



DIRECTORS' REPORT

The directors present 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 2006.

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 2006 are set out in the consolidated income statement on page 25.

The directors recommend the payment of a dividend on convertible preference shares at 1% per annum amounting to US\$17,000 (2005: US\$31,000) to the holders of the convertible preference shares. The directors recommend the payment of a final dividend to the ordinary shareholders whose names appear on the register of members of the Company on 15 September 2006 at Hong Kong cents 5.0 per share (2005: Hong Kong cents 5.0 per share), equivalent to approximately United States cent 0.64 per share (2005: United States cent 0.64 per share), amounting to a total amount of approximately HK\$49,112,500 (equivalent to approximately US\$6,333,000).

SHARE CAPITAL

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

RESERVES

Profit for the year, before dividends, of US\$13,623,000 (2005 (restated): US\$16,053,000) have been transferred to reserves. Other movements in the reserves of the Group and of the Company are set out in note 30 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 pages 97 and 98.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 12 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 (Chief Executive Officer)
Ms. Kao Yu Chu
Ms. Wang Li Wen

Independent non-executive directors:

Mr. Cheung Yat Hung Alton
Mr. Kwong Chi Keung
Mr. So Hon Cheung Stephen

In accordance with Clause 87 of the Company's bye-laws, Mr. Chan Wing Sun, Ms. Kao Yu Chu, Mr. So Hon Cheung Stephen and Mr. Kwong Chi Keung shall retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.



DIRECTORS' REPORT *(continued)*

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' INTEREST IN SECURITIES

As at 31 March 2006, the interests of the directors and their associates, as defined in the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 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 ("Model Code") were as follows:

Name of director	Nature of interests	Number of ordinary shares held	As approximate percentage of total issued ordinary shares
Mr. Kenneth Hung	Personal	36,200,000	3.69%
Ms. Kao Yu Chu	Personal	9,000,000	0.92%
Ms. Wang Li Wen	Personal	9,000,000	0.92%

Other than disclosed above, none of the directors and chief executive of the Company and their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 March 2006.

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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The directors have confirmed to the Company that they are not interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed below 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.



DIRECTORS' REPORT *(continued)*

SHARE OPTION SCHEME

Pursuant to a written resolution of the Company passed on 24 October 2002, the Company adopted a share option scheme. No option was granted during the year.

Particulars of the Company's share option schemes are set out in note 24 to the financial statements.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN THE COMPANY'S SECURITIES

As at 31 March 2006, the register of the substantial shareholders and other persons maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the issued ordinary shares of the Company:

Name of shareholders	Nature of interests	Number of ordinary shares held	As approximate percentage of total issued ordinary shares
Asian Wide Services Limited	Beneficial owner	369,886,000	37.66%
YGM Trading Limited	Beneficial owner	201,200,000	20.48%
Value Partners Limited (note 1)	Investment manager	83,500,000	8.50%

Note 1: Mr. Cheah Cheng Hye is deemed to be interested in the shares held by Value Partners Limited because of his control over Value Partners Limited.

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 2006.

CONVERTIBLE SECURITIES, WARRANTS AND SIMILAR RIGHTS

During the year, the Company's outstanding convertible preference shares have been fully converted and the outstanding warrants have been lapsed. Details of the convertible preference shares and warrants are set out in note 30 to the financial statements. The Company had no outstanding convertible securities, warrants and similar rights as at 31 March 2006.

PURCHASE, 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"), a wholly owned subsidiary of the Company, supplied apparel and accessories to Hang Ten Phils, Corp. on an open account basis with credit terms of approximately 30 days for retailing in the 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 2006, sales by HTEL to Hang Ten Phils, Corp. amounted to about US\$2,242,000.

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

During the year ended 31 March 2006, HTEL sold apparel and accessories amounted to approximately US\$1,058,000 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 23 May 2005 between ILC and Hang Ten (China) Group Limited ("Hang Ten (China)"), a company which is principally engaged in retailing business in the 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 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 2006, the total royalty fee and advertising contribution receivable by ILC from Hang Ten (China) amounted to approximately US\$190,000.



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; and
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.

The directors have received the auditors' confirmation as required under Rule 14A.38 of the Listing Rules.

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 2006. 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 17% and 47% 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.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 March 2006 are set out in note 21, note 27 and note 28 to the financial statements.

RETIREMENT SCHEME

The Group operates a defined benefit retirement scheme which covers about 1.1% of the Group's employees and defined contribution retirement schemes. Particulars of the retirement scheme are set out in note 23 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied with the Code of Corporate Governance Practices as contained in Appendix 14 of the Listing Rules throughout the year ended 31 March 2006, except that one of the independent non-executive directors had not been appointed for any specific term of office during the period from 1 April 2005 to 31 December 2005, 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 independent non-executive director was appointed for an initial term of one year from 1 January 2006. A report on the principal corporate governance practices adopted by the Company is set out on pages 14 to 17.

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 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.



DIRECTORS' REPORT *(continued)*

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 Company has a Remuneration Committee with written terms of reference to review the emolument policy of the Group.

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2006.

AUDITORS

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

On behalf of the Board

Chan Wing Sun

Chairman

Hong Kong
20 July 2006