

Directors' Report

The directors have pleasure in presenting their report and the audited financial statements of Hang Ten Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

The principal activities of its subsidiaries are the design, marketing, retail and wholesale of apparels and trademark licensing. Details of the principal activities of the Group's principal subsidiaries are set out in note 36 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2005 are set out in the consolidated income statement on page 17.

The directors recommend the payment of a dividend on convertible preference shares at 1% per annum amounting to US\$31,000 (2004: US\$82,000) to the holders of the convertible preference shares. The directors recommend the payment of a final dividend to the ordinary shareholders at Hong Kong cents 5.0 (2004: Hong Kong cents 4.0, as restated to reflect the consolidation of 100 ordinary shares of HK\$0.001 each into 1 ordinary share of HK\$0.10 each on 12 November 2004) per share (equivalent to approximately United States cent 0.64 (2004: United States cent 0.51, as restated to reflect the consolidation of every 100 issued and unissued ordinary shares of HK\$0.001 each of the Company into 1 ordinary share of HK\$0.10 each on 12 November 2004) per share), amounting to HK\$39,032,500 (equivalent to approximately US\$5,004,000), based on 780,650,000 ordinary shares in issue as at 20 July 2005.

SHARE CAPITAL

On 12 November 2004, every 100 issued and unissued ordinary shares of HK\$0.001 each of the Company were consolidated into one ordinary share of HK\$0.10 each.

Details of other movements during the year in the issued share capital of the Company are set out in note 30 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and of the Company are set out in note 31 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the past five years is set out on page 62.

FIXED ASSETS

Details of movements in fixed assets of the Group are set out in note 11 to the financial statements.

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Mr. Chan Wing Sun (*Chairman*)
Mr. Kenneth Hung
Ms. Wang Li Wen
Ms. Kao Yu Chu

Independent non-executive directors:

Mr. So Hon Cheung Stephen
Mr. Kwong Chi Keung
Mr. Cheung Yat Hung Alton (appointed on 28 September 2004)

In accordance with Clause 86 and Clause 87 of the Company's bye-laws, Ms. Wang Li Wen and Mr. Cheung Yat Hung Alton retire, and being eligible, offer themselves for re-election.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Report (continued)

DIRECTORS' INTEREST IN SECURITIES

As at 31 March 2005, the interests of the directors and their associates, as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") ("Listing Rules"), in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Nature of interests	Number of shares and warrants held	As approximate percentage of total issued ordinary shares
Mr. Kenneth Hung			
– ordinary shares	Personal	23,000,000	2.95%
– convertible preference shares	Personal	132	1.69%
– warrants	Personal	1,600,000	0.20%
Ms. Wang Li Wen			
– ordinary shares	Personal	5,800,000	0.74%
– convertible preference shares	Personal	32	0.41%
– warrants	Personal	400,000	0.05%
Ms. Kao Yu Chu			
– ordinary shares	Personal	5,800,000	0.74%
– convertible preference shares	Personal	32	0.41%
– warrants	Personal	400,000	0.05%

DIRECTORS' RIGHT TO ACQUIRE SHARES

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

SHARE OPTION SCHEME

Pursuant to a written resolution of the Company passed on 24 October 2002, the Company adopted a share option scheme. During the year, 12,110,000 options (as adjusted to reflect the consolidation of 100 ordinary shares of HK\$0.001 each of the Company into one ordinary share of HK\$0.10 each on 12 November 2004) were granted to employees of the Group under the share option scheme.

Particulars of the Company's share option schemes are set out in note 23 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, the register of the substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued ordinary shares of the Company:

(i) Long position in ordinary shares

Name	Capacity	Number of ordinary shares	As approximate percentage of total issued ordinary shares
Asian Wide Services Limited	Beneficial owner	359,894,000	46.10%
YGM Trading Limited	Beneficial owner	143,900,000	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	120,100,000	15.38%
YGM Trading Limited	Beneficial owner	77,300,000	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	7,800,000	1.00%

Other than disclosed above, the Company has not been notified of any relevant interests or short positions in the issued ordinary shares of the Company as at 31 March 2005.

MAJOR CUSTOMERS AND SUPPLIERS

The business of the Group is retail in nature and the sales to the 5 largest customers amounted to less than 30% of the Group's turnover for the year ended 31 March 2005. Accordingly, details of the largest customer and the five largest customers are not disclosed. During the year, the Group's largest and top five suppliers accounted for approximately 23% and 58% of the Group's purchases respectively.

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

Directors' Report *(continued)*

CONVERTIBLE SECURITIES, WARRANTS AND SIMILAR RIGHTS

The Company had outstanding convertible preference shares and warrants as at 31 March 2005 details of which are set out in note 30 to the financial statements.

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

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

PRE-EMPTIVE RIGHTS

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

CONTINUING CONNECTED TRANSACTIONS

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

1. Sales to a non-wholly owned subsidiary

Hang Ten Enterprises Limited ("HTEL") supplied apparel and accessories to Hang Ten Phils, Corp. on an open account basis with credit terms of approximately 30 days for retailing in Philippines. Hang Ten Phils, Corp. is a non wholly-owned subsidiary of the Group held as to 55% by ILC International Corporation ("ILC"), a wholly owned subsidiary of the Company. The remaining 45% of Hang Ten Phils, Corp is collectively held by Mr. Chua Kun Yao, Mr. William T. De Leon, Mr. Johnny Tan and Ms, Nancy C. Lim (collectively "Chua and company") and save for Ms. Nancy C. Lim, each of them is a director of Hang Ten Phils, Corp. For the year ended 31 March 2005, sales by HTEL to Hang Ten Phils Corp amounted to about US\$2,155,000.

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

During the year ended 31 March 2005, the Group sold apparel and accessories amounted to approximately US\$1,643,000 on open account basis with credit term of approximately 30 days to Chua and company, being the substantial shareholders of Hang Ten Phils, Corp., and their associates (as defined in the Listing Rules) for distribution by them through door-to-door sales network in the Philippines.

3. License to Hang Ten (China) Group Limited

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

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

Pursuant to the license agreement, Hang Ten (China) is required to pay to ILC royalty accounted for on a quarterly basis that is equal to 2.5% of Hang Ten (China)'s total actual net sales to consumers for the Licensed Items. In addition, Hang Ten (China) is required to pay ILC on a quarterly basis as advertising contribution a sum equal to 2.5% of Hang Ten (China)'s total net sales. For the year ended 31 March 2005, the total royalty fee and advertising contribution receivable by ILC from Hang Ten (China) amounted to approximately US\$194,000.

Directors' Report *(continued)*

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

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

The Group has been selling apparels bearing the brand name of "Hang Ten" to Global Inc. for sales in Global Inc.'s retail outlets. Global Inc. was a connected person of the Group during the year ended 31 March 2004 but ceased to be a connected person of the Group during the year ended 31 March 2005 and accordingly disclosure of the transaction with Global Inc. in the directors' report has not been made.

DIRECTORS' INTERESTS IN CONTRACTS

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 March 2005 are set out in note 20, note 27 and note 28 to the financial statements.

RETIREMENT SCHEME

The Group's Taiwan subsidiaries participate in a central pension scheme providing benefits to all employees of the Group's Taiwan subsidiaries. Particulars of the retirement scheme are set out in note 22 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied with the Code of best Practice as contained in Appendix 14 of the Listing Rules throughout the year ended 31 March 2005, except that one of the independent non-executive directors is not appointed for any specific term of office but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emolument policy for employees of the Group is set by the board of directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the board of directors of the Company, having regard to the Company's operating results, individual performance and comparable market statistics.



Directors' Report *(continued)*

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2005.

AUDITORS

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

On behalf of the Board

Chan Wing Sun
Chairman

Hong Kong
20 July 2005