HANG TEN

Hang Ten Group Holdings Limited

(Incorporated in Bermuda with Limited Liability)

Interim Report 2004

INTERIM RESULTS

The Board of Directors (the "Board") of Hang Ten Group Holdings Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2004. The interim results have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the Six Months Ended 30 September 2004
(Expressed in United States dollars)

	Notes	**Six months ended 30 September 2004 *$'000* (unaudited)**	Six months ended 30 September 2003 *$'000* (unaudited)
Turnover	*2*	**92,570**	77,792
Cost of sales		**(42,639)**	(34,464)
		49,931	43,328
Other revenue	*3*	**1,222**	561
Other net (loss)/ income		**(393)**	278
Selling expenses		**(36,186)**	(32,035)
Administrative expenses		**(5,352)**	(5,393)
Other operating expenses		**(635)**	(868)
Profit from operations		**8,587**	5,871
Finance costs	*5*	**(570)**	(716)
Profit from ordinary activities before taxation	*5*	**8,017**	5,155
Taxation	*6*	**(1,323)**	(702)
Profit from ordinary activities after taxation		**6,694**	4,453
Minority interests		**(35)**	(291)
Profit attributable to shareholders		**6,659**	4,162
Earnings per share	*7*		
– basic		**US cent 0.95**	US cent 1.52
– diluted		**US cent 0.67**	US cent 0.42

The notes on pages 6 to 20 form part of these interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2004
(Expressed in United States dollars)

	Notes	30 September 2004 $'000 (unaudited)	31 March 2004 $'000 (audited)
Non-current assets			
Fixed assets	9	**6,205**	6,657
Goodwill		**8,989**	8,989
Intangible assets – trademarks		**17,312**	17,312
Employee benefits		**–**	14
Deferred taxation		**1,109**	1,110
		33,615	34,082
Current assets			
Investments	10	**2,766**	6,205
Inventories		**19,895**	16,851
Trade and other receivables	11	**20,436**	18,756
Amounts due from related companies	20	**315**	229
Cash and cash equivalents		**17,666**	12,406
		61,078	54,447
Current liabilities			
Bank overdrafts and loans	12	**686**	4,130
Trade and other payables	13	**19,261**	20,498
Amount due to shareholders	14	**–**	938
Taxation		**2,201**	2,163
		22,148	27,729
Net current assets		**38,930**	26,718
Total assets less current liabilities		**72,545**	60,800

	Notes	30 September 2004 $'000 (unaudited)	31 March 2004 $'000 (audited)
Non-current liabilities			
Bank loans	12	**523**	520
Employee benefits		**6**	–
Deferred income	15	**9,080**	–
Loans from minority shareholders	16	**35**	–
Loans from shareholders	17	**16,400**	16,400
		26,044	16,920
Minority interests		**1,814**	1,488
NET ASSETS		**44,687**	42,392
CAPITAL AND RESERVES			
Share capital	18	**12,593**	12,593
Reserves	19	**32,094**	29,799
		44,687	42,392

The notes on pages 6 to 20 form part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 30 September 2004
(Expressed in United States dollars)

	2004	2003
	$'000	*$'000*
	(unaudited)	(unaudited)
Shareholders' equity at 1 April		
– as originally stated	**41,864**	28,916
– prior period's adjustment *(Note 1)*	**528**	–
– as restated	**42,392**	28,916
Net profit for the period	**6,659**	4,162
Dividends approved in respect of the previous year	**(4,085)**	(1,068)
Exchange difference on translation of financial statements of foreign entities	**(279)**	962
(Loss)/gain not recognized in the condensed consolidated income statement	**(279)**	962
Shareholders' equity at 30 September	**44,687**	32,972

The notes on pages 6 to 20 form part of these interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the Six Months Ended 30 September 2004
(Expressed in United States dollars)

	Six months ended 30 September 2004 *$'000* (unaudited)	Six months ended 30 September 2003 *$'000* (unaudited)
Net cash generated from operating activities	**4,149**	6,799
Net cash generated from investing activities	**2,022**	2,812
Net cash used in financing activities	**(911)**	(13,501)
Net increase/(decrease) in cash and cash equivalents	**5,260**	(3,890)
Effect of foreign exchange rates	**–**	771
Cash and cash equivalents at 1 April	**12,406**	7,386
Cash and cash equivalents at 30 September	**17,666**	4,267
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**17,666**	4,267

The notes on pages 6 to 20 form part of these interim financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the Six Months Ended 30 September 2004
(Expressed in United States dollars)

1. Principal Accounting Policies

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

The accounting policies adopted for the preparation of the consolidated condensed interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2004 except that the Group has adopted Hong Kong Accounting Standard ("HKAS") 36 "Impairment of assets", HKAS 38 "Intangible assets" and Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business combinations" issued by the HKICPA from 1 April 2004.

The changes to the Group's accounting policies and the effect of adopting the standards are set out below:

Goodwill arising on consolidation is tested annually for impairment and carried at cost less accumulated impairment losses. Discount on acquisition is recognised in the consolidated income statement immediately.

Trademarks are stated at cost less accumulated impairment losses.

In prior years, positive goodwill arising on consolidation was amortised to the income statement on a straight line basis over its estimated useful and was stated in the balance sheet at cost less any accumulated amortisation and any impairment losses. Negative goodwill not exceeding the fair values of non-monetary assets acquired was 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 was recognised immediately in the consolidated income statement.

Trademarks were amortised and stated at cost less accumulated amortisation and impairment losses. Amortisation of trademarks was charged to the income statement on a straight line basis over their estimated useful lives.

The adoption of the above standards represents changes in accounting policies and increased the retained profits of the Group as at 1 April 2004 by $528,000 and increased the profit attributable to shareholders by approximately $726,000 for the six months ended 30 September 2004.

2. Turnover

The principal activities of the Group are designing, marketing and sale of apparel and accessories mainly under the brand name of "Hang Ten" and licensing of trademarks. Turnover represents the sales value of goods supplied to customers and royalty income from licensing of trademarks.

	Six months ended 30 September 2004	Six months ended 30 September 2003
	$'000	*$'000*
Sales of apparels	**90,425**	75,001
Royalty income	**2,145**	2,791
	92,570	77,792

3. Other Revenue

	Six months ended 30 September 2004	Six months ended 30 September 2003
	$'000	*$'000*
Rental income	**256**	93
Bank interest income	**83**	14
Claims receivable from suppliers	**244**	207
Others	**639**	247
	1,222	561

4. Segmental Information

The Group's business is managed on a worldwide basis, but participates in several principal economic environments. The analysis of the revenue and results by geographical segments of the Group during both of the financial periods are as follows:

Six months ended 30 September 2004:

	Taiwan $'000	Philippines $'000	Singapore $'000	Korea $'000	Malaysia $'000	Others and unallocated $'000	Inter-segment eliminations $'000	Total $'000
Revenue from external customers	57,353	2,398	8,409	20,995	1,270	2,145	–	92,570
Inter-segment revenue	5,722	–	–	108	–	399	(6,229)	–
Total revenue	63,075	2,398	8,409	21,103	1,270	2,544	(6,229)	92,570
Segment result	6,825	8	(260)	1,484	8	522	–	8,587
Finance costs								(570)
Taxation								(1,323)
Minority interests								(35)
Profit attributable to shareholders								6,659

Six months ended 30 September 2003:

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

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

	Six months ended 30 September 2004 ***$'000***	Six months ended 30 September 2003 *$'000*
Sales of apparels	**90,425**	75,001
Royalty income	**2,145**	2,791
	92,570	77,792

5. Profit from Ordinary Activities before Taxation

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

	Six months ended 30 September 2004 ***$'000***	Six months ended 30 September 2003 *$'000*
(a) **Finance costs**		
Interest on bank advances and other borrowings wholly repayable within five years	**40**	241
Interest on shareholders' loans	**530**	475
	570	716
(b) **Other items**		
Cost of inventories sold	**42,639**	34,464
Staff costs	**12,287**	11,004
Amortisation of positive goodwill	**–**	253
Amortisation of trademarks	**–**	488
Depreciation	**1,656**	1,484

6. Taxation

	Six months ended 30 September 2004 $'000	Six months ended 30 September 2003 $'000
Current tax – provision for Hong Kong Profits Tax		
Tax for the period	**–**	–
Current tax – overseas		
Tax for the period	**1,322**	729
Under-provision in respect of prior periods	**–**	–
	1,322	729
Deferred tax		
Origination and reversal of timing differences	**1**	(27)
	1	(27)
	1,323	702

No Hong Kong profits tax has been provided as the Group had no assessable profits in Hong Kong for the six months ended 30 September 2004 (2003: $ nil).

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

7. Earnings per Share

Pursuant to a resolution passed by the shareholders of the Company on 11 November 2004, every 100 shares of HK$0.001 each in the issued and unissued ordinary share capital of the Company have been consolidated into one share of HK$0.10 each (the "Share Consolidation"). The calculation of earnings per share is on the basis as if the Share Consolidation had been effected at the beginning of the period. The prior period's figures have also been adjusted accordingly.

The calculation of basic earnings per share is based on the profit attributable to shareholders for the six months ended 30 September 2004 of $6,659,000 (2003: $4,162,000) and the weighted average of 700,653,280 ordinary shares (2003: 273,664,260 ordinary shares) in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the six months ended 30 September 2004 of $6,659,000 (2003: $4,162,000) and the weighted average number of ordinary shares of 987,245,200 shares (2003: 995,651,580 shares) in issue during the period and after adjusting for the effects of all dilutive potential ordinary shares.

8. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2004 (2003: $nil).

9. Fixed Assets

During the six months ended 30 September 2004, the Group purchased new fixed assets amounted to $1,568,000 (2003: $1,741,000).

10. Investments

	As at 30 September 2004	As at 31 March 2004
	$'000	*$'000*
Trading securities (at market value)		
Listed funds in Taiwan	**2,766**	6,205

11. Trade and Other Receivables

	As at 30 September 2004 $'000	As at 31 March 2004 $'000
Trade debtors (net of provision)	**8,715**	8,567
Deposits, prepayment and other receivables	**11,721**	10,189
	20,436	18,756

Debts arising from wholesales of goods and royalty income are due within one to two months from the date of billing. Debtors with long overdue balances are requested to settle all outstanding balances before any further credit is granted.

Included in trade and other receivables are trade debtors (net of provisions) with the following aging analysis:

	As at 30 September 2004 $'000	As at 31 March 2004 $'000
Current	**5,964**	6,448
1 to 3 months overdue	**1,689**	1,148
More than 3 months but less than 6 months overdue	**1,062**	971
	8,715	8,567

12. Bank Overdrafts and Loans

	As at 30 September 2004 $'000	As at 31 March 2004 $'000
Secured	**523**	1,933
Unsecured	**686**	2,717
	1,209	4,650

	As at 30 September 2004 *$'000*	As at 31 March 2004 *$'000*
The bank loans were repayable as follows:		
Within 1 year or on demand	**686**	4,130
After 1 year but within 2 years	**523**	520
After 2 years but within 5 years	**–**	–
	523	520
	1,209	4,650

13. Trade and Other Payables

	As at 30 September 2004 *$'000*	As at 31 March 2004 *$'000*
Trade creditors	**9,955**	10,853
Bills payable	**483**	1,241
Accrued charges	**3,542**	3,056
Deposits received	**842**	722
Deferred income *(Note 15)*	**1,014**	–
Interest on loans from shareholders	**530**	2,460
Others	**2,895**	2,166
	19,261	20,498

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

Included in trade and other payables are trade creditors and bills payable within the following aging analysis:

	As at 30 September 2004 *$'000*	As at 31 March 2004 *$'000*
Within 1 month or on demand	**8,934**	10,600
Between 1 month and 3 months	**929**	1,065
Between 4 months and 6 months	**575**	429
	10,438	12,094

14. Amount due to Shareholders

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

15. Deferred Income

Deferred income represents up-front lump sum trademark licensing fee received from a licensee and is recognized as revenue over the term of the trademark licence.

16. Loans from Minority Shareholders

The loans from minority shareholders of a subsidiary are unsecured, interest bearing at 4.11% p.a. and repayable from 1 March 2010 by four annual installments.

17. Loans from Shareholders

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

18. Share Capital

Authorized:

	Number of shares		Amount	
	30 September 2004	31 March 2004	**30 September 2004 $'000**	31 March 2004 $'000
Ordinary shares of HK$0.001 each	**250,000,000,000**	250,000,000,000	**32,051**	32,051
Convertible preference shares ("CPS") of HK$10,000 each	**7,307**	7,307	**9,368**	9,368
			41,419	41,419

Issued and fully paid:

	Number of ordinary shares '000	Amount of ordinary shares $'000	Number of convertible preference shares	Amount of convertible preference shares $'000	Total amount $'000
Shares capital at 1 April 2003	27,200,000	3,487	7,028	9,010	12,497
Issue of shares as consideration to acquire 2.99% equity interest in ILC	745,000	96	–	–	96
Conversion of CPS	35,750,000	4,583	(3,575)	(4,583)	–
Share capital at 31 March 2004	63,695,000	8,166	3,453	4,427	12,593
Conversion of CPS during the period	14,370,000	1,842	(1,437)	(1,842)	–
Share capital at 30 September 2004	78,065,000	10,008	2,016	2,585	12,593

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

4,402 million warrants were outstanding as at 30 September 2004. No warrants were exercised during the period. 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, at an initial exercise price of HK$0.01 per ordinary share, of an aggregate amount of HK$44,020,000 (equivalent to $5.6 million).

In April 2004, 1,211,000,000 options were granted to certain employees of the Group under the share option scheme adopted by the Group. Each option allows the holder to subscribe for one ordinary share of the Company at an initial exercise price of HK$0.0152 each from 1 April 2005 in respect of 605,500,000 options and from 1 April 2006 in respect of the remaining 605,500,000 options. No option granted has been exercised.

The principal terms of the convertible preference shares, the warrants and the share option scheme have been set out in the annual report of the Company for the year ended 31 March 2004.

As disclosed in note 23, the Share Consolidation was approved by the shareholders of the Company on 11 November 2004 and became effective on 12 November 2004. Pursuant to the terms of the convertible preference shares, the warrants and the share option scheme and following the Share Consolidation become effective, the conversion price under the convertible preference shares has been adjusted to HK$0.10 per ordinary share, the subscription price under the warrants has been adjusted to HK$1.00 per ordinary share and exercise in full of the outstanding warrants would result in the issue of 44,020,000 ordinary shares, the exercise price under the share options granted has been adjusted to HK$1.52 per ordinary share and the number of ordinary shares subject to the unexercised share options has been adjusted to 12,110,000 respectively.

19. Reserves

	Share premium $'000	Contributed surplus $'000	Exchange reserve $'000	Retained profits $'000	Total $'000
As at 1 April 2003	–	5,710	150	10,559	16,419
Exchange differences on translation of foreign entities	–	–	1,152	–	1,152
Dividends approved in respect of the prior year	–	–	–	(1,068)	(1,068)
Issue of shares as consideration for the acquisition of 2.99% equity interest in ILC	1,528	–	–	–	1,528
Profit for the year	–	–	–	11,768	11,768
As at 31 March 2004	1,528	5,710	1,302	21,259	29,799
Exchange differences on translation of financial statements of foreign entities	–	–	(279)	–	(279)
Dividends approved in respect of the year ended 31 March 2004	–	–	–	(4,085)	(4,085)
Profit for the period	–	–	–	6,659	6,659
As at 30 September 2004	**1,528**	**5,710**	**1,023**	**23,833**	**32,094**

20. Material Related Party Transactions

Name of Related Party	Relationship	Nature of Transaction	Six months ended 30 September 2004 $'000	Six months ended 30 September 2003 $'000	As at 30 September 2004 $'000	As at 31 March 2004 $'000
Michel Rene Enterprises Limited	A company controlled by a shareholder of the Company	Rental income received	7	11		
		Rental expense paid	20	12		
		Amount due therefrom			34	21
Chua and Company and its associates	A minority shareholder of a non-wholly owned company and their associates	Sales of goods	811	640		
Global Inc.	A minority shareholder of a non-wholly owned subsidiary of the Company	Sales of goods	180	118		
		Amount due therefrom			46	36
Hang Ten China Group Limited	A company controlled by substantial shareholders of the Company	Royalty income	76	106		
		Amount due therefrom			235	159
Avon Dale Garments Inc	A minority shareholder of a non-wholly owned subsidiary of the Company and their associates	Royalty income	–	1		
		Amount due therefrom			–	13
					315	229

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

21. Commitments

(a) Operating lease commitments

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

	As at 30 September 2004 **$'000**	As at 31 March 2004 $'000
Within one year	**15,165**	19,084
After 1 year but within 5 years	**19,687**	26,176
	34,852	45,260

(b) There were no material capital commitments outstanding at 30 September 2004 (31 March 2004: $ nil).

22. Contingent Liabilities

In 1997, ILC, a subsidiary of the Group, entered into a two-year service agreement with the Taiwan branch of another subsidiary, Hang Ten Enterprises Limited (the "Branch"). Pursuant to the agreement, ILC provided decoration design service to retail stores operated by the Branch as well as sales promotion support service to the Branch. The service fees amounted to $3,200,000 for each of the two years ended 31 March 1998 and 1999. In accordance with the Income Tax Law (the "Law") of Taiwan, the service fees are subject to 20% withholding tax. However, the withholding tax rate may be reduced to 3.75% under Article 25 of the Law subject to approval of the Taiwan Tax Authority. As at 30 September 2004, the application filed by ILC with the Tax Authority for a reduction of the withholding tax rate to 3.75% had not yet been approved. If the application is not successful, ILC will be liable to pay an additional withholding tax of approximately $1,040,000. No provision for this amount has been made as the directors of the Company consider it highly likely that the Taiwan Tax Authority will approve the application, on the basis of the success of similar applications previously made by ILC.

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 (the "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 the 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.

23. Subsequent Event

A resolution was passed by the shareholders of the Company at the special general meeting of the Company held on 11 November 2004 to approve the consolidation of every 100 shares of HK$0.001 each in the issued and unissued ordinary share capital of the Company into one share of HK$0.10 each. The Share Consolidation was effective on 12 November 2004.

24. Approval of interim financial statements

These interim financial statements were approved and authorized for issue by the Board on 13 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

Operation Overview

Turnover of the Group for the six months ended 30 September 2004 amounted to US$92,570,000 (2003: US$77,792,000). Net profit attributable to shareholders increased to US$6,659,000 (2003: US$4,162,000).

Turnover for the period increased by 19%. The increase in turnover was mainly driven by increase in sales of apparel of 20% during the period. Most of the principal markets of the Group recorded a growth in sales during the period. This was mainly the result of improvement in general economic conditions in some of the markets and the success of the Group's structured and rational promotion strategies. The Group continued to expand its retail network in its existing markets. The Group had a total of 426 retail outlets (2003: 395) as at 30 September 2004. The Group has also planned to set up retail operation in the United States. Progress has been made and is in line with the Group's plan in setting set up outlets there in April next year.

Gross margin ratio for the current six-month period is 53.9% which was lower than that of the previous period. The decrease in gross margin was mainly due to decrease in gross margin in the South Korea market as general consumer spending in South Korea had declined since the first half of last year and has remained weak. In spite of the reduction in gross margin in the South Korea market, the Group's overall profit margin remained at a satisfactory level. Gross profit of the Group amounted to US$49,931,000 (2003: US$43,328,000). When compared to the same period of the previous year, gross profit increased by US$6,603,000 which was attributed to the increase in sales for the period.

The Group remained cost conscious and adopted cost control measures to control its operating expenses. Selling expenses for the six months ended 30 September 2004 totalled US$36,186,000 (2003: US$32,035,000). The increase in selling expenses is mainly attributed to increase in sales. Selling expenses increased by 13% which was well below the increase in turnover of 19% for the period. Administrative expenses and other operating expenses maintained at the about the same level as the corresponding previous period.

Profit attributable to shareholders amounted to US$6,659,000 (2003: US$4,162,000) for the six months ended 30 September 2004, representing an increase of over 59% comparing to the same period of last year.

Apparel Sales

Sales generated from retail and distribution of apparels amounted to US$90,425,000 for the six months ended 30 September 2004 (2003: US$75,001,000). This represents an increase of 20% from the same period of the previous year.

Taiwan

Taiwan remained the largest market of the Group. Sales in this market contributed to about 62% of the Group's total turnover for the current period. Building on the Group's leading position in this market and its extensive retail network and coupling with the improvement in the local economic conditions, sales in Taiwan increased by over 19% to US$57,353,000 (2003: US$47,835,000). As at 30 September 2004, there were 225 retail outlets (2003: 206) in Taiwan.

Operating profit for the six months ended 30 September 2004 amounted to US$6,825,000 (2003: US$4,708,000), recording an increase of about 45%. Operating margin also grew to 11.9% from 9.8% of the same period of last year.

South Korea

Despite that the retail industry in South Korea in general had not recovered from previous year's consumer credit clamp down and overall consumer spending remained weak, the Group's sales in South Korea grew by 16% to US$20,995,000 (2003: US$18,062,000). The improvement in sales reflected the responsiveness of the Group to changes in market conditions. It had restructured its network of franchisees and adopted flexible promotion strategies to improve its sales. The increase in sales was also attributed to increase in the number of outlets in South Korea. The Group had 115 retail outlets (2003: 104) in South Korea as at 30 September 2004, including 89 franchised stores (2003: 78). The South Korea market contributed to about 23% of the Group's turnover. Operating profit for the period amounted to US$1,484,000 (2003: US$1,003,000) representing an increase of 48% with an operating margin of 7% (2003: 5.5%).

Philippines

Sales in Philippines amounted to US$2,398,000 (2003: US$2,570,000). The operation in Philippines remained steady and sales decreased slightly by US$172,000. The Group had 42 retail outlets (2003: 38) in Philippines as at 30 September 2004. Operating profit generated from the Philippines market for the six months ended 30 September 2004 amounted to US$8,000 (2003: US$163,000) with an operating margin of 0.3% (2003: 6.3%).

Singapore

For the six months ended 30 September 2004, sales in Singapore amounted to US$8,409,000 (2003: US$5,791,000), representing a growth of about 45%. During the period, the Group continued to adopt a concerted marketing and promotion campaign to promote the sales of the Group's products. Unprofitable and under-performed outlets were closed or re-located to more promising locations. The Group had 33 retail outlets (2003: 34) as at 30 September 2004 in Singapore. While the Singapore market still suffered a small operating loss of US$260,000 for the six months ended 30 September 2004 (2003: loss of US$450,000), its performance has improved significantly from the same period of last year.

Malaysia

For the six months ended 30 September 2004, sales generated in the Malaysia market amounted to US$1,270,000 (2003: US$743,000), recording a growth of 71%. The Group continued to develop this market to improve sales and profitability through opening of new outlets and relocation of existing outlets. As at 30 September 2004, the Malaysian operation had 10 retail outlets (2003: 12). Operating profit for the period amounted to US$8,000 (2003: loss of US$82,000).

Other Markets

The Group has plans to develop the United States market. During the period, a management team with extensive retail experience in the United States was set up to implement the plans. Progress was made on selection of location of outlets and product collections. Certain set up cost amounted to about US$250,000 was incurred during the period.

Licensing Operation

The licensing operation of the Group has continued to provide a steady income to the Group. Revenue generated from the licensing of the "Hang Ten" trademark and other trademarks amounted to US$2,145,000 for the six months ended 30 September 2004 (2003: US$2,791,000). During the period, the Group granted to Itochu Corporation the licence right of "Hang Ten" trademark in Japan for a period of ten years for a lump sum upfront fee of US$11,800,000. The upfront fee would be recognized as income over the licensing period of 10 years on a straight line basis. The grant of the licence right to Itochu Corporation has not only further strengthened the cash position of the Group but also provides a steady and stable annual income to the Group.

Liquidity and Financial Resources

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

For the six months ended 30 September 2004, the Group generated US$4,149,000 (2003: US$6,799,000) of cash from operating activities. During the period, the Group repaid bank loans totalled US$3,444,000 and expended US$1,568,000 in capital expenditure. As at 30 September 2004, the Group had cash and bank balances amounted to US$17,666,000 (31 March 2004: US$12,406,000).

As at 30 September 2004, the Group had financial facilities provided by banks amounting to approximately US$20,730,000, of which US$1,209,000 had been utilized. Certain of the banking facilities were secured by an office premise of the Group. Total indebtedness as at 30 September 2004, comprising bank loans and overdrafts of US$1,209,000 (31 March 2004: US$4,650,000), loans from minority shareholders of US$35,000 (31 March 2004: US$ nil) and shareholders' loans of US$16,400,000 (31 March 2004: US$16,400,000) amounted to US$17,644,000 (31 March 2004: US$21,050,000) and represented 39.5% (31 March 2004: 49.7%) of the shareholders' funds of the Group. The loans from shareholders are unsecured and are due for repayment in the year 2011.

INTERIM DIVIDEND

There are a large number of the Company's shareholders who hold only a small number of ordinary shares of the Company. Each of these shareholders would only receive a very small amount of dividend. The directors consider that payment of dividend twice a year would incur costs and expenses to the Company that would be out of proportion to the benefit of most of the shareholders of the Company. Therefore the directors have decided that, for the time being, only payment of final dividend would be considered and the directors have decided not to recommend the payment of an interim dividend for the six months ended 30 September 2004.

HUMAN RESOURCES

As at 30 September 2004, the Group had approximately 1,460 (31 March 2004: 1,480) full time employees of which 1,030 were based in Taiwan. About 1,200 employees were engaged in sales and marketing functions. The Group offers its employees competitive remuneration packages based on industry's practices and performance of individual employees. The Company had also adopted a share option scheme in which employees may participate. 1,211,000,000 share options were granted to certain employees during the period. No share options granted has been exercised.

OUTLOOK

"Hang Ten" is a well established brand originated in the United States in the 1960's and is well recognized internationally. The directors believe that the brand has a large market potential and consider the Group's business strategy of offering distinctive, contemporary and quality merchandise to the market presents the Group with opportunities for future growth. The Group will continue to leverage the market's recognition of "Hang Ten" as an international brand and utilise the Group's worldwide licensing network to explore growth opportunities in existing markets and new markets.

The Group has plans to develop retail operation in the United States. Building on the strong brand recognition of "Hang Ten" as an authentic California brand, the Group is confident that this operation will be successful. A well-experienced management team with extensive knowledge of the retail industry in the United States has been set up to undertake the development. Certain expenditure has been incurred for initial set up and development of the operation. Initial outlet locations and product collections will be finalized in the coming months. The Group plans to open its first outlet in the United States in April 2005. Significant progress has been made towards that target.

The Taiwan market is the largest market of the Group at present and we have established a leading position there. We shall continue to consolidate our market position as well as exploring growth opportunities in the Taiwan market. The Taiwan economy has shown significant improvement from last year. Taking that opportunity, new outlets will be opened in area where the Group has not established a strong presence to expand our customer base. The Group will continue to enhance its existing product lines such as clothing for baby and small kids which the Group believes has potential for further growth.

While the general market condition in South Korea has shown no sign of significant improvement, the Group has adopted appropriate measures to cope with the situation and the Group believes the worst for the economy is over. The Group will continue to grow and expand the South Korean market by setting up new outlets.

The Singapore, Malaysia and the Philippines markets remain relatively small comparing to the Taiwan and South Korea markets. The Group will continue to gradually expand its operation in these three markets. The Group expects contribution from these markets will become more significant.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions of which they were taken or deemed to have under such provisions of the SFO) or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which would have to be notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

Name of director	Nature of interests	Number of shares and warrants held	As approximate percentage of total issued ordinary shares
Kenneth Hung			
– ordinary shares	Personal	2,300,000,000	2.95%
– convertible preference shares	Personal	132	1.69%
– warrants	Personal	160,000,000	0.20%
Wang Li Wen			
– ordinary shares	Personal	580,000,000	0.74%
– convertible preference shares	Personal	32	0.41%
– warrants	Personal	40,000,000	0.05%
Kao Yu Chu			
– ordinary shares	Personal	580,000,000	0.74%
– convertible preference shares	Personal	32	0.41%
– warrants	Personal	40,000,000	0.05%

Save as disclosed above, as at 30 September 2004, none of the directors and chief executive of the Company or any of their respective associates had or deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, so far as is known to the directors of the Company, the following persons, other than the directors of the Company whose interests are disclosed above, had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO:

(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	36,108,600,000	46.25%
YGM Trading Limited	Beneficial owner	14,390,000,000	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	12,010,000,000	15.38%
YGM Trading Limited	Beneficial owner	7,730,000,000	9.90%

(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	1.00%

Save as disclosed above, as at 30 September 2004, so far as is known to the directors, there was no person who had an interest or a short position in the shares or underlying shares of the Company which fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to a written resolution of the sole shareholder of the Company on 24 October 2002, the Company adopted a share option scheme, the principal terms of which have been set out in annual report of the Company for the year ended 31 March 2004. During the six months ended 30 September 2004, 1,211,000,000 share options were granted by the Company under the share option scheme. No share option granted has been exercised.

PURCHASE, SALE OR REDEMPTION OF SHARES

There had been no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the six months ended 30 September 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended 30 September 2004 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the non-executive directors of the Company were not appointed for a specific term but are subject to retirement on rotation in annual general meetings pursuant to the bye-laws of the Company.

AUDIT COMMITTEE

The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 September 2004.

The audit committee comprises three independent non-executive directors.

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

13 December 2004
Hong Kong