1 GROUP REORGANISATION

The Company was incorporated in Bermuda on 17 July 2002 as an exempted company with limited liability under the Bermuda Companies Act 1981. Pursuant to a reorganisation scheme (the "Reorganisation") to rationalise the structure of the Group in the preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE") on 9 January 2003, the Company became the holding company of the companies comprising the Group on 3 January 2003. This was accomplished by the Company acquiring the entire issued share capital of Hang Ten International Holdings Limited ("Hang Ten (BVI)"), the then holding company of other subsidiaries.

The Company and its subsidiaries ("the Group") acquired pursuant to the Reorganisation are regarded as a continuing group. Accordingly, the consolidated financial statements have been prepared on the basis of merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions". On this basis, the Company was treated as the holding company of the Group for the entire year ended 31 March 2003, rather than from the completion date of the Reorganisation on 3 January 2003. The consolidated income statement of the Group for the year ended 31 March 2003 included 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.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes 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. 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 2(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.

(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 2(h)) and any impairment losses (see note 2(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 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.

(f) Fixed assets

(i) Fixed assets are carried in the balance sheet at cost less accumulated depreciation (see note 2(h) and impairment losses (see note 2(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 2(h)) and impairment losses (see note 2(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 of 40 to 55 years from the date of completion.

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

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

(iii) Intangible assets

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

– Trademarks	20 years
– Positive goodwill	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 note 2(c)).

2 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 favourable 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 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 necessary to make the sale.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 net obligation in respect of the central pension scheme in Taiwan 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.

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 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 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 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 income statement as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Employee benefits *(continued)*

(iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(n) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Income tax *(continued)*

(iii) *(continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

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 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.

2 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 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.

(r) Borrowing costs

Borrowing costs are expensed in the 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Segment reporting *(continued)*

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.

3 TURNOVER

The principal activities of the Group are designing, marketing and sale of apparel and accessories under the brand name of "Hang Ten" and licensing of trademarks.

Turnover represents the sales value of goods supplied to customers and royalty income from licensing of trademarks. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2004	2003
	$'000	*$'000*
Sales of apparels	**179,092**	170,418
Royalty income	**4,655**	3,972
	183,747	174,390

4 OTHER REVENUE AND NET INCOME/(LOSS)

	2004	2003
	$'000	*$'000*
Other revenue		
Rental income	**443**	682
Bank interest income	**108**	85
Claims receivable from suppliers	**198**	754
Others	**1,478**	1,299
	2,227	2,820
Other net income/(loss)		
Net loss on disposal of fixed assets	**(149)**	(211)
Net exchange gain	**451**	109
Net realised and unrealised gains on listed funds carried at fair value	**13**	2
Others	**52**	(86)
	367	(186)

5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2004	2003
	$'000	*$'000*
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	**387**	904
Interest on shareholders' loans	**1,072**	1,088
	1,459	1,992
(b) Staff costs:		
Salaries and staff benefits	**21,028**	19,387
Retirement costs (Taiwan)	**327**	218
Retirement costs (other countries)	**405**	217
	21,760	19,822
(c) Other items:		
Cost of inventories sold	**86,745**	81,484
Auditors' remuneration	**215**	260
Amortisation of goodwill	**504**	506
Amortisation of trademarks	**975**	922
Depreciation	**3,482**	2,985
Operating lease charges (including retail shops and department store counters)	**29,625**	28,671
Commission to franchisees	**10,344**	13,843
Provision for inventories	**629**	884
Provision for bad debts	**840**	22
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 $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 ended 31 March 2003.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2004	2003
	$'000	*$'000*
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	**–**	–
Current tax – Overseas		
Tax for the year	**2,253**	1,029
Under-provision in respect of prior years	**335**	300
	2,588	1,329
Deferred tax		
Origination and reversal of temporary differences	**(726)**	(123)
	1,862	1,206

No Hong Kong profits tax has been provided as the Group had no assessable profits in Hong Kong for the years ended 31 March 2004 and 2003.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2004	2003
	$'000	*$'000*
Profit before tax	**13,708**	11,960
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**1,882**	1,131
Tax effect of non-deductible expenses	**328**	38
Tax effect of non-taxable revenue	**(48)**	(278)
Tax effect of unrecognised deferred tax assets	**(635)**	15
Under-provision in respect of prior years	**335**	300
Actual tax expense	**1,862**	1,206

7 DIRECTORS' REMUNERATION

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

	2004	2003
	$'000	*$'000*
Fees	**62**	15
Salaries and other emoluments	**1,350**	531
Discretionary bonuses	**117**	37
Retirement scheme contributions	**6**	6
	1,535	589
Number of directors	**6**	6

Included in the directors' remuneration were fees of $62,000 (2003: $15,000) paid to the independent non-executive directors during the year.

The remuneration of the directors is within the following bands:

	2004	2003
	Number	Number
Nil – $128,205 (equivalent to HK$1,000,000)	**2**	3
$128,206 – $192,308 (equivalent to HK$1,000,001 – HK$1,500,000)	**–**	3
$192,309 – $256,410 (equivalent to HK$1,500,001 – HK$2,000,000)	**2**	–
$256,411 – $320,513 (equivalent to HK$2,000,001 – HK$2,500,000)	**1**	–
$705,128 – $769,231 (equivalent to HK$5,500,001 – HK$6,000,000)	**1**	-
	6	6

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2003: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2003: two) individuals are as follows:

	2004	2003
	$'000	*$'000*
Salaries and emoluments	**741**	705
Discretionary bonuses	**492**	22
	1,233	727

The emoluments of the two (2003: two) individuals with the highest emoluments are within the following bands:

	2004	2003
	Number	Number
$192,309 – $256,410 (equivalent to HK$1,500,001 – HK$2,000,000)	**–**	1
$256,411 – $320,513 (equivalent to HK$2,000,001 – HK$2,500,000)	**1**	–
$448,718 – $512,821 (equivalent to HK$3,500,001 – HK$4,000,000)	**–**	1
$897,436 – $961,538 (equivalent to HK$7,000,001 – HK$7,500,000)	**1**	–
	2	2

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of $4,218,000 (2003: profit of $1,142,000) which has been dealt with in the financial statements of the Company.

10 DIVIDENDS

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

	2004	2003
	$'000	*$'000*
Dividend on convertible preference shares at 1%	**82**	22
Final dividend proposed on ordinary shares of HK0.04 cent (2003: HK0.03 cent) (equivalent to approximately US0.0051 cent) per ordinary share (2003: US0.0038 cent)	**3,266**	1,046
	3,348	1,068

The final dividend proposed after the balance sheet date has not been recognised as liability at the balance sheet date.

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year is based on the profit attributable to shareholders of $11,240,000 (2003: $9,765,000) and the weighted average of 33,496,093,000 ordinary shares (2003: 22,641,370,000 shares) in issue during the year. The number of shares used to calculate the earnings per share for the year ended 31 March 2003 is the proforma weighted average ordinary shares in issue during the year, being the shares that would have been in issue throughout the year on the assumption that the Reorganisation as set out in note 1 to the financial statements had been completed on 1 April 2002.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the profit attributable to ordinary shareholders of $11,240,000 (2003: $9,765,000) and the weighted average number of ordinary shares of 99,950,299,000 shares (2003: 94,466,354,000 shares) in issue during the year and after adjusting for the effects of all dilutive potential ordinary shares. The number of shares used to calculate the diluted earnings per share for the year ended 31 March 2003 is the proforma weighted average ordinary shares in issue during the year, being the shares that would have been in issue throughout the year on the assumption that the Reorganisation as set out in note 1 to the financial statements had been completed on 1 April 2002.

11 EARNINGS PER SHARE *(continued)*

(c) Reconciliations

	2004 Number of shares *'000*	2003 Number of shares *'000*
Weighted average number of ordinary shares used in calculating basic earnings per share	**33,496,093**	22,641,370
Deemed issue of ordinary shares for no consideration	**66,454,206**	71,824,984
Weighted average number of ordinary shares used in calculating diluted earnings per share	**99,950,299**	94,466,354

12 FIXED ASSETS

	Land and buildings held for own use *$'000*	Leasehold improvements *$'000*	Motor vehicles *$'000*	Furniture, fixtures and other fixed assets *$'000*	Total *$'000*
Cost:					
At 1 April 2003	772	4,921	343	2,749	8,785
Exchange adjustments	45	197	28	124	394
Additions	733	3,155	23	416	4,327
Disposals	–	(1,408)	–	(288)	(1,696)
At 31 March 2004	**1,550**	**6,865**	**394**	**3,001**	**11,810**
Accumulated depreciation and impairment loss:					
At 1 April 2003	474	1,237	85	1,235	3,031
Exchange adjustments	8	49	19	51	127
Charge for the year	17	2,881	73	511	3,482
Written back on disposal	–	(1,400)	–	(87)	(1,487)
At 31 March 2004	**499**	**2,767**	**177**	**1,710**	**5,153**
Net book value:					
At 31 March 2004	**1,051**	**4,098**	**217**	**1,291**	**6,657**
At 31 March 2003	298	3,684	258	1,514	5,754

12 FIXED ASSETS *(continued)*

All land and buildings are located outside Hong Kong. The land is freehold. At 31 March 2004, certain land and buildings of the Group with a carrying value of $719,000 (2003: Nil) were pledged as security for a bank loan (note 21).

13 GOODWILL

	Positive goodwill *$'000*	Negative goodwill *$'000*	Total *$'000*
Cost:			
At 1 April 2003	10,121	–	10,121
Addition through acquisition of 2.99% in ILC	–	(530)	(530)
At 31 March 2004	**10,121**	**(530)**	**9,591**
Accumulated amortisation:			
At 1 April 2003	626	–	626
Amortisation for the year	506	(2)	504
At 31 March 2004	**1,132**	**(2)**	**1,130**
Carrying amount:			
At 31 March 2004	**8,989**	**(528)**	**8,461**
At 31 March 2003	9,495	–	9,495

Positive goodwill represents the excess of Hang Ten (BVI)'s cost of acquisition of ILC International Corporation ("ILC") over its share of the fair value of the identifiable assets and liabilities acquired in December 2001. Negative goodwill arose as a result of Hang Ten (BVI)'s acquisition of the remaining 2.99% equity interest in ILC in February 2004.

Both the positive and negative goodwill are amortised to the consolidated income statement on a straight-line basis over their estimated useful lives of 20 years and 18 years respectively. The amortisation for the year is included in "other operating expenses" in the consolidated income statement.

14 INVESTMENTS IN SUBSIDIARIES

	2004	2003
	$'000	*$'000*
Unlisted shares, at cost	**30,339**	30,339

The particulars of principal subsidiaries are set out in note 35.

15 INTANGIBLE ASSETS - TRADEMARKS

	$'000
Cost:	
At 1 April 2003 and 31 March 2004	19,506
Accumulated amortisation:	
At 1 April 2003	1,219
Charge for the year	975
At 31 March 2004	**2,194**
Net book value:	
At 31 March 2004	**17,312**
At 31 March 2003	18,287

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

16 INVESTMENTS

	2004	2003
	$'000	*$'000*
Trading securities (at market value)		
Listed funds in Taiwan	**6,205**	5,982

17 INVENTORIES

	2004	2003
	$'000	*$'000*
Finished goods	**18,597**	20,209
Goods in transit	**743**	416
	19,340	20,625
Less: Provisions	**(2,489)**	(2,355)
	16,851	18,270

Included in finished goods are inventories stated at net realisable value as follows:

	2004	2003
	$'000	*$'000*
Inventories stated at net realisable value	**2,926**	3,895

18 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	*$'000*	**$'000**	*$'000*
Trade debtors (net of provisions)	**8,567**	7,559	**–**	–
Deposits, prepayments and other receivables	**10,189**	8,640	**119**	120
	18,756	16,199	**119**	120

18 TRADE AND OTHER RECEIVABLES *(continued)*

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

	2004	2003
	$'000	*$'000*
Current	**6,448**	5,484
1 to 3 months overdue	**1,148**	1,783
More than 3 months but less than 6 months overdue	**971**	292
	8,567	7,559

Debts arising from wholesale 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.

19 AMOUNT DUE FROM/(TO) A SUBSIDIARY

The amount due from/(to) a subsidiary is unsecured, interest free and has no fixed terms of repayment.

20 CASH AND CASH EQUIVALENTS

	The Group		**The Company**	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Deposits with banks	**900**	2,182	**–**	–
Cash at bank and in hand	**11,506**	5,311	**22**	30
Cash and cash equivalents in the balance sheet	**12,406**	7,493	**22**	30
Bank overdrafts (note 21)	**–**	(107)		
Cash and cash equivalents in the cash flow statement	**12,406**	7,386		

21 BANK OVERDRAFTS AND LOANS

	The Group	
	2004	2003
	$'000	*$'000*
Bank overdrafts and loans		
– secured	**1,933**	12,245
– unsecured	**2,717**	7,478
	4,650	19,723

The bank loans of the Group were repayable as follows:

	2004	2003
	$'000	*$'000*
Within 1 year or on demand	**4,130**	18,223
After 1 year but within 2 years	**–**	1,500
After 2 years but within 5 years	**520**	–
	520	1,500
	4,650	19,723

At 31 March 2004, a banking facility of $9,500,000 (2003: $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 $1,413,000 (2003: $12,245,000). In addition, a bank loan of $520,000 (2003: $Nil) is secured by mortgage over certain land and buildings held by a subsidiary. Details of securities in respect of the Group's banking facilities are summarised in note 34.

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	*$'000*	***$'000***	*$'000*
Trade creditors	**10,853**	6,952	**–**	–
Bills payable	**1,241**	601	**–**	–
Interest on loans from shareholders *(note 36(b))*	**2,460**	1,388	**–**	–
Accrued charges	**3,056**	2,467	**98**	31
Deposits received	**722**	977	**–**	–
Dividend payable to minority shareholders	**–**	117	**–**	–
Others	**2,166**	605	**–**	–
	20,498	13,107	**98**	31

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

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

	2004	2003
	$'000	*$'000*
Outstanding balances aged:		
Within 1 month or on demand	**10,600**	6,224
Between 1 month and 3 months	**1,065**	626
Between 4 months and 6 months	**429**	703
	12,094	7,553

23 EMPLOYEE BENEFITS

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 central pension scheme is funded by contributions from the Group in accordance with an independent actuary's recommendations based on annual actuarial valuation. The latest independent actuarial valuation of the scheme was at 31 March 2004 and was performed by Dr Lin, who is a Fellow of Actuarial Institute of Republic of China, using the projected unit credit method. The actuarial valuation indicates that the Group's obligations under the scheme are 65% (2003: 87%) covered by the plan assets placed with the government institution.

(i) The amount recognised in the consolidated balance sheet is as follows:

	2004	2003
	$'000	*$'000*
Present value of funded obligations	**1,697**	928
Fair value of plan assets	**(1,110)**	(811)
Present value of net obligations	**587**	117
Unrecognised transitional liabilities	**(50)**	(50)
Unrecognised actuarial losses	**(551)**	(169)
	(14)	(102)

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

	2004	2003
	$'000	*$'000*
At 1 April	**(102)**	(82)
Contributions paid to schemes	**(237)**	(237)
Expenses recognised in the consolidated income Statement	**327**	218
Exchange adjustments	**(2)**	(1)
At 31 March	**(14)**	(102)

23 EMPLOYEE BENEFITS *(continued)*

(iii) Expenses recognised in the consolidated income statement are as follows:

	2004	2003
	$'000	$'000
Current service costs	307	214
Interest on obligations	33	30
Expected return on plan assets	(23)	(30)
Amortisation of actuarial losses and transitional liabilities	10	4
	327	218

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

	2004	2003
	$'000	$'000
Selling expenses	304	213
Administrative expenses	23	5
	327	218
Actual return on plan assets	12	14

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

	2004	2003
Discount rate	3.5%	3.5%
Expected return on plan assets	2.75%	2.75%
Future salary increases	2.75%	2.5%

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 under the Share Option Scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue. 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 2004, 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 36.

26 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	2004	2003
	$'000	*$'000*
Provision for Hong Kong Profits Tax for the year	**–**	–
Provision for overseas tax	**2,253**	1,029
Provisional Profits Tax paid	**(237)**	(192)
	2,016	837
Balance of Profits Tax provision relating to prior years	**147**	148
	2,163	985

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 33.

26 INCOME TAX IN THE BALANCE SHEET *(continued)*

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation in excess of related depreciation allowances	General provisions	Operating revenue	Future benefit of tax losses	Others	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Deferred tax arising from:						
At 1 April 2002	–	203	–	–	27	230
Credited to consolidated income statement	–	112	–	–	11	123
Effect of exchange rate changes	–	5	–	–	–	5
At 31 March 2003	–	320	–	–	38	358
At 1 April 2003	–	320	–	–	38	358
Credited to consolidated income statement	175	(94)	622	19	4	726
Effect of exchange rate changes	–	9	16	–	1	26
At 31 March 2004	**175**	**235**	**638**	**19**	**43**	**1,110**

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

	2004	2003
	$'000	*$'000*
Future benefit of tax losses	**250**	758
Others	**41**	168
	291	926

The above deferred tax assets have not been recognised as it is not probable that future taxable profits will be available against which the assets can be utilised.

26 INCOME TAX IN THE BALANCE SHEET *(continued)*

(d) Deferred tax liabilities not recognised

At 31 March 2004, temporary differences relating to the undistributed profits of subsidiaries amounted to $16,135,000 (2003:$13,294,000). Deferred tax liabilities of $2,382,000 (2003: $1,890,000) have not been recognised in respect of the tax that would be payable on distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

27 CHANGE IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were 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 were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 April 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for deferred tax as set out in note 2(n).

The adoption of the new accounting policy does not have significant effect on the Group's net assets as at 31 March 2003 and 2004 and the Group's results for the years then ended. The new accounting policy has been adopted prospectively with no significant impact on the opening balance of retained earnings.

28 LOANS FROM SHAREHOLDERS

The loans from shareholders were borrowed by Hang Ten (BVI) to finance the acquisition of ILC in December 2001 (note 13). The loans are unsecured, interest bearing at an annual rate of 6% and 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 $2,460,000 (2003: $1,388,000) is included under trade and other payables in note 22.

29 SHARE CAPITAL

	Note	2004 Number of ordinary shares '000	Amount of ordinary shares $'000	Number of convertible preference shares	Amount of convertible preference shares $'000	Total amount $'000
Authorised:						
Ordinary shares of HK$0.001 each		250,000,000	32,051	–	–	32,051
Convertible preference shares ("CPS") of HK$10,000 each		–	–	7,307	9,368	9,368
		250,000,000	32,051	7,307	9,368	41,419
Issued and fully paid:						
At 1 April 2003		27,200,000	3,487	7,028	9,010	12,497
Conversion of CPS	*(e)*	35,750,000	4,583	(3,575)	(4,583)	–
Issue of shares	*(f)*	745,000	96	–	–	96
At 31 March 2004		63,695,000	8,166	3,453	4,427	12,593

29 SHARE CAPITAL *(continued)*

		2003				
	Note	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:						
Ordinary shares of HK$0.001 each		250,000,000	32,051	–	–	32,051
Convertible preference shares ("CPS") of HK$10,000 each		–	–	7,307	9,368	9,368
		250,000,000	32,051	7,307	9,368	41,419
Issued and fully paid:						
Proforma share capital at 1 April 2002	*(a)*	21,200,000	2,718	7,038	9,023	11,741
Issue of shares to New Investors	*(b)*	810,000	104	269	345	449
Issue of shares to Akai shareholders and creditors	*(c)*	2,400,000	307	–	–	307
Conversion of CPS	*(d)*	2,790,000	358	(279)	(358)	–
At 31 March 2003		27,200,000	3,487	7,028	9,010	12,497

Notes:

(a) The proforma share capital at 1 April 2002 represents the ordinary shares and the CPS issued to the then shareholders of Hang Ten (BVI) as consideration for the acquisition of Hang Ten (BVI) under the Reorganisation as set out in note 1 to the financial statements.

(b) Pursuant to the Reorganisation described in note 1 to the financial statements, on 3 January 2003, Hang Ten (BVI) issued 38,218 ordinary shares of $0.1 each to certain new investors ("New Investors") for a total consideration of HK$35 million (equivalent to $4.5 million). The New Investors then received 810 million ordinary shares (with one warrant for every five shares) and 269 CPS of the Company.

29 SHARE CAPITAL *(continued)*

Notes: (continued)

(c) In consideration for the transfer of the entire interest in Akai Holdings Limited (In Compulsory Liquidation) ("Akai"), the Company issued 300 million ordinary shares to the then shareholders of Akai in proportion to their respective interests in Akai.

In addition, the Company also paid cash consideration of HK$12 million (equivalent to $1.5 million) and issued 2,100 million ordinary shares to the creditors of Akai.

All Akai shares were subsequently transferred to the liquidators of Akai for a nominal sum and the listing of the Akai shares were withdrawn from the HKSE.

The Company's shares were listed on the HKSE by way of introduction on 9 January 2003.

(d) During the year ended 31 March 2003, the holders of 279 CPS converted their CPS into 2,790 million ordinary shares of the Company at a conversion price of HK$0.001 each.

(e) During the year ended 31 March 2004, the holders of 3,575 CPS converted their CPS into 35,750 million ordinary shares of the Company at a conversion price of HK$0.001 each.

(f) Pursuant to the sale and purchase agreement dated 3 December 2003 entered into between Hang Ten (BVI) and China Investment & Development Company Limited ("CIDC"), 745 million ordinary shares of the Company were issued to CIDC at an issue price of HK$0.017 per share as consideration to acquire their 2.99% equity interest in ILC.

(g) 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 (iii) 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.

29 SHARE CAPITAL *(continued)*

Notes: (continued)

(h) Warrants

As mentioned in notes (a) and (b) above, 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 2004. 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, are entitled 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.

30 RESERVES

The Group

	Contributed surplus $'000	Share premium $'000	Exchange reserve $'000	Retained profits $'000	Total $'000
At 1 April 2003	5,710	–	150	10,559	16,419
Exchange differences on translation of financial statements of foreign entities	–	–	1,152	–	1,152
Dividends approved in respect of the previous year *(note 10)*	–	–	–	(1,068)	(1,068)
Issue of shares *(note 29(f))*	–	1,528	–	–	1,528
Profit for the year	–	–	–	11,240	11,240
At 31 March 2004	**5,710**	**1,528**	**1,302**	**20,731**	**29,271**
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 29(b))*	4,038	–	–	–	4,038
Issue of shares to Akai shareholders and creditors *(note 29(c))*	(307)	–	–	–	(307)
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.

30 RESERVES *(continued)*

The Company

	Contributed surplus *$'000*	Share premium *$'000*	Retained Profits *$'000*	Total *$'000*
At 1 April 2003	14,562	–	1,142	15,704
Dividends approved in respect of previous year *(note 10)*	–	–	(1,068)	(1,068)
Issue of shares *(note 29(f))*	–	1,528	–	1,528
Profit for the year	–	–	4,218	4,218
At 31 March 2004	**14,562**	**1,528**	**4,292**	**20,382**
Amount arising on acquisition of the entire issued share capital of Hang Ten (BVI)	18,149	–	–	18,149
Issue of shares to Akai shareholders and creditors *(note 29(c))*	(307)	–	–	(307)
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 Reorganisation described in note 1 to the financial statements is credited to contributed surplus. Contributed surplus is available for distribution to shareholders in accordance with the Bermuda Companies Act 1981 subject to certain conditions.

As at 31 March 2004, the aggregate amount of reserves of the Company available for distribution to shareholders amounted to $20,382,000 (2003: $15,704,000) subject to the restriction stated above.

(Expressed in United States dollars)

31 LOANS TO OFFICERS

Loans to officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name of borrower	Mr Cho Hwan Soo	Mr Tan Yong Huat, Danny
Position	Subsidiary's chief operating officer	Subsidiary's general manager
Terms of the loan		
– duration and repayment terms	2 years and due on 31 August 2005	Repayable on demand
– interest rate	Interest-free	Interest-free
– security	None	None
Balance of the loan		
– at 1 April 2002	$Nil	$Nil
– at 31 March 2003 and at 1 April 2004	$Nil	$Nil
– at 31 March 2004	$39,000	$22,912
Maximum balance outstanding		
– during 2004	$39,000	$22,912
– during 2003	$Nil	$Nil

There was no interest due but unpaid nor any provision made against these loans at 31 March 2004.

32 OPERATING LEASE COMMITMENTS

At 31 March 2004, the total future lease payments under operating leases are payable as follows:

	2004	2003
	$'000	*$'000*
Within one year	**19,084**	15,679
After one year but within five years	**26,176**	22,066
After five years	**–**	32
	45,260	37,777

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.

33 CONTINGENT LIABILITIES

(a) Letters of credit

As at 31 March 2004, outstanding letters of credit of the Group for the purchase of goods amounted to $3,626,000 (2003: $2,897,000).

(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 Tax Law subject to approval of the Taiwan Tax Authority ("TTA"). As at 31 March 2004, 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.

(Expressed in United States dollars)

33 CONTINGENT LIABILITIES *(continued)*

(c) Tax exposure in relation to the co-operative arrangement

In December 2003, the Group received a notice of claim from TTA for additional value added tax ("VAT") and penalties in respect of sales made through certain retail shops which are operated under co-operative arrangements with third parties ("Partners") during the period from January 1999 to December 2002. The TTA has a view that the Group has excluded a portion of the sales value for the purpose of VAT filings and accordingly, levied additional VAT and penalties on this excluded portion which represents the commission income of the Partners. The Group is in the process of negotiating with the TTA on the notice of claim.

Having taken relevant professional advice, the directors have decided not to make any provision in the financial statements as they are confident that the Group has reasonable grounds to deny the additional VAT and penalties.

34 PLEDGE OF ASSETS

At 31 March 2004, the Group's banking facilities and a bank loan which amounted to $9,500,000 and $520,000 respectively, were secured as follows:

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

(ii) Pledge of certain land and buildings with a carrying value of $719,000.

35 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.

			Proportion of ownership interest			
Name	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	held by the Company	held by a subsidiary	Principal activities
Hang Ten (BVI)	British Virgin Islands ("BVI")	$103,821	100%	100%	–	Investment holding
ILC	BVI	$639,830	100%	–	100%	Investment holding
Hang Ten Enterprises Limited	BVI	$50,000	100%	–	100%	Investment holding and wholesale of apparels

(Expressed in United States dollars)

35 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 a subsidiary	Principal activities
Chinaway Trading Co., Ltd.	BVI	$50,000	100%	–	100%	Trading of apparels
Yangtze Apparel Taiwan Enterprise Limited	Taiwan	NT$ 100,000,000	100%	–	100%	Retail and wholesale of apparels
Hang Ten (Phils) Holdings Corporation	BVI	$50,000	100%	–	100%	Investment holding
Hang Ten Phils., Corp	Philippines	PHP50,000,000	55%	–	55%	Retail and wholesale of apparels
Hang Ten Enterprises (Pte) Ltd.	Singapore	SGD1,000,000	100%	–	100%	Retail and wholesale of apparels
Hang Ten Korea Corp.	Korea	KRW 6,000,000,000	92%	–	92%	Retail and wholesale of apparels
Hang Ten Enterprises (M) Sdn Bhd	Malaysia	RM500,000	100%	–	100%	Retail and wholesale of apparels
ILC Trademark Corporation	BVI	$50,000	100%	–	100%	Trademark ownership and licensing
ILC (Cyprus) Limited	Cyprus	Cypriot pounds 1,000	100%	–	100%	Investment holding
ILC (Hungary) Limited	Hungary	$6,400	100%	–	100%	Trademark licensing
HTIL Holdings Corporation N.V.	Netherlands Antilles	$6,000	100%	–	100%	Investment holding
HTIL Corporation, B.V.	The Netherlands	NLG40,000	100%	–	100%	Trademark licensing
International Licensing (California) Corp	United States of America	$10,000	100%	–	100%	Trademark licensing and management

36 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

	2004	2003
	$'000	*$'000*
Rental income from leasing of retail stores and equipment	**61**	145
Rental expenses for leasing of retail stores	**26**	26

(ii) Amount due from Michel Rene Enterprises Limited

	2004	2003
	$'000	*$'000*
Amount due from Michel Rene Enterprises Limited	**21**	15

Details of the terms are stated in note 25.

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

	2004	2003
	$'000	*$'000*
Executive remuneration paid to Mr Dennis Kung or his associate	**948**	388
Executive remuneration paid to Mr Kenneth Hung	**748**	175
Interest on loans from shareholders	**1,072**	1,088
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

(ii) Balances with shareholders

	2004	2003
	$'000	*$'000*
Amounts due to shareholders	**938**	191
Loans from shareholders	**16,400**	16,400
Accrued interest on loans from shareholders *(note 22)*	**2,460**	1,388

Details of the terms are stated in notes 5, 25 and 28.

36 RELATED PARTY TRANSACTIONS *(continued)*

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

	2004	2003
	$'000	$'000
Royalty income and advertising contributions	**265**	244

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

	2004	2003
	$'000	$'000
Amount due from Hang Ten (China) Group Limited	**159**	244

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

	2004	2003
	$'000	$'000
Sales of goods to Global Inc.	**282**	301
Purchases of goods from Global Inc.	**–**	166
Rental expenses paid to Global Inc. for leasing of warehouse and office premises	**–**	87
Sales of goods to Chua and company	**1,363**	1,389
Royalty income from Avon Dale Garments, Inc.	**109**	88

(ii) Balances with the minority shareholders and their associates

	2004	2003
	$'000	$'000
Amount due from Global Inc.	**36**	51
Amount due from Avon Dale Garments, Inc.	**13**	41

Details of the terms are stated in note 25.

37 POST BALANCE SHEET EVENT

(a) The Company entered into an agreement with Itochu Corporation ("Itochu") on 7 May 2004 for lease of the exclusive rights in respect of "Hang Ten" in the Japan territory for 10 years (expires on 31 March 2014) for a fee of US$11,800,000 (net of tax at US$10,620,000). An option has been granted to Itochu under this agreement to purchase the exclusive rights at a price of US$10,730,000 upon expiry of the 10-year lease period.

(b) Subsequent to the balance sheet date, 1,211,000,000 options were granted to certain employees of the Group under the Share Option Scheme whose details are summarised in note 24 to the financial statements.

38 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.

38 SEGMENT REPORTING *(continued)*

Geographical segments by the location of customers and by the location of assets *(continued)*

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

	2004							
	Taiwan	Korea	Philippines	Singapore	Malaysia	Inter-segment elimination	Unallocated	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	116,175	39,693	6,175	14,898	2,151	–	4,655	183,747
Inter-segment revenue	21,071	86	–	–	–	(21,987)	830	–
Total revenue	137,246	39,779	6,175	14,898	2,151	(21,987)	5,485	183,747
Segment result	13,355	911	331	(66)	(97)	421	312	15,167
Finance costs								(1,459)
Income tax								(1,862)
Minority interests								(606)
Profit attributable to shareholders								11,240
Depreciation and amortisation for the year	2,692	639	259	652	134		585	4,961

38 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)
Income tax								(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

38 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	Unallocated	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 31 March 2004								
Segment assets	81,683	13,734	1,900	3,900	1,114	(47,600)	33,270	88,001
Segment liabilities	17,256	2,781	1,458	4,494	1,145	(47,112)	64,627	44,649
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

(iii) Segmental capital expenditure

Capital expenditure for the year:

	2004	2003
	$'000	*$'000*
Taiwan	**2,303**	1,758
Korea	**1,309**	719
Philippines	**233**	281
Singapore	**320**	786
Malaysia	**158**	415
Unallocated	**4**	40
	4,327	3,999

38 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

	2004 *$'000*	2003 *$'000*
Revenue from customers:		
– Sales of apparels	**179,092**	170,418
– Royalty income	**4,655**	3,972
	183,747	174,390
Segment assets:		
– Sales of apparels	**56,386**	50,666
– Royalty income	**4,568**	3,569
– Unallocated (including trademarks)	**27,047**	28,056
	88,001	82,291
Segment capital expenditure:		
– Sales of apparels	**4,323**	3,959
– Royalty income	**4**	40
	4,327	3,999