

Directors' Report

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The principal activities of its subsidiaries are the designing, marketing, retail and wholesale of apparels and trademark licensing. Details of the principal activities of the Group's principal subsidiaries are set out in note 35 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2004 are set out in the consolidated income statement on page 23.

The directors recommend the payment of a dividend on convertible preference shares at 1% per annum amounting to US\$82,000 (2003: US\$21,730) to the holders of the convertible preference shares. The directors recommend the payment of a final dividend to the ordinary shareholders at Hong Kong cent 0.04 (2003: Hong Kong cent 0.03) per share (equivalent to approximately United States cent 0.0051 (2003: United States cent 0.0038) per share), amounting to HK\$25,478,000 (equivalent to approximately US\$3,266,000), based on 63,695,000,000 ordinary shares in issue as at 31 March 2004.

SHARE CAPITAL

Details of movements during the year in the issued share capital of the Company are set out in note 29 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and of the Company are set out in note 30 to the financial statements and in the consolidated statement of changes in equity.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the past five years is set out on page 76.

FIXED ASSETS

Details of movements in fixed assets of the Group are set out in note 12 to the financial statements.

Directors' Report *(continued)*

DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Chan Wing Sun (*Chairman*)

Mr. Kenneth Hung

Ms. Wang Li Wen

Ms. Kao Yu Chu

Independent non-executive directors:

Mr. So Hon Cheung Stephen

Mr. Kwong Chi Keung

In accordance with Clause 87 of the Company's by-laws, Mr. Kenneth Hung retires, and being eligible, offers himself for re-election.

Mr. Kenneth Hung has entered into a service agreement with the Company which is determinable by either party by not less than three months' notice in writing. In addition, Mr. Kenneth Hung has also entered into a service agreement with a subsidiary of the Company for a period of three years commencing on 1 January 2003.

The non-executive directors have been appointed for a term subject to retirement by rotation in accordance with the Company's by-laws.

Other than as disclosed above, no director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Report *(continued)*

DIRECTORS' INTEREST IN SECURITIES

As at 31 March 2004, the interests of the directors and their associates, as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") ("Listing Rules"), in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Nature of interests	Number of shares and warrants held	As approximate percentage of total issued ordinary shares
Mr. Kenneth Hung			
– ordinary shares	Personal	800,000,000	1.26%
– convertible preference shares	Personal	282	4.43%
– warrants	Personal	160,000,000	0.25%
Ms. Wang Li Wen			
– ordinary shares	Personal	200,000,000	0.31%
– convertible preference shares	Personal	70	1.10%
– warrants	Personal	40,000,000	0.06%
Ms. Kao Yu Chu			
– ordinary shares	Personal	200,000,000	0.31%
– convertible preference shares	Personal	70	1.10%
– warrants	Personal	40,000,000	0.06%

DIRECTORS' RIGHT TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or to their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Pursuant to a written resolution of the Company passed on 24 October 2002, the Company adopted a share option scheme, details of which are set out in note 24 to the financial statements. No option was granted under the share option scheme during the year.

Directors' Report *(continued)*

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, the register of the substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued ordinary shares of the Company:

(i) Long position in ordinary shares

Name	Capacity	Number of ordinary shares	As approximate percentage of total issued ordinary shares
Asian Wide Services Limited	Beneficial owner	30,489,600,000	47.87%
YGM Trading Limited	Beneficial owner	11,740,000,000	18.43%

(ii) Long position in underlying shares

Name	Capacity	Number of underlying shares	As approximate percentage of total issued ordinary shares
Asian Wide Services Limited	Beneficial owner	19,220,000,000	30.18%
YGM Trading Limited	Beneficial owner	10,380,000,000	16.30%

(iii) Short position in underlying shares

Name	Capacity	Number of underlying shares	As approximate percentage of total issued ordinary shares
YGM Trading Limited	Beneficial owner	780,000,000	1.22%

Other than disclosed above, the Company has not been notified of any relevant interests or short positions in the issued ordinary shares of the Company as at 31 March 2004.

MAJOR CUSTOMERS AND SUPPLIERS

The business of the Group is retail in nature and the sales to the 5 largest customers amounted to less than 30% of the Group's turnover for the year ended 31 March 2004. Accordingly, details of the largest customer and the five largest customers are not disclosed. During the year, the Group's largest and top five suppliers accounted for approximately 25.2% and 60.4% of the Group's purchases respectively.

None of the directors, their associates or shareholders which to the knowledge of the directors own more than 5% of the Company's issued share capital has any interest in any interest in any of the Group's five largest suppliers.

CONVERTIBLE SECURITIES, WARRANTS AND SIMILAR RIGHTS

The Company had outstanding convertible preference shares and warrants as at 31 March 2004 details of which are set out in note 29 to the financial statements.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There had been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CONTINUING CONNECTED TRANSACTIONS

The Group has engaged in certain transactions which constituted connected transactions with respect to the Group under Chapter 14 of the Listing Rules. Details of the transactions are as follows:

1. Leases of store premises

Hang Ten Enterprises Limited ("HTEL"), a subsidiary of the Company, entered into certain sub-lease agreements with Michel Rene Enterprises Limited which is owned as to approximately 68% by YGM Trading Limited, a substantial shareholder of the Company, and as to approximately 32% by Mr. Kenneth Hung, a director of the Company, and his family members. The sub-lease agreements related to the sub-lease arrangement of store premises for retailing purpose. The terms of the sub-lease agreements which were determined based on various factors, including (i) the length of the original tenancy agreement; and (ii) the floor area to be occupied by each company, were arrived at after arm's length negotiations. For the year ended 31 March 2004, the rentals received by the Group from Michel Rene Enterprises Limited amounted to approximately US\$61,000 and the rentals paid by the Group to Michel Enterprises Limited amounted to approximately US\$26,000.

2. Sales to a non-wholly owned subsidiary

HTEL supplied apparel and accessories to Hang Ten Phils, Corp. on an open account basis with credit terms of approximately 90 days for retailing in Philippines. Hang Ten Phils, Corp. is a non wholly-owned subsidiary of the Group held as to 55% by ILC International Corporation ("ILC"), a wholly owned subsidiary of the Company. The remaining 45% of Hang Ten Phils, Corp is collectively held by Mr. Chua Kun Yao, Mr. William T. De Leon, Mr. Johnny Tan and Ms. Nancy C. Lim (collectively "Chua and company") and save for Ms. Nancy C. Lim, each of them is a director of Hang Ten Phils, Corp. For the year ended 31 March 2004, sales by HTEL to Hang Ten Phils, Corp amounted to about US\$2,513,000.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

3. Sales to and distribution by substantial shareholders of Hang Ten Phils, Corp

During the ended 31 March 2004, the Group sold apparel and accessories amounting to approximately US\$1,363,000 on open account basis with credit term of approximately 30 days to Chua and company, being the substantial shareholders of Hang Ten Phils, Corp., and their associates (as defined in the Listing Rules) for distribution by them through door-to-door sales network in the Philippines.

4. Sales to and purchases from Global Inc.

The Group has been selling apparels bearing the brand name of "Hang Ten" to Global Inc. for sales in Global Inc.'s retail outlets. Global Inc. is an associate of Mr. Young Chang Lee, a former director of Hang Ten Korea Corp., a non-wholly owned subsidiary of the Group. Sales to Global Inc. were made on open account basis with credit term of 35 days. Total sales to Global Inc. for the year ended 31 March 2004 amounted to approximately US\$282,000. No purchase was made from Global Inc. during the year.

5. License to Hang Ten (China) Group Limited

Pursuant to a license agreement dated 28 March 2002 between ILC and Hang Ten (China) Group Limited ("Hang Ten (China)"), a company which is principally engaged in retailing business in People's Republic of China (the "PRC"), ILC granted an exclusive license to Hang Ten (China) to use in the PRC the word "Hang Ten" and associated trademarks in the design, manufacturing, advertising, sale and promotion of clothing, footwear, headwear and other accessories (the "Licensed Items"). The agreement is for a period of five years commencing from 1 April 2002.

Hang Ten (China) is beneficially owned as to approximately 73% by the Kung Family, approximately 25% by YGM Trading Limited, approximately 1% by Ms. Wang Li Wen, a director of the Company and approximately 1% by Ms. Kao Yu Chu, a director of the Company.

Pursuant to the license agreement, Hang Ten (China) is required to pay to ILC royalty accounted for on a quarterly basis that is equal to 2.5% of Hang Ten (China)'s total actual net sales to consumers for the Licensed Items. In addition, Hang Ten (China) is required to pay ILC on a quarterly basis as advertising contribution a sum equal to 2.5% of Hang Ten (China)'s total net sales. For the year ended 31 March 2004, the total royalty fee and advertising contribution receivable by ILC from Hang Ten (China) amounted to approximately US\$265,000.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

The directors (including the independent non-executive directors) have reviewed and confirmed that the transactions referred to above:

1. have been entered into in the ordinary and usual course of its business of the Group;
2. have been conducted on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;
3. were in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company and its shareholders taken as a whole; and
4. were within the relevant cap amount stipulated as follows:
 - (a) the aggregate amount of rental expense and income pursuant to the sub-lease arrangement for each financial year not exceeding HK\$10,000,000 (equivalent to approximately US\$1,282,000);
 - (b) the aggregate amount of the sales to Hang Ten Phils, Corp for each financial year not exceeding HK\$25,000,000 (equivalent to approximately US\$3,205,000);
 - (c) the aggregate amount of sales to and distribution by the substantial shareholders of Hang Ten Phils, Corp for each financial year not exceeding HK\$40,000,000 (equivalent to approximately US\$5,128,000);
 - (d) the aggregate amount of purchases from and the aggregate amount of sales to Global Inc. for each financial year not exceeding HK\$60,000,000 (approximately US\$7,692,000) and HK\$10,000,000 (approximately US\$1,282,000) respectively; and
 - (e) the aggregate amount of royalties and advertising contribution received from Hang Ten China for each year not exceeding HK\$10,000,000 (approximately US\$1,282,000).

APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY

In this section, reference to Listing Rules refers to the Listing Rules which were effective prior to 31 March 2004.

As disclosed in the annual report of the Company for the year ended 31 March 2003, the Company recorded an audited consolidated net asset value of US\$28,916,000 as at 31 March 2003, which includes goodwill amounting to US\$9,495,000 and intangible assets amounting to US\$18,287,000. After excluding the goodwill and intangible assets, the Company recorded negligible audited consolidated net tangible asset value of US\$1,134,000 as at 31 March 2003 which did not arise from operational losses in the ordinary and usual course of business during current and/or prior financial years.

APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY *(continued)*

The Listing Rules impose certain disclosure and shareholders' approval requirements in connection with transactions of a listed issuer. The applicability of these requirements depends on the size of the proposed transaction which is often assessed under the Listing Rules by reference to the net tangible assets of the listed issuer. As a consequence of the Group's negligible net tangible assets position following listing of the Company's ordinary shares on the Stock Exchange, virtually every transaction, irrespective of its size, would be subject to prior shareholders' approval if the relevant provisions of the Listing Rules were to be strictly applied.

The directors consider that these requirements would create difficulties for the Company to continue its day-to-day operations and be impractical and unduly burdensome on the Group. The Directors also believe that strict adherence to the relevant requirements would result in significant and disproportionate costs to the Company's shareholders, as well as taking up valuable management time which could otherwise be focused on the business operations of the Group.

In view of the above and in accordance with the Guidelines for Issuers with Negative or Negligible Assets as set forth in the announcements of the Stock Exchange dated 3 May 2001, 24 August 2001 and 9 October 2001, application has been made and approved by the Stock Exchange for a limited waiver from strict compliance with the various provisions of the Listing Rules that will apply to the Company and such waiver would be valid from 26 September 2003 to the publication or the due date for the publication of the 2004 annual report of the Company, whichever is the earlier. The details of the application are set out below:

1. De-minimis concession

Application has been made and approved by the Stock Exchange for the grant of a concession to the Company (the "De-minimis Concession") such that the "assets test" and the "consideration test" under Rules 14.06, 14.09, 14.12 and 14.20 of the Listing Rules will not apply to each transaction carried out in the ordinary course of business of the Group, which is entered into on normal commercial terms, and where the consideration or value of the transaction does not exceed HK\$1,000,000.

2. Very substantial acquisitions, major transactions, discloseable transactions and share transactions

Application has been made and approved by the Stock Exchange for a modification to the calculation of the "assets test" and the "consideration test" as set out in Rules 14.09(1) and (3) of the Listing Rules respectively ("Modified Calculation Concession") for the purposes of classifying notifiable transactions (other than connected transactions) of the Company into categories of "very substantial acquisitions", "major transactions", "discloseable transactions" and "share transactions" (each as defined in the Listing Rules).

The Modified Calculation Concession will apply to modify the "asset test" and the "consideration test" in the following manner: (a) the "asset test" will be performed by dividing the gross assets less intangibles and current liabilities of the asset to be acquired or disposed of by the gross assets less intangibles and current liabilities of the Group (the "Modified Assets Base"); and (b) the "consideration test" will be performed by dividing the consideration for the asset to be acquired or disposed of by the Modified Assets Base. The Modified Assets Base amounts to US\$22,003,000 based on the audited consolidated balance sheet of the Company as at 31 March 2003.

APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY *(continued)*

The following percentage ratios arising from the modified tests described above will be used to determine the applicable disclosure or approval requirements for the Company:

- (a) in cases of a ratio of 5% (being approximately US\$1,100,150) or above but below 15% (being approximately US\$3,300,450), the requirements for discloseable transactions will apply to the Company;
- (b) in cases of a ratio of 15% (being approximately US\$3,300,450) or above but below 25% (being approximately US\$5,500,750), the requirements for major transactions will apply to the Company in respect of any acquisition;
- (c) in cases of a ratio of 15% (being approximately US\$3,300,450) or above, the requirements for major transactions will apply to the Company in respect of any disposal;
- (d) in cases of a ratio of 25% (being approximately US\$5,500,750) or above, the requirements for very substantial acquisitions will apply to the Company in respect of any acquisition; and
- (e) for acquisition of assets (including securities but excluding cash) for a consideration that includes securities for which listing will be sought, the requirements for share transactions will apply to the Company if the ratio is less than 5% (being approximately US\$1,100,150)

The Modified Calculation Concession based on the above ratio will apply only to the "assets test" and the "consideration test", both as modified in the manner described above. The "profit test" and the "equity test" set out in Rules 14.09(2) and (4) of the Listing Rules will remain applicable to the Company.

3. Connected transactions

Application has been made and approved by the Stock Exchange for the adoption a modified assets base of the Group in substitution for the net tangible assets used in Rules 14.24(5), 14.25(1) and 14.25(2)(b)(i) of the Listing Rules for the purpose of categorizing connected transactions of the Company as prescribed under these rules.

On the basis of the adoption of the Modified Assets Base under those rules, the percentage ratio thresholds set out below will apply to the Company to determine the applicable disclosure and/or shareholders' approval requirements for its connected transactions:

- (a) in respect of Rule 14.24(5) of the Listing Rules, the threshold will be the higher of (i) HK\$1,000,000 or (ii) 0.01% of the Modified Assets Base (being approximately US\$2,200);
- (b) in respect of Rule 14.25(1) of the Listing Rules, the threshold will be the higher of (i) HK\$10,000,000 or (ii) 1% of the Modified Assets Base (being approximately US\$220,030); and
- (c) in respect of Rule 14.25(2)(b)(i) of the Listing Rules, the threshold will be 5% of the Modified Assets Base (being approximately US\$1,100,150).

APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY *(continued)*

4. Major subsidiary

Application has been made and approved by the Stock Exchange to apply the Modified Assets Base in order to classify a “major subsidiary” of the Company for the purpose of determining the applicable disclosure and/or shareholders' approval requirements imposed on the Company under various provisions of the Listing Rules.

The modification applies such that references to “net tangible assets” in the following rules will be replaced by references to the Modified Assets Base:

- (a) paragraph 17(2) of Appendix 7B to the Listing Rules;
- (b) paragraph 5.1 of Practice Note 13 of the Listing Rules; and
- (c) paragraph 3(e)(ii) of Practice Note 15 of the Listing Rules.

The current percentage ratios prescribed under these rules will continue to apply to the Company notwithstanding the adoption of the Modified Assets Base.

5. Practice Note 19 of the Listing Rules

Application has been made and approved by the Stock Exchange to apply the Modified Assets Base in substitution for the “net assets” used in Practice Note 19 of the Listing Rules for the purpose of determining the general disclosure obligation of the Company as prescribed under that practice note.

The modification applies such that reference to “net assets” in paragraph 1.3, paragraph 3.2.1, paragraph 3.2.2 and paragraph 3.3 of Practice Note 19 of the Listing Rules will be replaced by references to the Modified Assets Base.

On the basis of the adoption of Modified Assets Base under those paragraphs, the percentage ratio thresholds set out below will apply to the Company to determine whether a general disclosure obligation will arise for the Company under Practice Note 19:

- (a) in respect of paragraph 3.2.1, a ratio of 8%;
- (b) in respect of paragraph 3.2.2, a ratio of 3%; and
- (c) in respect of paragraph 3.3, a ratio of 8%.

APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY *(continued)*

6. Appendix 16 to the Listing Rules

The Stock Exchange has approved the application of the Modified Assets Base in substitution for the net tangible assets used in Appendix 16 to the Listing Rules for the purpose of determining the requirements applicable to the Company for the disclosure of its financial information as prescribed under that appendix. The modification applies such that references to net assets or net tangible assets, as applicable, in paragraph 15.2, paragraph 23 and paragraph 36 of Appendix 16 to the Listing Rules will be replaced by references to the Modified Assets Base. On the basis of the adoption of the Modified Asset Base under those paragraphs, the percentage ratio threshold set out below will apply to determine whether a disclosure obligation will arise under Appendix 16:

- (a) in respect of paragraph 15.2, a ratio of 1%; and
- (b) in respect of paragraph 23, a ratio of 5%.

The current percentage ratio prescribed under paragraph 36 of Appendix 16 will continue to apply to the Company notwithstanding the adoption of the Modified Asset Base in that paragraph.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above in the section headed "Continuing Connected Transactions", no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 March 2004 are set out in notes 21 and 28 to the financial statements.

RETIREMENT SCHEME

The Group's Taiwan subsidiaries participate in a central pension scheme providing benefits to all employees of the Group's Taiwan subsidiaries. Particulars of the retirement scheme are set out in note 23 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied with the Code of best Practice as contained in Appendix 14 of the Listing Rules throughout the year ended 31 March 2004, except that the non-executive directors are not appointed for any specific term of office but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

Directors' Report *(continued)*

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. KPMG as auditors of the Company.

On behalf of the Board

Chan Wing Sun

Chairman

Hong Kong

23 July 2004