1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2006 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as financial assets through profit or loss (see note 1(e)) and foreign currency forward contracts (see note 1(f)) are stated at their fair values as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 41.

(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, so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)), unless the investment is classified as held for sale.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(j)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

(e) Investments in securities

Investments in securities are classified as financial assets through profit or loss and are initially stated at fair value. At each balance sheet date, the fair value is remeasured with any resultant gain or loss being recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

(f) Foreign currency forward contracts

Foreign currency forward contracts, which do not qualify for hedge accounting, are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

(g) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment *(continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment using the straight-line method over their estimated useful lives as follows:

- Freehold land is not depreciated.
- Buildings situated on freehold land are depreciated over their estimated useful lives of 40 to 55 years after the date of completion.

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. The useful life of an asset is reviewed annually.

(h) Trademarks

Trademarks that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 1(j)).

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets' estimated useful lives unless such lives are indefinite. Trademarks with finite useful lives are amortised from the date they are available for use over their estimated useful lives.

Trademarks with an indefinite life acquired by the Group are systematically tested for impairment at each balance sheet date and stated in the balance sheet at cost less accumulated impairment losses (see note 1(j)).

Both the period and method of amortisation and any conclusion that the useful life of an intangible asset is indefinite are reviewed annually.

(i) Operating lease charges

Assets that are held by the Group under leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Operating lease charges *(continued)*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss 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, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– trademarks;

– investments in subsidiaries (except for those classified as held for sale); and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *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 the 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).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *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 not reversed. A reversal of an impairment loss 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 profit or loss 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 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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Impairment losses for bad and doubtful debts are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material. Reversals of impairment losses for bad and doubtful debts are credited to profit or loss in the year in which the reversals are recognised.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(n) Convertible preference shares

Convertible preference share capital is classified as equity as it is non-redeemable and mandatorily converted into ordinary shares in accordance with the terms of the shares. Dividends on convertible preference shares classified as equity are recognised as distributions within equity.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

Prior to 1 July 2005, the Group's Taiwan subsidiaries participated in a central pension scheme ("Old scheme") providing benefits to all of their employees in accordance with the Labour Standards Law. With effect from 1 July 2005, certain employees of the Taiwan subsidiaries may choose to and have been transferred to a defined contribution scheme ("New scheme") governed by the Labour Pension Act.

Under the Old scheme, the Group has an obligation to ensure that there are sufficient funds in the scheme to pay the benefits earned for the service years of all employees covered before transfer to the New scheme and the subsequent service period of employees that chose to continue to participate in the Old scheme. The Group currently contributes at 2% of the total salaries of participating employees as determined and approved by the relevant government authorities. The contributions are placed with the Central Trust of China, a government institution.

The Group's net obligation in respect of the Old scheme 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 the Old scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Employee benefits *(continued)*

(ii) Defined benefit retirement plan obligations (continued)

In calculating the Group's obligation in respect of the Old scheme, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the pension scheme obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the Old scheme. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net 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.

Under the New scheme, the Taiwan subsidiaries contribute at 6% of the total salaries of participating employees that chose to participate in the New scheme, deposited into individual pension accounts at the Bureau of Labour Insurance.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a special reserve within equity. The fair value is measured at grant date using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the special reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the special reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the special reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Income tax

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 profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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.

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, 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Income tax *(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 profits 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 profits 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.

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 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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 expenditure 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.

(t) 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 profit or loss 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) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Revenue recognition *(continued)*

(iv) Management fee income

Management fee income is recognised when the services are rendered.

(v) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

(u) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the United States dollars, which is the Company's functional and presentation currency.

(ii) Translation

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into United States dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 April 2005, are translated into United States dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 April 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(w) 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(x) 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 for the purposes of these financial statements.

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 property, plant and equipment. 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 entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) 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.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 42).

(a) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 April 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a special reserve within equity. Further details of the new policy are set out in note 1(q)(iii).

The new accounting policy has been applied retrospectively with comparatives restated. The adoption of HKFRS 2 has no effect on the net assets of the Group as at 31 March 2006 and 2005. The Group's profit for the year has been decreased by $104,000 (2005: $338,000) as shown below.

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Employee share option scheme (HKFRS 2, Share-based payment) *(continued)*

Effect on the consolidated income statement is as follows:

	2006	2005
	$'000	*$'000*
Increase in administrative expenses	**104**	338
Decrease in profit attributable to equity shareholders of the Company	**104**	338
Decrease in basic earnings per share	**0.01 cent**	0.04 cent
Decrease in diluted earnings per share	**0.01 cent**	0.03 cent

Effect on the consolidated balance sheet and the Company's balance sheet are as follows:

	2006	2005
	$'000	*$'000*
Increase/(decrease) in total equity		
Share options reserve	**442**	338
Retained profits	**(442)**	(338)
	–	–

Details of the employee share option scheme are set out in note 24.

(b) Changes in presentation of minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 April 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in note 1(c). These changes in presentation have been applied retrospectively with comparatives restated accordingly.

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) Financial instruments (HKAS 39, Financial instruments: Recognition and measurement)

(i) Investments in securities

In prior years, investments in securities were stated in the balance sheet at their market value with changes in their market value recognised in profit or loss.

With effect from 1 April 2005, and in accordance with HKAS 39, all investments in securities are redesignated as financial assets through profit or loss and carried at fair value. The adoption of the new policy had no effects on the financial statements but only resulted in a reclassification of assets. Further details of the new policy are set out in note 1(e).

(ii) Foreign currency forward contracts

In prior years, foreign currency forward contracts entered into by management to hedge the foreign currency risk of a committed future transaction were recognised on an accruals basis with reference to the timing of recognition of the hedged transaction.

With effect from 1 April 2005, and in accordance with HKAS 39, all foreign currency forward contracts entered into by the Group are stated at fair value. Changes in fair value of the foreign currency forward contracts are recognised in profit or loss. Further details of the new policy are set out in note 1(f).

There is no opening balance adjustment as the Group did not have any foreign currency forward contracts at 1 April 2005.

The adoption of HKAS 39 did not have any significant effects on the financial statements as the Group did not have any foreign currency forward contracts outstanding at 31 March 2005 and 31 March 2006.

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(d) Retranslation of goodwill on consolidation of a foreign operation (HKAS 21, The effects of changes in foreign exchange rates)

In prior years, goodwill arising on the acquisition of a foreign operation was translated at the exchange rates ruling at the transaction dates.

With effect from 1 April 2005, in order to comply with HKAS 21, the Group has changed its accounting policy relating to retranslation of goodwill. Under the new policy, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and is retranslated at exchange rates ruling at the balance sheet date, together with the retranslation of the net assets of the foreign operation. Further details of the new policy is set out in note 1(u).

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and is only applied to acquisitions occurring on or after 1 April 2005. As the Group has not acquired any new foreign operations since that date, the change in policy has had no impact on the financial statements for the year ended 31 March 2006.

(e) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, *Related party disclosures*, the definition of related parties as disclosed in note 1(w) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, *Related party disclosures*, still been in effect.

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:

	2006	2005
	$'000	*$'000*
Sales of apparels	**238,948**	208,575
Royalty income	**4,145**	4,380
	243,093	212,955

4 OTHER REVENUE AND NET (LOSS)/INCOME

	2006	2005
	$'000	*$'000*
Other revenue		
Rental income	**683**	564
Management fee income	**1,160**	679
Bank interest income	**535**	250
Claims receivable from suppliers	**425**	156
Miscellaneous	**1,421**	683
	4,224	2,332
Other net (loss)/income		
Net loss on sale of property, plant and equipment	**(103)**	(155)
Net foreign exchange gain	**101**	611
Net realised and unrealised gains on listed funds	**74**	43
Others	**(123)**	19
	(51)	518

5 PROFIT BEFORE TAXATION

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

		2006	2005
			(restated)
		$'000	*$'000*
(a)	**Finance costs**		
	Interest on bank advances and other borrowings wholly repayable within five years	**142**	210
	Interest on shareholders' loans	**985**	1,021
		1,127	1,231
(b)	**Staff costs**		
	Expenses recognised in respect of defined benefit retirement schemes *(note 23(ii))*	**216**	391
	Contributions to defined contribution retirement schemes	**927**	452
	Total retirement costs	**1,143**	843
	Salaries and staff benefits	**27,231**	24,732
	Equity-settled share-based payment expenses	**104**	338
		28,478	25,913
(c)	**Other items**		
	Cost of inventories sold	**112,180**	97,283
	Auditors' remuneration – audit services	**221**	206
	Depreciation	**3,940**	3,380
	Operating lease charges (including retail shops and department store counters)	**38,669**	32,545
	Commission to franchisees	**19,964**	12,748
	Write-down of inventories	**1,557**	388
	Impairment losses made on trade receivables	**546**	282
	Loss on liquidation of a subsidiary# *(note 36)*	**1,683**	–

The amount includes write-off of property, plant and equipment, inventories and trade and other receivables of the subsidiary, which amount is also included in the respective amounts disclosed separately in the financial statements.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2006	2005
	$'000	$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**–**	–
Current tax – Overseas		
Provision for the year	**4,970**	3,950
Under-provision in respect of prior years	**276**	699
	5,246	4,649
Deferred tax		
Origination and reversal of temporary differences	**(1,075)**	(157)
Effect of decrease in tax rate on deferred tax balances at 1 April	**–**	72
	(1,075)	(85)
	4,171	4,564

No Hong Kong Profits Tax has been provided as the Company and its subsidiaries in Hong Kong sustained losses for Hong Kong Profits Tax purposes during the year.

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

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

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

	2006	2005 (restated)
	$'000	*$'000*
Profit before tax	**17,794**	20,617
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**4,239**	3,283
Tax effect of non-deductible expenses	**353**	621
Tax effect of non-taxable income	**(430)**	(1)
Tax effect of unrecognised deferred tax assets	**(267)**	(110)
Effect on opening deferred tax balances resulting from a decrease in tax rate during the year	**–**	72
Under-provision in respect of prior years	**276**	699
Actual tax expense	**4,171**	4,564

7 DIRECTORS' REMUNERATION

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

	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**2006 Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Executive directors					
Chan Wing Sun	–	129	–	–	129
Kenneth Hung	1	795	–	–	796
Wang Li Wen	1	171	54	10	236
Kao Yu Chu	1	192	63	11	267
Independent non-executive directors					
So Hon Cheung Stephen	31	–	–	–	31
Kwong Chi Keung	31	–	–	–	31
Cheung Yat Hung Alton	15	–	–	–	15
	80	1,287	117	21	1,505

7 DIRECTORS' REMUNERATION *(continued)*

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	2005 Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Executive directors					
Chan Wing Sun	–	244	–	–	244
Kenneth Hung	1	923	–	–	924
Wang Li Wen	1	160	69	3	233
Kao Yu Chu	1	180	80	4	265
Independent non-executive directors					
So Hon Cheung Stephen	31	–	–	–	31
Kwong Chi Keung	31	–	–	–	31
Cheung Yat Hung Alton	7	–	–	–	7
	72	1,507	149	7	1,735

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2005: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2005: two) individuals are as follows:

	2006	2005 (restated)
	$'000	*$'000*
Salaries and other emoluments	**1,145**	871
Discretionary bonuses	**146**	165
Equity-settled share-based payments	**20**	28
	1,311	1,064

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The emoluments of the three (2005: two) individuals with the highest emoluments are within the following bands:

	2006 **Number**	2005 *Number*
$320,514 – $384,615 (equivalent to HK$2,500,001 – HK$3,000,000)	**1**	–
$384,616 – $448,718 (equivalent to HK$3,000,001 – HK$3,500,000)	**1**	1
$512,821 – $576,922 (equivalent to HK$4,000,001 – HK$4,500,000)	**1**	–
$576,923 – $641,026 (equivalent to HK$4,500,001 – HK$5,000,000)	**–**	1
	3	2

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $6,492,000 (2005 (restated): $5,165,000) which has been dealt with in the financial statements of the Company.

10 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year and proposed after the balance sheet date

	2006 **$'000**	2005 *$'000*
Dividend on convertible preference shares at 1%	**17**	31
Final dividend proposed on ordinary shares of HK5.0 cents (2005: HK5.0 cents) (equivalent to approximately US0.64 cent) per ordinary share (2005: US0.64 cent)	**6,333**	5,004
	6,350	5,035

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

10 DIVIDENDS *(continued)*

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006	2005
	$'000	*$'000*
Dividend on convertible preference shares at 1%	**31**	82
Final dividend on ordinary shares in respect of the previous financial year, approved and paid during the year, of HK5.0 cents (2005: HK4.0 cents) per ordinary share (equivalent to approximately US0.64 cent) (2005: US0.51 cent)	**5,452**	4,003
	5,483	4,085

In respect of the dividends attributable to the year ended 31 March 2005, the difference between the final dividend proposed and the amount approved and paid during the year represents the additional dividends distributed to the holders of ordinary shares which were issued upon the conversion of convertible preference shares before the closing date of the register of members.

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 ordinary equity shareholders of the Company of $13,003,000 (2005 (restated): $16,040,000) and the weighted average number of 853,910,000 ordinary shares (2005: 740,542,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the profit attributable to ordinary equity shareholders of the Company of $13,003,000 (2005 (restated): $16,040,000) and the weighted average number of ordinary shares of 984,647,000 shares (2005: 985,394,000 ordinary shares), calculated as follows:

	2006	2005
	$'000	*$'000*
Weighted average number of ordinary shares at 31 March	**853,910**	740,542
Effect of deemed issue of ordinary shares for nil consideration	**130,737**	244,852
Weighted average number of ordinary shares (diluted) at 31 March	**984,647**	985,394

12 PROPERTY, PLANT AND EQUIPMENT

The Group

	Land and buildings held for own use	Leasehold improvements	Motor vehicles	Furniture, fixtures and other fixed assets	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Cost:					
At 1 April 2005	1,991	5,843	493	3,941	12,268
Exchange adjustments	31	(198)	(5)	99	(73)
Additions	–	6,341	26	2,966	9,333
Disposals					
– through liquidation of a subsidiary *(note 36)*	–	(2,882)	–	(1,402)	(4,284)
– others	–	(3,588)	(7)	(247)	(3,842)
At 31 March 2006	2,022	5,516	507	5,357	13,402
Accumulated depreciation and impairment loss:					
At 1 April 2005	531	1,424	252	2,305	4,512
Exchange adjustments	(13)	(52)	(6)	93	22
Charge for the year	28	2,994	79	839	3,940
Written back on disposals					
– through liquidation of a subsidiary *(note 36)*	–	(126)	–	(109)	(235)
– others	–	(3,462)	(7)	(206)	(3,675)
At 31 March 2006	546	778	318	2,922	4,564
Net book value:					
At 31 March 2006	1,476	4,738	189	2,435	8,838

12 PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group *(continued)*

	Land and buildings held for own use	Leasehold improvements	Motor vehicles	Furniture, fixtures and other fixed assets	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Cost:					
At 1 April 2004	1,550	6,865	394	3,001	11,810
Exchange adjustments	137	765	32	216	1,150
Additions	304	2,884	91	982	4,261
Disposals	–	(4,671)	(24)	(258)	(4,953)
At 31 March 2005	1,991	5,843	493	3,941	12,268
Accumulated depreciation and impairment loss:					
At 1 April 2004	499	2,767	177	1,710	5,153
Exchange adjustments	10	437	22	153	622
Charge for the year	22	2,736	74	548	3,380
Written back on disposals	–	(4,516)	(21)	(106)	(4,643)
At 31 March 2005	531	1,424	252	2,305	4,512
Net book value:					
At 31 March 2005	1,460	4,419	241	1,636	7,756

All land and buildings are located outside Hong Kong. The land is freehold. At 31 March 2006, certain land and buildings of the Group with a carrying value of $1,122,000 (2005: $1,093,000) were pledged as security for a bank loan (note 21).

13 GOODWILL

	The Group	
	2006	2005
	$'000	*$'000*
At cost:		
At 31 March	**8,989**	8,989

Goodwill arose from the acquisition of 97.01% equity interest in ILC International Corporation ("ILC") by Hang Ten International Holdings Limited ("Hang Ten (BVI)") in December 2001. The carrying value at 31 March 2006 represents the deemed cost as at 1 April 2004 upon the adoption of HKFRS 3 "Business Combinations" whereby the accumulated amortisation of goodwill had been eliminated against the cost of goodwill as at that date.

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation as follows:

	The Group	
	2006	2005
	$'000	*$'000*
Taiwan operations	**5,663**	5,663
Korea operations	**1,978**	1,978
	7,641	7,641
Multiple operations without significant goodwill	**1,348**	1,348
	8,989	8,989

The Group completed its annual impairment test for goodwill by comparing its recoverable amount to its carrying amount as at 31 March 2006. The Group appointed independent professional valuers to conduct a valuation of the goodwill using cashflow projections covering a five-year period, based on the following principal financial estimates:

	2006	2005
Discount rate of cashflow	**16%**	15%
Annual growth rate	**9% to 12%**	2% to 13%

Management has considered the above assumptions and the business expansion plan and believes that there is no impairment in goodwill as at 31 March 2006.

14 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	$'000	*$'000*
Unlisted shares, at cost	**30,339**	30,339

The particulars of principal subsidiaries are set out in note 36.

15 INTANGIBLE ASSETS – TRADEMARKS

	The Group	
	2006	2005
	$'000	*$'000*
At cost:		
At 31 March	**17,523**	17,523

Trademarks with an indefinite useful life were stated at their deemed costs at 1 April 2004 and discontinued amortisation upon the adoption of HKAS 38 "Intangible Assets".

The Group reassessed the useful life of trademarks at 31 March 2006 and reached a conclusion that the acquired trademarks of "Hang Ten" continued to be regarded as having an indefinite useful life. The assessment is based on the future financial performance of the Group with a well known and long established fashion brand, which generates net cash inflows indefinitely. This view is supported by an independent professional appraiser, appointed by the Group to assess the useful life of trademarks in accordance with the requirements of HKAS 38. Having considered the factors specific to the Group, the appraiser opined that the "Hang Ten" trademarks should be regarded as intangible assets with an indefinite useful life.

The Group completed its annual impairment test for the trademarks by comparing its recoverable amount to its carrying amount and concluded that there is no impairment as at 31 March 2006. The impairment test is based on a valuation conducted by the above independent professional appraiser using cashflow projections covering a five-year period with the following principal financial estimates:

	2006	2005
Expected royalty rates from trademarks	**1% to 3.5%**	1% to 4%
Discount rate of cashflow	**16%**	15%

16 INVESTMENTS

	The Group	
	2006	2005
	$'000	*$'000*
Listed funds in Taiwan stated at fair value	**10,567**	9,298

17 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2006	2005
	$'000	*$'000*
Finished goods	**31,686**	23,265
Goods in transit	**2,072**	1,223
	33,758	24,488
Less: Write-down of inventories	**(4,434)**	(2,877)
	29,324	21,611

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2006	2005
	$'000	*$'000*
Carrying amount of inventories sold	**113,737**	97,671
Write-down of inventories	**(1,557)**	(388)
	112,180	97,283

18 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Trade debtors	**7,719**	6,912	**–**	–
Royalty receivables	**2,176**	1,830	**–**	–
Rental deposits	**11,332**	9,874	**–**	–
Prepayments and other receivables	**2,266**	1,837	**22**	19
	23,493	20,453	**22**	19

All of the trade and other receivables are expected to be recovered within one year, except for the rental deposits.

Included in trade and other receivables are trade debtors and royalty receivables (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2006	2005
	$'000	$'000
Current	**8,048**	6,998
1 to 3 months overdue	**856**	1,287
More than 3 months but less than 1 year overdue	**592**	457
More than 1 year but less than 2 years overdue	**399**	–
	9,895	8,742

The Group's credit policy is set out in note 32(a).

19 AMOUNTS DUE FROM/(TO) A SUBSIDIARY

The amounts due from/(to) a subsidiary are unsecured, interest free and recoverable/repayable on demand.

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
Deposits with banks	**–**	289	**–**	–
Cash at bank and in hand	**21,235**	25,056	**18**	18
	21,235	25,345	**18**	18

21 BANK LOANS

At 31 March 2006, the bank loans of the Group were repayable as follows:

	The Group	
	2006	2005
	$'000	*$'000*
Within 1 year or on demand	**621**	6
After 1 year but within 2 years	**–**	586
	621	592

At 31 March 2006, the banks loans of the Group were secured as follows:

	The Group	
	2006	2005
	$'000	*$'000*
Bank loans		
– secured	**615**	586
– unsecured	**6**	6
	621	592

The bank loan of $615,000 (2005: $586,000) is secured by mortgage over certain land and buildings with a carrying value of $1,122,000 (2005: $1,093,000).

The Group's unsecured banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions.

22 TRADE AND OTHER PAYABLES

	The Group		**The Company**	
	2006	2005	**2006**	2005
	$'000	*$'000*	**$'000**	*$'000*
Trade creditors	**9,600**	9,492	**–**	–
Bills payable	**1,381**	314	**–**	–
Interest on loans from shareholders *(note 37(c))*	**985**	1,021	**–**	–
Accrued charges	**6,185**	5,554	**175**	261
Deferred income *(note 29)*	**1,180**	1,180	**–**	–
Deposits received	**2,507**	863	**–**	–
Others	**2,163**	2,406	**–**	–
	24,001	20,830	**175**	261

Credit terms obtained by the Group range from 30 to 45 days. All of the trade and other payables are expected to be settled within one year, except for the deposits received.

Included in trade and other payables of the Group are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	The Group	
	2006	2005
	$'000	*$'000*
Due within 1 month or on demand	**9,668**	8,340
Due after 1 month but within 3 months	**475**	792
Due after 3 months but within 6 months	**838**	674
	10,981	9,806

Included in trade and other payables is the following amount denominated in a currency other than the functional currency of the entity to which it relates:

	The Group	
	2006	2005
	$'000	*$'000*
Hong Kong Dollars	**HKD10,710**	HKD2,443

23 EMPLOYEE RETIREMENT BENEFITS

(a) Defined benefit retirement plans

The Group's Taiwan subsidiaries participate in a central pension scheme providing benefits to participating 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 2006 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 88% (2005: 64%) covered by the plan assets placed with the government institution.

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

	The Group	
	2006	2005
	$'000	*$'000*
Present value of funded obligations	**1,743**	2,263
Fair value of plan assets	**(1,539)**	(1,454)
Present value of net obligations	**204**	809
Unrecognised transitional liabilities	**(46)**	(50)
Unrecognised actuarial gain/(losses)	**75**	(647)
	233	112

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

23 EMPLOYEE RETIREMENT BENEFITS *(continued)*

(a) Defined benefit retirement plans *(continued)*

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

	The Group	
	2006	2005
	$'000	*$'000*
At 1 April	**112**	(14)
Contributions paid to schemes	**(91)**	(267)
Expenses recognised in profit or loss *(note 5(b))*	**216**	391
Exchange adjustments	**(4)**	2
At 31 March	**233**	112

(iii) Expenses recognised in profit or loss are as follows:

	The Group	
	2006	2005
	$'000	*$'000*
Current service costs	**128**	308
Interest on obligations	**83**	60
Expected return on plan assets	**(38)**	(30)
Amortisation of actuarial losses and transitional liabilities	**43**	53
	216	391

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

	The Group	
	2006	2005
	$'000	*$'000*
Selling expenses	**149**	330
Administrative expenses	**67**	61
	216	391
Actual return on plan assets	**31**	14

(Expressed in United States dollars unless otherwise indicated)

23 EMPLOYEE RETIREMENT BENEFITS *(continued)*

(a) Defined benefit retirement plans *(continued)*

(iv) The principal actuarial assumptions used as at 31 March 2006 (expressed as weighted averages) are as follows:

	The Group	
	2006	2005
Discount rate	**3.75%**	3.75%
Expected rate of return on plan assets	**2.75%**	2.75%
Future salary increases	**2.75%**	2.75%

(b) Defined contribution retirement plan

With effect from 1 July 2005, certain employees of the Taiwan subsidiaries who were previously covered in the above defined benefit retirement plans may choose to and have been transferred to a defined contribution scheme governed by the Labour Pension Act. The Taiwan subsidiaries contribute at 6% of the total salaries of participating employees that chose to participate in the defined contribution scheme, deposited into individual pension accounts at the Bureau of Labour Insurance. Contributions to the defined contribution scheme are charged to profit or loss when incurred.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

For other subsidiaries, contributions to the defined contribution pension schemes are recognised as an expense in the income statement as incurred.

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme (the "Share Option Scheme") which was adopted on 3 January 2003 whereby 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;

(Expressed in United States dollars unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(ii) the closing price of the ordinary shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited ("HKSE") 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 10% 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. Each option gives the holder the right to subscribe for one ordinary share in the Company.

Movements during the year:

Date of grant	Exercise price per share	Exercise period	Outstanding as at 1 April 2005	Lapsed during the year	Outstanding as at 31 March 2006
7 April 2004	HK$1.52	1 April 2005 to 31 March 2009	6,055,000	(475,000)	5,580,000
7 April 2004	HK$1.52	1 April 2006 to 31 March 2009	6,055,000	(475,000)	5,580,000
			12,110,000	(950,000)	11,160,000

There were no options granted during the year.

(Expressed in United States dollars unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to employees:			
– on 7 April 2004	6,055,000	One year from the date of grant	5 years
– on 7 April 2004	6,055,000	Two years from the date of grant	5 years
Total share options	12,110,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2006 Weighted average exercise price	2006 Number of options	2005 Weighted average exercise price	2005 Number of options
Outstanding at the beginning of the year	HK$1.52	12,110,000		–
Granted during the year		–	HK$0.0152	1,211,000,000
Adjusted upon Share Consolidation *(note 30(c))*		–		(1,198,890,000)
Lapsed during the year	HK$1.52	(950,000)		–
Outstanding at the end of the year	HK$1.52	11,160,000	HK$ 1.52	12,110,000
Exercisable at the end of the year	HK$1.52	5,580,000		–

Pursuant to a special resolution passed on 11 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. As a result, the outstanding options of 1,211,000,000 on 11 November 2004 have been adjusted to 12,110,000 and the exercise price per share has been adjusted from HK$0.0152 to HK$1.52.

(Expressed in United States dollars unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(b) The number and weighted average exercise prices of share options are as follows: *(continued)*

There were no share options exercised during the years ended 31 March 2006 and 31 March 2005. The options outstanding at 31 March 2006 had an exercise price of HK$1.52 (2005: HK$1.52) and a weighted average remaining contractual life of 3 years (2005: 4 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on Black-Scholes Option Pricing Model. The contractual life of the option is used as an input into this model.

	2006	2005
Fair value at measurement date	**HK$0.29**	HK$0.29
Share price	**HK$1.40**	HK$1.40
Exercise price	**HK$1.52**	HK$1.52
Expected volatility (expressed as weighted average volatility)	**38.84%**	38.84%
Option life (expressed as weighted average life)	**3 years**	4 years
Dividend yield	**3.50%**	3.50%
Risk-free interest rate	**2.80%**	2.80%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options). Dividend yield is based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

There were no service conditions or market conditions associated with the share options granted.

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 37.

26 INCOME TAX IN THE BALANCE SHEET

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

	The Group 2006 $'000	2005 $'000
Provision for Hong Kong Profits Tax for the year	**–**	–
Provision for overseas tax	**4,970**	3,950
Provisional Profits Tax paid	**(2,190)**	(768)
	2,780	3,182
Balance of Profits Tax provision relating to prior years	**1,514**	1,491
	4,294	4,673

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 34.

(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:

The Group

	Depreciation in excess of related depreciation allowances $'000	General provisions $'000	Operating revenue $'000	Future benefit of tax losses $'000	Others $'000	Total $'000
Deferred tax arising from:						
At 1 April 2004	175	235	638	19	43	1,110
(Charged)/credited to profit or loss	(166)	205	120	(19)	(55)	85
Effect of exchange rate changes	2	28	92	–	1	123
At 31 March 2005	11	468	850	–	(11)	1,318
At 1 April 2005	11	468	850	–	(11)	1,318
Credited to profit or loss	93	265	501	181	35	1,075
Effect of exchange rate changes	–	(4)	62	–	4	62
At 31 March 2006	104	729	1,413	181	28	2,455

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

(c) Deferred tax assets not recognised:

The Group has not recognised deferred tax assets on the following deductible temporary differences as it is not probable that future taxable profits will be available against which the assets can be utilised:

	The Group	
	2006	2005
	$'000	*$'000*
Future benefit of tax losses	**568**	474
Others	**396**	252
	964	726

At 31 March 2006, the Group has not recognised deferred tax assets in respect of tax losses, whose expiry dates are:

	The Group	
	2006	2005
	$'000	*$'000*
In March 2007	**464**	474
In March 2011	**104**	–
	568	474

(d) Deferred tax liabilities not recognised:

At 31 March 2006, temporary differences relating to the undistributed profits of subsidiaries amounted to $27,589,000 (2005: $21,666,000). Deferred tax liabilities of $3,808,000 (2005: $2,955,000) 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 LOANS FROM MINORITY SHAREHOLDERS

The amount at 31 March 2005 represented convertible notes issued to the minority shareholders of a subsidiary. The amount has been settled upon the commencement of a members' liquidation of the subsidiary during the year.

28 LOANS FROM SHAREHOLDERS

The loans from shareholders were borrowed by Hang Ten (BVI) to finance the acquisition of ILC in December 2001. 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 $985,000 (2005: $1,021,000) is included under trade and other payables in note 22.

29 DEFERRED INCOME

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

Deferred income represents the unearned portion of royalty income and is analysed as follows:

	The Group	
	2006	2005
	$'000	*$'000*
Total deferred income	**9,440**	10,620
Less: current portion included in trade and other payables *(note 22)*	**(1,180)**	(1,180)
	8,260	9,440

30 CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company								
	Share capital $'000	Contributed surplus $'000	Share premium $'000	Share options reserve $'000	Exchange reserve $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
At 1 April 2004	12,593	5,710	1,528	–	1,302	21,259	42,392	1,488	43,880
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	2,369	–	2,369	129	2,498
Dividends paid	–	–	–	–	–	(4,085)	(4,085)	–	(4,085)
Capital contributions received by non-wholly owned subsidiary from minority shareholders	–	–	–	–	–	–	–	287	287
Equity-settled share-based transactions (restated)	–	–	–	338	–	–	338	–	338
Profit for the year (restated)	–	–	–	–	–	16,040	16,040	13	16,053
At 31 March 2005	12,593	5,710	1,528	338	3,671	33,214	57,054	1,917	58,971
At 1 April 2005									
– as previously reported	12,593	5,710	1,528	–	3,671	33,552	57,054	1,917	58,971
– prior period adjustment in respect of HKFRS 2 *(note 2(a))*	–	–	–	338	–	(338)	–	–	–
– as restated	12,593	5,710	1,528	338	3,671	33,214	57,054	1,917	58,971
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	453	–	453	143	596
Dividends paid	–	–	–	–	–	(5,483)	(5,483)	–	(5,483)
Equity-settled share-based transactions	–	–	–	104	–	–	104	–	104
Profit for the year	–	–	–	–	–	13,003	13,003	620	13,623
At 31 March 2006	12,593	5,710	1,528	442	4,124	40,734	65,131	2,680	67,811

30 CAPITAL AND RESERVES *(continued)*

(b) The Company

	Share capital	Contributed surplus	Share premium	Share options reserve	Retained profits	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 April 2004	12,593	14,562	1,528	–	4,292	32,975
Dividends paid	–	–	–	–	(4,085)	(4,085)
Equity-settled share-based transactions (restated)	–	–	–	338	–	338
Profit for the year (restated)	–	–	–	–	5,165	5,165
At 31 March 2005 (as restated)	12,593	14,562	1,528	338	5,372	34,393
At 1 April 2005						
– as previously reported	12,593	14,562	1,528	–	5,710	34,393
– prior period adjustment in respect of HKFRS 2 *(note 2(a))*	–	–	–	338	(338)	–
– as restated	12,593	14,562	1,528	338	5,372	34,393
Dividends paid	–	–	–	–	(5,483)	(5,483)
Equity-settled share-based transactions	–	–	–	104	–	104
Profit for the year	–	–	–	–	6,492	6,492
At 31 March 2006	12,593	14,562	1,528	442	6,381	35,506

30 CAPITAL AND RESERVES *(continued)*

(c) Share capital

(i) *Authorised and issued share capital*

	Note	2006 Number of ordinary shares '000	$'000	Number of convertible preference shares	$'000	Total $'000
Authorised:						
Ordinary shares of HK$0.10 each		**2,500,000**	**32,051**	**-**	**-**	**32,051**
Convertible preference shares ("CPS") of HK$10,000 each		**-**	**-**	**7,307**	**9,368**	**9,368**
		2,500,000	**32,051**	**7,307**	**9,368**	**41,419**
Issued and fully paid:						
At 1 April 2005		**780,650**	**10,008**	**2,016**	**2,585**	**12,593**
Conversion of CPS	(c)	**201,600**	**2,585**	**(2,016)**	**(2,585)**	**-**
At 31 March 2006		**982,250**	**12,593**	**-**	**-**	**12,593**

	Note	2005 Number of ordinary shares '000	$'000	Number of convertible preference shares	$'000	Total $'000
Authorised:						
Ordinary shares of HK$0.001 each		250,000,000	32,051	–	–	32,051
CPS of HK$10,000 each		–	–	7,307	9,368	9,368
Share Consolidation into HK$0.10 each	(a)	(247,500,000)	–	–	–	–
		2,500,000	32,051	7,307	9,368	41,419
Issued and fully paid:						
At 1 April 2004		63,695,000	8,166	3,453	4,427	12,593
Conversion of CPS before Share Consolidation	(b)	14,370,000	1,842	(1,437)	(1,842)	–
Share Consolidation into HK$0.10 each	(a)	(77,284,350)	–	–	–	–
At 31 March 2005		780,650	10,008	2,016	2,585	12,593

30 CAPITAL AND RESERVES *(continued)*

(c) Share capital *(continued)*

(i) *Authorised and issued share capital (continued)*

Notes:

(a) Pursuant to a special resolution passed on 11 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 ("Share Consolidation").

(b) Prior to the Share Consolidation, 1,437 CPS were converted into 14,370 million ordinary shares of the Company at a conversion price of HK$0.001 each.

(c) During the year, 2,016 CPS were converted into 201,600,000 ordinary shares of the Company at a conversion price of HK$0.10 each.

(ii) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(iii) 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 before the Share Consolidation and at a conversion price of HK$0.10 each after the Share Consolidation (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;

30 CAPITAL AND RESERVES *(continued)*

(c) Share capital *(continued)*

(iii) *(continued)*

(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.

(iv) *Warrants*

Pursuant to a reorganisation scheme to rationalise the structure of the Group in the preparation for the listing of the Company's shares on the HKSE in January 2003, 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). As a result of the Share Consolidation, the number of warrants which remained outstanding on 11 November 2004 was adjusted to 44,020,000 and the subscription price was adjusted to HK$1.0 per consolidated share.

There were no warrants exercised during the year. All outstanding warrants have been expired as at 31 March 2006.

(d) Nature and purpose of reserves

(i) Contributed surplus

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 completed prior to its listing on the HKSE in January 2003 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.

(ii) Share premium

The application of the share premium account is governed by section 40 of the Bermuda Companies Act 1981.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(u).

(Expressed in United States dollars unless otherwise indicated)

30 CAPITAL AND RESERVES *(continued)*

(d) Nature and purpose of reserves *(continued)*

(iv) Share options reserve

The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 1(q)(iii).

(e) Distributability of reserves

At 31 March 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to $22,471,000 (2005: $21,462,000). After the balance sheet date the directors proposed a final dividend of HK5.0 cents per ordinary share (2005: HK5.0 cents per ordinary share), amounting to $6,333,000 (2005: $5,004,000). This dividend has not been recognised as a liability at the balance sheet date.

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
– loan amount	$39,000	$22,912
– interest rate	Interest-free	Interest-free
– security	None	None
Balance of the loan		
– at 1 April 2004	$39,000	$22,912
– at 31 March 2005 and at 1 April 2005	$Nil	$Nil
– at 31 March 2006	$Nil	$Nil
Maximum balance outstanding		
– during 2005/2006	$Nil	$Nil
– during 2004/2005	$39,000	$22,912

There was no interest due but unpaid, nor any provision made against the principal amount of these loans at 31 March 2005 and 2006.

32 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to wholesale of goods and royalty receivables as retail sales to customers are made in cash or through credit cards. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are generally due within one to two months from the date of billing. The Group occasionally requests a cash deposit as collateral from customers.

Investments are only in listed funds in Taiwan held by the Taiwan subsidiaries.

The Group does not have a concentration of credit risk at 31 March 2006. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any guarantees which would expose the Group to credit risk.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's management. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

32 FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk

As the Group has no significant floating interest-bearing borrowings, it is not exposed to significant interest rate risk. The Group's exposure to changes in interest rates relates primarily to the Group's cash and cash equivalents including time deposits.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	2006			
	Effective interest rate %	**Total *$'000***	**One year or less *$'000***	**2 – 5 years *$'000***
Repricing dates for assets/(liabilities) which reprice before maturity				
Unsecured bank loans	**3.8%**	**6**	**6**	**–**
Maturity dates for assets/(liabilities) which do not reprice before maturity				
Cash and cash equivalents	**1% to 5%**	**21,235**	**21,235**	**–**
Secured bank loans	**5.6%**	**615**	**615**	**–**
Loans from shareholders	**6%**	**16,400**	**–**	**16,400**
		38,250	**21,850**	**16,400**

32 FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

Effective interest rates and repricing analysis (continued)

	2005					
	Effective interest rate %	Total $'000	One year or less $'000	1 – 2 years $'000	2 – 5 years $'000	More than 5 years $'000
Repricing dates for assets/(liabilities) which reprice before maturity						
Unsecured bank loans	3%	6	6	–	–	–
Maturity dates for assets/(liabilities) which do not reprice before maturity						
Cash and cash equivalents	0.5% to 4.5%	25,345	25,345	–	–	–
Secured bank loans	5.6%	586	–	586	–	–
Loans from minority shareholders	4.11%	244	–	–	244	–
Loans from shareholders	6%	16,400	–	–	–	16,400
		42,575	25,345	586	244	16,400

(d) Foreign currency risk

(i) Forecast transactions

The Group operates in a number of countries and is exposed to foreign exchange risk arising from various currency transactions.

The Group is exposed to foreign currency risk primarily through purchases that are denominated in a currency other than the functional currency of the operations to which they relate particularly in Hong Kong dollars. To manage the foreign exchange risk arising from forecast transactions, the Group uses forward contracts when material fluctuation in the relevant foreign currency is anticipated. There were no outstanding foreign currency forward contracts as at 31 March 2006 and 31 March 2005.

The inter-group transactions are normally denominated in United States dollars.

32 FINANCIAL INSTRUMENTS *(continued)*

(d) Foreign currency risk *(continued)*

(ii) Recognised assets and liabilities and net investment in foreign operations

In respect of recognised assets and liabilities held in currencies other than the functional currency of the entities to which they relate, and certain investment in foreign operations whose net assets are exposed to foreign currency translation risk, the Group ensures that the net exposure is kept to an acceptable level. All the Group's borrowings are denominated in the functional currency of the entity taking out the loan.

(e) Fair values

All financial instruments are carried at amounts not materially different from their carrying values as at 31 March 2006 and 2005.

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

(i) Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

33 OPERATING LEASE COMMITMENTS

At 31 March 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2006	2005
	$'000	*$'000*
Within one year	**21,050**	19,565
After one year but within five years	**33,184**	37,799
After five years	**–**	4,633
	54,234	61,997

The Group is the lessee in respect of a number of properties held 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.

34 CONTINGENT LIABILITIES

(a) Letters of credit

At 31 March 2006, outstanding letters of credit of the Group for the purchase of goods amounted to $3,696,000 (2005: $4,237,000).

(b) Withholding tax

In 1997, ILC entered into a two-year service agreement with the Taiwan branch of Hang Ten Enterprises Limited (the "Branch") to provide supporting services 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% subject to approval of the Taiwan Tax Authority ("TTA"). As at 31 March 2006, the application for a reduction of the withholding tax rate 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.

(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 (up to three times of the additional VAT) in respect of sales made through certain retail shops which are operated under co-operative arrangements with third parties. The TTA considers that the Group has excluded a portion of the sales value during the period from January 1999 to December 2002 for the purpose of VAT filings. At the Group's request, TTA has rechecked the assessment but reached the same conclusion in May 2006. The Group has gathered further supporting evidence and filed a formal objection to the TTA in June 2006.

Having taken relevant professional advice, the directors made a provision for the additional VAT in the 2005 financial statements but no provision has been made for the penalties. Based on the current available information, the directors are still confident that the Group has reasonable grounds to refute the penalties and considers that no further provision is required at 31 March 2006.

35 PLEDGE OF ASSETS

At 31 March 2006, a bank loan of $615,000 (2005: $586,000) was secured by pledge of certain land and buildings with a carrying value of $1,122,000 (2005: $1,093,000).

(Expressed in United States dollars unless otherwise indicated)

36 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.

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
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	$50,000	100%	–	100%	Investment holding and wholesale of apparels
Yangtze Apparel Taiwan Enterprise Limited	Taiwan	NT$ 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
Precise Delta Limited	Hong Kong	HK$1	100%	–	100%	Investment holding

(Expressed in United States dollars unless otherwise indicated)

36 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
HTEL (Macau) Limited	Macau	MOP25,000	100%	–	100%	Retail and wholesale of apparels
HTEL (Hong Kong) Limited	Hong Kong	HK$2,000,000	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
Hang Ten Retail USA, Inc. *(note)*	United States of America	$16,102	79.91%	–	79.91%	In members' liquidation

Subsequent to the balance sheet date, the Group acquired the remaining 8% equity interest and details of which are set out in note 39.

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflected total net assets and total turnover constituting approximately 1.7% and 1% respectively of the related consolidated totals.

Note: On 15 December 2005, the directors resolved to terminate the operations of Hang Ten Retail USA, Inc. which subsequently commenced members' voluntary liquidation. The liquidation is still in the progress as at 31 March 2006. A loss on liquidation of the subsidiary of $1,683,000 has been charged to the consolidated income statement for the year.

37 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material transactions with related parties.

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2006	2005
	$'000	*$'000*
Salaries and other short-term employee benefits	**2,014**	2,343
Retirement scheme contributions	**21**	7
	2,035	2,350

Total remuneration is included in "staff costs" (see note 5(b)).

(b) (i) Transactions with Michel Rene Enterprises Limited, a subsidiary of YGM Trading Limited, a substantial shareholder of the Company

	2006	2005
	$'000	*$'000*
Rental income from leasing of retail stores and equipment	**22**	18
Rental expenses for leasing of retail stores	**95**	46
Service fee income in respect of maintenance services for retail stores	**61**	60

(ii) Amount due from Michel Rene Enterprises Limited

	2006	2005
	$'000	*$'000*
Amount due from Michel Rene Enterprises Limited	**51**	50

Details of the terms are stated in note 25.

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

	2006 $'000	2005 $'000
Executive remuneration paid to Mr Dennis Kung	**530**	615
Executive remuneration paid to Mr Kenneth Hung	**796**	924
Interest on loans from shareholders	**985**	1,021

(ii) Balances with shareholders

	2006 $'000	2005 $'000
Amounts due to shareholders	**955**	1,200
Loans from shareholders	**16,400**	16,400
Accrued interest on loans from shareholders *(note 22)*	**985**	1,021

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

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

	2006 $'000	2005 $'000
Royalty income and advertising contributions	**190**	194

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

	2006 $'000	2005 $'000
Amount due from Hang Ten (China) Group Limited	**53**	58

Details of the terms are stated in note 25.

37 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(e) (i) Transactions with minority shareholders of non-wholly owned subsidiaries of the Company and their associates

	2006 $'000	2005 $'000
Sales of goods to Global Inc.	**571**	446
Sales of goods to Chua and company	**1,058**	1,643
Royalty income from Avon Dale Garments, Inc.	**71**	106
Loans from minority shareholders of Hang Ten Retail USA, Inc.	**–**	244

(ii) Balances with the minority shareholders and their associates

	2006 $'000	2005 $'000
Amount due from Global Inc.	**47**	48
Amount due from Avon Dale Garments, Inc.	**19**	13
Loans from minority shareholders of Hang Ten Retail USA, Inc.	**–**	244

Details of the terms are stated in notes 25 and 27.

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)*

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

	2006								
	Taiwan	Korea	Philippines	Singapore	Hong Kong	Malaysia	Inter-segment elimination	Unallocated	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	126,285	81,750	5,390	16,285	3,391	2,485	–	7,507	243,093
Inter-segment revenue	9,720	496	–	–	–	–	(10,232)	16	–
Total revenue	136,005	82,246	5,390	16,285	3,391	2,485	(10,232)	7,523	243,093
Segment result	12,419	9,825	90	(315)	(1,142)	1	(16)		20,862
Unallocated operating income and expenses									(1,941)
Profit from operations									18,921
Finance costs									(1,127)
Income tax									(4,171)
Profit after taxation									13,623
Depreciation and amortisation for the year	1,731	773	209	513	243	166		305	3,940
Impairment losses on trade receivables	–	–	–	–	–	–		546	546

38 SEGMENT REPORTING *(continued)*

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

	2005								
	Taiwan	Korea	Philippines	Singapore	Hong Kong	Malaysia	Inter-segment elimination	Unallocated	Total (restated)
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue from external customers	132,248	50,757	5,496	17,506	–	2,568	–	4,380	212,955
Inter-segment revenue	13,576	113	–	–	–	–	(14,752)	1,063	–
Total revenue	145,824	50,870	5,496	17,506	–	2,568	(14,752)	5,443	212,955
Segment result	17,131	4,322	193	539	–	4	260		22,449
Unallocated operating income and expenses									(601)
Profit from operations									21,848
Finance costs									(1,231)
Income tax									(4,564)
Profit after taxation									16,053
Depreciation and amortisation for the year	1,930	487	236	535	–	134		58	3,380
Impairment losses on trade receivables	–	–	–	–	–	–		282	282

38 SEGMENT REPORTING *(continued)*

(ii) An analysis of the Group's assets and liabilities by geographical segments is as follows:

	Taiwan $'000	Korea $'000	Philippines $'000	Singapore $'000	Hong Kong $'000	Malaysia $'000	Inter-segment elimination $'000	Total $'000
At 31 March 2006								
Segment assets	92,859	32,290	2,107	4,820	1,615	955	(45,674)	88,972
Unallocated assets								33,603
Total assets								122,575
Segment liabilities	24,522	10,448	1,340	5,201	2,518	1,056	(19,322)	25,763
Unallocated liabilities								29,001
Total liabilities								54,764
Capital expenditure incurred during the year	1,618	1,768	249	704	759	121		5,219
Unallocated capital expenditure								4,114
								9,333
At 31 March 2005								
Segment assets	90,465	19,996	1,958	3,793	–	819	(46,460)	70,571
Unallocated assets								41,891
Total assets								112,462
Segment liabilities	24,276	5,336	1,366	3,842	–	876	(46,216)	(10,520)
Unallocated liabilities								64,011
Total liabilities								53,491
Capital expenditure incurred during the year	1,889	1,350	144	419	–	130		3,932
Unallocated capital expenditure								540
								4,472

38 SEGMENT REPORTING *(continued)*

(iii) 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

	2006	2005
	$'000	*$'000*
Revenue from customers:		
– Sales of apparels	**238,948**	208,575
– Royalty income	**4,145**	4,380
	243,093	212,955
Segment assets:		
– Sales of apparels	**92,769**	82,237
– Royalty income	**1,212**	3,316
– Unallocated (including trademarks)	**28,594**	26,909
	122,575	112,462
Segment capital expenditure:		
– Sales of apparels	**9,333**	4,472
– Royalty income	**–**	–
	9,333	4,472

39 POST BALANCE SHEET EVENT

On 14 March 2006, the Company's subsidiary, Hang Ten Korea Corp., entered into a share transfer agreement to buy back 48,000 shares (representing 8% of its issued share capital) for a cash consideration of Korean Won 2 billion (equivalent to approximately $2,000,000) from the minority shareholder. The share buy-back was completed in May 2006.

40 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2.

(Expressed in United States dollars unless otherwise indicated)

41 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(i) Goodwill and trademarks

Notes 13 and 15 contain information about the assumptions relating to the impairment test on goodwill and trademarks. In addition, note 15 contains information relating to the assessment of the indefinite life of the acquired trademarks.

(ii) Income tax provisions

The Group is subject to income taxes in numerous jurisdictions. Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations in the respective jurisdictions.

(iii) Write-down of inventories

Inventories are reviewed periodically to assess whether any write-down or reversal of write-down is required. The estimate is based on historical experience relating to the sales performance subsequent to respective seasons. Uncertainty exists in these estimates and the policy is reviewed regularly and adjusted if necessary.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 MARCH 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2006 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
Amendments to HKAS 19	Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 39	Financial instruments:	
	Recognition and measurement:	
	– Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
	– The fair value option	1 January 2006
	– Financial guarantee contracts	1 January 2006

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 MARCH 2006 *(continued)*

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendments to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.