARS") epidemic in some of our key markets, the Group has shown exceptional resilience and resistance to the adverse impact brought about by SARS. Total turnover has dropped by only 3.6% during the period.

The management continued to adopt a structured and rational promotion strategy. Gross margin ratio for the current six-month period is 55.7% which is at the same level as the previous period. Gross profit amounted to US$43,328,000 (2002: US$45,126,000). Gross profit decreased by US$1,798,000 when compared to the previous period as a result of the drop in sales. However, profit attributable to shareholders increased by 25%. Profit attributable to shareholders for the six months ended 30 September 2003 amounted to US$4,162,000 (2002: US$3,330,000). The increase in profit is mainly attributable to reduction in selling expenses and finance costs.

Selling expenses for the six months ended 30 September 2003 totaled US$32,035,000 (2002: US$34,839,000). The reduction in selling expenses is mainly attributed to reduction in rental costs in Taiwan and decrease in commission paid to franchisees. Finance costs for the six months ended 30 September 2003 amounted to US$716,000 (2002: US$1,412,000). The decrease in finance cost was mainly due to reduction in bank loans.

Apparel Sales

Sales generated from retail and distribution of apparels amounted to US$75,001,000 for the six months ended 30 September 2003 (2002: US$78,346,000). This represents a decrease of 4.3% from the previous period. As at 30 September 2003, the Group had 395 retail outlets in Asia.

Sales in Taiwan contributed to about 61.5% of the Group's turnover. Despite the occurrence of SARS, sales in Taiwan only decreased slightly by 7.3%. Sales for the period amounted to US$47,835,000 (2002: US$51,623,000). During the period, the management continued to adopt tight cost control measures and engaged in more structured and rational promotion activities to improve the profit margin. The Group had 206 retail outlets in Taiwan as at 30 September 2003.

Sales in South Korea amounted to US$18,062,000 (2002: US$19,638,000). The drop in sales of about 8.0% was caused by a downturn in the economy and drop in consumer spending in South Korea. The Group has been less aggressive in opening new outlets. However, as South Korea is showing signs of recovery and of increase in consumer spending, the Group will continue to expand the South Korean market. The Group had 104 retail outlets in South Korea as at 30 September 2003.

Sales in Philippines amounted to US$2,570,000 (2002: US$2,639,000). The operation in Philippines has been steady and sales maintained at about the same level as the previous period. The Group had 38 retail outlets in Philippines as at 30 September 2003.

For the six months ended 30 September 2003, sales in Singapore amounted to US$5,791,000 (2002: US$4,585,000), representing a growth of about 26.3%. During the period, a concerted marketing and advertising campaign was undertaken which has been very effective in promoting the sales of the Group's products. 3 new outlets were opened during the period. The Group had 34 retail outlets as at 30 September 2003 in Singapore.

The retail operation in Malaysia was set up in 2002. The Group continued to open new retail outlets to expand its retail network. 7 new outlets were opened during the period. For the six months ended 30 September 2003, sales amounted to US$743,000 (2002: US$157,000), showing a growth of 373.3%. As at 30 September 2003, the Malaysian operation had 12 retail outlets.

Licensing Operation

Revenue generated from the licensing of the "Hang Ten" trademark and other trademarks amounted to US$2,791,000 for the six months ended 30 September 2003 (2002: US$2,391,000). This represents an increase of 16.7% over the previous period. The licensing operation of the Group has continued to provide a steady income to the Group.

Liquidity and Financial Resources

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

For the six months ended 30 September 2003, the Group generated US$6,799,000 (2002: US$5,129,000) of cash from operating activities. During the period, the Group repaid bank loans totaled US$12,714,000, obtained a new bank loan of US$522,000 and expended US$1,737,000 in capital expenditure. As at 30 September 2003, the Group had cash and bank balances amounted to US$4,267,000 (31 March 2003: US$7,386,000) and listed funds, which were readily convertible into cash, amounted to US$1,540,000 (31 March 2003: US$5,892,000).

As at 30 September 2003, the Group had financial facilities provided by banks amounting to approximately US$23,707,000, of which US$7,424,000 had been utilized. Certain of the banking facilities were secured by the pledge of 620,681 shares of ILC International Corporation (representing 97.01% of the issued share capital of ILC International Corporation), an indirect subsidiary of the Company, and an office premise of the Group. Total indebtedness as at 30 September 2003, comprising bank loans and overdrafts of US$7,424,000 (31 March 2003: US$19,723,000) and shareholders' loans of US$16,400,000 (31 March 2003: US$16,400,000) amounted to US$23,824,000 (31 March 2003: US$36,123,000) and represented 30.8% (31 March 2003: 43.9%) of the total assets of the Group. The loans from shareholders are unsecured and are due for repayment in the year 2011.

INTERIM DIVIDEND

There are a large number of the Company's shareholders who hold only a small number of ordinary shares of the Company. Each of these shareholders would only receive a very small amount of dividend. The directors consider that payment of dividend twice a year would incur costs and expenses to the Company that would be out of proportion to the benefit of most of the shareholders of the Company. Therefore the directors have decided that, for the time being, only payment of final dividend would be considered and the directors have decided not to recommend the payment of an interim dividend for the six months ended 30 September 2003.

HUMAN RESOURCES

As at 30 September 2003, the Group had approximately 1,400 (31 March 2003: 1,383) full time employees of which 1,385 were based in Asia. About 1,090 employees were engaged in sales functions. The Group offers its employees competitive remuneration packages based on industry's practices and performance of individual employees. The Company had also adopted a share option scheme in which employees may participate. No share option has been granted or agreed to be granted by the Company under the share option scheme.

OUTLOOK

"Hang Ten" is a well established brand originated in the United States in the 1960's and is well recognized internationally. The directors believe that the brand has a large market potential and consider the Group's business strategy of offering distinctive, contemporary and quality merchandise to the market presents the Group with opportunities for future growth.

The Group will continue its strategy of improving sales while maintaining profit margins. To achieve these objectives, our merchandising teams and design teams will continue their alertness to changes in consumer tastes and adjust our merchandise in a timely basis and to provide a wide range of quality merchandise.

The Taiwan market is the largest market of the Group and we have established a leading position there. We shall continue to consolidate our market position as well as exploring growth opportunities in the Taiwan market. New outlets will be opened in area where the Group has not established a strong presence. Under-performing outlets will be closed and relocated to more promising locations.

As the economic condition in South Korea is expected to improve, the Group will continue to expand the South Korean market by establishing more retail outlets.

The directors believe that "Hang Ten" as a long established and well-recognized international brand and the Group's worldwide licensing network provide leverage to the Group in expanding into new markets. Therefore, in addition to continue to develop its existing markets, the Group will explore opportunity of setting up retail operations in new markets in Asia to provide further growth to the Group.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September, 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions of which they were taken or deemed to have under such provisions of the SFO) or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which would have to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

Name of director	Nature of interests	Number of shares and warrants held
Kenneth Hung		
– ordinary shares	Personal	800,000,000
– convertible preference shares	Personal	282
– warrants	Personal	160,000,000
Wang Li Wen		
– ordinary shares	Personal	200,000,000
– convertible preference shares	Personal	70
– warrants	Personal	40,000,000
Kao Yu Chu		
– ordinary shares	Personal	200,000,000
– convertible preference shares	Personal	70
– warrants	Personal	40,000,000

Save as disclosed above, as at 30 September 2003, none of the directors and chief executive of the Company or any of their respective associates had or deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, so far as was known to the directors of the Company, the following persons, other than the directors of the Company whose interests are disclosed above, had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meeting of the Company:

Name	Number of shares and underlying shares	Percentage of issued ordinary shares
Asian Wide Services Limited	12,600,000,000 ordinary shares Long position	44.41%
	45,840,000,000 derivative interests in underlying shares Long position	161.58%
YGM Trading Limited	5,220,000,000 ordinary shares Long position	18.40%
	18,340,000,000 derivative interests in underlying shares Long position	64.65%
	2,220,000,000 derivative interests in underlying shares Short position	7.83%

Save as disclosed above, as at 30 September 2003, so far as was known to the directors, there was no person who had an interest or a short position in the shares or underlying shares of the Company which fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meeting of the Company.

SHARE OPTION SCHEME

Pursuant to a written resolution of the sole shareholder of the Company on 24 October 2002, the Company adopted a share option scheme, the principal terms of which have been set out in annual report of the Company for the year ended 31 March 2003. No option has been granted or agreed to be granted by the Company under the share option scheme.

PURCHASE, SALE OR REDEMPTION OF SHARES

There had been no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the six months ended 30 September 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended 30 September 2003 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the non-executive directors of the Company were not appointed for a specific term but are subject to rotation in annual general meetings pursuant to the bye-laws of the Company.

AUDIT COMMITTEE

The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 September 2003.

The audit committee comprises two independent non-executive directors.

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

12 December 2003
Hong Kong